

REVIEW TIMES

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1. FINANCIAL REPORTING

(International)

1.1 IASB clarifies its definition of 'material'

On 31 October 2018, the International Accounting Standards Board (IASB) issued amendments to its definition of material to make it easier for entities to make materiality judgements.

The definition of material, an important accounting concept in International Financial Reporting Standards (IFRS), helps entities decide whether information should be included in their financial statements. The updated definition amends IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The changes are as follows:

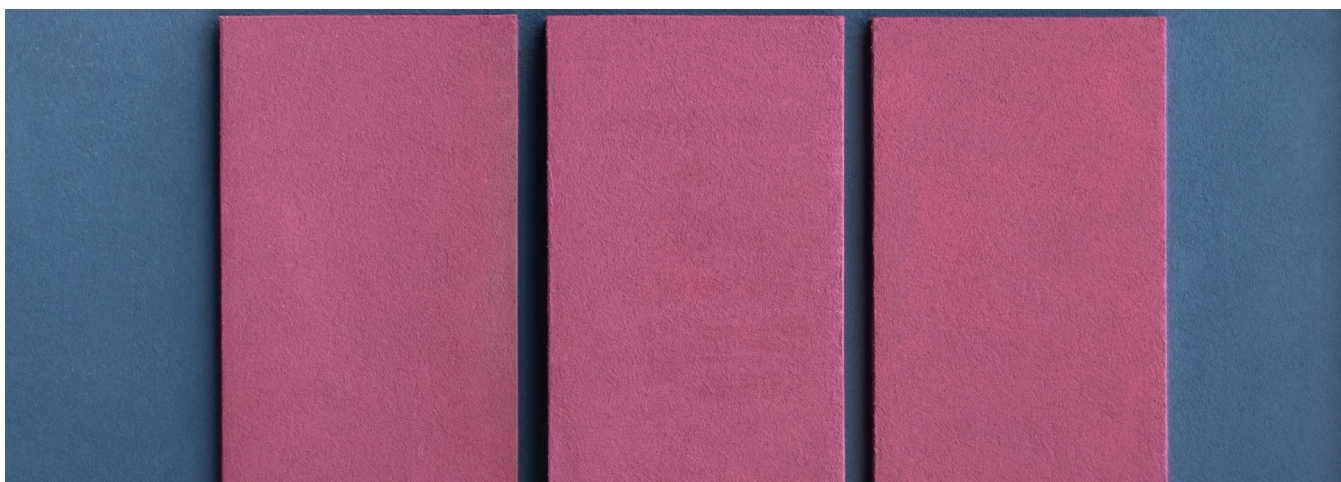
- **Old definition:** Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements (IAS 1, paragraph 7).
- **New definition:** Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments are a response to findings that some entities experienced difficulties using the old definition when judging whether information was material for inclusion in the financial statements.

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards.

The changes are effective from 1 January 2020, but entities can decide to apply them earlier.

For further information, please go to the following URL: <https://bit.ly/2Df7WcR>



1.2 IASB amends definition of business in IFRS 3 Business Combinations

On 22 October 2018, the IASB issued narrow-scope amendments to IFRS 3 *Business Combinations* to improve the definition of a business. The amendments will help entities determine whether an acquisition made is of a business or a group of assets.

The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. In addition to amending the wording of the definition, the IASB has provided supplementary guidance.

Distinguishing between a business and a group of assets

is important because an acquirer recognises goodwill only when acquiring a business.

The amendments arose from a post-implementation review (PIR) of IFRS 3, an assessment carried out to determine whether an IFRS Standard works as intended. Following feedback from the PIR, the IASB is also working on another project linked to IFRS 3 in which it is exploring possible improvements to the accounting for goodwill.

Entities are required to apply the amended definition of a business to acquisitions that occur on or after 1 January 2020. Earlier application is permitted.

For further information, please go to the following URL: <https://bit.ly/2R9Lsgn>



2. AUDIT AND ASSURANCE (Singapore)

2.1 ISCA issues Audit Manual for Group Entities

The Institute of Singapore Chartered Accountants (ISCA) has published the ISCA Audit Manual for Group Entities (the “Manual”) which is available for download for all ISCA Members on a complimentary basis.

The Manual shall be read in conjunction with the Singapore Companies Act (Cap. 50), the applicable Singapore Standards on Auditing (SSAs), the applicable Singapore Financial Reporting Standards (FRSs) and any other regulatory requirements that are deemed appropriate. The contents in the Manual are not substitutes for reading the SSAs but rather as a supplement to support consistent application of these standards.

This Manual is an illustrative guidance to assist auditing professionals in carrying out group audits. The Manual is intended to help auditing professionals understand and effectively apply SSA 600 *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)* in group audits.

All contents in the Manual are based on the SSAs in place as at September 2018. SSAs issued by ISCA after September 2018 are not incorporated in the Manual.

For further information, please go to the following URL:

<https://bit.ly/2DioAaS>



2.2 ISCA amends AGS 1

On 23 October 2018, ISCA announced that it has made the following amendments to Audit Guidance Statement (AGS) 1, *Sample Independent Auditor's Reports*:

- Inclusion of a new Appendix 1J – sample auditor's report on revised financial statements;
- Removal of Appendix 5B – sample report of factual findings to perform agreed-upon procedures (AUP) in relation to submission of value-added productivity (VAP) figure to the Building and Construction Authority (BCA); and
- Amendments to assumptions on “Other Information” (OI) for Appendix 1C (Sample auditor's report for a branch of a foreign company) and Appendix 1G (Sample auditor's report for a society)

New Appendix 1J - Sample Auditor's Report on Revised Financial Statements

Sections 202A and 202B of the Companies Act (the Act) were introduced to allow the revision of defective financial statements under two circumstances. Section 202A allows directors of a company to voluntarily revise their defective financial statements without the need to obtain a court order, when it appears to the directors that the financial statements do not comply with the requirements of the Act (including compliance with the Accounting Standards). Section 202B provides for the Registrar to apply to the Court for a declaration that the financial statements do not comply with the requirements of the Act, and for an order requiring the directors to revise the financial statements.

The subsidiary legislation on the above sections has been issued and is set out in the *Companies (Revision of Defective Financial Statements, or Consolidated Financial Statements or Balance-Sheet) Regulations 2018* (the Regulations). The requirements of sections 202A and 202B and the Regulations took effect on 20 April 2018.

The Regulations require all revised financial statements to be audited and reported (unless exempted).

To guide the profession in the reporting of the audit on the revised financial statements, ISCA has developed a sample auditor's report. The changes from a standard auditor's report are shown as shaded text. The key points to note on the report are as follows:

- As required by the Regulations, revised financial statements are taken as having been prepared on the date of the original financial statements, instead of on the date of revision, and accordingly, do not deal with events after the date of the original financial statements. The auditor's opinion on the revised financial statements is hence also based on the audit evidence obtained, seen as at the date of the original financial statements.
- Going concern assessment is based on audit evidence obtained up to the date of the original auditor's report.
- "Key Audit Matters" (KAM) section would need to be updated as at date of auditor's report on revised financial statements. The revisions made to the financial statements may give rise to an additional KAM or relate to a matter previously communicated and revisions to the description of the KAM may therefore be necessary. The need to update is due to the intent of the KAM section to provide relevant and useful information to users of the audited financial statements.
- "Other Information" would comprise the new Directors' Statement or revised annual report (if applicable).
- An "Other Matter" section is included to draw attention to the disclosures in the financial statements on the aspects in which the original financial statements did not comply with the Act and the material revisions made.

Removal of Appendix 5B – AUP Report in Relation to Submission of VAP Figure to BCA

This is a sample report of factual findings to perform AUP in connection with submission of VAP figure to the BCA. This sample report has been removed as BCA no longer require such submissions.

Amendments to Appendices 1C and 1G

Where the entity is a branch or society, it is common to have the branch manager's statement or statement by the management committee respectively. These statements usually accompany the financial statements and the auditor's report, and form part of the combination of documents that comprise an annual report. Therefore, they are considered other information (OI) within the scope of SSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*. The assumptions on OI and OI sections in the sample reports have been amended to reflect this.

To access the amended AGS 1, please go to the following URL: <https://bit.ly/2z6y6e0>



3. REGULATORY AND BUSINESS *(Singapore)*

3.1 SGX RegCo proposes changes to the voluntary delisting regime



SGX RegCo is proposing that only minority shareholders, and directors and controlling shareholders who are not the party making the offer (the offeror) or who are not acting in concert with it, can vote on the voluntary delisting resolution at the shareholder meeting. This means the offeror and the parties acting in concert with it cannot participate in the vote.

Accordingly, the approval threshold for the voluntary delisting to proceed is proposed to be amended to a majority from 75%. Also proposed is the removal of the block provision where the delisting will not proceed if it is voted against by holders of more than 10% of the total number of issued shares present and voting.

SGX RegCo intends to require that the exit offer made in conjunction with a voluntary delisting be reasonable and fair in order for the voluntary delisting to proceed. The appointed independent financial adviser (IFA) must opine that the offer meets both criteria. The Listing Rules currently require an exit offer to be reasonable but does not require it to be fair.

In considering whether an offer is “reasonable”, the IFA should consider other matters as well as the value of the securities subject to the offer (the “Offeree Securities”). Such matters include, but are not limited to, the existing voting rights in the offeree company held by the offeror and its concert parties and the market liquidity of the Offeree Securities.

The term “fair” relates to an opinion on the value of the offer price or consideration compared against the value of the Offeree Securities. An offer is “fair” if the price offered is equal to or greater than the value of the Offeree Securities.

SGX RegCo is also proposing to codify the existing practice that the exit offer must include a cash alternative as the default alternative.

The public consultation will close on 7 December 2018. Subject to the feedback received, SGX RegCo expects to implement the new rules in 2019.

To access the consultation paper, please go to the following URL: <https://bit.ly/2DdDvmm>

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