

SAAC Singapore
Accountancy And Audit
Convention Series

PAIR Conference 2020

GEARING UP TO REBOOT IN A NEW WORLD

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COVID-19 Technical FAQs – Sharing by ISCA COVID-19 Working Group

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INSTITUTE OF
SINGAPORE
CHARTERED
ACCOUNTANTS

Agenda

1. About the AASC and COVID-19 Working Group



2. Overview of PAIB FAQs



3. Change in Control Environment



4. Going Concern



5. Key takeaways



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About the AASC and COVID-19 Working Group

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About the Auditing and Assurance Standards Committee (AASC)



Develops local standards aligned to international standards (SSAs, SSAEs, SSREs, SSRs and SSQCs)

Develops local standards to establish requirements for matters of relevance in Singapore not covered by the IAASB's standards (SAPs, SAPNs)

Issues guidance to provide practical assistance to auditors (AGSs)

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Key AASC Initiatives

Comment letters
to IAASB

Outreach
activities

International
quality
management
standards
(ISQM)

**Contribution towards
global auditing
standard-setting
process**

**Standard-setting
activities**

**Issuance of guidances
to address application
& implementation
challenges**

**Supporting education
and promotion audit
quality**

AGS 12

COVID-19 FAQs

Agency reports



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COVID-19 Working Group

Concerns raised by the profession

- Far-reaching accounting and auditing implications of COVID-19 due to unprecedented uncertainties
- Circuit breaker disruptions to operations and normal working arrangements

Formation of COVID-19 Working Group

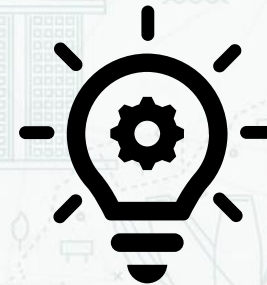
In view of the above, AASC and Financial Reporting Committee (FRC), in collaboration with ACRA, have formed a joint COVID-19 working group to provide guidance in the form of FAQs to address these challenges

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COVID-19 Technical FAQs

To date, the Working Group has issued 33 FAQs

Category	FAQs issued
Accounting	16
Auditing	13
For PAIBs	4
Total	33



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Overview of PAIB FAQs

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PAIB FAQs

No.	FAQ
1	With many employees working remotely during the circuit-breaker period, certain operating processes may have changed. Does an entity need to re-assess the internal controls that are in place?
2	What are some internal controls which an entity might need to reassess?
3	Economic activities of many entities are adversely affected by measures put in place to contain the COVID-19 virus. This has implications for entities preparing financial statements for financial reporting periods ending in Year 2020. What are some potential areas of misstatements that an entity should be mindful of?
4	Due to the current COVID-19 pandemic, Entity A's property valuation report as at 31 March 2020 contains caveats which suggest that the fair value of the property may be subject to significant valuation uncertainty (e.g. fair value of the property was determined as at the financial reporting date, but due to the changing and uncertain market conditions, the valuation may change significantly over a relatively short period of time). How will such clauses impact Entity A's financial statements?

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Areas of concern covered by PAIB FAQs

Work from home arrangement arising from circuit breaker measures result in changes in processes and control environment

FAQs 1 & 2

Extensive economic and operational uncertainties caused by COVID-19 has resulted in various potential areas of misstatements

FAQ 3

Significant uncertainties in valuations may result in potential caveats included in valuation reports

FAQ 4

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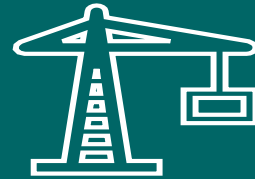
Valuation Reports

Reminders

- Be alert to caveats in valuation reports
- Examine clauses carefully
 - Engage with valuer to fully understand the nature of clauses and their implications
 - Consider whether valuation report can still be relied upon
- To engage with auditor early
- To assess and determine resultant impact on FS
 - Ensure appropriate and sufficient disclosures
 - Could lead to possible modification of auditor's report if significant

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Change in Control Environment



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My supervisor is being quarantined and there is no replacement to review my work...

There are too many invoices and documents in digital form which makes it challenging to review/match when working from home...

I need to disburse an urgent payment to supplier but cannot get hold of the authorised signatories to sign the cheque...

It is challenging to perform reviews thoroughly with the distractions at home...

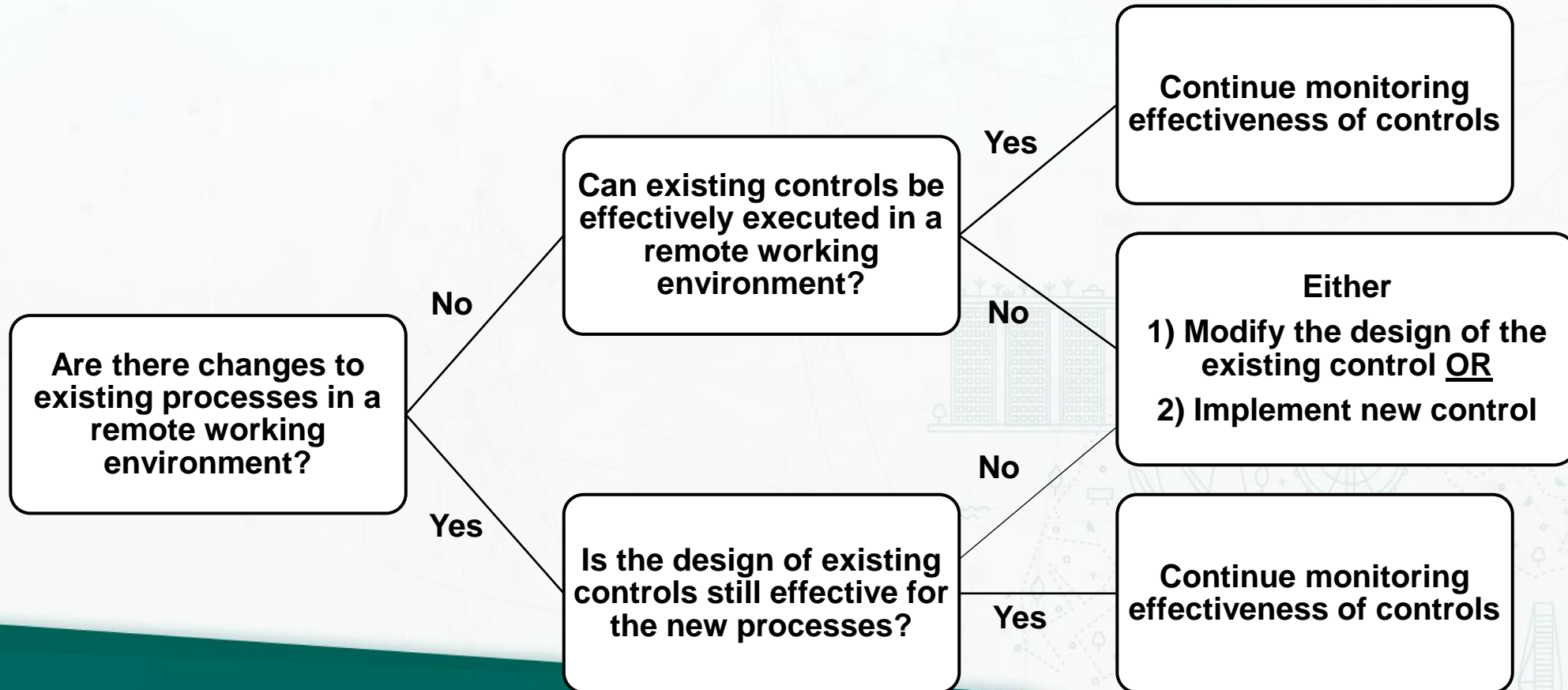
I am experiencing technical issues with my laptop and VPN. I may have to work offline using my personal laptop...



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Change in Control Environment

Consider implications of remote working arrangements on internal controls



Change in Control Environment

How would financial statement closing process (FSCP) be affected?

- Supporting documents not available for review of journal entries
- Challenges obtaining inputs for complex areas of accounting (DCF)
- Inappropriately attributing the effects of other unusual transactions to COVID-19
- Inability to complete FSCP timely and missing reporting deadlines
- Changes in contract terms affecting timing of revenue recognition

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Change in Control Environment

How would accounts payable and cash disbursement processes be affected?

- Inability to perform three-way match effectively
- Risk of duplicate payments (for e.g. payments using non-original invoices)
- Risk of unauthorised payments from alternative payment methods

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Change in Control Environment

How would inventory management be affected?

- Inability to perform inventory cycle counts or year-end counts
- Inability to obtain inventory information from third-party warehouses
- Lack of segregation of duties due to limitation of personnel on-site

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Change in Control Environment

What are some IT-related risks that would affect the entity?

- Strain on IT resources due to remote working arrangements and their implications on IT environment
- Expanded access rights to facilitate working from home overriding segregation of duties
- Increased vulnerability to cyber-attacks

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What you should consider

Lack of access to information essential to operation of processes/ internal controls may cause breakdown in controls

Lack of headcount may impede effective segregation of duties, need for mitigating controls to be put in place

Tighten management review controls during period of remote working

If preventive controls cannot be executed, more detective controls should be employed

If controls cannot address risks, consider resuming transaction/activity only when situation permits



Going Concern

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Going Concern

Period of assessment

- Management takes into account all available information about the future, which is **at least, but is not limited to, twelve months from the end of the reporting period** [SFRS(I) 1-1 paragraphs 25 – 26]
- However, there may be events or conditions that trigger need for an assessment **beyond twelve months** from the end of the reporting period
 - Critically evaluate the inputs to support the assessment as degree of uncertainty associated with the outcome of an event or condition increases as the event or condition is further into the future

Going Concern

Are there any trigger factors that may affect going concern?

- Perform **more robust assessment to support going concern assumption** if trigger factors are identified, especially for industries that are hit hard
- Indicators can include:
 - Deterioration of operating results and financial position due to extensive impact of COVID-19 on business
 - Possible financial difficulties such as default of loans or denial of usual trade credit from suppliers
 - External matters such as legal proceedings or loss of principal customer
 - Significant disruption to supply chain or inability to operate

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Going Concern

What are management's plans to overcome the situation?

- Evaluate your entity's strategy to sustain the business through unforeseen economic downturn
- Such plans may include:
 - Conserving cash
 - Cost-cutting measures
 - Seeking new credit facilities
 - Disposal of assets
 - Potential benefits from government support measures
 - Financial support
- Evaluate if the plan appropriately considers the length of time that the situation will affect the entity
→ immediate effects + likely recovery period

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Going Concern

**Does your entity
have access to
liquidity?**

- Evaluate if you have access to sufficient liquidity to meet obligations when due
- While an entity may be granted deferral of payments (such as rental or loan instalments), need to assess the entity's ability to meet these obligations after the deferment period

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Going Concern

How would different scenarios affect your entity's going concern?

- Perform assessment of the impact of multiple scenarios → consider number of months entity can sustain before triggering going concern issues
- Consider risks and probabilities of these scenarios
- Analysis can include scenario analysis, stress test, break-even analysis

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Going Concern

Alert to changes in conditions

- Be alert to changes in conditions **up to the date of signing off the financial statements** that will affect going concern assessment

Adequacy of disclosures

- Disclosures are critical to enable users of financial statements to understand the basis of management's assessment
- Where there are material uncertainties which cast significant doubt over an entity's ability to continue as a going concern, the entity shall need to disclose those uncertainties.
- If the going concern assumption is no longer appropriate, this would result in a fundamental change in the basis of accounting (i.e. FS prepared on liquidation or realisation basis of accounting), which are required to be disclosed in the FS

Implications to Auditor's Report

Scenario when events or conditions are identified	Implications to the auditor's report
Use of going concern assumption is inappropriate	<ul style="list-style-type: none">• If FS are prepared on going concern basis → adverse opinion• If FS are prepared on another basis (such as liquidation basis) → unmodified opinion if there are adequate disclosures
Use of the going concern assumption is appropriate, but material uncertainty exists	<ul style="list-style-type: none">• If adequate disclosures are made in FS → unmodified opinion, with inclusion of separate 'Material Uncertainty Related to Going Concern' section in auditor's report.• If there are inadequate disclosures in the FS → modified opinion

Implications to Auditor's Report

Scenario when events or conditions are identified	Implications to the auditor's report
"Close-call" situation	<ul style="list-style-type: none">• If adequate disclosures are made in the FS → unmodified opinion<ul style="list-style-type: none">• Consider need to highlight as a KAM (or include an EOM if entity is not required to report KAMs)• If there are inadequate disclosures in the FS → modified opinion
Where auditor is unable to form a conclusion on the appropriateness of management's assessment	<ul style="list-style-type: none">• If effects on the FS could be both material and pervasive → Disclaimer of opinion

Implications of going concern uncertainties on interim reporting

- Where there is a deterioration in business conditions, issuers should undertake an assessment of the ability to operate as a going concern and **disclose these uncertainties and their plans to address such uncertainties**
- Where issuers are unable to continue as a going concern, they should **make a request for trading suspension** pursuant to Listing Rule 1303

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Key Takeaways

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Key Takeaways



Encourage PAIBs to look through the auditing FAQs to understand the expectations and concerns of auditors as these may affect the audit process.



“New normal” has caused processes and working arrangements to change and PAIBs need to be mindful of risks arising from change in control environment and respond accordingly.



Management needs to seriously consider going concern and even viability issues in this uncertain climate.

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