

Hard work ahead for Audit Committees



By **GERARD TAN**
Treasurer, SID

Thanks to developments that have been brewing in the past year, audit committees (ACs) will find their hands full coming into 2016 and beyond. We review some of these new programmes and requirements.

Financial Reporting Surveillance Programme (FRSP)

A programme instated by the Accounting and Corporate Regulatory Authority (ACRA), the FRSP is a review of financial statements of companies for compliance with the Singapore Financial Reporting Standards (SFRS).

It is a programme that was first introduced in 2011 and is today enhanced to include reviews of listed companies and non-listed companies of public interest with "clean" audit opinions. As the Companies Act places responsibility on directors – not management – for the financial statements, ACRA will direct all feedback and sanctions, if any, to the board, identifying each director who authorised the financial statements. In response to this inquiry from ACRA, the directors must ensure that their responses are comprehensive and appropriate. All companies incorporated in Singapore are required to undergo this risk-based approach review.

To avoid even getting an inquiry letter, directors are advised to take greater ownership in the company's financial reporting process. It will be useful for them to review ACRA's recently published (September 2015) Financial Reporting Surveillance Programme Inaugural Report, which details its findings from the first year run of the enhanced programme.



COUNTING BEANS

Enhanced Auditor's Report

ACRA and the Institute of Singapore Chartered Accountants have announced that the new auditor's report in 2016 will be effective for financial statements ending on or after 15 December 2016.

Of the changes in the auditor's report, reporting of "key audit matters" (KAMs) for listed companies beyond the traditional pass or fail audit opinion, is the most significant one. KAMs are matters, in the auditor's judgment, of "most significance" in the audit. These are complex areas of the business where judgment from the management is called upon in accounting and disclosure in the financial statements. Examples include fair value of financial instruments, transfer-pricing and cross-jurisdictional taxation; diverse financial systems in group of companies; revenue recognition timing differences; intangible asset impairment assessments, and litigation cost provisions.

KAMs are likely to generate a fair amount of discussion among auditors, management and directors. Disclosures in the KAMs are also likely to result in greater shareholder and public scrutiny. Directors should take advantage of the FY2015 audit to do an "internal dry-run" of the expanded auditor's report so that they are better prepared in the following year's audit.

Audit Quality Indicators (AQIs)

Presently, most ACs have difficulty differentiating among audit firms. ACRA has been working with audit firms, with feedback from audit committees, on a set of Audit Quality Indicators

(AQIs) that can help toward comparing audit firms and determining their quality. In October 2015, ACRA unveiled eight AQIs:

- 1) Audit Hours – Time spent by senior audit team members
- 2) Experience – Years of audit experience and industry specialisation
- 3) Training – Average training hours and industry specific training
- 4) Inspection – Results of external and internal inspections
- 5) Independence – Compliance with independence requirements
- 6) Quality Control – Headcount in quality control functions
- 7) Staff Oversight – Staff per partner/manager ratio
- 8) Attrition Rate – Degree of personnel losses

Starting from 2016, these indicators will be shared by the audit firm with individual ACs on a private and voluntary basis. They should provide a more effective manner with which audit committees can assess the audit firm and engagement team, and extract greater value from them in the end.

Financial Reporting Standards

The accounting standard prescribed in Singapore is the Singapore Financial Reporting Standard (SFRS), which is substantially aligned with

the existing International Financial Reporting Standards (IFRS) regime. However, the two will converge in a new financial reporting framework that is more identical to IFRS for annual periods beginning on or after 1 January 2018.

The benefit of SFRS and IFRS convergence is that it allows comparability when global standards are applied, and in turn helping reduce the cost of preparing financial statements for those companies operating in multiple jurisdictions.

For the coming year, only a few narrow-scope amendments to existing standards will come into effect for FY2015, though these are not expected to significantly impact financial statements. However, there are two new major initiatives, FRS 109 (financial instruments) and FRS 115 (revenue from contracts with customers) that are expected to introduce significant changes for companies. It bodes well for AC members to start getting a hang on the implications of these initiatives.

Help is At Hand

While these developments should benefit ACs and companies in the longer term, for the immediate future, AC members will need to spend time coming to terms with the technicalities and implications of the new requirements and tools.

To facilitate this understanding, ACRA, PwC and SGX have prepared a *2016 Mini-Guide for Audit Committees: Hot topics that ACs and directors need to know*. This guide provides greater detail of the above changes.

A more comprehensive *Audit Committee Guide* is being prepared as part of the *Corporate Guides for Boards in Singapore* series, and slated for release in early 2017.

Several of the above changes highlighted above will also be presented and discussed at the upcoming ACRA-SGX-SID Audit Committee Seminar on 12 January 2016. I hope to see you there. ■

