

PRICEWATERHOUSECOOPERS 

# Corporate Watch

Volume 2 2006

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## Acronyms

ACRA	Accounting and Corporate Regulatory Authority	IFRS	International Financial Reporting Standards
CA 2005	Companies (Amendment) Act 2005	INT FRS	Interpretations of Financial Reporting Standards
CCDG	Council on Corporate Disclosure and Governance	ISA	International Standards of Auditing
FRS	Financial Reporting Standards	OFR	Operating and Financial Review
IAS	International Accounting Standards	SFA	Securities and Futures Act
IASB	International Accounting Standards Board	SGX	Singapore Exchange
IFRIC	International Financial Reporting Interpretations Committee	SGXNET	Website for Singapore Exchange
		SSA	Singapore Standards of Auditing

# Listed Companies – Your Continuous Obligations



Pursuant to a Public Consultation Paper issued on 30 May 2005, the Singapore Exchange announced changes to the listing rules on 7 June 2006 that will take effect from 1 September 2006. Key amendments are aimed at raising corporate governance standards and promoting good regulatory practice relating to listed companies. The amendments and the implications relating to financial reporting, corporate governance and role of intermediaries are summarised below.

## Amendments with Financial Reporting Implications

### Negative Assurance Statement by Directors – Rule 705(4)

For interim (quarterly or half-yearly) result announcement, a “negative assurance” statement is required from the Board of Directors confirming that, to the best of their knowledge, nothing has come to their attention which may render the interim financial results to be false or misleading. The confirmation must be signed by two directors on behalf of the board.

#### Implications:

Announcements from 1 September 2006, i.e. relating to quarter/half-year ending on or after 31 July 2006, should include the Directors’ “negative assurance” statement. The amendments do not specify the framework for and format of the “negative assurance” statement. Directors may wish to engage professionals in fulfilling this requirement. Furthermore, although not required by the SGX rules, directors may wish to engage auditors to perform interim/limited reviews on the interim financial results to enable them to make their confirmation. This requirement is not applicable for full year result announcements.

### Simplified Disclosure of Information on Singapore Subsidiaries – Rule 717

Currently, listed companies must disclose the names of the accounting firms for all Singapore-incorporated subsidiaries. Under the revised listing manual, this is only required for significant subsidiaries.

#### Implications:

There is no need to disclose the names of accounting firms for Singapore-incorporated subsidiaries that are not significant. Such disclosures will only be required for significant subsidiaries and associated companies (whether Singapore or foreign-incorporated).

### Disclosure of Directors’ and Executive Officers’ Training and Experience – Rule 210(5)(a) and Rule 704

As a pre-quotations disclosure requirement, an issuer must release a statement via SGXNET or in the prospectus, offering memorandum or introductory document identifying the experience and training for each director. Specifically, information is required on:

- whether the director has prior experience; and
- what is his/her experience; **or**
- if an appointed director has no prior experience as a director of a listed company, whether he/she has undertaken training in the roles and responsibilities of a director of a listed company.

Similar announcements on SGXNET are also required on any appointment of any new director, chief executive officer, general manager or other executive office of equivalent rank.

#### Implications:

The amendments extend the requirement to appoint suitably-qualified persons on a continuous basis.



#### **Issuers to Adopt OFR Guide – Rule 1207(4)**

Issuers are required to provide a review of the operating and financial performance of the issuer and its principal subsidiaries in the last financial year. Issuers are encouraged (but not required) to adopt the best practices set out in the Operating and Financial Review Guide in their annual report.

##### **Implications:**

This amendment is aimed at improving transparency and disclosure standards of the annual reports. This will be effective for all annual reports issued on or after 1 September 2006.

#### **Post-issue Financial Statements of Listed Debt Issuers – Rule 309(4)**

The listing manual currently states that listed debt issuers must prepare post-listing financial results but the amendment requires the financial results that are in accordance with approved accounting standards.

##### **Implications:**

As SGX listed companies incorporated in Singapore are already required to prepare financial statements in accordance with approved accounting standards under the Companies Act, this amendment is targeted at foreign-incorporated SGX listed companies.

Under the Companies (Accounting Standards for Listed Companies) Order 2003, approved accounting standards applicable to a SGX listed company that is also listed on a foreign exchange which requires the company to comply with accounting standards other than FRS, the company shall apply these alternative accounting standards if they are approved accounting standards by SGX and the company has notified ACRA of its intention.

Under the Securities and Futures Act, approved accounting standards for prospectus purpose include Singapore Financial Reporting Standards, International Financial Reporting Standards, US Generally Accepted Accounting Principles or such other standards as may be approved by the Monetary Authority of Singapore. Although not specifically stated in the Amend Listing Rules, the proposed amendment intended the approved accounting standards to be in line with the SFA.

## **Amendments Enhancing Corporate Governance**

#### **At Least Two Independent Resident Directors – Rule 221**

Foreign issuers must have at least two independent directors resident in Singapore under the revised listing rules. This is applicable both at the time of listing as well as on a continuing basis. Currently only one resident director is required. Existing foreign issuers have up to 1 January 2008 to comply with this requirement.

#### **Confirmation of Compliance with Laws and Regulations – Rule 246(12)**

The amendments include a new requirement for the applicant to confirm in the listing application that it has obtained all requisite approvals, and complied with all laws and regulations that materially affect its business operations.

## **Extending Role of Intermediary**

#### **Appointment of Compliance Advisor – Practice Note 2.1**

The amendments empower SGX to require a listing applicant/issuer to appoint a compliance advisor who will advise the board on the applicable rules and regulations. This can be a lawyer, corporate finance adviser, or other professional parties who are familiar with applicable rules and regulations.

#### **Issue Managers Given Higher Responsibilities – Rule 246(4)**

A new requirement is that the issuer manager must confirm in the listing application that the directors of an applicant have been informed of their obligations under the listing rules and the relevant Singapore laws and regulations.

In addition, for two years after listing or a reverse takeover, all announcements made by the issuer and information sent to shareholders must prominently include a statement indicating the name of its issue manager. This is an extension from the current period of one year.

# Interim Impairment – To Reverse or Not?

Currently, in accordance with IAS 36 *Impairment of Assets* and IAS 39 *Financial Instruments: Recognition and Measurement*, impairment assessment is required for:

- goodwill at every reporting date;
- investment in equity instrument at every balance sheet date; and
- financial assets carried at cost at every balance sheet date.

Reversals of impairment for the above items are specifically not allowed in IAS 36.124, IAS 39.69 and IAS 39.66, respectively.

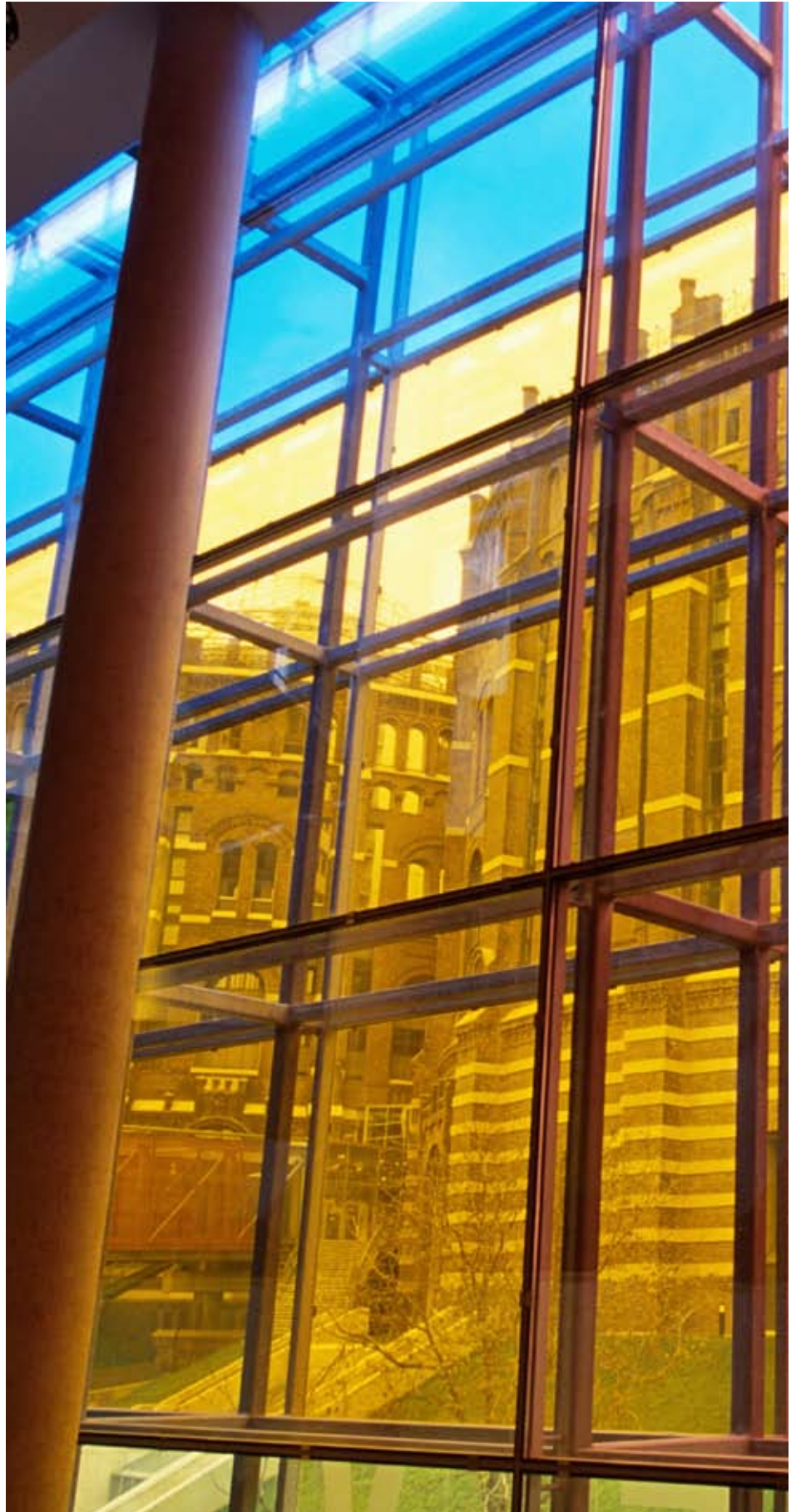
IAS 34 *Interim Financial Reporting* requires an entity to apply the same accounting policies in its interim financial statements as it applies in its annual financial statements. However, IAS 34.28 requires year-to-date measurement in interim financial statements, which IASB is concerned that the requirement might suggest that previously recognised impairment losses can be reversed.

There appears to be a contradiction whereby IAS 36 and IAS 39 does not allow reversals of impairment, while IAS 34 does. Under IFRIC 10 *Interim Financial Reporting and Impairment*, any impairment losses on goodwill and equity investments classified as available-for-sale recognised in an interim financial statement must not be reversed in subsequent interim or annual financial statements. It is viewed that the recognition and measurement principles in IAS 36 and IAS 39 should take precedent over IAS 34, which is more general.

It is expected that CCDG will adopt the IFRIC interpretation soon.

## Latest Developments

31 August 2006 – The Ministry of Finance has accepted CCDG's recommendation to retain the quarterly reporting requirements for listed companies with market capitalisation exceeding \$75 million, and to continue to exempt smaller listed companies from mandatory quarterly reporting. However, the market capitalisation of such exempted companies would be reviewed at each calendar year end, starting on 31 December 2006. Should a listed company's market capitalisation fall below \$75 million subsequently, it will not be exempted from mandatory quarterly reporting.



# Changes in Auditing Standards – The “Whats” and “Whys” for Directors and Management



In a world of changing rules and regulations, are you aware of the recent changes in the Singapore Standards of Auditing which have an impact and bearing on company directors and management?

These changes primarily emanate from both the regulators' and profession's efforts to improve audit quality, as well as to clarify the expectation and understanding of the auditor's responsibility, vis-à-vis "management's" (this being a generic term in auditing literature, encompassing the company's directors and executive management).

Particular aspects of these changes<sup>1</sup> and their resultant impact, including those which may be of greater interest to directors and management, are discussed below. In the course of preparing for your upcoming annual audit, it is important to consider and clarify these changes with your auditor, as necessary.

## Date Of The Auditor's Report And Date By Which Auditors Need To Complete The Assembly Of Audit File

For audit reports dated on or after 31 December 2006, there are new considerations when the auditor selects the date of the auditor's report. This should be no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence that the entity's complete set of financial statements has been prepared, and that those with the recognised authority have asserted their responsibilities for them.

In practical terms for Singapore incorporated entities, the date of the auditor's report will be on or after the following events:

- when a **complete** set of financial statements have been prepared and circulated to the board of directors for board review and approval; **and**
- when the directors or management have asserted and acknowledged their responsibility for the financial statements, and have approved the financial statements, by way of the board minutes of meetings together with a signed copy of the financial statements, and a written management representation for the financial statements.

Furthermore, the auditor is required to perform subsequent event procedures up to the date of the auditor's report, and during the period from the "date of the auditor's report" to the "date the financial statements are issued", the responsibility to inform the auditor of facts which may affect the financial statements rests with management. Thus, the auditor will require management to update them of facts which arise between the date of the auditor's report, and the date on which the financial statements are issued.

### Important considerations:

Does your company have a practice of circulating to the board of directors an incomplete set of financial statements for their approval? Does your company usually opt to date the financial statements earlier than when they are completed and approved? If you have answered "yes" to any one of these questions, under the revised auditing standards, your auditor will no longer choose or accept to date the audit report on the date chosen by the company.

Besides having to comply with the above requirements when deciding the date of the auditor's report, the auditing standards have also been revised to require the auditor to complete the assembly of the final audit file within 60 days after the date of the auditor's report.

### Important considerations:

In previous years, were there undue delays between the finalisation and completion of the set of financial statements, its review, approval and signature by directors, and its subsequent return to the auditor for signature? If yes, what changes can management make to reduce the turn around time for the financial statements? Examples of possible changes include adjusting the date of the board meeting to that when the financial statements are indeed complete and ready for review; and re-assessing which two directors will sign the set of financial statements and resolutions on behalf of the board.

<sup>1</sup> Changes discussed in this commentary are mainly from the following revised standards:

- SSA 700 The Independent Auditor's Report on Complete Set of General Purpose Financial Statements (applicable for auditors' reports dated on or after 31 December 2006)
- SSA 560 Subsequent Events (applicable for auditors' reports dated on or after 31 December 2006)
- SSA 230 Audit Documentation (applicable for audits of financial information for periods beginning on or after 15 June 2006). PwC Singapore is opting to implement this standard early in view of its importance to audit quality.

## New Paragraphs in the Auditor's Report

The standard wordings in the auditor's report have been expanded and updated to enhance the understanding of the auditor's role and the auditor's report. For audit reports dated on or after 31 December 2006, there will be additional paragraphs which describe the respective responsibilities of management and the auditor.

In explaining management's responsibility for the financial statements, the auditing standard requires the auditors' report to state the following:

"The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with Singapore Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances."

In contrast, under the previous auditing standard, there is only a one-line statement in the auditor's report, which reads "These financial statements are the responsibility of the Company's directors".

### Important considerations:

With the expanded description of responsibilities, which encompass the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of financial statements, are there aspects which you need more information or clarification on? You may wish to clarify and deepen your understanding through discussions with other fellow directors, lawyers, or auditors, or by way of training, or reading relevant publications and materials.

## Supplementary Information Presented with Audited Financial Statements

Another important revision in the auditing standards relates to supplementary information presented with audited financial statements.

In some circumstances, the entity may either be required by law or regulation or standards or may voluntarily choose, to present together with the financial statements, supplementary information that is not required by the financial reporting framework. When the supplementary information cannot be clearly differentiated from the financial statements because of its nature and how it is presented, such supplementary information is deemed to be covered by the auditor's opinion. For example, the auditor's opinion would cover notes or supplementary schedules that are cross-referenced from the audited financial statements.

When the supplementary information is not intended to be audited, the auditor may ask management to change the manner in which information is presented, if the demarcation between the audited and unaudited information is not sufficiently clear.

### Important considerations:

Does the entity's set of financial statements include supplementary information? If yes, is the supplementary information clearly demarcated and differentiated from the financial statements? If no, how can or should the presentation of the financial statements be revised, or would the scope of the audit have to be expanded to include the audit of the supplementary information?

## Form, Content and Extent of Audit Documentation Now Expanded

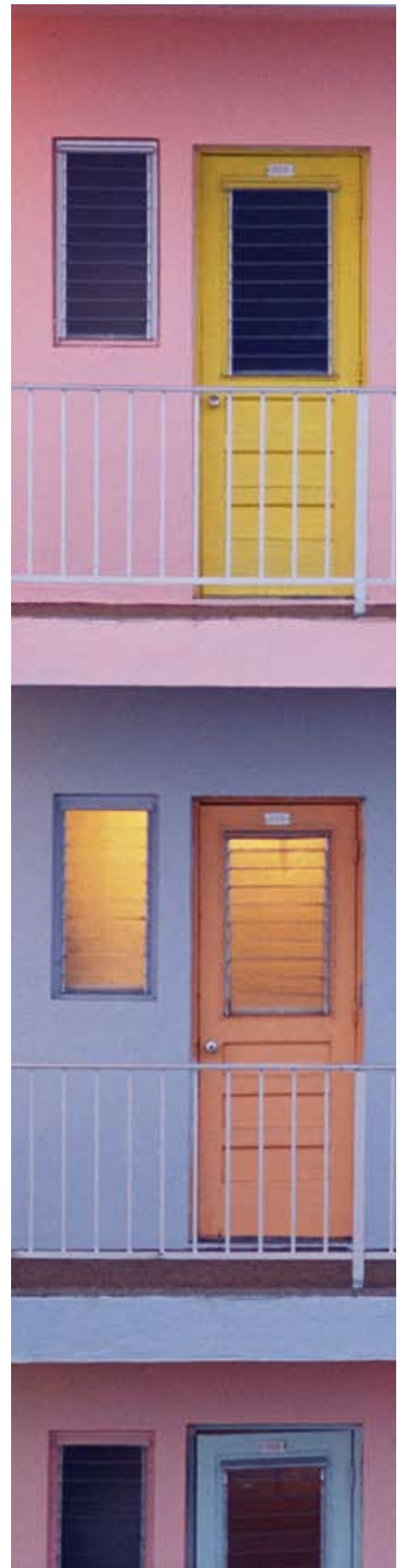
Audit documentation plays a critical role in the planning and performance of the audit, in providing the record of the basis for the auditor's report, and in quality control reviews and inspections.

The revised requirements, which increase the breadth and depth of documentation based on the overarching principle of "sufficiency and appropriateness", will increase the rigor and consistency with which the auditors document their work, thereby contributing to audit quality.

Management's co-operation is necessary, so that the auditors can complete the increased documentary requirements on a timely basis.

### Important considerations:

In previous years, were there undue delays between the discussion of issues and provision of the relevant supporting documentation to the auditor? If yes, what changes can management make to minimise these delays, so as to enable the auditor to complete the audit and related documentation, effectively and productively?



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Corporate Watch is a periodic newsletter produced by the Professional Standards Group of Assurance/Business Advisory Department of PwC Singapore, with the objective to apprise corporates of emerging corporate reporting issues.

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