

Embracing Transparency | Enhancing Value

A first year review of the enhanced auditor's report in Singapore





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Foreword

Annual reports help investors decide where to put their hard-earned money. More insightful disclosures can therefore improve corporate transparency and enhance investors' decision-making. This in turn boosts the trust and confidence of investors and other stakeholders in capital markets.

In 2015, in response to strong calls by investors and other users of financial statements, the International Auditing and Assurance Standards Board issued the new and revised enhanced auditor reporting standards. Under these standards, the enhanced auditor's reports (EARs) will contain more information, particularly in the form of key audit matters. These additional disclosures help investors focus on the critical areas in the financial statements which in turn, lead to more meaningful engagements with auditors, directors and management.

In Singapore, the equivalent standards took effect for the audits of financial statements for the year ended on or after 15 December 2016. This study therefore analyses the EARs issued by the auditors for the first time. To gauge the usefulness of the EARs, the study also gathers the views of audit committees and investors through online surveys and focus group discussions.

Befitting the EAR's wide-ranging impact, this study is conducted by several parties, namely Accounting and Corporate Regulatory Authority (ACRA), Association of Chartered Certified Accountants (ACCA), Institute of Singapore Chartered Accountants (ISCA) and Nanyang Technological University (NTU).

We thank the Investment Management Association of Singapore, Monetary Authority of Singapore, Securities Investors Association (Singapore), Singapore Exchange, and Singapore Institute of Directors for helping to promote the surveys and invite participants to the focus group discussions.

We also extend our appreciation to the audit committee members and investors who have generously shared their views and experiences.

We hope this study will provide useful insights to all stakeholders in the financial reporting eco-system. We encourage all stakeholders to continue raising the quality of audits and financial reporting in Singapore.

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Executive Summary

About the study

This study examines how auditors have implemented the enhanced auditor reporting in Singapore and how those enhanced auditor's reports (EARs) have influenced the disclosures in our annual reports. The study also gathers insights into the audit committees' experiences when working through the EAR process with their auditors, and assesses the extent to which EARs have influenced investors' perceptions of the quality and value of audits.

The study covers an analysis of the EARs and annual reports of 180 entities listed on the Singapore Exchange, online surveys with over 240 audit committees¹ and investors, and focus group discussions with over 30 audit committees and investors.

Giving a boost in the value and confidence over audit

Based on the study, we found that EARs have brought about insightful disclosures by auditors, particularly in the form of key audit matters (KAMs). They have also driven positive behavioural changes among various stakeholders in our financial reporting eco-system.

- **Audit committees had more robust deliberation over KAMs:** A majority (74%) of the surveyed audit committees reported more robust discussions with management and auditors over KAMs. Over half (57%) felt that they had gained moderately or significantly deeper insights into the financial reporting risks of their entities.
- **Investors were using EARs to identify significant accounting and audit issues before reading the financial statements:** A vast majority (89%) of investors surveyed said that they were more likely to read the auditor's report

before reading the financial statements. The KAMs enabled them to identify significant accounting and audit issues to pay attention to when reading the financial statements. Consequently, slightly over half (54%) of the surveyed retail investors felt that KAMs had changed their approaches to analysing the investment risks of entities.

- **Audit partners were spending more time engaging audit committees:** A majority (65%) of the surveyed audit committees saw an increased involvement of audit partners as a result of EARs. Of this, 92% considered the additional time spent by audit partners to be sufficient in providing the necessary oversight of the EAR process.

Despite having to produce EARs for the first time, slightly over half (53%) of the analysed EARs were signed off earlier or on the same day in 2017 than they were in 2016. This was probably aided by the increase in audit partners' involvements and the audit firms' initiatives to perform dry-runs on the EARs in 2016.

- **Both audit committees and investors now have more confidence in audit quality:** Nearly two thirds of audit committees (63%) and investors (60%) surveyed were of the view that EARs gave them moderately to significantly deeper insights into how their auditors conducted the audits. Probably as a result of these insights, over half of the surveyed audit committees (56%) and investors (57%) indicated that they had developed moderately to significantly more confidence in audit quality.

A majority of audit committees (76%) and investors (65%) surveyed felt that the EAR was an improvement over the old auditor's report. However, 19% of audit committees and 30% of investors surveyed had no preference between the old and the new report. This signals a continuing need to reduce ambivalence about the value of audit among the stakeholders it seeks to serve.

¹ Used throughout the report, this term refers to individuals who are audit committee chairs or members.

Enhanced corporate disclosures in line with key audit matters raised

Encouragingly, we also found that companies proactively enhanced their financial and non-financial disclosures in conjunction with the KAMs reported by the auditors.

- **Management added more disclosures and in greater depth to the financial statements:** More than a third (40%) of the analysed financial statements disclosed more and in greater depth for those areas covered by KAMs than in the previous year's financial statements. Those areas include the key assumptions used in impairment testing and the sensitivity analysis of key assumptions.

This finding mirrors the experience of audit committees: slightly over half (52%) of the surveyed audit committees said the process of considering KAMs and reviewing EARs had resulted in their entities making moderate (33%) to significant (19%) improvements to the financial statements.

- **Audit committees were more forthcoming in their views on significant accounting matters:** In one third (33%) of the analysed annual reports, audit committees voluntarily reported their views on significant accounting matters, which in most instances were also reported as KAMs by the auditors.

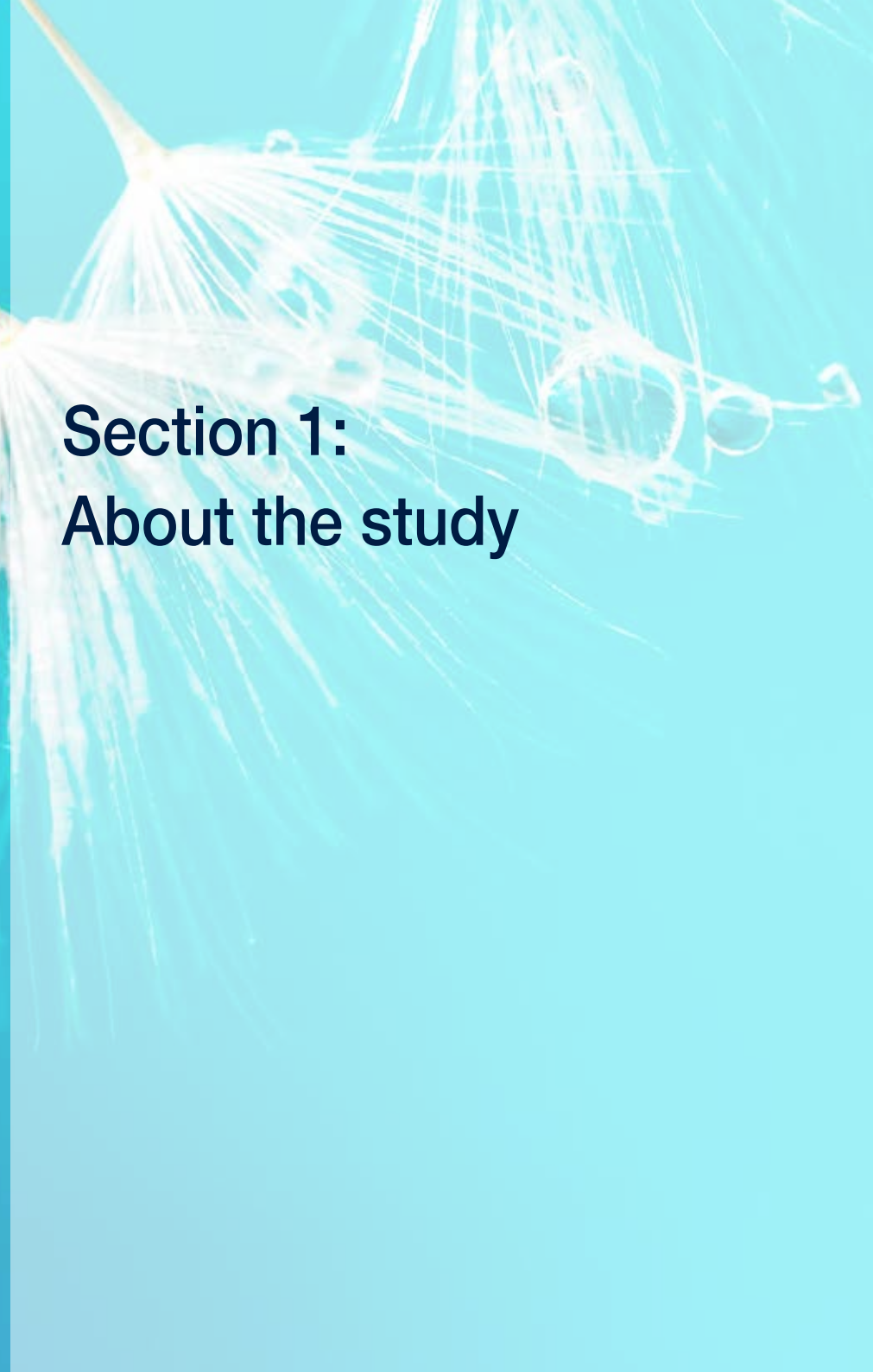
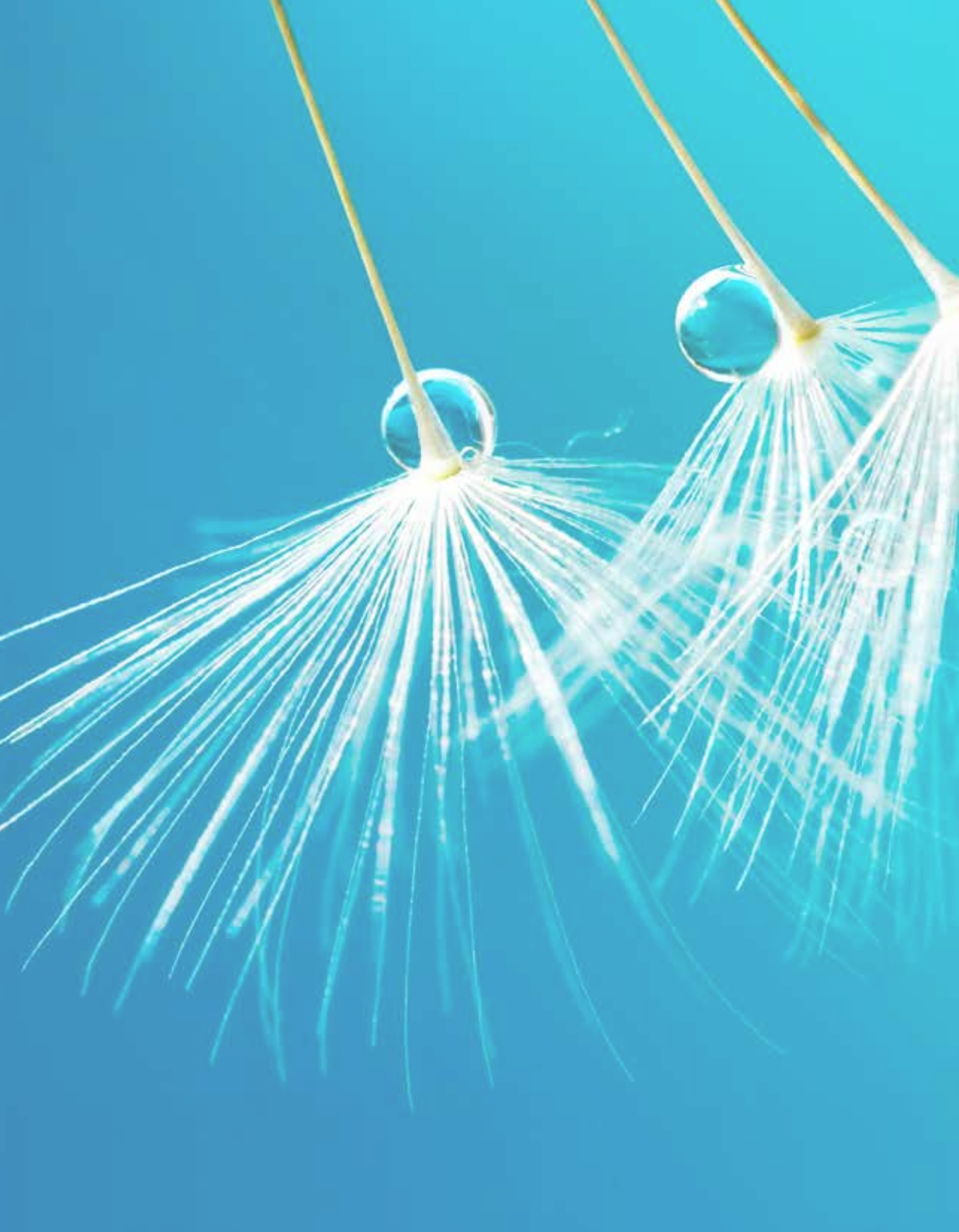
A majority (67%) of the surveyed investors found such reporting by audit committees to be useful. It gave them assurance that key issues were looked at by the audit committees. It also provided a more holistic representation of the issues raised by the auditors. Nonetheless, there is room for improvement in this area. Close to half (47%) of the analysed reporting by audit committees was found to be similar to the description of KAMs reported by the auditors.

Continuing improvement towards better value and relevance of audit

The communication of quality KAMs and corporate disclosures could reap significant benefits in enhancing auditor-director-management-investor relations. This year saw some auditors providing clear and tailored disclosures using simple plain language. Even so, close to half (43%) of the top three KAMs reported had generic descriptions. This suggests an opportunity for auditors to raise the communicative value of KAMs by tailoring the descriptions to reflect entity-specific circumstances.

Interestingly, we found that the average number of KAMs per entity (2.3) was close to half the average number (4.8) of areas with significant accounting judgements and estimates disclosed in the corresponding financial statements. While this could result from the auditors and the management viewing the entity's financial reporting and audit risks differently, it is a good practice for audit committees to ensure that the difference (if any) is reasonable and justifiable.

For the EARs to act as a catalyst for greater transparency in our market and deeper engagements among stakeholders, all stakeholders must step up and do their part. Auditors, directors and management must continue to provide valuable insights and meaningful disclosures. Investors must leverage more on these insights and actively engage with auditors, directors and management. In the longer run, this will further boost market confidence and reinforce Singapore's reputation as a trusted place for business.



**Section 1:
About the study**

Section 1 About the study

Development of EAR

The Enhanced Auditor's Report (EAR) carries high hopes. It brings about the most significant change to the audit profession in over 50 years. Instead of giving a binary (pass/fail) opinion, auditors of listed entities must now report the most significant matters they have dealt with during each audit, and explain how they have addressed those matters.

The auditing standards on EAR were the result of eight years of development and consultations by the International Auditing and Assurance Standards Board.

In Singapore, following the recommendation by ISCA's Auditing and Assurance Standards Committee (AASC), ACRA adopted the standards on 30 July 2015. The standards were issued 17 months before their effective date, to give stakeholders sufficient time to prepare.

During this period, many outreach events and initiatives were undertaken. For example, in January 2016, ACRA invited an Executive Director from the United Kingdom's Financial Reporting Council to share its implementation experience at the Audit Committee Seminar. The seminar was attended by over 400 audit committees and senior management. ISCA's AASC then garnered the commitment of the audit firms to encourage early adoption and perform dry-runs for their listed entities' audits. To help investors understand EARs, ACRA, ISCA and Securities Investors Association (Singapore) also issued a guide on EAR in March 2017.

About the study

This study examines how auditors have implemented the enhanced auditor reporting in Singapore and how those EARs have influenced the disclosures in our annual reports. The study also gathers insights into the audit committees' experiences when working through the EAR process with their auditors, and assesses the extent to which EARs have influenced investors' perceptions of the quality and value of audits.

The study comprises three parts:

Part A – Analysing EARs and annual reports;

Part B – Gathering views of audit committees; and

Part C – Gathering views of investors.

Part A: Analysing EARs and annual reports

The study analysed the EARs and annual reports for the financial year ended 31 December 2016 of 180 listed entities in Singapore. The samples were selected from 445 listed entities with December year-ends, taking into account the spread across different industries, type of audit firms and size of market capitalisation (Tables 1 and 2).

Table 1: Samples by market capitalisation and audit firm type

Audited by:	Large (> SGD 1 billion)	Mid (SGD 300 million to SGD 1 billion)	Small (< SGD 300 million)	Total
Big-4 ²	27	20	70	117
Non Big-4	2	5	45	52
Foreign auditors	3	1	7	11
Total	32	26	122	180

Table 2: Samples by industry sector

Industry Sector	No. of Entities
Industrial Goods and Services	42
Real Estate	19
Construction & Materials	13
Natural Resources	11
Technology	11
Food & Beverage	10
Chemicals	9
Oil & Gas	9
Personal & Household Goods	9
Bank and Financial Services	8
Healthcare	8
Travel and Leisure	8
Others	23
• Automobiles & Parts	
• Insurance	
• Media	
• Retail	
• Telecommunications	
• Utilities	
Total	180

² Deloitte & Touche LLP, Ernst & Young LLP, KPMG LLP and PricewaterhouseCoopers LLP.

Part B: Gathering views of audit committees

We also surveyed 109 audit committees on:

- their experiences with the first EARs;
- the value they had received from the EAR process; and
- the proposed areas for improvements.

Profile of survey respondents can be found below (Figures 1 to 3).

The survey findings, together with the results from the analysed EARs and annual reports, were discussed in two focus group discussions with 24 audit committees.

Figure 1: Number of audit committee(s) survey respondents sat on

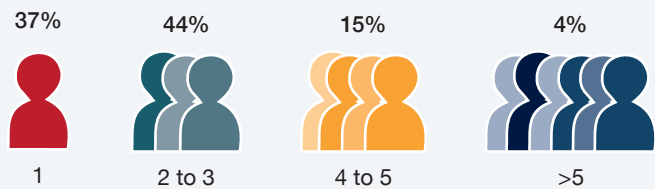


Figure 2: Career background

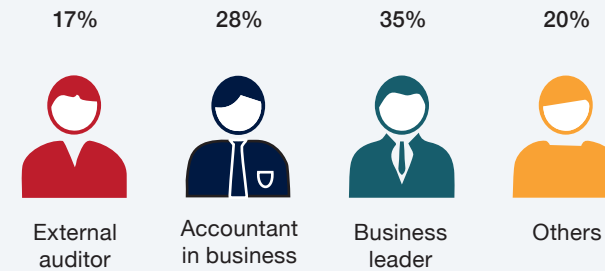
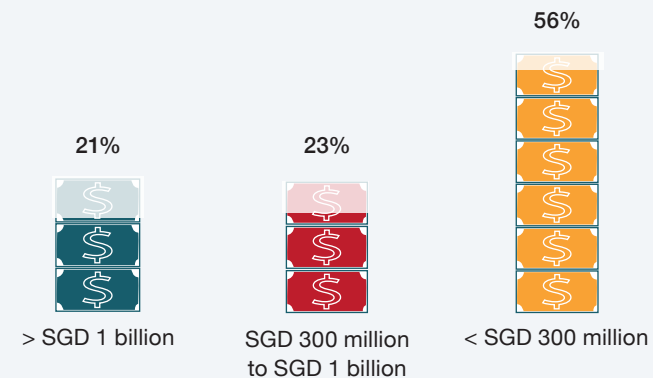


Figure 3: Market capitalisation of companies survey respondents are audit committee chairs / members of

Cumulatively the survey respondents occupied 207 audit committee positions, and the breakdown in terms of capitalisation was as follows:



Part C: Gathering views of investors

We further surveyed 133 institutional and retail investors (Figures 4 to 7). This was supplemented by one focus group discussion participated by 11 institutional and retail investors.

Figure 4: Breakdown of institutional and retail investors

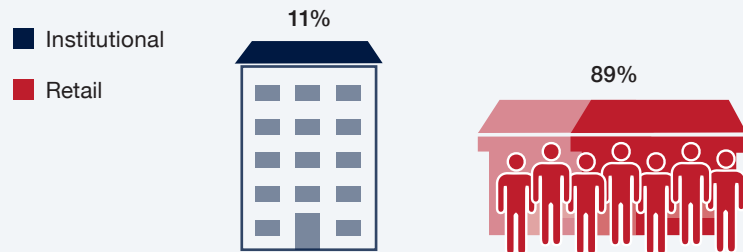


Figure 6: Retail Investors - Profession

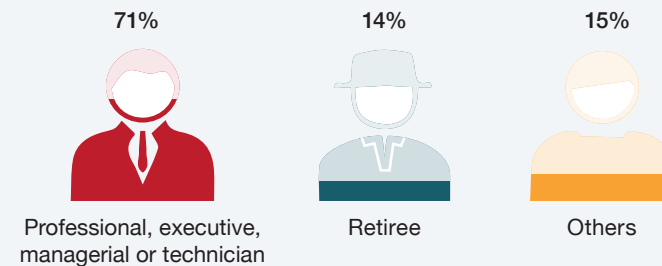


Figure 5: Retail investors - Number of listed entities invested in

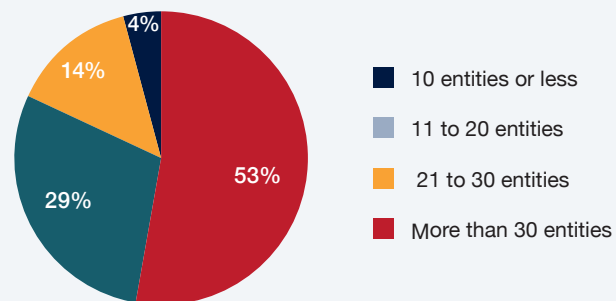
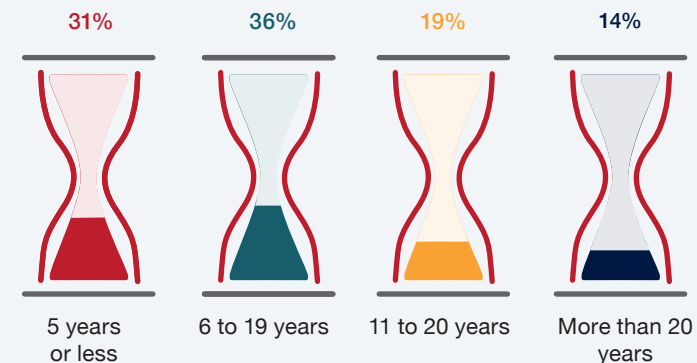



Figure 7: Retail investors - Years of investment experience





**Section 2:
Key audit matters in the
first year**

Section 2 Key audit matters in the first year

Key Audit Matters (KAMs) are perhaps the most significant change in the EAR.

KAMs are issues that the auditors have judged to be the most significant in the audit of a listed entity. Each KAM describes why such matter is regarded to be of significance to the auditors and how the auditors have addressed the matter. KAMs provide readers with insights into the financial reporting and audit risks of the listed entity.

A. How many KAMs are enough? Stop at two?

The auditing standards do not suggest an optimal number of KAMs, but state that it is rare to not have at least one KAM.

Based on the analysed EARs, the average number of KAMs reported in Singapore was 2.3. Close to half (44%) of the analysed EARs reported two KAMs. Over three quarters (88%) had no more than three KAMs.

The average number of 2.3 KAMs reported in Singapore is lower than the average number of 4.2³ and 3.9⁴ KAMs reported in the United Kingdom (UK) in its first and second year of implementation.

Some participants in the audit committee focus groups rationalised that the higher average number of KAMs reported in the UK probably reflected the larger size and the more diversified business operations of listed companies in the UK.

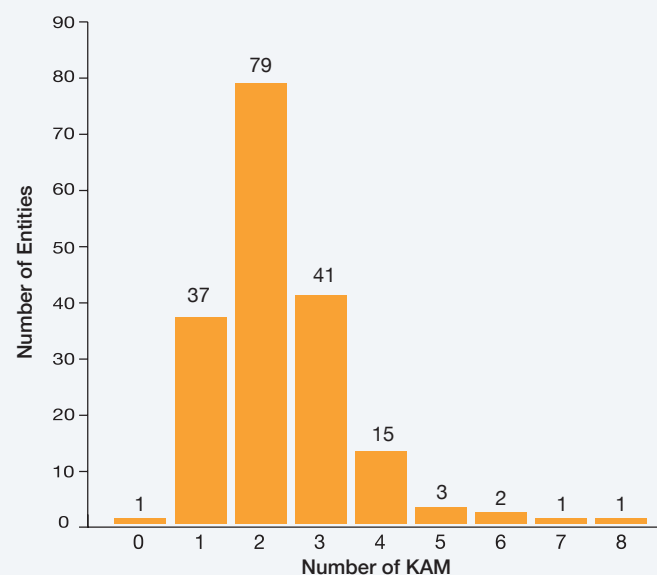
On the contrary, some participants in the investor focus group expressed concern that the corporate governance and corporate reporting environment in Singapore, perceived as less mature than that in the UK, had not translated into more KAMs in Singapore.

The average number of KAMs did not vary significantly across different industries, ranging between 1.8 and 3.2 (Table 3). The highest average number of KAMs was reported in the oil and gas industry (3.2), possibly owing to the challenging economic environment experienced by the industry in 2016.

Table 3: Average Number of KAMs reported by Industry Sectors

Industry Sector	No. of Entities	Average No. of KAMs
Industrial Goods and Services	42	2.5
Real Estate	19	1.9
Construction & Materials	13	2.4
Natural Resources	11	2.4
Technology	11	2.3
Food & Beverage	10	2.4
Chemicals	9	2.0
Oil & Gas	9	3.2
Personal & Household Goods	9	2.7
Bank and Financial Services	8	2.9
Healthcare	8	1.8
Travel and Leisure	8	1.8
Others	23	2.3
Overall Average	180	2.3

Figure 8: Number of KAMs reported by entities



³ Source: "Extended Auditor's Report: A review of first year experience", UK FRC, March 2015

⁴ Source: "Extended Auditor's Report: A further review of experience", UK FRC, January 2016

A1. Quality over quantity

Interestingly, the audit committee focus groups highlighted a misconception among management that a high number of KAMs would indicate that the entity was badly managed. Some management would therefore try to reduce the number of KAMs reported by the auditors. Accordingly, some audit committees had to play a mediating role between management and the auditors, to alleviate the management's concerns and to support the auditors' position to report certain KAMs.

This misconception needs to be corrected over time to minimise the tension between management and auditors. Outreach efforts to help stakeholders understand that KAMs are raised from the auditor's perspective may also be useful.

“ There is definitely some understanding gap at management level and even at shareholder level. I suspect that the number of KAMs is subject to the dynamics of various group interaction... I think we should let the auditors prevail and have the misunderstanding overcome in a couple of years' time. ”

Focus group, audit committees

A2. Comparison between the number of KAMs reported in the auditor's report and the number of areas with significant accounting judgements and estimates disclosed in the financial statements

As 91% of the analysed KAMs were related to areas with significant judgement and estimates, the study compared the number of KAMs reported by auditors in the analysed EARs with the number of areas with significant accounting judgements and estimates reported by management in the corresponding financial statements.

The average number of KAMs per entity, at 2.3, was close to half the average number (4.8) of areas with significant accounting judgements and estimates disclosed in the corresponding financial statements.

The difference could have resulted from the auditors and the management's differing views on the listed entity's financial reporting and audit risks. Nevertheless, it is good practice for audit committees to make the comparison and ensure that the difference (if any) is reasonable and justifiable.

B. What matters more?

The top KAMs this year were related to impairment and valuation (*Table 4*). These areas are generally complex, highly judgemental, and require auditors to rigorously challenge management's estimates and judgements.

Participants in the investors and audit committees focus groups said that these KAMs were expected, given the slow-down in the economy in 2016 which led to impairment and valuation concerns. Because these KAMs were somewhat predictable, the information was also perceived to be less useful by some participants.

“ No opinions beyond what were usually reported were included. I get the impression that either the auditors themselves were cautious or they did not do a thorough enough job to be confident of stating their opinions. ”

Survey respondent, retail investor

When asked what information they would like the auditors to report on, the investor focus group recommended factors affecting financial reporting quality such as the quality of management team, lapses (if any) in the internal control system and finance team's attrition rate.

In addition, some investors would like to see an extended reporting by management, with assurance provided by auditors, in areas beyond the scope of financial statements and audits. These areas include:

- (a) a comparison of the entity's performance vis-à-vis its peers in the same industry, including efficiency of performance and level of productivity; and
- (b) forward-looking information that is relevant to investment decisions such as the ability to meet forecasted growths and the expected dividend yields.

These areas highlight the continued mismatch between the information reported in the financial statements and the information used by investors for investment decisions. In the longer run, the scope of financial reporting and audit should be reviewed to better align with the information needs of investors.

Table 4: Top 8 KAMs reported by areas

Areas highlighted as KAMs	% of total samples analysed
Impairment of receivables	36%
Valuation of inventories	26%
Revenue recognition (excluding fraud risk)	24%
Impairment of goodwill and intangible assets	23%
Impairment of property, plant and equipment	19%
Valuation of properties under fair value	18%
Acquisition/Disposal of investments	17%
Impairment of investments	14%

“ Financial reporting should advance in sophistication and communicate information that really drives value like normalised earnings, and not focus on earnings with one-off gains/losses and non-cash accounting adjustments. ”

“ Looking at the top five KAMs, they are all directly related to financial statements. What about other matters which have been raised (to the audit committees)? For example, if the finance department has very high turnover, or the CFO keeps changing, is that a KAM? I find this will be more useful for me. ”

Survey respondents and focus group, institutional and retail investors



**Section 3:
Boost in audit confidence
and enhanced corporate
disclosures**

Section 3 Boost in audit confidence and enhanced corporate disclosures

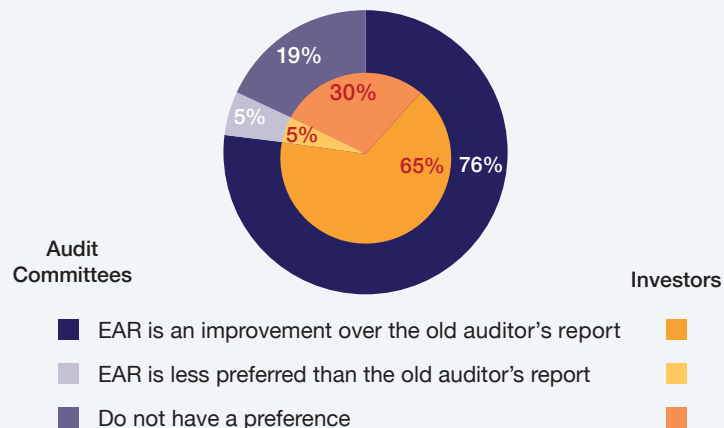
This section highlights the impact of enhanced auditor reporting in its first year of implementation.

In Singapore, audit committees and investors have received EARs positively. A majority (76%) of the surveyed audit committees felt that the EAR was an improvement over the old auditor's report (*Figure 9*). 65% of the surveyed investors shared the same sentiment.

A minority of audit committees (5%) and investors (5%) surveyed preferred the old auditor's report to the EAR. One survey respondent explained that while a comprehensive EAR may be more useful to investment analysts, the additional information provided could be overwhelming to some retail investors.

The remaining 19% of audit committees and 30% of investors surveyed had no preference between the old and the new report. This is a cause for concern. It also signals a continuing need to reduce ambivalence about the value of audit among the stakeholders it seeks to serve.

Figure 9: EAR versus old auditor's report



A. Have EARs changed audit committees' and investors' behaviour?

We also found that EARs have brought about insightful disclosures by auditors, particularly in the form of KAMs. They have also driven positive behavioural changes among various stakeholders in our financial reporting eco-system.

A1. Audit committees had more robust deliberation over key audit matters

To recap, KAMs are issues that the auditors have judged to be the most significant in the audit of a listed entity. KAMs are a subset of the matters communicated by the auditors to the audit committee, and may include:

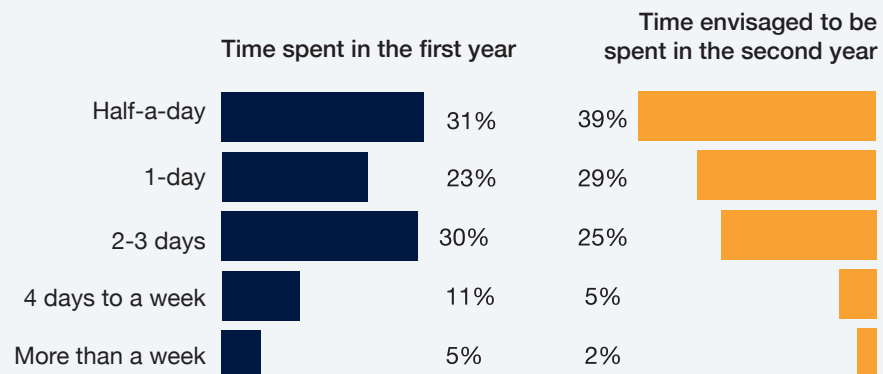
- areas of higher assessed risks of material misstatements or significant risks (i.e. risks requiring special audit consideration);
- significant auditor judgement relating to areas of significant management judgement; and
- the effect of significant events or transactions on the audit.

Audit committees spent additional time to consider KAMs and review EARs

A majority (84%) of the surveyed audit committees spent between half-a-day and three days considering KAMs and reviewing EARs. (*Figure 10*).

The audit committees generally expect to spend the same or lesser time in the second year, with the proportions as follows:

Figure 10: Time spent by audit committees to consider KAMs and review EARs



When asked why the time spent by audit committees would not reduce significantly in the second year, one survey respondent explained that Boards would likely place more emphasis on KAMs once they better understood the value of the EAR process. Another survey respondent explained that as KAMs were expected to evolve over time, audit committees would need time to review the changes.

Audit committees had more robust deliberation over KAMs

A majority (74%) of the surveyed audit committees reported more robust discussions were taking place with management and auditors over KAMs.

“ Our Audit Committee (meetings) became more focused. We sought greater details from the management to address the KAMs. We also made additional efforts to explain those KAMs in the annual report to help shareholders better understand the impact of such KAMs on the listed company’s performance and financial position. ”

Survey respondent, audit committee

This result resonated with the views gathered during the audit committee focus group discussions. A few participants appreciated the opportunity to discuss the key accounting and audit issues at greater length with their auditors. They were also encouraged that directors who were not part of the audit committees took greater interest in the KAMs reported.

“ I like the fact that because of the KAMs we spend more time with the auditors, we engage the auditors more, and the non-audit committee members of the board also take an interest, because you are disclosing your thought process to the public. It also leads on to discussion about what happens next year and what are the issues... we better keep a close eye on because there’s an impact in the future annual report. ”

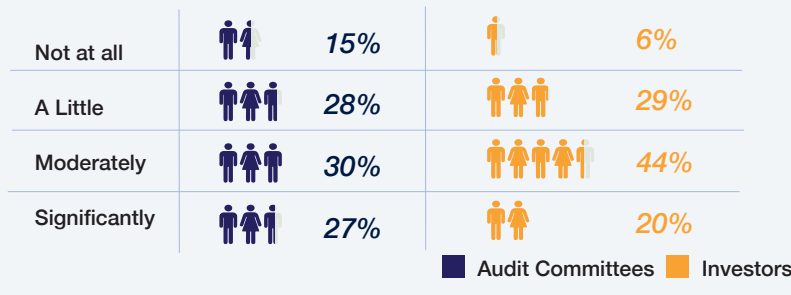
“ Management should... engage with audit committees more frequently to keep them updated. If the management foresees significant issues even before the auditors, the audit committee can engage the auditors for advice upfront. ”

Focus group, audit committee

Over half (57%) of audit committees surveyed indicated that they had gained moderately or significantly deeper insights into the financial reporting risks of their entities as a result of considering KAMs and reviewing the EARs (Figure 11). This was probably owing to the more robust discussions between audit committees and their management and auditors.

Management and audit committees should proactively discuss potential KAMs with their auditors to enable audit issues to be addressed early and management to react with appropriate disclosures. To facilitate the discussion, a survey respondent remarked that a guidance on upcoming accounting and regulatory requirements impacting a specific industry would be helpful. More education and training for non-financially trained directors would also be useful.

Figure 11: Insights into financial reporting risks



A2. Investors were using EARs to identify significant accounting and audit issues

A test of the EAR's value is to assess the extent to which it has improved investors' perception of the value and confidence they receive from the auditor's report. While the EAR is in its early days, the survey results give reasons for optimism.

Investors would read the EARs before reading the financial statements

A vast majority (89%) of investors surveyed said that they were now more likely to read the auditor's report before reading the financial statements. The KAMs enabled them to identify significant accounting and audit issues to pay attention to when reading the financial statements.

“ KAMs helped me understand more about the hidden risk in the company and I need to know how and what measures the management had done to address the issues. ”

“ KAM made it easier to identify any key investment risks at a high level without having to wade through the details. ”

“ The EAR will provide focus on the key risks of the company and cover points that may be overlooked by the individual investor when he conducts his own company analysis thus improving the investment process. ”

Survey respondents, retail investors

This result is encouraging, suggesting that the EAR can be a useful tool to help investors navigate through the financial statements, which may appear voluminous and complicated to some retail investors.

The remainder (11%) would not read the EAR before reading the financial statements. Reasons provided include the EAR was too lengthy and did not contain useful information.

“ The EARs do not include the opinions of the auditors on the issues. Statements like “we found the external valuer to be a member of recognised bodies”, and “the report does not give an opinion on the effectiveness of the group's internal control” do not tell shareholders anything that we do not already know. ”

“ The KAMs I read touched upon most matters very generally and they do not address practical issues nor reflect on the substance of management, for example, how the management has improved the company and add value to shareholders. The quality and mindset of management are very important information to minority shareholders but the KAMs do not provide assurance in this respect. For example, controls may exist but if management does not have the resolve to provide the confidence that the company is in good hands, the report does not provide meaningful information to minority shareholders. ”

Survey respondents, retail investors

Investors obtained better understanding of the financial reporting risks via EARs

A majority (64%) of the surveyed investors agreed that KAMs had helped them moderately (44%) or significantly (20%) improved their understanding of the financial reporting risks of their investments (Figure 11).

Over half (54%) of retail investors surveyed felt that KAMs had changed their approaches in analysing the investment risks of entities.

Unfortunately, investors appeared to need more time to act on the financial reporting risks they had identified. While a high proportion of the surveyed investors felt that KAMs had helped them identify accounting or audit issues to raise with the auditors (86%) or the directors/management (88%), the experience at annual general meetings (AGMs) showed otherwise.

Few questions on KAMs were raised at AGMs

A majority (61%) of the surveyed audit committees did not experience an increased engagement with shareholders over KAMs during AGMs. Of those who did (39%), the increased engagements were mainly with shareholders, analysts and banks.

This finding was consistent with the views shared by the audit committee focus groups. Most participants did not witness a visible increase in questions relating to KAMs at the AGMs. A plausible reason was that many retail investors in Singapore were not familiar with accounting and audit concepts, and therefore might not be confident about raising related questions.

The participants in the investor focus group held a different view. It was suggested that the usefulness of the EAR should not be evaluated on the basis of the number of questions raised at the AGMs. In practice, if issues were addressed satisfactorily, investors would not ask questions at the AGMs. Furthermore, such questions could be raised through other platforms, such as analyst briefings or private meetings.

“ Over time, as the investing community matures, they may ask auditors why certain issues were not previously raised... the dynamics of that relationship may motivate the auditors, and get them more aware of issues that should have been raised (as KAMs). ”

“ The usefulness of an EAR should not be solely determined by whether it leads us to engagement of companies, because if everything is okay, we don't really need to speak to the company. But we are interested in how it evolves over time. If the company has two KAMs in years 1 to 4 and then suddenly has seven in year 5, clearly it will become important to us. If an audit firm changes and you go from two KAMs to seven, then that's important too. And if a company in the same industry as others doesn't have the same KAMs identified, then again that may be an issue for us. ”

Survey respondents and focus group, institutional and retail investors

“ I hope that with EAR, auditor's report will become a point of Q&A at the AGMs, then that would be very useful. ”

Focus group, audit committees

A3. Audit partners are spending more time engaging audit committees

Almost all (98%) of the surveyed audit committees were satisfied with the process through which the EAR was finalised. This is a huge accomplishment by the audit profession, which has been made possible through the efforts of the audit partners and staff.

Audit partners spent more time as a result of EARs

A majority (79%) of audit committees surveyed acknowledged that the auditors' incremental efforts to report KAMs were moderate (62%) to

substantial (17%) (Figure 12).

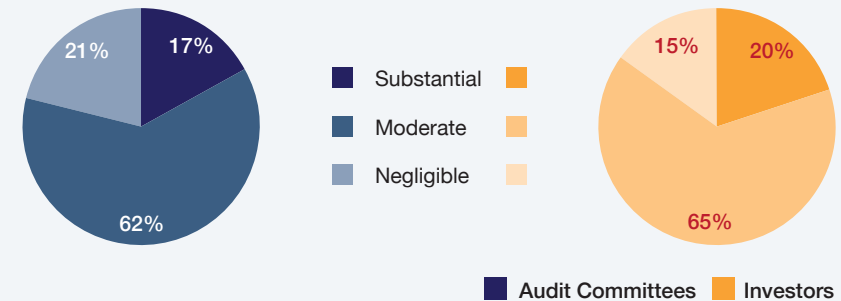
Audit partners' involvement was also key to a successful implementation of enhanced auditor reporting. A majority (65%) of the surveyed audit committees saw an increased involvement of audit partners as a result of EARs. Of this, 92% considered the additional time spent by audit partners to be sufficient in providing the necessary oversight for the EAR process.

Investors affirmed that the auditors' additional efforts were worthwhile

Similarly, a majority (85%) of the surveyed investors felt that the auditors' incremental efforts to report KAMs were moderate (65%) to substantial (20%)

(Figure 12). Most (83%) also affirmed that the auditors' incremental time spent to report KAMs was worth the efforts.

Figure 12: Audit committees' and investors' views on incremental efforts to report KAMs in EARs



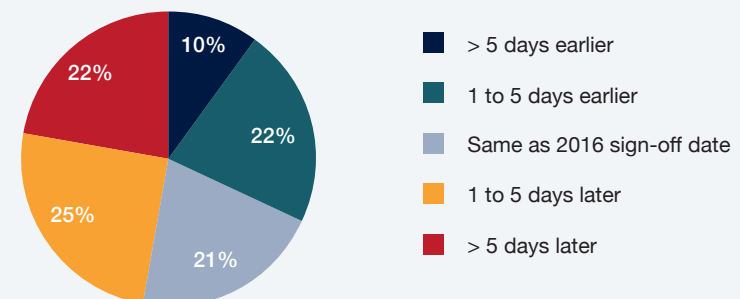
EARs were finalised within reporting deadlines

More importantly, despite having to produce EARs for the first time, the reporting timelines were largely unaffected.

While the average sign-off of the analysed EARs was delayed by 1.2 days, slightly over half (53%) were signed off earlier or on the same day in 2017 as compared to 2016 (Figure 13).

This was probably aided by the increase in audit partners' involvements and the audit firms' initiatives to perform dry-runs on the EARs in 2016.

Figure 13: Impact to audit sign-off dates - 2017 versus 2016



A4. Both audit committees and investors now have more confidence in audit quality

EARs have helped to raise audit committees' and investors' confidence in audit quality.

Audit committees gained more confidence in audit quality

Nearly two thirds (63%) of the surveyed audit committees were of the view that EARs gave them moderately (37%) to significantly (26%) deeper insights into how their auditors conducted the audits (Figure 14). Probably as a result of these insights, over half (56%) developed moderately (36%) to significantly (20%) more confidence in audit quality (Figure 15).

Investors gained deeper insights into how audits were conducted

The experience of investors was similar to that of audit committees. Nearly two thirds (60%) of the surveyed investors also felt that EARs gave them moderately (44%) to significantly (16%) deeper insights into the audit process (Figure 14). Probably as a result of these insights, over half (57%) developed moderately (39%) to significantly (18%) more confidence in audit quality (Figure 15).

Figure 14: Deeper insights into how audits were conducted?

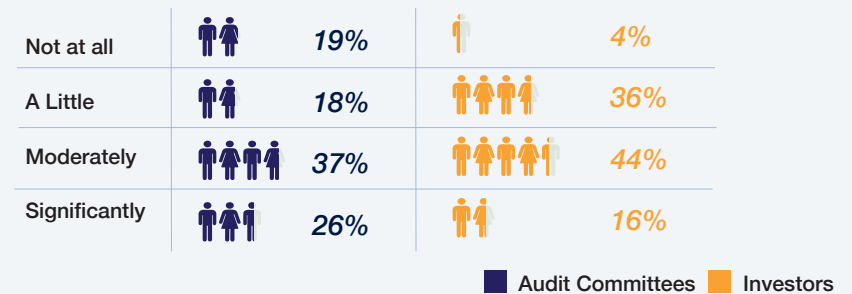
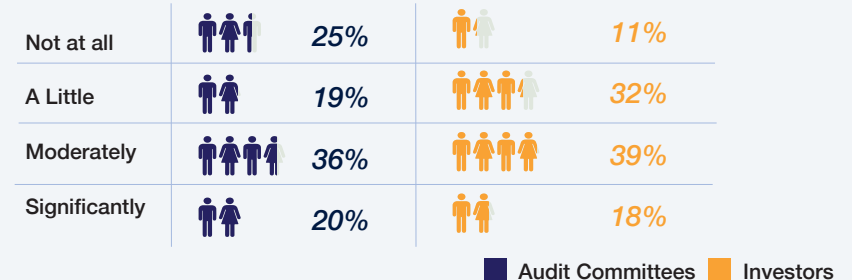


Figure 15: Increased confidence in audit quality?



B. Have KAMs lead to greater corporate disclosures?

Encouragingly, our research showed that companies proactively enhanced their financial and non-financial disclosures in conjunction with the KAMs reported by the auditors.

B1. Management added more disclosures and in greater depth to the financial statements

Based on the analysis of 180 financial statements, we found that 40% disclosed more and in greater depth those areas covered by KAMs than in the previous year's financial statements.

Those areas include:

- key assumptions used in impairment testing;
- sensitivity analysis of key assumptions; and
- descriptions of valuation techniques or methodology.

To illustrate, here is an extract of additional disclosures:

Recognition of revenue and cost from sale of properties under development	
<i>Year ended 31 December 2015</i>	<i>Year ended 31 December 2016</i>
<p>Management has performed cost studies, taking into account the costs to date and costs to complete each project.</p> <p>Management has reviewed the status of such projects and is satisfied that the estimates to complete are realistic and reasonable.</p>	<p>The key judgements and accounting estimates relate to (1) the estimation of total estimated cost to completion which impacts the total budgeted cost and the % of completion; and (2) the appropriate allocation of land and development cost between the commercial and residential components.</p> <p>The cost to completion have been estimated by management after considering the remaining work to be done and the estimated total cost based on contracts awarded or experience from comparable past projects.</p> <p>The allocation of land cost to residential and commercial components within the same development is based on relative estimated sales value of the finished commercial and residential components. Development costs have been allocated between the two components based on specific cost as determined by quantity surveyor or by floor area.</p>

Source: Fragrance Group Limited, 31 December 2015 and 2016 (Deloitte & Touche LLP)

The finding from the analysed financial statements mirrors the experience of audit committees. Slightly over half (52%) of the surveyed audit committees said the process of considering KAMs and reviewing EARs had resulted in their entities making moderate (33%) to significant (19%) improvements to the financial statements (Figure 16).

To a lesser extent, 45% of them observed moderate (28%) to significant (17%) improvements in other parts of annual reports (Figure 16), for example, chairman’s statements and CEO’s statements.

These survey findings were consistent with the focus group discussions.

“ In all the boards I sit on, we took the opportunity to review the significant accounting standards and notes to the accounts. This resulted in fewer words, less repeats and more readability. ”

“ We included the audit committee reviews/discussions of significant matters (mainly related to KAMs) with auditors, decisions and views on the accounting treatment of the KAMs. ”

“ A new section – Valuation of investment properties – was included in the Corporate Governance section of the annual report. ”

“ Greater disclosure of the salient areas of judgement having an impact on the financial statements. ”

Survey respondents, audit committees

B2. Audit committees were more forthcoming in their views on significant accounting matters

In January 2017, ACRA, the Monetary Authority of Singapore and the Singapore Exchange issued a letter to encourage audit committees to share their views on reported KAMs.

Encouragingly, one third (33%) of the analysed annual reports had audit committees voluntarily reporting their views on significant accounting matters, which in most instances, were also reported as KAMs by the auditors. Most of these audit committees’ reporting were found in the Corporate Governance Reports, though a few were reported in separate audit committee reports.

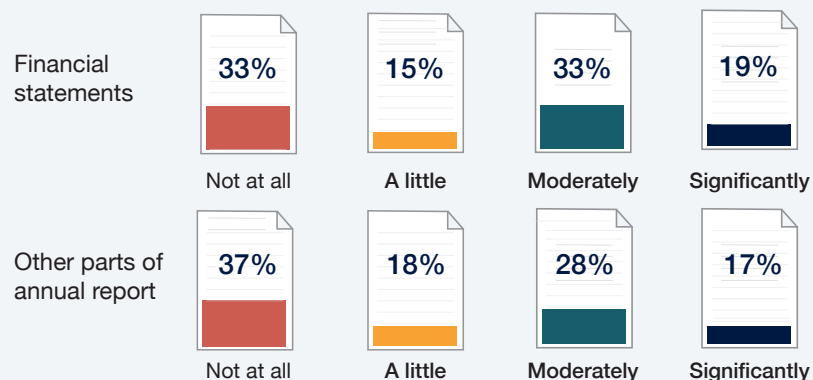
A majority (67%) of the surveyed investors found such reporting by audit committees to be useful. It gave them assurance that key issues were looked at by the audit committees. It also provided a more holistic representation of the issues raised by the auditors.

“ I look at audit committee report for a UK-listed company... and I quite like it. It shows you what they have done, which are very extensive... With independent directors’ fees being questioned now, here is the justification... They are not there just to grace occasions, they (show that they) do actual work! ”

“ I think it’s very important for audit committees to put in their commentary on the KAM, because it’s a way to show how they (have) discharged their duties. Regarding the similarity between what the auditors mentioned in the KAM and audit committee’s commentary on those issues, that cannot be helped since we are looking at the same issues. But I supposed the audit committee can also refer to the internal audit assessment, which the (external) auditors may not rely on. ”

Focus group, audit committees

Figure 16: Audit committees’ views - Improvement in disclosures



Notably, over half (53%) of the audit committees' reporting provided insights beyond what were reported in the KAMs by the auditor. To illustrate, please see the extract below:

Revenue recognition due to complex billing systems	
<p><i>Audit Committee Commentary</i></p> <p>“The audit committee considered and evaluated the appropriateness of the Group’s revenue recognition policies. The audit committee, with the assistance from internal auditors, oversaw the implementation of the billing system which was put into effect in the first quarter of 2015.</p> <p>The audit committee reviewed the revenue performance each quarter and compared the performance with that for the corresponding period of the preceding year and quarter. Management has given reasonable and satisfactory explanations on the variances observed.</p> <p>Ernst & Young LLP shared their approach to the audit of revenue, as part of their presentation of the detailed audit plan. This identified the primary areas of audit emphasis, focus and risks in the audit of revenue, the recognition of revenue through the billing systems and the proper authorisation of material non-routine revenue adjustments.</p> <p>The audit committee also reviewed the final audit report and findings presented by the external auditors at the year-end meeting.”</p>	<p><i>Auditor’s Report</i></p> <p><i>Audit procedures</i></p> <p>“We performed the following audit procedures amongst others:</p> <ul style="list-style-type: none"> • Obtained an understanding of the Information Technology (IT) and manual controls surrounding revenue systems and processes such as capturing and recording revenue transactions, authorisation of rate changes and the input of such information into the billing systems; • Tested a sample of customer bills and checked these to cash received from customers; • Tested end-to-end reconciliation from billing systems to accounting system including verifying material revenue adjustments passed into the accounting system; • Tested the allocation of revenue to separately identifiable components of multiple element arrangements, particularly in relation to transactions that include the delivery of handset combined with a service element in the contracts, as well as the timing of the revenue recognised; and • Evaluated appropriateness of revenue recognition policies.”

Source: M1 Limited, 31 December 2016 (Ernst & Young LLP)

However, there is room for improvement in this area. Close to half (47%) of the analysed reporting by audit committees did not provide additional insights. They either concurred with the work performed by the auditors or were described in a similar manner to the KAMs reported by the auditors.


The challenges for audit committees

The reporting by audit committees was a challenge, according to some participants in the audit committee focus groups. When things were in order, audit committees would not undertake additional tasks or have a different view from the auditors. Hence, there were no additional insights that could be included in their reporting.

In response, the investor focus group suggested that the reporting by audit committee could be improved by including those matters which the auditors had not reported as KAMs. Examples include:

- (a) how audit committee obtained comfort over areas with significant accounting judgement and estimates disclosed by management in the financial statements which were not reported as KAMs by the auditors (see section 2(A2));
- (b) how audit committee ensured that management had implemented effective internal control systems in the newly acquired subsidiary or the new business lines, which were not regarded as material by the auditors at this juncture; and
- (c) how the audit committee ensured that management had rectified the lapses in the internal control system or failure in IT systems.

To meet investors' needs, audit committees should increase their efforts to provide meaningful and more valuable insights in their reporting.



**Section 4:
Continuing improvement
towards better value and
relevance of audit**

Section 4 Continuing improvement towards better value and relevance of audit

The communication of quality KAMs and corporate disclosures could reap significant benefits in enhancing auditor-director-management-investor relations. This section examines the extent to which our KAMs are understandable and tailored, and the extent to which audit committees and investors value the voluntary disclosures by auditors.

A. Were our KAMs understandable?

A1. Both audit committees and investors found KAMs to be understandable

A vast majority of the surveyed audit committees (91%) and investors (80%) believed that the KAMs in Singapore were easily understood by the investors (Figure 17). Those who believed otherwise felt that too many accounting jargons were used and the descriptions too lengthy.

“ Auditors... would take a much more cautious line in terms of wordings. (Sometimes) it reaches a point where it becomes convoluted and impossible for the layman to read and understand. ”

“ Considering the skills set of auditors... there is definitely expected to be a gap in communication skills. So there is a need to sharpen the ability to communicate to the target audience. ”

Focus group, audit committees

Figure 17: Understandability of KAMs



Participants of the three focus group discussions were of the view that audit committees would find KAMs more understandable than investors due to the former's financial knowledge and interaction with the auditors during the EAR process.

B. Were our KAMs sufficiently tailored?

The description of KAMs should also be tailored to reflect entity-specific circumstances to provide the right context and explain implications to the entity.

B1. Audit committees and investors differed on whether the KAMs were sufficiently tailored

A vast majority (92%) of the surveyed audit committees believed that the KAMs in Singapore were sufficiently tailored to help investors understand the particular concerns of the auditors (Figure 18).

A lower majority (62%) of the surveyed investors shared the same view.

One reason for the divergence, as suggested during the audit committee focus groups, was that audit committees were generally more comfortable with a neutral description of the KAM to not 'alarm' investors unnecessarily. On the contrary, investors preferred bolder statements by the auditors to alert them of the underlying risks.

Figure 18: Tailoring of KAMs



B2. Were our audit firms relying too much on templates?

The study further analysed the top three KAMs to assess if their descriptions of risk⁵ were generic or tailored.

The top three KAMs, namely impairment of receivables, valuation of inventories and revenue recognition (excluding fraud risk) were first classified as generic or tailored. An example of how the tailoring was made has been provided below:

Description classified as generic

Impairment of trade receivables

The Group makes allowances for expected credit losses based on an assessment of the recoverability of trade receivables. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation as disclosed in Note X to the Financial Statements.

Description classified as tailored

Allowance for trade and other receivables

We focused on this area because the Group's trade receivables balances with amounts aged between one year to two years constitute approximately 13% of the total Group's trade receivables and the recoverability of the long outstanding trade receivables requires significant judgment of the management.

Those trade receivables balances aged over one year mainly relates to receivables from states owned enterprise which are funded by the government.

The Group's other receivables balances aged over one year amounted to RMB168 million which related to receivables from sub-contractors that can potentially be offset against payables and retention amounts as they are also sub-contractors for the construction of the new factory, and receivable from state owned enterprise with sufficient cash flows from the subsidies granted by the government to settle the balances.

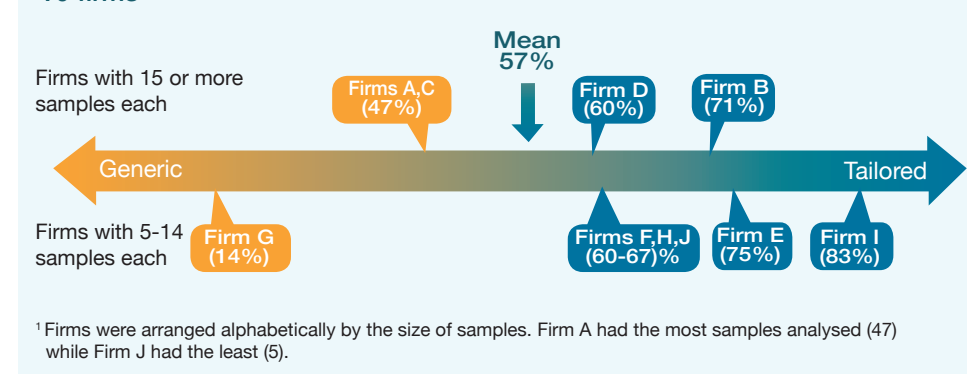
No allowance for doubtful trade receivables were made during the financial year.

Source: Midas Holdings Limited, 31 December 2016 (Mazars LLP)

Next, among the KAMs classified as tailored, the KAMs of similar nature issued by the same firm were then grouped and compared. The objective is to examine the extent to which the firm's template, if any, was further tailored to reflect the entity's particular circumstances.

The results were as follows:

Figure 19: Comparison of the level of tailoring in risk description across 10 firms



Based on the analyses of 151 KAMs across 10 audit firms, a majority (57%) had KAMs tailored to describe the entity's particular circumstances. The remaining (43%) had generic descriptions of risks, including a few that merely repeated the requirements in the accounting or auditing standards.

Notably, the level of tailoring varied, even within the same audit firm. For example, some KAMs on impairment of receivables followed a similar format and tailored only the numerical percentage of the balances (e.g. trade receivable balance was x% of total assets). Other KAMs highlighted the concentration risks (e.g. the top two customers accounted for 90% of trade receivables), the customer/aging profile (e.g. heightened default risk due to long overdue debts) or the underlying risk factors to explain why the auditors were concerned about impairment.

This shows the need for auditors to raise the communicative value of KAMs by moving away from templates and varying the disclosures in wording, tone and depth. Otherwise, we run the risk that KAMs will lose their value and relevance in the longer run.

C. How should auditors update subsequent work on other information?

Under the new and revised standards on EAR, auditors must disclose that they have read and considered 'Other Information' (OI)⁶, and whether they found the OI to be materially misstated.

C1. Audit committees and investors were more confident over OI

A majority (82%) of the surveyed investors have greater confidence over OI, as a result of the auditor's work in reading and considering the OI. This was consistent with the views of most (71%) audit committees surveyed.

C2. A majority furnished OI on time to their auditors

Some companies did not provide the complete set of OI to the auditors before the EAR was signed off. Under such circumstances, the auditing standards require the auditors to state in the EAR that the OI had not been received at the audit sign-off date.

Figure 20: Analysis of OI received by the auditor as at date of the auditor's report



Figure 20 above showed the extent to which OI was received and read by the auditor by the date of the auditor's report.

Encouragingly, a large majority (82%) of the analysed companies provided a complete set of OI to their auditors prior to the audit sign-off. Only 7% provided the OI partially while 11% did not provide any OI (other than the directors' statement) before the audit sign-off.

⁶ Other information (OI) comprises financial and non-financial information in the annual report, other than financial statements and the auditor's report. Examples of OI include management discussion and analysis, chairman's statement, corporate governance report (including directors' remuneration and interested party transactions), directors' statement, financial statistics, etc.

⁷ The directors' statement is required to be furnished as at the audit sign-off date under the Companies Act.

C3. Audit committees and investors had differing views on how update should be communicated

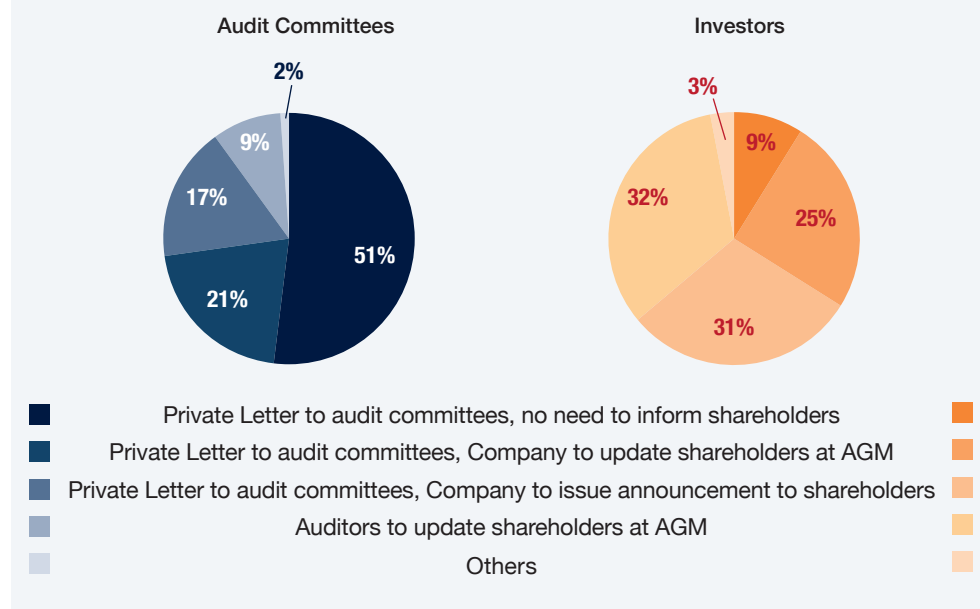
In the situation where a complete set of OI could not be provided to the auditors prior to the audit sign-off, a majority of the surveyed audit committees (70%) and investors (74%) felt that the auditors should provide an update on the work done subsequently, even when no material misstatements were found. However, their views differed as to how the update should be communicated (Figure 21).

The key differences were as follows:

- (a) out of those audit committees who wanted an update, 51% believed that a private letter issued by the auditors to them would suffice. There was no need to further inform the investors if no material misstatement was found. In contrast, only 9% of the corresponding investor group preferred this option.
- (b) out of those investors who wanted an update, 32% would like the auditors to provide the update at AGMs. In contrast, only 9% of corresponding audit committee group preferred this option.

While the stakeholders may one day agree on an amicable way to ‘close the loop’, a better solution will be to fix the problem upstream, i.e. have management prepare OI earlier and provide a complete set to the auditor prior to the audit sign-off.

Figure 21: How should updates by auditor on OI be communicated?



D. Were voluntary disclosures in our EARs useful?

This study also examines the extent to which auditors have disclosed information that is not explicitly required by the standards, and whether audit committees and investors see value in these voluntary disclosures.

D1. Voluntarily disclosing the outcome of audit procedures

Under the new and revised standards on EARs, an audit opinion is given on the financial statements taken as a whole. Hence, auditors are not required to disclose the outcome of audit procedures for each KAM. However, auditors may voluntarily do so to help users of financial statements better understand how each KAM has been satisfactorily addressed.

The current practice

Only half (50%) of the analysed KAMs had indirectly provided ‘outcomes’. Of this, 4% provided bolder insights using phrases such as “discount rates being at the lower end of the range” or “cash flow projections were mildly optimistic”.

A generic description of the outcome of audit procedures

Valuation of trade receivables

We found the estimates to be reasonable and the disclosures to be appropriate in their description of the estimates made.

A more meaningful description of the outcome of audit procedures

Impairment risk over investment in jointly controlled entity

We found that the assumptions and resulting estimates used in the discounted cash flow projection were within acceptable range, except for the growth estimates which exceeded historical performance. In this instance, we have re-computed the recoverable amount using reduced growth estimates and we agree with management that no impairment charge is required for this cash generating unit.

Source: Rex International Holding Limited, 31 December 2016 (KPMG LLP)

Audit committees had mixed views on whether outcome should be disclosed for each KAM

(Figure 22). The remainder (38%) thought that the overall “true and fair” audit opinion was sufficient.

Some participants in the audit committee focus groups felt strongly about not ‘leaving things hanging in the air’, particularly when the auditors had highlighted exceptions found in the KAMs (e.g. no reconciliation was performed on prepaid card balances, two exceptions were found when testing an internal control).

Investors wanted outcome to be included for each KAM

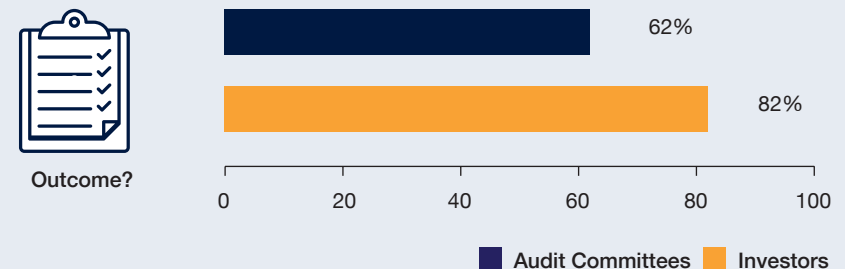
The investors’ views stood in contrast to those of audit committees.

A vast majority (82%) of the surveyed investors felt that auditors should include outcome for each KAM (Figure 22). The remainder (18%) did not favour such inclusion.

“ Disclosing outcomes to the KAMs is tremendously useful, because (otherwise) it’s almost like reading a book, but skipping the final chapter. ”

Focus group, institutional investor

Figure 22: Voluntary EAR disclosures – Outcome of audit procedures



D2. Voluntarily disclosing audit scope and materiality in EARs

Under the new and revised standards on EARs, auditors are not required to disclose the audit scope and materiality that they have used in the audit. However, the auditors may disclose them voluntarily.

The current practice

For this first year of implementation, only 2% of the analysed EARs disclosed information about the audit scope and 1% disclosed the materiality.

An extract of such disclosure is provided below.

Audit Scope:

Audit procedures were performed over the Singapore Operations of DBS Bank Ltd and DBS Group (HK) Limited.

We identified DBS Bank Ltd Hong Kong Branch, DBS Bank (China) Limited, PT Bank DBS Indonesia, DBS Bank (Taiwan) Limited and DBS Bank Ltd India Branch as component entities where certain account balances were considered to be significant in size in relation to the Group. Consequently, specific audit procedures for these components were performed to obtain sufficient appropriate audit evidence.

Materiality:

We determined the overall Group materiality based on 5% of the Group’s profit before tax.

We chose ‘profit before tax’ as it is a commonly used benchmark for materiality. We selected 5% based on our professional judgement, noting that it is also within the range of commonly accepted profit-related thresholds.

Source: DBS Group Holdings Ltd, 31 December 2016 (PricewaterhouseCoopers LLP)

Audit committees were neutral on whether materiality should be voluntarily disclosed

A small majority (55%) believed this information would help investors understand better the extent of work performed (Figure 23).

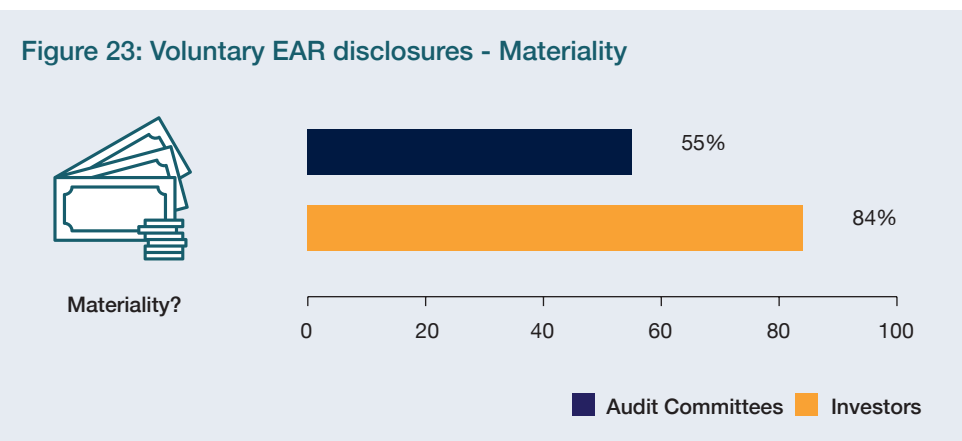
The remainder (45%) believed this information to be less relevant, given that materiality threshold would have been determined in accordance with the auditing standards. Participants in the audit committee focus groups shared that such disclosures could be confusing, as both quantitative and qualitative factors must be considered when determining materiality. Furthermore, materiality threshold would fluctuate over time following the movement of benchmark used such as profits before tax.

Investors wanted materiality to be voluntarily disclosed

On the other hand, a large majority (84%) of the surveyed investors felt that the auditors should voluntarily disclose the materiality used in the audit (Figure 23). This finding resonated with views of the investor focus group that wanted this information to help them understand the extent of audit work performed.

“ The KAMs including materiality does help me narrow the risk of missing large misstatement. Where relevant and meaningful, I have raised it at the Annual General Meeting. ”

Survey respondent, retail investor



A close-up photograph of a dandelion seed head. The stem is in the foreground, topped with a large, highly reflective, metallic sphere that mirrors the teal background. The seed head itself is composed of numerous thin, white filaments, each ending in a small, clear, spherical seed. The background is a soft, gradient teal color.

Section 5: Future enhancements

Section 5 Future enhancements

While the results from EAR's first year implementation were encouraging, it will take more time and experience to realise its full potential. More time is also needed to develop the best practices that can better serve the needs of our investors and other stakeholders.

This final section highlights learning points from EAR implementation and action points for the future.

Trends set by the early adopters

Last year, we saw nine early adopters from entities listed on the Singapore Exchange having their first EARs issued. The future trends of EARs can be gleaned by studying how the KAMs reported on eight⁸ early adopters have evolved.

The second year saw mostly similar number of KAMs. Half of the early adopters had the same number of KAMs in the second year as their first year. Three dropped one KAM each. One company retained the same number of KAMs but replaced three of its five KAMs with different ones.

This was a positive development. Auditors were reviewing the KAMs to reflect the entity's circumstances each year. This would prevent KAMs from descending into 'boilerplate' disclosures, which would not be useful to investors.

In addition, half of the early adopters had their auditors enhancing the description of risks in the second year. In particular, the auditors of Singapore Airlines Limited adopted a more granular approach in describing its accounting for aircraft-related assets.

Accounting for aircraft related assets and carrying values	
Year ended 31 March 2016	Year ended 31 March 2017
<p>The key aspects requiring judgement include:</p> <ul style="list-style-type: none"> Reviewing of carrying values of aircraft allocated to different parts of the business that use the aircraft (cash generating units (CGUs)). When it is necessary to test whether the asset values are impaired, the carrying value of all assets in the CGU are compared to an estimate of the amount that can be recovered from each CGU, based on discounted future cash flows. This requires an estimate to be made of future revenues, operating costs, capital expenditure and discount rates for each CGU. 	<p>Significant judgement was required in the following aspects:</p> <ul style="list-style-type: none"> The determination of the cash generating units (CGU) – The integration of the operations of Tiger Airways and Scoot during the year led to a greater interdependence in revenues between the two operations. A similar continuing increase is being observed in the interdependency of revenues between passenger and cargo operations, which share aircraft, as well as within the passenger operations between Singapore Airlines and SilkAir. As a result of that interdependence, Singapore Airlines has determined that the passenger and cargo operations, previously considered to be separate CGUs, are now a single CGU. With this revision, CGU impairment tests are computed against the cash flows of the combined CGU rather than against separate and respective CGUs; and The assessment of CGUs for possible impairment – In testing whether asset values are impaired, these being predominantly aircraft assets and goodwill, the carrying value of all assets in the CGU are compared to the amounts expected to be recoverable from each CGU. This requires estimates to be made for each CGU of future revenues, operating costs, capital expenditure, timing of cash flows and the discount rates applicable to these cash flows.

Source: Singapore Airlines Limited, 31 March 2017 and 2016 (KPMG LLP)

⁸ There were nine early adopters in 2016. One early adopter's auditor's report had not been issued when the study was performed.

Seizing opportunity through improvement

Overall, the study revealed that the EAR implementation in Singapore is taking a step in the right direction.

A large majority of audit committees (71%) and investors (81%) surveyed were optimistic that investors would make better use of EARs and engage the companies and the auditors over KAMs in the longer run.

The remaining audit committees (29%) and investors (19%) felt that EARs would turn into 'boilerplate' disclosures and investors would lose interest. It is therefore critical for auditors to make more efforts to disclose insightful and concise KAMs. Some survey participants further suggested that companies and auditors proactively bring up KAMs for discussion with investors at AGMs.

“ In this journey, we as independent directors are responsible to all stakeholders, not just to the minority shareholders. We should be enlightened and take what I would say the best foot forward on a good practice. How does it enhance your company's standing in the eyes of the investors? How would that help to drive up the share price? If you are more engaging with your investors, I think you will also get better valuation. ”

Focus group, audit committee



EAR goal for auditors

- **Make KAMs fit-for-purpose:** Draft KAMs with the users in mind. Tailor to reflect the entity's circumstances. Do not be hampered by your firm's template.

EAR goals for audit committees and management

- **Provide insights in audit committee's reporting:** Be bold in reporting on significant accounting and audit issues. Facilitate deeper engagement with stakeholders through first-hand insights on these issues.
- **Enhance disclosures in the financial statements:** Review and enhance the disclosures in the financial statements, particularly in those areas reported as KAM by the auditors. Cut the clutter by removing repetitive and immaterial disclosures.
- **Encourage shareholders to discuss KAMs at annual general meetings:** Proactively highlight those areas reported as KAMs by auditors and explain how the risks are addressed by audit committees and management. Invite questions on them.
- **Be pro-active in discussing potential KAMs with auditors:** Identify the potential issues upfront and discuss them with auditors. Compare KAMs with areas of significant judgement and estimates and understand why certain areas had not been raised as KAMs or vice-versa.

EAR goals for investors

- **Read EARs to identify key accounting and audit issues:** Use KAMs as guidance to navigate financial statements. Demand clarity on how KAMs have been addressed by the company and the auditor.
- **When KAMs are not drafted clearly or not satisfactorily addressed, clarify with directors, management or auditors at AGMs:** Demand for KAMs to be drafted in a granular yet concise manner. Do not be afraid to ask questions on matters highlighted in KAMs.

About ACCA

The Association of Chartered Certified Accountants (ACCA) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of consistent global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers.

We support our 198,000 members and 486,000 students in 180 countries, helping them to develop successful careers in accounting and business, with the skills required by employers. We work through a network of 101 offices and centres and 7,291 Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting and conduct relevant research to ensure accountancy continues to grow in reputation and influence.

For more information, please visit www.accaglobal.com.

About ACRA

The Accounting and Corporate Regulatory Authority (ACRA) is the national regulator of business entities, public accountants and corporate service providers in Singapore. ACRA also facilitates the development of business entities and the public accountancy profession. As a regulator and facilitator, ACRA constantly strives to provide a responsive and trusted regulatory environment for businesses, public accountants and corporate service providers and make Singapore the best and trusted place for doing business.

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 32,000 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 CA Qualification and the Designated Entity to confer the Chartered Accountant of Singapore - CA (Singapore) - designation.

ISCA is a member of Chartered Accountants Worldwide (CAW). CAW brings together 11 chartered accountancy bodies connecting and representing the interests of over 1.6 million members and students globally.

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

About Nanyang Technological University, Singapore

A research-intensive public university, Nanyang Technological University, Singapore (NTU Singapore) has 33,500 undergraduate and postgraduate students in the colleges of Engineering, Business, Science, Humanities, Arts, & Social Sciences, and its Interdisciplinary Graduate School. It also has a medical school, the Lee Kong Chian School of Medicine, set up jointly with Imperial College London.

NTU is also home to world-class autonomous institutes – the National Institute of Education, S Rajaratnam School of International Studies, Earth Observatory of Singapore, and Singapore Centre for Environmental Life Sciences Engineering – and various leading research centres such as the Nanyang Environment & Water Research Institute (NEWRI), Energy Research Institute @ NTU (ERI@N) and the Institute on Asian Consumer Insight (ACI).

Ranked 11th in the world, NTU has also been ranked the world's top young university for the last four years running. The University's main campus has been named one of the Top 15 Most Beautiful in the World. NTU also has a campus in Novena, Singapore's medical district.

For more information, visit www.ntu.edu.sg.