2024 MINI GUIDE FOR AUDIT AND RISK COMMITTEES

Hot topics ARCs and Directors need to know

- SGX RegCo's Guidance on Key Financial Indicators
- Key areas for consideration in sustainability reporting
- Areas of Review Focus for FY2023 financial statements
- SID Audit & Risk Committee Chapter

ACRA Accounting And Corporate Regulatory Authority
SID Singapore Institute of Directors
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SGX RegCo's Guidance on Key Financial Indicators

SGX RegCo expects issuers to provide more substantive disclosures in its financial statements in respect of three financial indicators, namely (1) liquidity ratios; (2) non-current trade and other receivables; and (3) significant advances or prepayments. This is to ensure Boards fully apprise investors of any adverse financial developments and disclose timely information, to enable investors to make an informed investment decision.

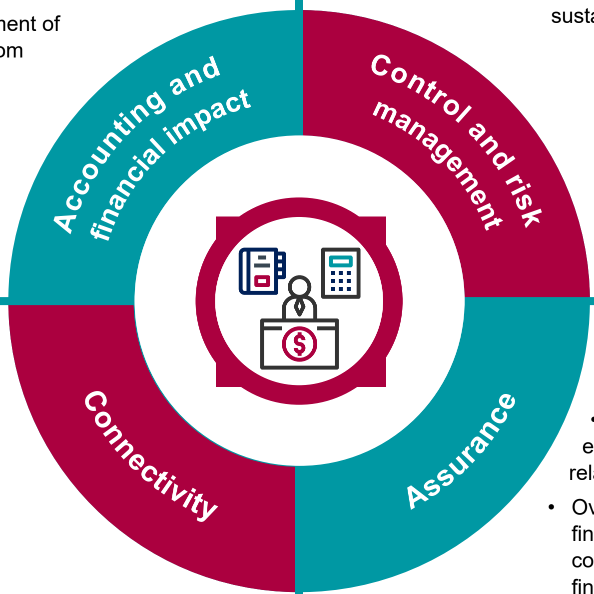
Financial Indicators	Substantive Disclosures
Liquidity Ratios 	Liquidity ratios measure an issuer's ability to meet its short-term financial obligations as and when they fall due, where the failure to do so will affect the issuer's ability to operate as a going concern. Issuers with low liquidity ratios should disclose information on how they plan to fulfil their short-term needs and obligations. These include the following: • A detailed breakdown of the sources of funds which are expected to be available to the issuer for the next 12 months (including proposed equity fund-raising exercises, divestment of non-core assets); • Available credit facilities and their unutilised amounts, as well as whether such facilities are committed / uncommitted; • Cost-cutting measures; • New financing or refinancing arrangements; • Strategies and plans to improve collection of outstanding receivables; • Confirmation as to whether any breach of financial covenant(s) has been rectified or waived; • Confirmation as to whether the Board has reviewed and is satisfied with, at the minimum, a 12-month cashflow forecast from the date of the latest financial statements; • Where the issuer is relying on financial support from its parent company / Sponsor (where applicable) to operate as a going concern, the Board should continue to assess the financial standing of the parent company / Sponsor and be assured on the ability to rely on such financial support.
Non-Current Trade and Other Receivables	Receivables that remain outstanding for more than 1 year raise concerns on their collectability. Boards must consider whether the issuer will face cashflow issues arising from such delays or non-collectability. As such, issuers should disclose the Board's assessment on the collectability of these receivables, including: • Factors considered in determining the collectability of non-current receivables, including credit evaluation of customers' financial conditions, and reviewing information such as: o Payment history o Aging of debts o External ratings and credit agency information o Audited financial statements o Cash flow projections o Available press information • Credit loss assessment that has been performed in accordance with the relevant accounting standards; and • Whether the external auditors have tested the reasonableness of the assumptions, which pertain to the collectability of trade and other receivables. Issuers may also provide an explanatory note to the financial statements, to explain the nature of non-current receivables and why they remain realisable on the balance sheet. Where it is a risk specific to the issuer's industry, this should be properly explained and any underlying governance issues should also be discussed including improvements in internal controls when needed to enhance collectability. 
Significant Advances or Prepayments	To provide greater assurance on the collectability and veracity of significant advances or prepayments, issuers should provide detailed explanations on the following: • The nature of the advances or prepayments; • The specific projects they relate to; • The progress of the transactions involved; • Whether the advances or prepayments would be utilised or offset against any expected cost; • Whether any allowance for impairment loss is required; • Whether it is common market practice for entities in the same industry to make or recognise such advances or prepayments; • The adequacy and effectiveness of the issuer's internal controls; and • The efforts taken to recover or utilise such advances or prepayments.

What should Audit Committees (ACs) look out for in relation to sustainability?

As sustainability-related risks and opportunities can have a material impact on the company’s financial statements, it is important to ensure there is connectivity between sustainability-related financial information and the financial statements. With increasing expectations on reported sustainability information by various stakeholders, the ACs play a critical role in overseeing the integration of sustainability-related considerations with the financial reporting process. Some key oversight responsibilities that the ACs should look out for include but are not limited to:

- Overseeing the appropriateness of the accounting treatment and disclosures of sustainability-linked financial instruments.
- Overseeing management’s assessment of potential financial impacts arising from sustainability-related risks and opportunities.
- Ensuring the financial impacts of material sustainability-related risks and opportunities have been considered and reflected in the financial statements.

- Monitoring the effectiveness of internal controls and risk management systems, particularly in relation to fraud or greenwashing of sustainability-related financial information.



- Ensuring the consistency and connectivity of sustainability-related financial disclosures across the financial statements and other public disclosures.

- Consider the need to obtain external assurance over sustainability-related financial information.
- Overseeing the work of the external financial auditors, particularly in their consideration of sustainability-related financial information and the potential impact on the audit of the financial statements.

Key areas for consideration in sustainability reporting

In June 2023, the issuance of IFRS Sustainability Disclosure Standards by the International Sustainability Standards Board (ISSB) represents a significant move towards globally aligned sustainability standards that will drive consistency and comparability of sustainability reports. In Singapore, based on the Sustainability Reporting Advisory Committee (SRAC) proposal released in July 2023, listed and certain large non-listed Singapore companies will be required to report ISSB-aligned climate-related disclosures at the same time with its financial statements starting as early as 2025. Regulators in Australia, Brazil, Canada, Japan, Hong Kong and the UK also plan to adopt the ISSB standards. Given that the current sustainability reporting standards adopted by Singapore listed companies are predominantly in accordance with or with reference to the Global Reporting Initiative (GRI) framework, companies should start taking practical actions such as performing gap analysis and developing a strategic roadmap in moving towards the adoption of the ISSB standards. Further, the companies may also be subject to the European Sustainability Reporting Standards, US SEC's climate proposal and California climate disclosure bills if they have significant operations in these territories. Companies should immediately conduct an assessment of whether they are subject to these additional requirements.

As sustainability reporting continues to evolve rapidly with increasing scrutiny and regulations expected in the near future, it is important that these reporting be subject to adequate and proper Board oversight. Whilst a separate Board Sustainability Committee may be set up to perform this role, the audit committee's role and responsibilities may be expanded to include the oversight responsibilities in relation to sustainability reporting. This includes keeping abreast of the developments around the sustainability standards and regulatory requirements as companies can be exposed to multiple standards and/or jurisdictional regulations at the same time.

We have outlined some of the key areas and potential questions that the committee can ask in the following table:

Who is responsible?	Are there processes and controls in place?	What is being disclosed in the sustainability report and is there consistency with the financial statements?	What are the plans for external assurance of the reported sustainability information?
• Which individuals have the principal responsibility for the reporting process for sustainability-related disclosures and regulatory obligations? • How are the management and different functions involved in the sustainability reporting processes, and are the responsibilities of each function clearly defined? • Do the personnel involved have adequate knowledge, awareness, skills and expertise in the sustainability-related matters relevant to the entity and its industry? • Has the management considered whether it needs to bring in external expertise to assess sustainability risks and opportunities?	• What controls are in place to ensure the reliability of sustainability data? • What are the internal control findings and recommendations? • What additional procedures or remediation actions need to be taken to enhance the sustainability processes and controls? • How has the internal audit function incorporated sustainability considerations into the audit plan and review of management controls?	• What has management identified as the subject matter of sustainability risks and opportunities? • How is the materiality assessment being conducted in identifying the sustainability risks and opportunities? • Which sustainability standards and frameworks are currently being adopted or planned to be adopted by the entity, including its overseas subsidiaries? • Given that SRAC has proposed ISSB-aligned climate reporting, how has management performed the gap analysis of current reporting practices (i.e., GRI) against the ISSB sustainability disclosure standards? • How has management assessed the scope of sustainability disclosure standards, including those being developed by the European Financial Reporting Advisory Group (EFRAG) and US SEC and the relevance to the entity? • How is management ensuring the connectivity of sustainability-related financial information with the financial statements? • Are the data and assumptions disclosed in the sustainability report consistent with that disclosed in the financial statements? • Are sustainability risks considered when making critical accounting assumptions? For example, an entity should factor in sustainability risks into estimates about impairment testing, useful lives, asset decommissioning and cash flow forecasts where appropriate.	• Given the increased scrutiny of sustainability reporting by various stakeholders, has management considered obtaining voluntary assurance or performing an assurance readiness exercise over its reported sustainability information under the current reporting framework? • What sustainability information is externally assured, and what level of assurance is being obtained (e.g., limited assurance or reasonable assurance)? • Which assurance standards are being used and are they robust? • How has the external financial auditor considered material sustainability-related risks and the potential impact on the audit of the financial statements?

Assurance on sustainability reporting

Investors are increasingly considering sustainability factors in their investment decisions. Based on the **PwC Global Investor Survey 2023**, investors see sustainability as one of the priorities for companies, and expect companies to report on sustainability's relevance to their business model, provide better information (including the cost of meeting their sustainability commitments and a clear road map to achieve these commitments), and disclose the impact of sustainability risks and opportunities on financial statement assumptions. The survey also found that 94% of the investors believe that corporate reporting on sustainability performance contains at least some level of greenwashing, and this calls for external assurance to increase the reliability and credibility of reported sustainability information. 85% of respondents say that reasonable assurance from independent assurance providers would give them confidence in sustainability reporting – to a moderate, large or very large extent.

Based on the SRAC's proposal, one of the key recommendations is for companies to obtain external limited assurance on Scope 1 and Scope 2 Greenhouse Gas (GHG) emissions two years after the mandatory reporting requirements take effect. Further, the SRAC recommends that assurance is to be conducted using endorsed local standards modelled after International Standard on Sustainability Assurance (ISSA) 5000 (General Requirements for Sustainability Assurance Engagements) or International Organisation for Standardisation (ISO) 14064-3 (Greenhouse gases – Part 3: Specification with guidance for the verification and validation of greenhouse gas statements).

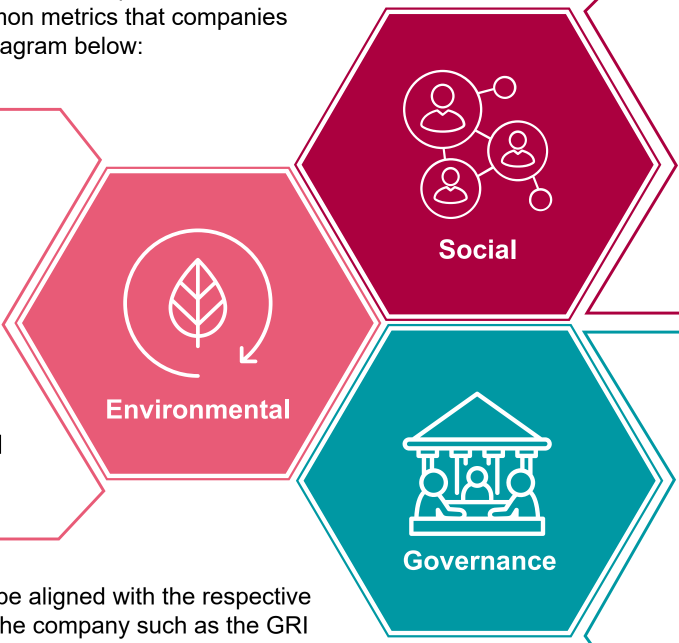
Currently, there is no requirement for external assurance on sustainability information, GHG emissions or otherwise in Singapore. Considering that sustainability reporting is a new area, obtaining assurance or assurance readiness assessment from independent sustainability practitioners will provide the support that management and the Board needs for ensuring robust compliance with the standards, including adoption of best practices.

If external assurance is obtained over sustainability information, assurance work is typically conducted using the International Standards on Assurance Engagements (ISAE) or the Singapore Standards on Assurance Engagements (SSAE), which are modelled after the ISAE. ISAE/SSAE 3000 (Revised) (Assurance Engagements Other than Audits or Reviews of Historical Financial Information) is used for assurance engagements; ISAE/SSAE 3410 (Assurance Engagements on Greenhouse Gas Statements) is used specifically when an assurance conclusion is to be expressed on a GHG statement. Further clarification will be required from the International Auditing and Assurance Standards Board (IAASB) regarding the use of ISAE/SSAE 3410 once ISSA 5000 comes into effect.

In other jurisdictions, assurance requirements differ as outlined in the table below:

Standards / Requirements	European Sustainability Reporting Standards	US SEC's proposed climate-related disclosures	SB 253 (Climate Corporate Data Accountability Act)
Mandated or proposed	Mandated under the EU Corporate Sustainability Reporting Directive (CSRD)	Proposed by the US SEC	Mandated by California Legislature
Reporting entities in scope	• All companies listed on EU-regulated markets • Large companies not listed (may include non-EU based multinational companies)	US SEC registrants	Companies doing business in California with revenues above US$1 billion
Reporting information in scope for assurance	Sustainability information (including Scope 1, 2 and 3 GHG emissions)	Scope 1 and 2 GHG emissions	Scope 1, 2 and 3 GHG emissions
Initial year of limited assurance	FY2024 (published in 2025)	Phased-in period based on filer status – FY2024 (published in 2025)	• Scope 1 and 2 GHG emissions – 2026 • Scope 3 GHG emissions – to be determined by 2026
Initial year of reasonable assurance	To be determined at a later date	Phased-in period based on filer status – FY2026 (published in 2027)	• Scope 1 and 2 GHG emissions – 2030 • Scope 3 GHG emissions – to be determined

Depending on the priorities of management, companies may seek assurance over different metrics from the environmental, social and governance topics. We have highlighted some of the common metrics that companies seek assurance over in the diagram below:



Environmental

- Absolute emissions (Scope 1, Scope 2 or Scope 3)
- Total energy consumption
- Total water consumption
- Total waste generated

Social

- Percentage of current employees by gender and age group
- Percentage of new hires and turnover by gender and age group
- Total turnover
- Average training hours per employee

Governance

- Percentage of board independence
- Percentage of women on the board
- Percentage of women in senior management
- Number of employees receiving anti-corruption training

The above metrics may also be aligned with the respective reporting standards used by the company such as the GRI standards and Sustainability Accounting Standards Board (SASB) standards.

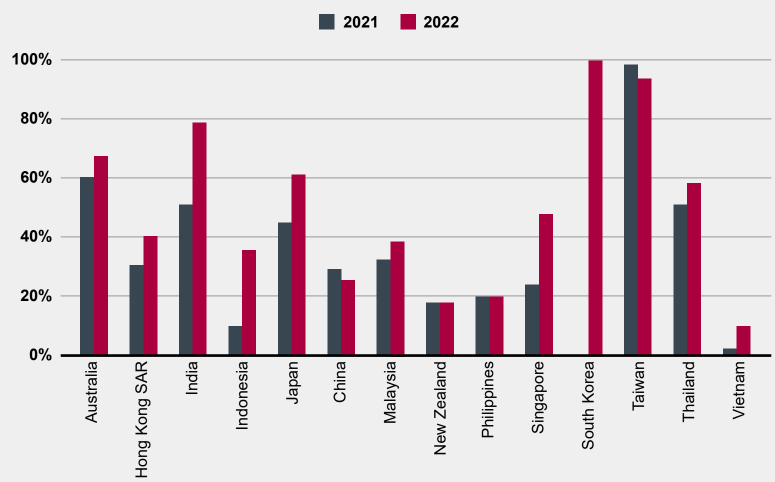
Sustainability Counts II

In July 2023, PwC and the Centre for Governance and Sustainability at the National University of Singapore published a joint study, Sustainability Counts II: Understanding sustainability reporting requirements globally and across Asia Pacific, and insights on the journey to date. This study provides analysis on the state of the sustainability reporting landscape in Asia Pacific and salient trends on the adoption and implementation of various sustainability reporting frameworks and standards.

Based on the study, GRI and Sustainable Development Goal (SDG) are the most commonly used standards and frameworks for sustainability reporting among most of the jurisdictions in Asia Pacific at 81% and 78% respectively in 2022. There has also been an increasing use of the Task Force on Climate-Related Financial Disclosures (TCFD) framework from 36% in 2021 to 57% in 2022.

It was also observed that the external assurance rate for the 13 jurisdictions (except South Korea) is 46% in 2022, a 9% increase from 2021 (37%), indicating that more and more companies seek for external assurance to build their credibility. The external assurance by countries chart is as follows:

Disclosure of external assurance



Note: 2021 data for South Korea is not available

For more insights, refer to the **QR code** below to access the PwC Sustainability Counts II publication:

Areas of Review Focus for FY2023 financial statements

Against the backdrop of global risks and trends, the macroeconomic environment and global unrest continue to have significant impact on financial reporting in FY2023. The effects of climate change are also increasingly becoming more prominent than ever. ACRA has issued its **2023 Practice Guidance** taking the above into consideration, to highlight key financial reporting areas that require closer attention by Audit Committees (ACs) in their review and oversight of the FY2023 financial statements (FS). ACRA has also included accounting developments, and areas ACs should pro-actively engage their external auditors on, to drive consistent and high quality audits.

Macroeconomic environment

Key risks arising from macroeconomic uncertainties include inflation and rising interest rates.

These risks may impact companies' cash flow forecasts for impairment assessments resulting in lower net recoverable amounts. If companies are highly leveraged, they may also affect their compliance with debt covenants and assessment of going concern.

Climate change

Key risks from climate change may arise from the adoption of greener initiatives and/or imposition of new regulations. They include changes in revenue forecast, increase in the cost base and plans to purchase greener fixed assets.

These risks may impact value-in-use computations, expected credit loss assessments or cause a reduction in a fixed asset's useful life and/or residual value, leading to potential obsolescence and write downs.

Changes in preference towards sustainable products or sourcing may also lead to potential loss of revenue or plans to terminate contracts/agreements. These may result in the recognition of provision for restructuring of businesses/operations or onerous contracts.

Issuers of green financing instruments, such as sustainability bonds and sustainability-linked bonds, should consider the specific terms and conditions of these instruments and their implications if these are not met.

Global unrest

Key risks from geopolitical uncertainties include trade sanctions, disruptions to the supply chain, increased costs, as well as damaged or slow-moving inventory.

These risks may impact financial reporting areas such as expected credit loss on receivables, provisions for onerous contracts and delayed/cancelled deliveries to customers, impairment of non-financial assets, inventory obsolescence and the accounting for non-current assets held for sale and discontinued operations.

Quality control (QC) reviews and audit inspection findings

With the amendments to the Accountants Act (AA), ACRA's inspection powers were expanded to include QC reviews[1] on accounting entities with effect from 1 July 2023. A robust system of quality management will ensure that accounting entities deliver consistent and high quality audits. ACs should consider the accounting entities' QC review findings and/or outcomes to assess their suitability as external auditors.

Following the amendments to the AA, public accountants who have obtained a "Not Satisfactory" inspection outcome are required to disclose their audit inspection findings to the audit client of the inspected engagement if the audit client is a public interest entity. ACs are strongly encouraged to work with the public accountant to understand the root cause(s) of the inspection findings and devise effective remediation plans. ACs are also urged to assess (i) the public accountant's commitment towards the delivery of quality audits; and (ii) if the company's financial reporting was a contributory factor to the findings and, if so, how the quality of financial reporting could be enhanced.

For more insights, refer to the **QR code** to access ACRA's Practice Guidance to guide directors' review of FY2023 FS.

[1] In a QC review, ACRA assesses the quality controls of accounting entities against the requirements of the Singapore Standards on Quality Management.

SID Audit & Risk Committee (ARC) Chapter

The Audit & Risk Committee (ARC) Chapter was set up with the objective of building capacity and improving the effectiveness of ARCs. It is a community of people involved with ARCs – ARC chairmen and members, management personnel who work closely with ARCs, and professionals who provide support to ARCs. The ARC Chapter aims to provide a platform for active discussion on issues relevant to ARCs with a view to helping ARCs carry out their roles effectively. Resources include thought leadership articles specific to ARC concerns, professional development courses and seminars, and networking events.

SID invites you to learn more about the specially-curated initiatives and programmes of the ARC Chapter, and to register your interest. This Network is open to members only, and there are no additional membership or joining fees.

You can join the various Networks and Chapters via your SID Member Account (under Profile tab).

For queries about SID membership or Networks, please email membership@sid.org.sg.

2024 Professional Development Calendar for ARC Members

10 January	Audit and Risk Committee Seminar (Jointly organised by ACRA, SGX, SID)
1 March	Director Financial Reporting Fundamentals (Fundamentals Programme)
13-15 March	SDP3: Finance for Directors (SID-SMU Directorship Programme)
14 March	LED 5: Audit Committee Essentials (Listed Entity Director Programme)
18 July	LED 5: Audit Committee Essentials (Listed Entity Director Programme)
24-26 July	SDP3: Finance for Directors (SID-SMU Directorship Programme)
21 August	The Board's Role in Crisis Management (Pit-Stop)
6 September	Director Financial Reporting Fundamentals (Fundamentals Programme)
3 October	SGD6: Financial Management and Accountability (Governance for Outstanding Organisation Directors Programme)
11 October	LED 5: Audit Committee Essentials (Listed Entity Director Programme)

Note: The above are professional development courses by SID relevant to board members who deal with audit and risk issues. Course dates are subject to change and the latest updates can be found at: www.sid.org.sg/pd