

Assessing the enhanced auditor's report

Take a look at the annual report of a Singapore-listed company this year, and one will find a new format in the external auditor's report. Under guidelines that took effect for fiscal years that end on or after Dec 15, 2016, the external auditor's report is now "enhanced" with a number of changes aimed at making the report more informative and less reliant on boilerplate language.



What is new in the enhanced auditor's report?

For listed companies:

- A new section to communicate "key audit matters"
- Disclosure of the name of the engagement partner

For all audits:

- Opinion section to be presented before the basis for opinion
- Increased reporting on going-concern assumptions
 - Description of responsibilities of management and auditor for going concern
 - Separate section if a material uncertainty exists on going concern
 - Auditor must challenge the adequacy of disclosures for "close calls"
- Affirmative statement about auditor's independence and fulfillment of ethical responsibilities
- Better description of auditor's responsibilities

What are key audit matters?

Matters that were the most significant during the audit and that required significant auditor attention.

Matters that could be considered include:

- Areas of higher assessed risks of material misstatement
- Areas that required significant judgement by the auditor and management, including estimates with high levels of uncertainty
- Effect on audit of significant events or transactions that occurred during the year

What key audit matters are not:

- A modified or piecemeal audit opinion
- A substitute for financial statement disclosures

Progress so far

A survey across four markets by KPMG found that carrying-value assumptions and revenue-recognition policies were among the most commonly highlighted issues by external auditors as key audit matters.

Industry sector's share of reports surveyed (%)

	 Singapore	 London	 Hong Kong	 Australia
Real estate	18.7	7.5	17.3	11.4
Manufacturing	14.9	6.7	8.3	1.4
Construction & engineering	11.2	3.6	3.2	7.1
Electronics	8.5	2.8	10.9	1.4
Energy & natural resources	8.0	4.0	6.4	25.7
Shipping, transport & logistics	6.5	5.2	3.8	2.9
F&B	5.7	7.1	3.2	1.4
Consumer	4.0	4.0	8.3	1.4
Banking & financial services	3.5	2.4	9.0	12.9
Healthcare	3.0	2.4	3.2	1.4
Others	16.2	54.4	26.3	32.9

Percentage of reports that highlighted each risk type as a key audit matter (%)

Receivables & allowances	34	16	42	11
Property, plant & equipment impairment	32	17	17	26
Inventories	30	25	22	0
Revenue (non-fraud related)	25	51	29	30
Goodwill	22	35	18	33
Investment properties	17	6	19	10
Investment in subsidiary, associate and JV	16	6	6	6
Acquisitions	11	11	9	16
Intangible assets	8	21	6	4
Provisions & accruals	4	21	4	17