



A Guide to Enhanced Auditor's Reports:

Are You Prepared for Expanded Disclosures?

The days of the standard audit report providing a blanket pass or fail opinion, often regardless of the underlying risks, are ending soon for Singapore listed companies. In this new order, the Enhanced Auditor's Reports will provide more information and transparency to all stakeholders, especially about issues that have been top-of-mind for auditors in their communications with the Audit Committees. This is a positive change, one that will help to improve trust and transparency in the dialogue between auditors, companies and their shareholders, bringing insights to financial reporting that were previously reserved for those in the Boardroom.

What's the change?

In Singapore, the new requirements take effect for annual periods ending on or after 15 December, 2016, although a few public listed companies in Singapore have already chosen to early adopt the new standard prior to its effective date.

There are three key changes:

- Auditors will need to identify and report on Key Audit Matters (KAMs) in the audit report. These are the matters that required significant attention when performing the audit.
- Auditors will need to make an explicit statement on other information that accompany the financial statements in the annual reports, in terms of any inconsistencies they may or may not have identified.
- Auditors will need to make an explicit statement that management has assessed (and made necessary disclosures) whether the company is able to continue as a going concern — and conclude on the appropriateness of management's use of the going concern basis of accounting.

Auditors have the primary responsibility for implementing the requirements in their audit report, however the changes are relevant to the management and the audit committees who are responsible for the preparation of the financial statements of the company.

How will you be affected by the change?

If you are member of the management team, it is important to note that new-style audit reports will also include more detailed descriptions of the auditor's and management's responsibilities with respect to the financial statements as well as commentary on KAM's— potentially including commentary on estimates and judgments made by the management and reported to the audit committee.

If you are an audit committee member, you will be interested to know, quite early on, the likely KAMs that the auditor is considering for inclusion in the Enhanced Auditor's Report. By engaging in early and open communications with the auditor, you can gain a better understanding of the nature of information to be disclosed and the areas of judgment being focused on.

If you are an investor, you will have access to information that was previously only available in the Boardroom and as such, you can incorporate this information into your evaluation of individual companies. The new-style Enhanced Auditor's Reports may provide a different perspective on the areas of significance and judgment in the financial statements. It will not, however, be a substitute for reading and considering either the current disclosures on company risks and risk management, or the detailed financial information on disclosures provided by the company.

Our experience with the new reporting

KPMG has been a leader in the changes in auditor reporting requirements, being an early adopter of the new requirements in Singapore, Hong Kong, Australia, and the UK (the only jurisdiction where this reporting is currently mandatory). We consider this a positive development as it enhances trust in financial markets for all stakeholders. We now have the experience and knowledge to share from our work with investors, audit committee members, and management.

So what constitutes a KAM?

The KAM will be specific to the company and when describing the KAM, it should provide a balanced explanation. Typically, we expect the Enhanced Auditor's Reports to highlight the following points as KAM:

- Matters that involved significant complexity or subjectivity in the management's selection of accounting policies

- Matters that involved significant management assumptions and estimation uncertainties
- Significant weaknesses in internal controls that have a material impact on the financial statements.

We believe that increased transparency through the communication of KAM in the Enhanced Auditor's Report will:

- Provide a basis for users to further engage with management and those charged with governance
- Shine the spotlight on disclosures where the greatest judgment or complexity exists
- Renew interest in the auditor report, beyond unqualified or qualified opinions.

KAM in a nutshell

Step 1 - Identify KAM



Matters communicated to those charged with governance



Matters that required significant auditor attention in performing the audit



Key audit matters (matters of most significance)

A KAM description would generally meet the objectives of the requirements if it includes the following features:

- Fact based
- Tailored to the company
- Concise and free from technical jargon
- Sufficient details to understand how the matter was addressed

Boilerplate text would not meet the requirements.

Step 2 - Describe key audit matters

Description required to discuss

- Why the matter was of most significance
- How the matter was addressed in the audit
- Include a reference to any relevant financial statement disclosures



Response from users and regulators

In the UK, where this reporting is mandatory for all listed companies, feedback on the Enhanced Auditor's Reports from both users and the regulators has been positive. Commenting on the summary of findings of a survey of Enhanced Auditor's Reports, the UK regulators noted that they were very encouraged by the results, which reflected the fact that auditors have embraced the change and have been innovative when complying with the requirements. Investors have also found real value in the insights provided by the new style reports.

Early adopters in Singapore

It is still early days in Singapore, but several companies have chosen to adopt the Enhanced Auditor's Reports as part of their annual reports in the calendar year 2016.

Some of the Singapore early adopters include:

- Ascendas REIT
- CapitaLand Limited
- Hong Fok Corporation Limited
- Noble Group Limited
- SATS Ltd

- Singapore Airlines Limited
- Singapore Exchange Limited
- Singapore Telecommunications Limited
- United Overseas Bank Limited
- XP Power Limited

Not surprisingly, valuations were reported as KAM in these reports as they are subject to management or external valuers' judgment.

Key elements for successful implementation

Buy-in from all key stakeholders is critical to the successful early adopters in Singapore as well as the full scale implementation in the UK, with:

- The regulators supporting and encouraging auditors to be innovative in meeting the requirements;
- Investors and audit committee members being engaged and supportive of the entire process.

This illustrates that if there is a shared sense of direction, a positive view of the changes, and a willingness to advance, then the Enhanced Auditor's Report can benefit all stakeholders.

Investors see value in reports that:	Critical factors for auditors to achieve successful implementation include...
<ul style="list-style-type: none"> • Are innovative and engaging; • Provide investors with 'hooks' on which to engage further with the audit committee; and • Include sufficient granularity to allow readers to understand the matter and how they were addressed. 	<ul style="list-style-type: none"> • Starting early in the audit process; • Early and open communication with the audit committee and management; • Being specific about the matter and what they did during the audit to address the matter; and • Putting themselves in the shoes of the stakeholders when considering how to meet the requirements.

How you can prepare for the change

Audit committees and management can start preparing now for the new-style audit reports.



Understand the requirements in jurisdiction(s) relevant to you



Discuss with your auditor their implementation plan



Discuss with your auditor how the new audit report will look



Agree timeline with your auditor for first year of implementation

Investors can start planning how to use the information in the new-style Enhanced Auditor's Reports. If you are an investor, you could start by:

- Understanding what information will be available in the Enhanced Auditor's Report
- Familiarising yourself with expanded auditor reporting by reviewing reports that were issued
- Identifying how the information may be used to evaluate and compare companies
- Determining how the information may be used to engage with audit committees.

The new Enhanced Auditor's Report represents the biggest change in listed company auditor communication in many years, if not ever. Given the magnitude of this change and its imminent commencement date, all stakeholders should rapidly prepare themselves for this new world of reporting by auditors.



Contact us

Roger Tay

Head of Audit, KPMG Singapore

T: +65 6213 2680

E: rtay@kpmg.com.sg

Malcolm Ramsay

Partner, Audit

T: +65 6213 5681

E: malcolmramsay@kpmg.com.sg

KPMG

16 Raffles Quay #22-00

Hong Leong Building

Singapore 048581

T: +65 6213 3388

kpmg.com.sg

kpmg.com/socialmedia

