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Changes to The Financial Reporting Framework in Singapore

Audit . Tax . Consulting . Financial Advisory .

Acronyms

ACRA	Accounting and Corporate Regulatory Authority
CA	Singapore Companies Act
CCDG	Council on Corporate Disclosure and Governance
ED	Exposure Draft
FRS	Financial Reporting Standards
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IAASB	International Auditing and Assurance Standards Board
ICPAS	Institute of Certified Public Accountants of Singapore
IFRIC	Interpretation of the International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IG	Implementation Guidance
INT FRS	Interpretation of Financial Reporting Standards
IRAS	Inland Revenue Authority of Singapore
LM	SGX Listing Manual
MAS	Monetary Authority of Singapore
RAP	Recommended Accounting Practice (issued by ICPAS)
SIC	Interpretation of the Standing Interpretations Committee of the IASB
SGX	Singapore Exchange
US GAAP	United States Generally Accepted Accounting Principles

6th Edition
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INTRODUCTION

In our last edition of *Changes to the Financial Reporting Framework in Singapore*, we covered a series of improved and new Financial Reporting Standards ("FRS") introduced in 2004, majority of which are effective in 2005. For most entities in Singapore, 2005 will be the first accounting period from which they need to address the requirements of those revised and new standards, and they should have by now implemented, or are in the process of implementing those changes.

This 6th edition saw a less hectic pace of change with respect of FRS. However, some significant changes in regulatory reporting have arisen from the Companies (Amendment) Act 2005 which will impact all Singapore companies. At the same time, the auditing and corporate governance regimes are also undergoing a wave of change in response to an increasing focus on governance practices, internal controls and quality of financial reporting. In this edition, we will highlight some significant changes in Singapore Standards on Auditing ("SSA") and their implications on Singapore companies. We will also be discussing the changes in Code of Corporate Governance applicable for Singapore listed companies, and some important proposed changes to the listing rules.

As in our past editions, a list of FRS and INT FRS as of the date of this publication will be included for readers' reference. A list of the new/revised auditing pronouncements is also included.

SECTION I: SINGAPORE COMPANIES ACT AND REGULATIONS

Companies (Amendment) Act 2005

The Companies (Amendment) Act 2005 ("CAA 2005") was passed in May 2005, but the commencement date of the Act has not been announced yet. ACRA indicated in its *August 2005 issue of Legal Digest* that the proposed implementation date will be January 30, 2006. The CAA 2005 changes the way companies maintain and administer their capital, and do result in changes to financial reporting. The following is a summary of all the significant changes arising from the CAA 2005:

Section 62A and 62B are inserted and Section 67 to 69F are abolished

- The concept of authorized share capital and par value is abolished. Immediately after the implementation date, any amount standing to the credit of a company's share premium account and capital redemption reserve becomes part of the company's share capital.
- Section 69 on share premium has been deleted. Going forward, share issue expense (e.g., IPO expenses) can be offset against equity to the extent that they meet the requirements under FRS 32 Financial Instruments: Presentation and Disclosure.

Section 76 is amended

- Financial assistance to persons for the purpose of acquiring shares or units of shares in the company or its holding company would be allowed in the following circumstances:

  (a) Where less than 10% of the total paid-up capital or the reserves of the company or the holding company is involved;

  (b) Where it is approved by an unanimous resolution of all the directors;

  (c) The resolution sets out in full the grounds for the director's conclusion;

  (d) Where all the directors make a solvency statement in relation to the giving of the financial assistance;

  (e) A notice with the necessary information is being sent to each member within 10 business days of providing the financial assistance; and

  (f) A copy of the above notice and a copy of the solvency statement referred to above are sent to the Registrar not later than the next business day of sending the notice to members.

- A new Section 7A (see below) is inserted to set out the requirements of the solvency statement.

Section 76F is amended

- Share buy-backs can be made out of the company's capital or profits provided the company is solvent. Previously, share buy-backs are allowed only through distributable profits, and the shares bought back must be cancelled.

Section 76H, I and J are inserted

- Repurchased ordinary shares may be held as treasury shares, up to 10% of issued shares per class. If this threshold is exceeded, the excess treasury shares must be disposed of or cancelled within 6 months.
- The voting and other rights of the repurchased ordinary shares would be suspended as long as they are held in treasury.
- Companies are permitted to use treasury shares to meet their obligations under employee share option schemes, transfer to third parties to fund acquisitions or to raise cash.
- Any "gains" derived by the company from the sale or disposal of treasury shares should not flow through profit and loss, and shall not be payable as dividends.
- Note that except for the foregoing, CAA 2005 does not prescribe the accounting treatment for treasury shares. FRS 32, *Financial Instruments: Presentation and Disclosure* should be applied for the purpose of accounting for treasury shares. Presentation of treasury shares is addressed in FRS 32.34, and they can be shown on the face of the balance sheet or in the notes to accounts.

Section 78A-K are inserted

- A private company can now reduce its share capital upon approval of shareholders' special resolution (through written resolution or at a general meeting) which includes a notice sent to the Comptroller of Income Tax stating that the resolution has been passed and containing the text of the resolution and the resolution date within 8 days beginning with the resolution date, a declaration of solvency and publicity requirements as prescribed by the Minister. For written resolutions under section 184A, the resolution served must be accompanied by a copy of the solvency statement. And if the resolution is to be passed at a general meeting, the solvency statement or a copy of it must be available for inspection throughout that meeting. A solvency statement or a copy of it must also be available at the company's registered office for inspection free of charge by any creditor of the company throughout the 6 weeks beginning with the resolution date.

- For public companies, the alternative capital reduction process is subjected to the same requirements as that of a private company as stated above except that the resolution can only be served at a general meeting (written resolution under section 184A is not available). The solvency statement or a copy of it must be available for inspection by the shareholders throughout the meeting at which the resolution is to be passed and available at the company's registered office for inspection free of charge by any creditor of the company throughout the 6 weeks beginning with the resolution date.

Section 215 is amended

- Section 215 is amended to exclude any treasury shares for the purpose of computing the 90% of the total number of those shares acceptance threshold for arrangements, reconstructions and amalgamations.

- Inclusions of new section on amalgamations to allow an alternative process other than court sanction. It lists out the proposal requirements, the manner of approving such a proposal, the registration and notice of amalgamation.

A new Section 7A is inserted

- A "solvency statement" where required in the above sections refers to a confirmation statement by the directors that the company will be able to pay its debts as they fall due within 12 months from date of the statement and that the value of the company's assets is not less than the value of its liabilities (including contingent liabilities) and will not, after the proposed changes in capital, become less than the value of its liabilities (including contingent liabilities).

- The solvency statement should be made with regard to the most recent financial statements of the company, and other circumstances that the directors ought to know affect, or may affect the financial position of the company.

- If the company is exempted from audit, the solvency statement shall be in the form of a statutory declaration. If the company is not exempted from audit, the solvency statement can be made in the form of a statutory declaration, or shall be accompanied by a report from its auditor that he has inquired into the affairs of the company and is of the opinion that the statement is not unreasonable given all circumstances.

- A director making a solvency statement without reasonable grounds shall be guilty of an offence and shall be liable to a fine not exceeding $100,000 or to imprisonment for a term not exceeding 3 years or to both.

SECTION II: FINANCIAL REPORTING STANDARDS

In 2005, CCDG issued the following:

New/Revised FRS	
FRS 40	• Investment Property (effective for annual periods beginning on or after January 1, 2007)
FRS 39 (revised)	• Amendments to FRS 39 Transition and Initial Recognition of Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2005)
FRS 19 (revised)	• Amendments to FRS 19 Employee Benefits relating to Actuarial Gains and Losses, Group Plans and Disclosures (effective for annual periods beginning on or after January 1, 2006)
FRS 106	• Exploration For and Evaluation of Mineral Resources (effective for annual periods beginning on or after January 1, 2006)
FRS 39 (revised)	• Amendments to cash flow hedge accounting of forecast intragroup transactions (effective for annual periods beginning on or after January 1, 2006)

New/Revised INT FRS	
INT FRS 12 (revised)	• Amendments to Scope of INT FRS 12 Consolidation – Special Purpose Entities (effective for annual periods beginning on or after January 1, 2005)
INT FRS 104	• Determining whether an Arrangement contains a Lease (effective for annual periods beginning on or after January 1, 2006)
INT FRS 105	• Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective for annual periods beginning on or after January 1, 2006)

New/Revised Financial Reporting Standards Issued in 2005

FRS 40 *Investment Property*

This standard prescribes the accounting treatment for investment property. It replaces previous requirements in FRS 25, *Accounting for Investments*. The standard is applicable for annual periods beginning on or after January 1, 2007. Earlier application is encouraged and this fact should be disclosed.

Criteria for classification as investment properties

- Investment properties are land or buildings (or a part of a building, or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both. A property held for use in the production of goods or services or for administrative services or sale in the ordinary course of business is not an investment property.

- A property interest that is held by a lessee under an operating lease may be classified as investment property if all other criteria for investment property are satisfied and the lessee uses the fair value model to record the value of the investment property. An entity should make the foregoing classification on a property-by-property basis.

- A property that is being constructed or developed for use as an investment property will apply FRS 16, *Property, Plant and Equipment* until construction or development is complete. However, FRS 40 does apply to existing investment property that is being redeveloped for continuing use as investment property.

- An inter-company rental to a parent, subsidiary or fellow subsidiary is not investment property in consolidated financial statements that include both the lessor and lessee, because the property is owner-occupied from the perspective of the group. However, such property can qualify as investment property in the separate financial statements of the lessor, if the definition of investment property is otherwise met. Adjustments will be needed for group accounts to reclassify the investment property as a fixed asset subject to depreciation and impairment if it is occupied by another entity within the group.

- If the entity provides ancillary services to the occupants of a property, the appropriateness of classification as investment property is determined by the significance of the services provided. If those services are a relatively insignificant component of the arrangement as a whole (for instance, the building owner supplies security and maintenance services to the lessees) then the entity may treat the property as investment property. Where the services provided are more significant (such as in the case of an owner-managed hotel), the property should be classified as owner-occupied.

- For partial owner use properties, where the owner uses part of the property for its own use, and part to earn rentals or for capital appreciation, and the portions can be sold or leased out separately, they are accounted for separately. Therefore, the part that is rented out is investment property. If the portions cannot be sold or leased out separately, the property is investment property only if the owner-occupied portion is insignificant.

Measurement

FRS 40 differs from FRS 25 in that it allows only for a choice between a fair value model and a cost model. The revaluation model (with surplus in equity) under FRS 25 is no longer allowed. The entity should apply the same model chosen to all its investment properties except in very limited circumstances.

Fair value model
- The fair value model reflects the current market value of the asset at the balance sheet date, with any increase or decrease in value taken to the income statement.

- The best evidence of fair value is normally given by current prices on an active market for similar property in the same location and condition and subject to similar lease and other contracts. In the absence of such information, the entity may consider current prices for properties of a different nature or subject to different conditions, recent prices on less active markets with adjustments to reflect changes in economic conditions, and discounted cash flow projections based on reliable estimates of future cash flows.

- The fair value method requires an adjustment to the opening balance of retained earnings in the period when first adopted.

Cost model
- The cost model is the benchmark treatment described in FRS 16 *Accounting for Property, Plant and Equipment*, which is cost less any accumulated depreciation and any accumulated impairment losses. When an entity first applies this standard and chooses to use the cost model, the entity will apply FRS 8 to account for any change in accounting policies. The effect of change includes the reclassification of any amount in revaluation surplus for investment property. Information on fair value is required to be disclosed.

In exceptional circumstances, where an entity adopts the fair value model but on initial recognition of the investment property, concludes that the property's fair value is not expected to be reliably measurable on a continuing basis, the property is accounted using the cost model. Additional disclosures are required, including, if possible, the range of estimates within which fair value is highly likely to lie.

Furthermore, the standard encourages, but does not require, an entity to determine the fair value of investment property on the basis of valuation by an independent valuer.

Change in measurement model is permitted only if it results in a more appropriate presentation. FRS 40 further highlights that this is unlikely for a change from a fair value model to a cost model.

Transfers, reclassification and derecognition

Transfers to, or from, investment property should only be made when there is a change in use, evidenced by the following and accounted for respectively:

Scenario	Treatment
• commencement of owner-occupation (transfer from investment property to owner-occupied property) • commencement of development with a view to sale (transfer from investment property to inventories)	For a transfer from investment property carried at fair value to owner-occupied property or inventories, the fair value at the change of use is the 'cost' of the property under its new classification. If an entity decides to sell an investment property without development, it continues to treat the property as an investment property until it is disposed of (derecognised from the balance sheet) and does not treat it as inventory. However, the investment property should be classified and presented in accordance with the requirements of FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*, if it meets the criteria to be classified as held for sale.
• end of owner-occupation (transfer from owner-occupied property to investment property)	For a transfer from owner-occupied property to investment property carried at fair value, FRS 16 should be applied up to the date of reclassification. Any difference arising between the carrying amount under FRS 16 at that date and the fair value is dealt with as a revaluation under FRS 16.

Scenario	Treatment
• commencement of an operating lease to another party (transfer from inventories to investment property); or	For a transfer from inventories to investment property at fair value, any difference between the fair value at the date of transfer and its previous carrying amount should be recognised in net profit or loss for the period.
• end of construction or development (transfer from property in the course of construction/development to investment property).	When an entity completes construction or development of an investment property that will be carried at fair value, any difference between the fair value at the date of transfer and the previous carrying amount should be recognised in net profit or loss for the period.

- When an entity uses the cost model for investment property, transfers between categories do not change the carrying amount of the property transferred, and they do not change the cost of the property for measurement or disclosure purposes.

- An entity should derecognise an investment property upon disposal or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The gain or loss on disposal is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in profit or loss. Any compensation from third parties for investment property that was impaired, lost or given up is recognised in profit or loss when the compensation becomes receivable.

Disclosure requirements

General disclosures to be made by the entity

- whether the fair value or the cost model is used;

- if the fair value model is used, whether property interests held under operating leases are classified and accounted for as investment property;

- if classification is difficult, the criteria to distinguish investment property from owner-occupied property and from property held for sale.

- the methods and significant assumptions applied in determining the fair value of investment property.

- the extent to which the fair value of investment property is based on a valuation by a qualified independent valuer; if there has been no such valuation, that fact must be disclosed.

- the amounts recognised in profit or loss for:
  - o rental income from investment property;
  - o direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period; and
  - o direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period.

- restrictions on the realisability of investment property or the remittance of income and proceeds of disposal.

- contractual obligations to purchase, construct, or develop investment property or for repairs, maintenance or enhancements.

In addition to the general disclosures as stated above, the following disclosures are required when applying the fair value model or cost model:

Fair value model

- a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing additions, disposals, fair value adjustments, net foreign exchange differences, transfers to and from inventories and owner-occupied property, and other changes.

- significant adjustments to an outside valuation (if any)

- if an entity that otherwise uses the fair value model measures an item of investment property using the cost model, certain additional disclosures are required.

Cost model

- the depreciation methods used;
- the useful lives or the depreciation rates used;
- the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;
- a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing additions, disposals, depreciation, impairment recognised or reversed, foreign exchange differences, transfers to and from inventories and owner-occupied property, and other changes;
- the fair value of investment property. If the fair value of an item of investment property cannot be measured reliably, additional disclosures are required, including, if possible, the range of estimates within which fair value is highly likely to lie.

Amendments to FRS 39 *Transitional and Initial Recognition of Financial Assets and Financial Liabilities*

The amendments provide transitional relief from retrospective application of "day one gains and losses" requirements. Entities would have a choice between applying the "day one gain and loss" recognition requirements in FRS 39 (r2004) either:

- retrospectively (as previously required by FRS 39.104);
- prospectively to transactions entered into after October 25, 2002 (the effective date of similar requirements in US GAAP); or
- prospectively to transactions entered into after January 1, 2004 (the date of transition to FRSs for many entities).

"Day one gains and losses" arise when the transaction price differs from fair values calculated by using, for example, a valuation model. Prior to these amendments, these gains and losses can only be recognised in certain circumstances – when variables in the valuation model include only data from observable markets.

The amendments to FRS 39 and consequential amendments to FRS 101 are effective for annual periods beginning on or after January 1, 2005. If an entity applies FRS 32 and FRS 39 and/or FRS 101 for an earlier period, these amendments must be applied for that earlier period.

Amendments to FRS 19 *Employee Benefits relating to Actuarial Gains and Losses, Group Plans and Disclosures*

The amendments introduce an option for an entity to recognise actuarial gains and losses in full as they arise, outside profit or loss, in a statement of changes in equity that shows total recognised gains and losses (sometimes called comprehensive income). Entities therefore have an option to recognise actuarial gains and losses in profit or loss, either in the period in which they occur or spread over the service lives of the employees.

The amendments also add disclosures to (a) provide information about trends in the assets and liabilities in a defined benefit plan and the assumptions underlying the components of the defined benefit cost and (b) bring the disclosures in FRS 19 closer to those required by the US GAAP.

The amendments to FRS 19 and consequential amendments to FRS 1, FRS 24 and FRS 101 are effective for annual periods beginning on or after January 1, 2006.

FRS 106 *Exploration For and Evaluation of Mineral Resources*

This standard applies to expenditures incurred by an entity in connection with the search for mineral resources. FRS 106 does not require or prohibit any specific accounting policies for the recognition and measurement of exploration and evaluation assets. It permits an entity to continue using its existing accounting policies provided they result in relevant and reliable information, and exempts the entity from considering the various sources of authoritative requirements and guidance in paragraphs 11 and 12 of FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Exploration and evaluation assets are initially measured at cost and the expenditures to be included as cost of assets is a matter of the entity's accounting policy, which should be applied consistently. The assets can be measured subsequently using a cost model or a revaluation model, and subject to impairment under FRS 36. However, because of the difficulty in obtaining the information necessary to estimate future cash flows from exploration and evaluation assets, FRS 106 modifies the rules of FRS 36 as regards to the circumstances in which such assets are required to be assessed for impairment. FRS 106 also allows greater degree of flexibility as regards the level at which impairment assessment should be performed.

Exploration and evaluation assets will be treated as separate class of assets for disclosure purposes. FRS 106 requires disclosure of accounting policies for exploration and evaluation expenditures, the amounts of assets, liabilities, income and expense, operating and investing cash flows arising from exploration for and evaluation of mineral resources.

The transitional provisions in FRS 106 allow an exemption from recognizing impairment that relates to annual periods beginning before January 1, 2006 if it is impracticable to do so, but this fact should be disclosed.

An exposure draft has been issued to amend FRS 106 and FRS 101, to exempt early adopters and first-time FRS adopters from providing comparative prior-period disclosures, as well as the recognition and measurement requirements of FRS 106 in the prior comparative period.

Amendments to FRS 39 *Cash Flow Hedge Accounting for Forecast Intragroup Transactions*

The amendment permits the foreign currency risk of a highly probably intragroup forecast transaction to qualify as the hedged item in a cash flow hedge in consolidated financial statements, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated financial statements.

The amendment also specifies that if the hedge of a forecast intragroup transaction qualifies for hedge accounting, any gain or loss that is recognised directly in equity in accordance with the hedge accounting rules in FRS 39 must be reclassified into profit or loss in the same period or periods during which the foreign currency risk of the hedged transaction affects consolidated profit or loss.

This amendment is effective for annual periods beginning on or after January 1, 2006, although earlier application is encouraged.

New/Revised Interpretations of Financial Reporting Standards Issued in 2005

Amendment to Scope of INT/FRS 12 *Consolidation – Special Purpose Entities*

This amendment removes the scope exclusion in INT FRS 12 for equity compensation plans. Hence, an entity that controls an employee benefit trust (or similar entity) set up for the purposes of a share-based payment arrangement would be required to consolidate that trust.

It also amends the scope exclusion to include other long-term employee benefit plans, to ensure consistency with the requirements of FRS 19 *Employee Benefits* which requires these long-term employee benefit plans are to be accounted for in a manner similar to that for post-employment benefit plans.

These amendments are effective for annual periods beginning on or after January 1, 2005. If an entity applies FRS 102 for an earlier period, this amendment must be applied for that earlier period.

INT FRS 104 *Determining whether an Arrangement contains a Lease*

This Interpretation contains guidance on determining whether arrangements that do not take the legal form of a lease should, nonetheless, be accounted for in accordance with FRS 17 *Leases*.

Examples of such arrangements include:

- Outsourcing arrangements;
- Telecommunication contracts that provide rights to capacity;
- Take-or-pay and similar contracts, in which purchasers must make specified payments regardless of whether they take delivery of the contracted products or services; and
- Service concession arrangements, in which one entity provides the use of an item of infrastructure to another entity.

Such arrangements would hence need to be looked at carefully (with respect to the following criteria) to ascertain if they are required to be accounted for in accordance with FRS 17. The following criteria, if met, would render such an arrangement to be, or contains, a lease:

- Fulfilment of the arrangement depends upon a specific asset. The asset need not be explicitly identified by the contractual provisions of the arrangement. Rather it may be implicitly specified because it is not economically feasible or practical for the supplier to fulfill the arrangement by providing use of alternative assets.

- The arrangement conveys a right to control the use of the underlying asset. This is the case if any of the following conditions is met:

    - o the purchaser in the arrangement has the ability or right to operate the asset or direct others to operate the asset (while obtaining more than an insignificant amount of the output of the asset).

    - o the purchaser has the ability or right to control physical access to the asset (while obtaining more than an insignificant amount of the output of the asset).

    - o there is only a remote possibility that parties other than the purchaser will take more than an insignificant amount of the output of the asset and the price that the purchaser will pay for the output is neither contractually fixed per unit nor equal to the current market price per unit at delivery.

INT FRS 104 is effective for annual periods beginning on or after January 1, 2006.

INT FRS 105 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds and Disclosures*

This Interpretation deals with how to account for decommissioning, restoration and environmental rehabilitation funds, which are referred to as 'decommissioning funds' or 'funds'. The purpose of these funds is to segregate assets to fund some or all of the costs of decommissioning of plant (such as a nuclear plant) or certain equipment (such as cars), or in undertaking environmental rehabilitation (such as rectifying pollution of water or restoring mined land), together referred to as 'decommissioning'. These funds may be voluntary or required by regulation or law.

Under INT FRS 105:

- If an entity recognises a decommissioning obligation under FRSs and contributes to a fund to segregate assets to pay for the obligation, it should apply FRS 27, Consolidated and Separate Financial Statements, INT FRS 12, Consolidation—Special Purpose Entities, FRS 28, Investments in Associates, and FRS 31, Interests in Joint Ventures, to determine whether decommissioning funds should be consolidated, proportionately consolidated or accounted for under the equity method.

- When a fund is not consolidated, proportionately consolidated, or accounted for under the equity method, and that fund does not relieve the contributor of its obligation to pay decommissioning costs, the contributor should recognise:

    - o its obligation to pay decommissioning costs as a liability, and

    - o its rights to receive reimbursement from the fund as a reimbursement under FRS 37.

- A right to reimbursement should be measured at the lower of (i) the amount of the decommissioning obligation recognised and (ii) the contributor's share of the fair value of the net assets of the fund. Changes in the carrying amount of this right (other than contributions to and payments from the funds) should be recognised in profit or loss.

- When a contributor has an obligation to make potential additional contributions to the fund, that obligation is a contingent liability within the scope of FRS 37. When it becomes probable that the additional contributions will be made, a provision should be recognised.

INT FRS 105 amends FRS 39 to exclude from its scope rights to reimbursement for expenditure required to settle a liability recognised as a provision. Such rights will be accounted for in accordance with FRS 37.

This Interpretation is effective for annual periods beginning on or after January 1, 2006.

Significant Exposure Drafts Issued in 2005

ED INT FRS *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*

This draft Interpretation clarifies when original producers of electrical goods will need to recognise a liability for the cost of waste management relating to final disposal of waste electrical and electronic equipment by private households. It was concluded that the event giving rise to the liability for costs of such waste is participation in the market in the period in which the original seller's market share is determined for the purposes of allocating ultimate waste management costs. It is not the original production or sale of the equipment that triggers liability recognition.

ED INT FRS *Changes in Contributions to Employee Share Purchased Plans ("ESPP")*

The draft Interpretation proposes that:

- If an employee stops contributing to an ESPP while remaining in the entity's employment, and, as a consequence, is no longer able to buy shares under the plan, the entity shall account for this event as a cancellation. Therefore, in accordance with paragraph 28(a) of FRS 102, the entity shall recognise immediately as expense the amount that otherwise would have been recognised for services received over the remainder of the vesting period.

- If an employee changes from one ESPP to another, and the entity identifies the equity instruments granted to the employee under the new ESPP as replacements for the equity instruments granted to that employee under the original ESPP, the entity shall account for this event as a modification of the original grant. If the entity does not identify the new equity instruments granted under the new ESPP as replacements for the equity instruments granted under the original ESPP, the entity shall account for:

  (a) the employee's cessation of participation in the original ESPP as a cancellation.

  (b) the employee's commencement of participation in the new ESPP as a new grant of equity instruments.

ED INT FRS *Service Concession Arrangements – Determining the Accounting Model, The Financial Asset Model and The Intangible Model*

Service concession arrangements are arrangements whereby a government or other body grants contracts for the supply of public services, such as roads, energy distribution, prisons, or hospitals, to private operators.

Determining the Accounting Model

The operator may construct or acquire such infrastructure for the purpose of the concession. This draft Interpretation proposes that if, as often happens, the grantor continues to control how the infrastructure is used both during and after the concession, the operator should not recognise that infrastructure as its own property, plant, and equipment. Rather, it should account for having provided construction services to the grantor under a construction contract and should account for the rights it receives in exchange for constructing the infrastructure using one of two accounting models:

(a) the financial asset model — if the grantor has the primary responsibility to pay the operator for the concession services; or

(b) the intangible asset model — if users have the primary responsibility to pay the operator for the concession services.

The Financial Asset Model

The financial asset model applies if the grantor (rather than users) has the primary responsibility to pay the operator for the concession services. Under the financial asset model, the right received by the operator in exchange for construction services or other consideration is accounted for as a financial asset. This draft Interpretation describes how the financial asset model should be applied, including the following principles:

Recognition:

If it is probable that total contract costs will exceed total contract revenue, the expected loss shall be recognised as an expense immediately; otherwise, no obligation or related right shall be recognised to the extent that contracts are, and remain, executory.

An obligation shall be recognised when consideration is received in advance of performance.

An amount due from the grantor under a contract shall be recognised as a financial asset when the operator performs in advance of receiving consideration. This financial asset may be classified under FRS 39 as (a) loans and receivables, (b) available for sale, or (c) fair value through profit or loss (must be so designated on initial recognition).

Measurement

Obligations under contracts shall be measured on the basis of the consideration received for their performance.

Financial assets shall be measured at fair value.

Intangible Asset Model

The intangible asset model applies in all other cases.

In the intangible asset model, the service concession operator is regarded as receiving an intangible asset from the grantor in exchange for the construction or other services it provides to the grantor. The operator should recognise revenue and profit or loss on that exchange in accordance with FRSs 11 and 18.

The revenue is measured at the fair value of the intangible asset received, adjusted by the amount of any cash or cash equivalents transferred. If the fair value of the intangible asset received cannot be measured reliably, revenue is measured at the fair value of the services provided by the operator, adjusted by the amount of any cash or cash equivalents transferred.

Obligations to construct new infrastructure, or to enhance existing infrastructure, are included in the consideration given for the intangible asset, and therefore in its cost. However, all other contractual obligations – including obligations to maintain, replace, or restore infrastructure – are excluded from the consideration given for the intangible asset.

INT FRS 29 *Disclosure – Service Concession Arrangements*

INT FRS 29 would be amended to add additional disclosures about service concession arrangements.

ED INT FRS *Reassessment of Embedded Derivatives*

FRS 39 requires an entity, when it first becomes a party to a contract, to assess whether any embedded derivatives contained in the contract are required to be separated from the host contract and accounted for separately as derivatives under the standard. An example of an embedded derivative is the conversion option that is part of an investment in convertible debt.

The ED proposes that entities make the assessment of whether an embedded derivative must be separated from the host contract only when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract, in which case it is required. The ED further states that a first-time adopter should make the assessment based on the conditions that existed when the entity first became a party to the contract.

ED FRS Proposed Amendments to FRS 101 *First-time Adoption of Financial Reporting Standards*

The proposed amendment clarifies that an entity that both (a) adopts FRSs for the first time before January 1, 2006 and (b) applies FRS 106 before that date is exempted not only from providing comparative prior-period disclosures but also from applying the recognition and measurement requirements of FRS 106 in the prior comparative period.

ED INT FRS Scope of FRS 102 *Share-based Payment*

The draft Interpretation clarifies that transactions within the scope of the FRS include those in which the entity cannot specifically identify some or all of the goods or services received.

ED INT FRS 102 *Group and Treasury Share Transactions*

This ED provides guidance on the application of FRS 102 to share-based payment transactions involving treasury shares, or two or more entities within the same group of entities; whether particular types of transactions should be accounted for as cash-settled or equity-settled share-based payment transactions under FRS 102.

Where settlement is made directly via an entity's own equity instruments, including treasury shares, the share-based payment is treated as "equity-settled" transaction in the entity's financial statements.

Where a subsidiary grants rights of its parent's equity instrument to employees, the subsidiary will treat such share-based transaction as "cash-settled" in its financial statements, while the parent will treat the transaction as "equity-settled" in the consolidated financial statements.

If the parent grants rights on its own equity instruments directly to the employees of a subsidiary, both the parent and the subsidiary will treat the transaction as "equity-settled" in their financial statements. If the parent levies an inter-company charge to the subsidiary, the charge will offset against the capital contribution in the subsidiary's financial statements, and any excess over the capital contribution will be deemed a distribution by the subsidiary to the parent.

ED FRS Proposed Amendments to FRS 103 *Business Combinations*

The principal proposals are:

- The acquirer would measure the business acquired at its total fair value and, consequently, recognise the goodwill attributable to any non-controlling interests (i.e., minority interests) rather than just the portion attributable to the acquirer. This would result in 100 per cent of the acquiree's goodwill being recognised in the consolidated financial statements, even where less than 100 per cent of the subsidiary is held. The current FRS 103 requires a business combination to be measured and recognised on the basis of the accumulated cost of the combination for the acquirer.

- Payments to third parties for consulting, legal, audit, and similar services associated with an acquisition would be recognised generally as expenses when incurred rather than capitalised as part of the business combination, as they represent payments of services rather than assets of the acquiring entity. The current FRS 103 allows direct costs of the business combination to be included in the cost of certain acquired assets.

- Fair value of consideration paid would include the acquisition date fair value of any contingent consideration payable. The contingent consideration would be classified as either equity of debt in accordance with FRS 32, and adjustments to provisional fair values made in the measurement period (at most one year from date of acquisition). Subsequent to initial recognition, contingent consideration classified as equity would not be remeasured. Changes in fair value of contingent consideration classified as a liability that did not qualify as measurement-period adjustments would be accounted for in accordance with both FRS 39 and FRS 37. In the current FRS 103, such changes in estimate are treated as adjustments to goodwill.

- Acquisitions of additional non-controlling equity interests after the business combination will no longer be accounted for using the acquisition method. Instead, they will be accounted for as transactions with owners. No assets and liabilities would be remeasured at fair value, and no additional goodwill would be recognised.

ED FRS Proposed Amendments to FRS 27 *Consolidated and Separate Financial Statements;*

This exposure draft proposes that transactions with non-controlling interests would be accounted for as transactions with equity participants which do not give rise to a profit or loss unless they result in a loss of control.

Following the loss of control of a subsidiary, the fair value of the remaining investment at the date of loss of control would be regarded as the fair value on initial recognition of a financial asset in accordance with FRS 39 or when appropriate, the cost on initial recognition of an invesment in as associate or jointly controlled entity.

Losses applicable to non-controlling interests would be attributed to those interests, even if doing so would result in a non-controlling interest being reported as a deficit.

ED FRS Proposed Amendments to FRS 37 *Provisions, Contingent Liabilities and Contingent Assets and FRS 19 Employee Benefits*

The proposed amendments seek to treat items previously described as 'contingent liabilities' more consistently in and outside a business combination. The proposed revised FRS 37 would be wider in scope and would apply to all non-financial liabilities that are not within the scope of other standards. Consequential changes will be made to FRS 19 on termination benefits, in line with proposed changes to FRS 37.

Draft Technical Correction (DTC) 1 Proposed Amendments to FRS 21 *The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation*

DTC 1 proposes that the exchange differences arising on monetary items treated as part of a reporting entity's net investment in a foreign operation, to be recognised in equity at group level, irrespective of the currency of the monetary item and irrespective of whether the monetary item results from a transaction with the parent or with any of its subsidiaries.

List of Financial Reporting Standards and Interpretations of Financial Reporting Standards Effective for 2005

These FRS and INT FRS are effective for annual periods beginning on or after January 1, 2005 except for the following:

- FRS 19 (Revised 2005), which is effective for annual periods beginning on or after January 1, 2006;
- FRS 39 (Revised 2005) relating to hedge accounting provisions, is effective for annual periods beginning on or after January 1, 2006;
- FRS 40, which is effective for annual periods beginning on or after January 1, 2007;
- FRS 101, which is effective for financial statement covering periods beginning on or after January 1, 2004;
- FRS 102, which is effective for public companies for annual periods beginning on or after January 1, 2005 and for all other companies from January 1, 2006;
- FRS 103 and the revised FRS 36 and FRS 38, which are effective for annual periods beginning on or after July 1, 2004;
- FRS 106, which is effective for annual periods beginning on or after January 1, 2006;
- INT FRS 101, which is effective for annual periods beginning on or after September 1, 2004;
- INT FRS 104 and INT FRS 105, which are effective for annual periods beginning on or after January 1, 2006.

FRS/ INT FRS	Title	Supersedes	Transitional Provisions
Preface	Preface to FRS Preface to INT FRS		
Framework	Framework for the Preparation and Presentation of Financial Statements		
FRS 1 INT FRS 29	*Presentation of Financial Statements (Revised)* *Disclosure – Service Concession Arrangements*		
FRS 2	*Inventories (Revised)*	INT FRS 1	
FRS 7	*Cash Flow Statements*		
FRS 8	*Accounting Policies, Changes in Accounting Estimates and Errors (Revised)*	INT FRS 2, 18	
FRS 10	*Events after the Balance Sheet Date (Revised)*		
FRS 11	*Construction Contracts*		
FRS 12 INT FRS 21 INT FRS 25	*Income Taxes* *Income Taxes – Recovery of Revalued Non-depreciable Assets* *Income Taxes – Changes in the Tax Status of an Enterprise of its Shareholders*		
FRS 14	*Segment Reporting*		
FRS 16 INT FRS 101	*Property, Plant and Equipment (Revised)* *Changes in Existing Decommissioning, Restoration and Similar Liabilities*	INT FRS 6, 14, 23	Note 1
FRS 17 INT FRS 15 INT FRS 27 INT FRS 104	*Leases (Revised)* *Operating Leases – Incentives* *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* *Determining whether an Arrangement contains a Lease*		Note 2
FRS 18 INT FRS 31	*Revenue* *Revenue – Barter Transactions Involving Advertising Services*		
FRS 19	*Employee Benefits (Revised 2005)*		
FRS 20 INT FRS 10	Accounting for Government Grants and Disclosure of Government Assistance Government Assistance – No Specific Relation to Operating Activities		

FRS/ INT FRS	Title	Supersedes	Transitional Provisions
FRS 21 INT FRS 7	*The Effects of Changes in Foreign Exchange Rates (Revised)* *Introduction of the Euro*	INT FRS 11, 19, 30	Note 3
FRS 23	*Borrowing Costs*		
FRS 24	*Related Party Disclosures (Revised)*		
FRS 25	*Accounting for Investments*		
FRS 26	*Accounting and Reporting by Retirement Benefit Plans*		
FRS 27 INT FRS 12	*Consolidated and Separate Financial Statements (Revised)* *Consolidation – Special Purpose Entities (Revised 2005)*	INT FRS 33	
FRS 28	*Accounting for Investments in Associates (Revised)*	INT FRS 3, 20, 33	
FRS 29	*Financial Reporting in Hyperinflationary Economies*		
FRS 31 INT FRS 13	*Financial Reporting of Interests in Joint Ventures (Revised)* *Jointly Controlled Entities – Non-monetary Contributions by Venturers*		
FRS 32	*Financial Instruments: Disclosure and Presentation (Revised)*		
FRS 33	*Earnings Per Share (Revised)*	INT FRS 24	
FRS 34	*Interim Financial Reporting*		
FRS 36	*Impairment of Assets (Revised)*		
FRS 37 INT FRS 105	*Provisions, Contingent Liabilities and Contingent Assets* *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*		
FRS 38 INT FRS 32	*Intangible Assets (Revised)* *Intangible Assets – Web Site Costs*		
FRS 39	*Financial Instruments: Recognition and Measurement (Revised 2005)*		
FRS 40	*Investment Property*	FRS 25 section on investment properties	Note 4
FRS 41 FRS 101	*Agriculture* *First-time Adoption of International Financial Reporting Standards*	INT FRS 8	
FRS 102	*Share-based Payment*		
FRS 103	*Business Combinations*	FRS 22 INT FRS 9, 22, 28	Note 5
FRS 104	*Insurance Contracts*		
FRS 105	*Non-current Assets Held for Sale and Discontinued Operations*	FRS 35	
FRS 106	*Exploration for and Evaluation of Mineral Resources*		Note 6

Transitional Provisions for FRS and INT FRS

The adoption of FRS and INT FRS may result in some accounting polices being changed, for example, treatment of goodwill previously taken to equity, changing functional currency or the recognition of financial instruments. Companies will be required to account for such an adoption based on the specific transitional provisions available in the FRS or INT FRS or if there are no applicable transitional provisions, in accordance with FRS 8 Accounting Policies, Changes in Estimates and Errors.

Specific Transitional Provisions

Note 1

- FRS 16 paragraphs 24-26 requires the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transactions to be applied prospectively only to future transactions.

Note 2

- FRS 17 states that an entity that has previously applied FRS 17 (revised 2000) shall apply the amendments made by this Standard retrospectively for all leases or, if FRS 17 was not applied retrospectively, for all leases entered into since it first applied that Standard.

  Subject to the abovementioned, retrospective application of this Standard is encouraged but not required. If the Standard is not applied retrospectively, the balance of any pre-existing finance lease is deemed to have been properly determined by the lessor and shall be accounted for thereafter in accordance with the provisions of this Standard.

Note 3

- Any goodwill arising on the acquisitions of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation after the beginning of the financial reporting period in which this Standard is first applied shall be prospectively treated as assets and liabilities of the foreign operations. Thus, they shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance to the Standard. Retrospective application is permitted.

  For an acquisition of a foreign operation treated prospectively but which occurred before the date on which this Standard is first applied, the entity shall not restate prior years and accordingly may, when appropriate, treat goodwill and fair value adjustments arising on that acquisition as assets and liabilities of the entity rather than as assets and liabilities of the foreign operation. Therefore, those goodwill and fair value adjustments either are already expressed in the entity's functional currency or are non-monetary foreign currency items, which are reported using the exchange rate at the date of the acquisition.

  All other changes resulting from the application of this standard shall be accounted for in accordance with the requirements of FRS 8.

Note 4

- FRS 40 requires an entity that adopts the fair value model to report the effect of adopting this Standard on its effective date as an adjustment to the opening balance of retained earnings for the period in which the Standard is first adopted. This includes the reclassification of any account held in revaluation surplus for the investment property. In addition, if the entity has previously disclosed publicly the fair value of those property interests in earlier periods, the entity is encouraged, but not required to adjust the opening balance of retained earnings for the earliest period presented for which such fair value was disclosed publicly; and to restate comparative information for those periods. However, if the entity has not previously disclosed publicly the information described above, it is not required to restate comparative information and should disclose the fact.

  For initial adoption of the cost model, FRS 40 paragraphs 83-84 require the entity to retrospectively account for the change in accounting policies in accordance with FRS 8. This includes the reclassification of any amount held in revaluation surplus for investment property. The only exception to this rule is for the initial measurement of an investment property acquired in an exchange of assets transaction. For such transactions, an entity does not have to follow the requirements in FRS 40 paragraphs 27-29 to account for them at their fair value or carrying amount of the asset given up. Instead they are to be applied prospectively only to future transactions of investment property acquired in an exchange of assets.

Note 5

- This FRS shall also apply to the accounting for (a) goodwill arising from a business combination for annual periods beginning on or after July 1, 2004 or any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination for annual periods beginning on or after July 1, 2004.

Note 6

- This FRS allows an exemption from recognising impairment that relates to annual periods beginning before January 1, 2006 if it is impracticable to do so, but this fact should be disclosed.

Change in Accounting Policy

A change in accounting policy, which is made on the adoption of a FRS or INT FRS, should be accounted for in accordance with the specific transitional provisions, if any, in that FRS or INT FRS. In the absence of any transitional provisions, the change in accounting policy should be applied retrospectively unless the amount of any resulting adjustment that relates to prior periods is not reasonably determinable. Any resulting adjustment should be reported as an adjustment to the opening balance of retained earnings. Comparative information should be restated unless it is impracticable to do so. Disclosure of the reasons of change and the adjustments recognised in the financial statements should be made. When FRS are adopted earlier than the effective date, the fact should be disclosed.

Disclosing the Effects of Adoption of New Standards Issued but Not Yet Effective

It should be noted that FRS 8 (revised) now requires the disclosure of the effect of the adoption of a new standard issued but not yet effective. In addition, disclosure is required of known or reasonably estimable information relevant to assessing the possible impact that application of the new FRS or INT FRS will have on the entity's financial statements in the period of initial application. If the impact is not known or reasonably estimable, a statement to that effect should be disclosed.

Summary of Differences Between Financial Reporting Standards and International Accounting Standards/International Financial Reporting Standards

The FRSs and INT FRSs issued by CCDG are largely aligned to the standards and interpretations under IAS/IFRS, except for certain modification to implementation dates and transitional provisions, and differences in timing of adoption. Below we identify the differences between FRS and IAS/IFRS as at November 30, 2005:

FRS	Content	IAS /IFRS	Comments
FRS 16	Property, Plant and Equipment	IAS 16	FRS 16 exempts regular revaluation for assets on which any one-off revaluation is performed between January 1, 1984 and December 31, 1996 (both dates inclusive) or for assets that have been revalued prior to January 1, 1984, whereas IAS 16 is silent on the above. This difference has been retained upon the adoption of the FRS 16 (revised).
FRS 17	Leases	IAS 17	FRS 17 removes the words in paragraphs 14 and 15 of IAS 17, which indicates that land normally has an indefinite economic life and, if title is not expected to pass to the lessee by the end of the lease term, the lessee does not receive substantially all of the risks and rewards incident to ownership.
FRS 25	Accounting for Investment	-	IAS 25 has been superseded by IAS 39 and IAS 40. FRS 25 continues to apply until FRS 39 and FRS 40 (see below) become effective. FRS 25 allows for cost model or revaluation model method of accounting for investment properties, while FRS 40 (IAS 40) allows the use of cost model or fair value model.
FRS 27, 28 and 31	Consolidated Financial Statements and Accounting for Investments in Subsidiaries, Associates and Joint Venture	IAS 27, 28 and 31	The revised FRS 27, 28 and 31 modified the situation where a parent need not present consolidated financial statements by removing the requirement that the holding company must produce consolidated financial statements available for public use that comply with IFRS.
FRS 39	Financial Instruments: Recognition and Measurement	IAS 39	The transitional provisions differ in Singapore as the standard was not previously required to be adopted. Amendment to IAS 39 on fair value option and financial guarantee contracts have been issued and effective for annual periods beginning on or after January 1, 2006. These amendments have not been adopted in Singapore yet.
FRS 40	Investment Property	IAS 40	IAS 40 (r2004) is effective for annual periods beginning on or after January 1, 2005 whereas FRS 40 is effective for annual periods beginning on or after January 1, 2007.
FRS 102	Share-based Payments	IFRS 2	IFRS 2 is effective for all entities for annual periods beginning on or after January 1, 2005. In Singapore, private companies have until 2006. Also, the date for retrospective treatment is November 7, 2002 under IFRS and November 22, 2002 under FRS in Singapore.

FRS	Content	IAS /IFRS	Comments
FRS 103 Revised FRS 36 and FRS 38	Business Combinations	IFRS 3 Revised IAS 36 and IAS 38	IFRS 3 is effective for transactions on or after March 31, 2004. In Singapore, the effective date is for annual periods beginning on or after July 1, 2004. The revised Standard IAS 36 Impairment of Assets and IAS 38 Intangible Assets are applicable: a) on acquisition to goodwill and intangible assets acquired in business combinations for which the agreement date is on or after March 31, 2004. b) to all other/intangible assets, for annual periods beginning on or after March 31, 2004. These revised standards in Singapore are effective for annual periods beginning on or after July 1, 2004, with prospective treatment from July 1, 2004 for existing goodwill.
ED FRS Financial Disclosure	Financial Instruments: Disclosure	IFRS 7 and consequential amendment to IAS 1	IFRS 7 and consequential changes to IAS 1 have been issued and effective for annual periods beginning on or after January 1, 2007. This standard and the related changes (including changes to IAS 1 and IAS 32) have not been adopted in Singapore yet.
ED INT FRS	Members' Shares in Co-operative Entities and Similar Instruments	IFRIC 2	IFRIC 2 is effective for annual periods beginning on or after January 1, 2005. This interpretation has not been adopted in Singapore yet.
ED INT FRS	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	IFRIC 6	IFRIC 6 is effective for annual periods beginning on or after December 1, 2005. This interpretation has not been adopted in Singapore yet.

SECTION III: AUDITING PRONOUNCEMENTS ISSUED BY ICPAS

The Institute of Certified Public Accountants of Singapore (ICPAS) has renamed and revised certain Singapore auditing pronouncements to align with those issued by International Auditing and Assurance Standards Board (IAASB).

The auditing pronouncements, now known as the Singapore Engagement Standards are as follows:

- Singapore Standards on Auditing (SSAs) - to be applied in the audit of historical financial information.
- Statements of Auditing Practice (SAPs) – to provide practical assistance to auditors in implementing SSAs or to promote good practice.
- Singapore Standards on Review Engagements (SSREs) - to be applied in the review of historical financial information.
- Singapore Standards on Assurance Engagements (SSAEs) are to be applied in assurance engagements dealing with subject matters other than historical financial information.
- Singapore Standards on Related Services (SSRSs) are to be applied to compilation engagements, engagements to apply agreed upon procedures to information and other related services engagements as specified by the ICPAS.
- Singapore Standards on Quality Control (SSQCs) are to be applied for all services falling under the Singapore Engagement Standards.

Most significant of all, the new/revised audit risks, fraud risks and quality standards issued by ICPAS will result in significant new audit considerations.

Audit risk and fraud risk standards effective for audits of annual periods beginning on or after 15 December 2004:

- SSA 200 Objectives and General Principles Governing an Audit of Financial Statements (Revised);
- SSA 240 The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements (Revised);
- SSA 315 Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement (New);
- SSA 330 The Auditor's Procedures in Response to Assessed Risks (New);
- SSA 500 Audit Evidence (Revised); and

Quality control standards

- SSQC 1 Quality Control for Firms That Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements
- SSA 220 Quality Control for Audits of Historical Financial Information (Revised);

SSA 220 is effective for audits of periods beginning on or after June 15, 2005. SSQC 1 is effective from June 15, 2005.

List of Auditing Pronouncements Effective for 2005

SSAs	Title
	Preface to Singapore Standards on Auditing and Statements of Auditing Practice *Glossary of Terms* *Framework for Assurance Engagements*
SSA 200	*Objective and General Principles Governing an Audit of financial statements (Revised)*
SSA 210	*Terms of Audit Engagements*
SSA 220	*Quality Control for Audit Work (Revised)*
SSA 230	*Documentation*
SSA 240	*The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statement (Revised)*
SSA 250	*Consideration of Laws and Regulations in an Audit of Financial Statements*
SSA 260	*Communications of Audit Matters with Those Charged with Governance*
SSA 300	*Planning An Audit of Financial Information (Revised)*
SSA 315	*Understanding the Entity and Its Environment and Assessing the Risk of Material Misstatement (New)*
SSA 320	*Audit Materiality*
SSA 330	*The Auditor's Procedures in Response to Assessed Risks (New)*
SSA 402	*Audit Considerations Relating to Entities Using Service Organisations*
SSA 500	*Audit Evidence (Revised)*
SSA 501	*Audit Evidence – Additional Consideration for Specific Items*
SSA 505	*External Confirmations*
SSA 510	*Initial Engagements – Opening Balances*
SSA 520	*Analytical Procedures*
SSA 530	*Audit Sampling and Other Selective Testing Procedures*
SSA 540	*Audit of Accounting Estimates*
SSA 545	*Auditing Fair Value Measurements and Disclosure*
SSA 550	*Related Parties*
SSA 560	*Subsequent Events*
SSA 570	Going Concern
SSA 580	*Management Representations*
SSA 600	*Using the Work of Internal Auditing*
SSA 610	*Considering the Work of Internal Auditing*
SSA 620	*Using the Work of an Expert (Revised)*
SSA 700	*The Audit's Report on Financial Statements*
SSA 710	*Comparatives*
SSA 720	*Other Information in Documents Containing Audited Financial Statements*

SSAs	Title
SSA 800	*The Auditor's Report on Special Purpose Audit Engagements*

SAPs	Title
SAP 1	*Verification of Debtor Balances – Confirmation by Direct Communication*
SAP 3	*Microfilm Records and their Audit Implications (Revised)*
SAP 4	*Existence and Valuation of Inventories in the Context of the Historical Cost System*
SAP 5	*Auditors' Supplementary Report for Banks*
SAP 5A	*Auditors' Supplementary Report for Finance Companies*
SAP 5B	*Auditors' Supplementary Report for Merchant Banks*
SAP 7	*Audit of Solicitors' Accounts*
SAP 8	*Charities*
SAP 9	*Audit of Trade Unions*
SAP 10	*Bank Reports for Audit Purposes*
SAP 11	*Review of Interim Financial Information*
SAP 18	*Value for Money Auditing in a Statutory Board*
SAP 19	*The Auditor's Role and Responsibilities in relation to the Prevention, Detection and Reporting of Money Laundering*
SAP 24	*Auditors and Public Offering Documents*
SAP 25	*Audit of Listed Companies*
SAP 1000	*Inter-Bank Confirmation Procedures*
SAP 1005	*The Special Considerations in the Audit of Small Entities*
SAP 1006	*Audits of the Financial Statements of Banks*
SAP 1010	*The Consideration of Environmental Matters in the Audit of Financial Statements*
SAP 1012	*Auditing Derivative Financial Instruments (Revised)*
SAP 1013	*Electronic Commerce – Effect on the Audit of Financial Statements*
SAP 1014	*Reporting by Auditors on Compliance with Financial Reporting Standards*

SSREs	Title
SSRE 2400	*Engagements to Review Financial Statements*

SSAEs	Title
SSAE 3000	*Assurance Engagements Other than Audits of Historical Financial Information*
SSRE 3400	*The Examination of Prospective Financial Information*

SSRSs	Title
SSRS 4400	*Engagements to Perform Agreed-upon Procedures Regarding Financial Information*
SSRS 4410	*Engagements to Compile Financial Information*

SSQC	Title
SSQC 1	*Quality Control for Firms That Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements*

Impact arising from Changes in SSAs

The new/revised SSA are more prescriptive than before, and have raised the minimum audit requirements in assessing and responding to audit risks, especially with regards to internal control risks and fraud risks. These revisions were made in response to an increased financial reporting risk experienced in recent years, evident by high profile corporate scandals happening around the world. The higher risk may be attributable to the increasing use of complex instruments or contracts, the significant use of accounting estimates in financial reporting, and internal control weaknesses that were not identified and addressed.

However, an audit is not a guarantee that the financial statements are free of material misstatements. The board of directors and management are primarily responsible for identifying and responding to business and financial reporting risks, and fairly presenting financial statements that are in accordance with the applicable financial reporting framework. They should understand what the new audit requirements are and how they would impact their organizations, in order to achieve the quality of financial reporting and governance results expected of them.

It is important to note that these changes do not affect only Singapore entities. Where a Singapore holding company has subsidiaries all over the world, the subsidiaries are also to comply with these requirements in order for the auditors to form an opinion on the group basis under Singapore Standards on Auditing. Hence, the implications of these changes on Singapore entities can be far-reaching.

Summary of Key Changes to Auditing Standards

Audit Risk Standards (i.e. SSA 200, SSA 315, SSA 330, SSA 500)

1. The auditor is required to consider the presence of risks across each significant account balance, class of transactions, and as well as the financial statement disclosures. To achieve this, the auditor will need to evaluate the design and implementation of the related internal controls by performing a "walk-through" (i.e. trace a transaction from inception to completion). This is the minimum level of work auditors are required to do with respect of internal controls. Internal controls will be evaluated with reference to the components under the COSO framework. A purely substantive approach without internal controls consideration is no longer sufficient.

2. The standard provides that in a highly automated processing environment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptable low level with audit evidence obtained only from substantive procedures. Thus, internal controls over information system require increased attention and may require the use of information technology experts in the audit process.

3. The extent of testing required by the audit risk standards in response to significant risks of misstatement has been increased. "Significant risks" that require special audit consideration include:

    - Risk of fraud;
    - Risks related to recent significant economic, accounting or other development (e.g. going concern, new accounting standards);
    - Complexity of transactions;
    - Risks involving significant transactions with related parties;
    - Degree of subjectivity in measurement for financial information related to the risk areas, especially those involving a wide range of measurement uncertainties;
    - Risks involving significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

    The auditor is required to evaluate the design and implementation which mitigate "significant risks". In addition, performing substantive tests over areas of significant risks should involve more than just substantive analytical review procedures. More detailed testing is expected, and in certain areas, involvement of specialists may be required.

4. If a control reliance strategy is adopted to test the operating effectiveness of controls related to non-risk areas, the period between testing of controls under a rotation plan cannot exceed two years. Where control reliance strategy is adopted to address areas of significant risks, or of highly automated processing environment, no rotation plan is allowed.

5. Auditors will be expected to spend more efforts gathering and documenting information for the following areas:

   - Key elements of understanding the entity. As part of obtaining an understanding of the entity in the risk assessment process, the auditor is required to make specific enquiry of management and/or others (i.e. internal audit, employees, legal counsel);

   - Details of discussion with engagement team concerning the susceptibility of financial statements to misstatements due to fraud and error, on specific minimum agenda items;

   - Identified and assessed risks of material misstatement; and

   - Details of significant risks and their related controls.

The auditor is required to further obtain evidence about the accuracy and completeness of information produced by the entity (i.e., internally generated information such as sales price information or sales volume data) which are used in performing audit procedures.

Fraud Risks Standard (i.e. SSA 240)

The revised fraud standard, which is aligned with US SAS 99, sets out the minimum requirements on an auditor to consider and respond to the risk of material misstatements due to fraud.

1. The auditor is required to perform additional procedures to assess the presence of fraud risks:

   - Risk assessment procedures are to include inquiries of management and those charged with governance, internal audit and others within the entity as appropriate, whether they have knowledge of any actual, suspected or alleged fraud;

   - Detailed discussions of the susceptibility of the entity to fraud need to be carried out with key members of the engagement team. These need to be updated throughout the engagement and documented.

2. To address the risk of management override of controls, being a significant risk of material misstatement due to fraud, the auditor needs to:

   - Test the appropriateness of journal entries;

   - Review the accounting estimates for biases that could result in material misstatement due to fraud;

   - Obtain an understanding of business rationale for unusual significant transactions.

3. Revenue recognition should always be considered a risk of material misstatement due to fraud. Relying on substantive analytical reviews alone is insufficient. An assessment of the controls designed and implemented over revenue recognition is required on all audits.

4. Additional information needs to be gathered and documented by auditors in the following areas:

   - Discussions with the audit engagement team;

   - Risks of fraud identified;

   - Response to the risks and results of audit procedures;

   - Communications with management, those charged with governance and others.

Quality Control Standards (i.e. SSQC 1, SSA 220)

The Quality Control Standards fundamentally shift the audit standards from governing the conduct of a financial statement audit to also setting standards on the management of an audit firm. The quality control standards require the audit firm to implement quality control procedures which ensure that the leadership, human resource, independence, quality processes and related activities to meet minimum standards.

1. The firm is required to establish and document various programs to achieve and monitor compliance with ethics, independence and competency requirements, which include stepping up recruitment and learning initiatives.

2. More rigorous procedures are expected on pre-engagement activities. In respect of acceptance and continuance of engagements, the auditor is required to perform background checks on prospective engagements, communicate with previous auditors, and evaluate compliance with independence and ethics requirements. The firm is required to establish a system to monitor and identify threats to independence and document the resolution of such issues.

3. The firm is required to set up a quality consultation network and step-up resources for engagement quality assurance review. Consultation and resolution of contentious issues are required to be documented.

4. More frequent and regular communication between management (including those charged with governance) and the auditor is expected.

More Changes Expected

Changes in auditing requirements are expected to continue into the future with the adoption of new and revised auditing standards by IAASB in 2007 (e.g., materiality, auditors' report, group audits and audit documentation).

SECTION IV: SGX LISTING MANUAL

Revised Code of Corporate Governance 2005

The revised Code of Corporate Governance 2005 was issued in July 2005, incorporating the accepted proposals with respect of the structure of the Code, board matters, remuneration matters, accountability and audit, as well as communication with shareholders. The Government accepted all of the recommendations by CCDG except for the definition of independent directors and disclosure of exact remuneration of directors. While the recommendation requiring each director to be independent from substantial shareholders (i.e., the tighter definition) has not been accepted, it was decided that the Chairman of the board's Nominating Committee, who is responsible for assessing the independence of specific board member, should be independent of substantial shareholders. Substantial shareholder is defined as one holding interest of 5% or more in the voting shares of the company.

The revised Code has also expanded the guidelines for the respective roles of the Board, the Chairman and non-executive directors. The key changes and salient points emphasised in the revised Code 2005 are highlighted below.

Listed companies should disclose their corporate governance practices and give explanations for deviations from the Code of Corporate Governance 2005 in their annual reports **for Annual General Meetings held from January 1, 2007 onwards**.

Section	Highlights
	Structure of the Code & Disclosure Requirements
	The revised Code is structured in the form of "Principles", "Guidelines" and "Commentaries". The "Commentaries" section is new and serves to provide enhanced guidance to listed companies on how to implement best practices. A summary of specific principles and guidelines for disclosure is also included as part of the revised Code. Companies are encouraged to make a positive confirmation at the start of the corporate governance section of their annual report that they have adhered to the principles and guidelines of the Code, and where applicable, identify and explain areas of deviation. Companies are not required to disclose and explain any deviation from the commentaries.
	Board Matters
2.1	The current requirement of independent directors making up at least one-third of the Board is retained. The relationships under Section 2.1(c) and (d) of the Code whereby a director will be deemed non-independent will be extended to capture business relationships with "immediate family members" of the director. The criteria for independence under Guidance Note 2.1(d) will also be further extended to include significant payments made to, or received from "any of the company's subsidiaries".
3.3	Companies may appoint an independent non-executive director to be the lead independent director, particularly where the Chairman and the CEO is the same person, or where the Chairman and the CEO are related by close family ties. The lead independent director (if appointed) should be available to shareholders if they have concerns which communication through the normal channels of the Chairman, CEO and Finance Director has failed to resolve or for which such contract is inappropriate.
4.1	Besides being independent of management and business relationships under Guideline 2.1, the Chairman of the Nominating Committee ("NC") should be a director who is not, or who is not directly associated with, a substantial shareholder (with interest of 5% or more in the voting shares of the company).
4.3	The NC has the discretion to determine that a director is non-independent even if he does not fall under the circumstances set forth in Guideline 2.1.
4.5	Companies should provide shareholders with a description of the process for the selection and appointment of new directors to the board. This should include disclosure on the search and nomination process.
	Remuneration Matters
7.1	The revised Code calls for a greater degree of independence and impartiality to the Remuneration Committee ("RC"). RC should comprise entirely of non-executive directors, the majority of whom, including the chairman, should be independent.
7.2	The RC will continue to play an advisory role by making recommendations to the entire Board a framework of remuneration and specific remuneration packages for each director and CEO (if the CEO is not a director). The RC will review the remuneration of senior management.

Section	Highlights
9.2 & 9.3	The company should disclose the names of directors and at least the top five key executives (who are not also directors) earning remuneration which fall within bands of S$250,000. Also, there will be a breakdown (in percentage terms) of each director's remuneration band earned through base/fixed salary, variable or performance-related income/ bonuses, benefits-in-kind, and stock options granted and other long-term incentives. The company should also disclose same details of remuneration for employees who are immediate family members of a director or the CEO, and whose remuneration exceed S$150,000 during the year. This can be done on a no-name basis with clear indication of which director or the CEO the employee is related to. Companies are however encouraged, as best practice, to fully disclose the remuneration of each individual director.
	Accountability and Audit
11.1	The current requirement that the Audit Committee ("AC") should comprise at least three directors, all non-executive, the majority of whom, including the chairman, should be independent, has been retained.
11.7	A whistle-blowing provision is included in the revised Code requiring the AC to ensure arrangements are in place for staff to raise concerns in confidence, and that there is independent investigation of such matters and appropriate follow-up action.
	Communication with Shareholders
15.2	The revised Code makes clear that resolutions on substantially separate issues should be kept separate. "Bundling" of resolutions should only occur in very specific circumstances, and even then, the company should make known its reasons for doing so as well as the consequent material implications.
15.3	The roles and obligations of the external auditors at AGM are clarified. External auditors will address queries about the conduct of the audit and the preparation and contents of the auditors' report.
15.4	Companies are encouraged to amend their Articles of Association to avoid imposing a limit on the number of proxies for nominee companies so that shareholders who hold shares through nominees can attend AGMs as proxies.
15.5	Companies are encouraged, as best practice, to prepare more detailed minutes or notes of general meeting, to be made available to shareholders upon their request.

Proposed Amendments to Listing Rules

A consultation paper was issued by SGX in May 2005, setting out proposed amendments to the listing rules on two key areas - enhancing corporate governance and extending the role of intermediaries. The proposals to enhance corporate governance include requiring negative assurance statements by directors on interim financial statements and internal control risks, and requiring at least two independent resident directors on a continuing basis for foreign listed companies. The proposals to extend the role of intermediaries include requiring issue managers to confirm that listing applicants have been informed of relevant rules and regulations in Singapore, and extending the sponsorship disclosure requirement for issue managers from one to two years. It was also proposed that the SGX be given the discretion to require an issuer to appoint a Compliance Advisor.

Enhancing corporate governance

Among the proposed enhancements, SGX seeks to:

1. Strengthen board composition by requiring the provision of two independent directors on a continuous basis, and not just at listing.

2. Increase the participation of resident directors in foreign listed companies. The Board must have at least two independent resident directors on a continuing basis; and one of the following:

   - a qualified person in Singapore to advise the issuer on Singapore laws and assist directors with company information, or

   - another director resident in Singapore (in addition to the two independent resident directors) ; or

   - an officer in executive capacity resident in Singapore.

   The proposed rules, if adopted, will apply to new issuers on a continuing basis. Existing listed issuers will be given two years to comply with the new rules.

3. Require, for interim results, a "negative assurance" confirmation from the Board that, to the best of their knowledge, nothing has come to the attention of the Board of directors, that may render the financial results to be false or misleading.

4. Require an annual confirmation from the Board and CEO that:-

   (a) responsibilities for staffing internal control functions are explicitly assigned;

   (b) procedures exist for assessing the effectiveness of the company's internal controls;

   (c) channels for reporting significant risk and internal control matters to the Board and CEO are clearly specified; and

   (d) nothing has come to the attention of the Board and CEO with regards to internal controls that would have a materially adverse effect on the company.

   This confirmation would not require an audit obligation.

5. Require listing applicants to confirm that they have obtained all necessary approvals, and comply with laws and regulations, that would materially affect the business operations.

Extending the role of intermediaries

The issue manager plays a crucial role in preparing new issuers for their responsibility as a listed company. In this regard, the proposed rules seek to:

6. Increase the sponsorship disclosure requirement (badging) for issue managers from one to two years;

7. Enable, at the discretion of SGX, the appointment of a Compliance Adviser to facilitate the company's transition to become a listed entity.

8. Require the issue manager to confirm that the directors of an applicant have been informed of their obligations under the listing rules as well as the relevant Singapore laws and regulations.

Other enhancements

In addition, SGX will:

9. Increase directors' awareness of listing obligations through on-going orientation programmes.

10. Improve transparency and disclosure by encouraging issuers to adopt best practices set out in the Operating and Financial Review (OFR) Guide and to follow the Guide when preparing the operating and financial review in their annual reports.

11. SGX is also studying the provisions on shareholder rights accorded by law, in relation to listing applicants incorporated abroad.

The enhancements will be implemented following public feedback and the necessary approvals.

Review of Quarterly Reporting Requirement

In November 2005, CCDG announced that it will be reviewing the current quarterly reporting requirements. The review will include an assessment of benefits or otherwise experienced by listed companies since quarterly reporting was introduced in 2003, and an evaluation of the desirability and feasibility of extending the quarterly reporting requirements to smaller listed companies (i.e. companies with market capitalisation of less than $75 million). The review is expected to be completed in the first of 2006.

Resources:

IASPlus – www.iasplus.com - provides Deloitte IFRS e-Learning modules, newsletters, IAS/IFRS model financial statements and disclosure checklist and a wealth of information on IAS/IFRS projects and issues, with a section for country specific updates.

Deloitte Touche Tohmatsu – www.deloitte.com - the firm's global website provides a global e-library and links to our websites of our offices around the world.

This booklet has been prepared by Deloitte & Touche Singapore for the use of clients, staff and others who request a copy.

Clients and their advisers may contact the Corporate Communications Department for additional copies:

Deloitte & Touche
6 Shenton Way #32-00
DBS Building Tower Two
Singapore 068809
Telephone: 6224 8288
Fascimile: 6538 6166