

MEDIA RELEASE

MORE TRANSPARENCY AND AUDIT INSIGHTS WITH ADOPTION OF ENHANCED AUDITOR REPORTING STANDARDS

Singapore, 30 July 2015 – From 2017 onwards, auditor’s reports of listed entities will be more transparent and contain more information on key audit matters with the adoption of the enhanced auditor reporting standards in Singapore. This will enable investors and other stakeholders to draw deeper insights from the auditor’s reports of listed entities.

2. The enhanced auditor reporting standards were issued today by the Institute of Singapore Chartered Accountants (ISCA), the national accountancy body. These standards were first issued by the International Auditing and Assurance Standards Board in January 2015 to national audit regulators and professional bodies for localised adoption. This was in response to strong calls by investors and users of financial statements for more pertinent information to be included in the auditor’s report to augment their decision-making. The Accounting and Corporate Regulatory Authority (ACRA)’s Public Accountants Oversight Committee (PAOC) has since reviewed and approved the application of these enhanced standards for Singapore. The enhanced standards take effect for audits of financial statements for periods ending on or after 15 December 2016.

3. Two key changes are being introduced under the enhanced standards. First, auditors will be required to communicate key audit matters (KAMs) in the auditor’s reports on the financial statements of listed entities beyond the traditional “Pass/Fail” audit opinion. KAMs may include significant risk areas of the financial statements most susceptible to misstatements, the entity’s major transactions during the year that required extensive auditing efforts or areas involving key management judgments and estimates such as the valuation of investments.

4. This will enable investors to focus on specific and critical areas in the entity’s financial statements and equip them with more information to deepen their engagement with directors (especially audit committees (ACs)), management and even the auditors at shareholders meetings. It will in turn require directors, ACs and management to respond with more insightful disclosures. The enhanced standards will also require auditors to engage in upfront and more robust conversations with management and ACs as they discuss and agree on KAMs and how those KAMs would be described and eventually communicated in the auditor’s reports.

5. The second key change relates to the aspect of going concern (i.e. the ability of an entity to continue its operations). Currently, when circumstances arise (such as loss of a major customer) that result in a material uncertainty over an entity’s going

concern, the auditor will be required to highlight this matter in the auditor's report. The enhanced standards now impose an added responsibility on the auditors to ensure that the entity has made adequate disclosures in its financial statements regarding management's judgement and assessment on going concern even if the circumstances do not result in a material uncertainty (for example the loss of a major customer being mitigated by secured orders from other customers). This ensures more transparency on an entity's viability, which is of significant public interest.

6. Welcoming the enhanced standards, Mr Kenneth Yap, Chief Executive of ACRA, said, "The expanded auditor's report supports our efforts to introduce more transparency in the marketplace by providing greater insight into the audit process and raising the quality of disclosure in financial statements. This will boost stakeholder confidence in our markets, and reinforce our reputation as a trusted place for business."

7. Mr Lee Fook Chiew, Chief Executive Officer of ISCA, said, "This is probably the most significant development impacting the auditing profession in recent times. Auditors are now positioned to adopt a more significant role in presenting their professional judgement on the financial health and accounting practices of an entity. To ensure robustness and relevance of the standards in serving the public interest, ISCA has engaged key stakeholder groups in constructive feedback sessions. Since 2012, ISCA has also spearheaded outreach initiatives to raise the awareness level and will continue to do so in 2016."

8. Noting the key role that public accountants will play in ensuring greater transparency in audited financial statements, Professor Tan Cheng Han, Chairman of the PAOC said, "The enhanced auditor reporting standards recognise the key role that public accountants play in ensuring the integrity of financial statements. The profession must take these added responsibilities seriously and seize this opportunity to bring the quality of audits to a new level."

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Attachment:

Annex A: Fact Sheet on Enhanced Auditor Reporting Standards

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About ACRA

The Accounting and Corporate Regulatory Authority (ACRA) is the national regulator of business entities and public accountants in Singapore. ACRA also plays the role of a facilitator for the development of business entities and the public accountancy profession.

The mission of ACRA is to provide a responsive and trusted regulatory environment for businesses and public accountants. As at 30 June 2015, 472,831 business entities and 1,050 public accountants practising in public accounting firms, accounting limited liability partnerships and accounting corporations are registered with ACRA.

For more information, please visit www.acra.gov.sg

About ISCA

The Institute of Singapore Chartered Accountants (ISCA) is the national accountancy body of Singapore. ISCA's vision is to be a globally recognised professional accountancy body, bringing value to our members, the profession and wider community. There are over 28,500 ISCA members making their stride in businesses across industries in Singapore and around the world.

Established in 1963, ISCA is an advocate of the interests of the profession. Possessing a Global Mindset, with Asian Insights, ISCA leverages its regional expertise, knowledge, and networks with diverse stakeholders to contribute towards Singapore's transformation into a global accountancy hub.

ISCA is the Administrator of the Singapore QP and the Designated Entity to confer the Chartered Accountant of Singapore - CA (Singapore) - designation.

ISCA is an Associate of Chartered Accountants Worldwide – supporting, developing and promoting over 325,000 Chartered Accountants in more than 180 countries around the world.

For more information, visit www.isca.org.sg.

Enhanced Auditor Reporting Standards – Fact Sheet

Background to the Enhanced Auditor Reporting Standards

The auditor's report is an essential tool when reporting financial information to users. It is the auditor's primary means of communication with an entity's stakeholders. Hence, the report has to deliver value and provide assurance to the stakeholders that these statements are reliable.

- 2 In 2006, the International Auditing and Assurance Standards Board (IAASB) embarked on a review of the auditor's report in terms of structure and content, with the aim of enhancing the communicative value and relevance of the auditor's report. With increasingly complex financial reporting requirements, investors and users of financial statements have also called for more pertinent information to be included in the auditor's report, to augment their decision-making. The global financial crisis also further triggered renewed focus of stakeholders, in particular institutional investors and financial analysts, who want deeper insights into the audited entity and its financial statements.
- 3 Following consultation and rigorous due process, the IAASB issued the new and revised auditor reporting standards in January 2015. It will be effective for audits of financial statements for periods ending on or after 15 December 2016.

Significance and Implications of the Enhanced Auditor Reporting Standards

Key Audit Matters

- 4 The most significant enhancement is the new requirement for auditors of financial statements of listed entities to communicate "Key Audit Matters (KAM)". These are areas that auditors assess to be of most significant in the current period audit, with an explanation of how the issues were addressed in the audit.
- 5 Impact on Investors - the insights provided in KAMs enable investors to focus on key audit issues which generally correlate to the significant risk areas of the company. It also enables them to better engage directly with auditors and raise more in-depth questions for management and directors during shareholders' meetings. This aids investors in determining their own perceived market value of the company and make better-informed investment decisions.
- 6 Increased transparency - increased focus by investors on the financial statements such as specific disclosures in the company's financial statements will encourage company directors and management to become more transparent in engagements with shareholders, provide more insightful responses to queries raised and improve the quality of those disclosures.

- 7 Better audit quality - auditors will need to have more in-depth engagements and communications with the preparers, directors and the audit committees, to explain the complex issues in the audit and how these would be presented in the eventual auditor's report.

Other Key Requirements / Changes

- 8 [For audits of all entities]
- a. Re-ordering of the report, with the auditor's opinion to be presented first. This recognises the importance of the auditor's opinion to the user who would be able to locate the opinion upfront.
 - b. Enhanced responsibilities and reporting relating to a company's ability to continue its operations i.e. going concern. This increases the focus of management and auditors on a company's viability which is of significant public interest, particularly during times of uncertain economic environment.
 - c. Positive statement about the auditor's independence and fulfilment of ethical responsibilities. This increases the focus on auditor independence and emphasises the importance of ethical requirements as a basis for the audit.
 - d. Expanded descriptions of the auditor's responsibilities to provide greater transparency of the audit process so as to deepen users' understanding of the role of the auditor and nature of the audit work.
- 9 [For audits of listed entities only]
- Disclosure of the engagement partner's name to instil a greater sense of personal responsibility and accountability, which is expected to translate to improved audit quality.
- 10 Refer to Appendix A for an illustrative example of the expanded auditor's report and Appendix B for an illustrative example of today's auditor's report.

Singapore's Adoption of the Enhanced Auditor Reporting Standards

- 11 Following approval from ACRA's Public Accountants Oversight Committee¹ (PAOC) whose role includes determining, prescribing and reviewing the professional standards for the public accountants in Singapore, the Institute of Singapore Chartered Accountants (ISCA), as the national accountancy body, is spearheading the local adoption process of the new and revised auditor reporting standards.

¹ Established under the Accountants Act, the PAOC comprises selected members of the ACRA Board. The PAOC promotes audit quality and protects the public interest through functions such as registering public accountants, determining professional standards, and administering the Practice Monitoring Programme, under which public accountants' audit work is inspected.

- 12 ISCA held a public consultation in May 2015 to solicit feedback on the local adaption of the IAASB's standards issued in January 2015. Stakeholders including public accounting firms, Chief Financial Officers of listed companies, members of the Singapore Institute of Directors (SID) as well as the Investment Management Association of Singapore (IMAS) were also invited to provide feedback. Respondents to the public consultation, including preparers, public accounting firms and representatives from financial institutions and insurance companies, generally expressed support for the proposed changes to the new and revised auditor reporting standards.

ILLUSTRATIVE EXAMPLE OF THE EXPANDED AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of ABC Company (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 20X1 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with SSA 701.]

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from

error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is [name].

_____ (Firm)

Public Accountants and
Chartered Accountants
Singapore

_____ (Date)

ILLUSTRATIVE EXAMPLE OF TODAY'S AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of ABC Company (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 20X1, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the financial position of the Group and of the Company as at (date) and the financial performance, changes in equity and cash flows of the Group for the year ended on that date.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

_____ (Firm)

Public Accountants and

Chartered Accountants

Singapore

_____ (Date)