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Auditors say challenges remain in changing entrenched mindsets of some boards towards the disclosure and use of enhanced auditor reports. BY THEMIN SUWARDY AND MELVIN YONG

AUDITORS are ready for the new era of enhanced auditor reporting in Singapore but there appear to be still struggles in bringing some clients on the journey.

With barely four months before the mandatory requirement takes effect, auditors say challenges remain in changing entrenched mindsets of some boards towards the disclosure and use of enhanced auditor reports.

While there is general awareness of what needs to be done, observers say progress could be faster and more structured.

"By and large, Singapore-listed companies understand the rationale for the implementation of the enhanced auditor's report, recognise the value it adds to the functioning of capital markets, and have been gearing up for the new reporting requirement," said Roger Tay, head of audit at KPMG in Singapore.

The new requirement to disclose what are known as key audit matters (KAM) in an enhanced auditor report is aimed at helping investors and other stakeholders better understand the basis of an opinion by auditors of listed firms.

Auditors say there are areas in KAM that require significant auditor attention and have higher risk of error occurring.

"These include areas where there is significant management judgement involved and estimation uncertainty, or where there are significant or complicated transactions," said Christopher Wong, head of assurance at EY.

The International Auditing and Assurance Standards Board, an independent standards setting body, issued the standards for enhanced auditor reporting in January 2015 to national audit regulators and professional bodies so they can adopt them in their local context.

In Singapore, following approval by the Accounting and Corporate Regulatory Authority (ACRA), the standards were adopted in July 2015 and will apply to the audits of company financial statements for the years ending on or after December 15, 2016.

KAM is part of the overall enhancement of the auditor report, seen as a response to calls by shareholders and investors for greater transparency and clarity in a company's financials.

The enhanced auditor report aims to provide information such as key audit risks and how these have been addressed in the financial statements.

"This is an opportunity for the audit committee to get a much deeper understanding and appreciation of the procedures performed by the auditor on the significant risks of the entity which may not have gone through such a robust discussion in the past," said Marcus Lam, assurance partner at PwC Singapore.

Auditors acknowledge there are challenges in convincing some clients about the value of the enhanced auditor report.

This is because it may mean further management time involved as more specific company information is disclosed, which may be sensitive, as well as having to get agreement by all parties on the precise wording that communicates the key audit matters.

"These may result in more questions being raised at annual general meetings by shareholders, including questions on the basis of determining key audit matters," said Shariq Barmaky, regional managing partner, assurance and advisory, Deloitte Southeast Asia.

Apart from a mindset change, compliance cost is often the biggest obstacle, say observers.

"Companies need to be innovative and ask if additional reporting can leverage existing systems or if there is a broader opportunity to capture multiple projects under one streamlined reporting structure," said Mr Wong.

Observers say there is no one-size-fits-all approach, so auditors and companies have the freedom to decide what is finally included in the enhanced auditor's report.

"More often than not, users of annual reports are looking for information to enhance their understanding of the risks facing the entity and hopefully the new auditor's report would be the must read portion going forward," said Mr Lam.

KPMG's Mr Tay said the key observation from other countries that have adopted the new enhanced auditor's reporting standards is that some companies still rely on boilerplate statements that may not say much.

"Such a tendency can be avoided if companies better understand what investors are looking for – clear, transparent information about the state of financial health," he added.

The Financial Reporting Council (FRC) of the United Kingdom, which sets standards for accounting, auditing and actuarial work, has championed enhanced auditor reporting for some years.

"It would be important that KAMs (key audit matters) are relevant to the company and not generic audit or accounting matters," says Mr Barmaky. FILE PHOTO

In a study published in January, which reviewed a second year of the new reporting regime in the UK, the FRC found that "the reports which have earned the greatest praise from investors ... are carefully structured with the end user in mind, and signpost key information."

It added: "They also include clear, concise and transparent disclosures about risk, scope and materiality, as well as the critical areas where professional judgement and assumptions have been addressed".

The UK experience has shown that investors feel that more could be done to enhance auditor's reports.

These may involve providing more information on how auditors and management made their assessment of any significant risks in an entity's internal controls.

"Investors would prefer greater transparency about assumptions made by management and benchmarks used by auditors; however, this has to be balanced against the potentially competing demands of clarity and conciseness, as well as preserving the importance of reading an overall true and fair opinion," according to the UK FRC.

For Singapore companies, observers say organisations of different sizes and structures or those from different sectors would face different issues when deciding what should be included in their financial statements.

"Our view is that a good enhanced auditor report should contain between four and six KAMs," said Mr Lam.

Generally, KAM may cover impairment assets, tax, goodwill impairment, management override of controls and revenue recognition.

"It would be important that KAMs are relevant to the company and not generic audit or accounting matters," said Mr Barmaky.

The tone from the top will be critical in driving the journey towards more value-added disclosures.

"The role that directors can play is to encourage companies to work collaboratively with their auditors to raise the level of reporting and hence provide confidence to shareholders," said Mr Wong.

"Support from the board to be more open and transparent to the benefit of investors will act as a positive signal and that can come about if board directors comprehend the key audit matters and their financial implications," added Mr Tay.

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> Roger Tay, head of audit at KPMG in Singapore

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