

# ISCA-NUS Enhanced Independent Auditor's Report Survey



## **About the Institute of Singapore Chartered Accountants**

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.

Established in 1963, ISCA shapes the regional accountancy landscape through advocating 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. Our stakeholders include government and industry bodies, employers, educators, and the public.

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

It aims to raise the international profile of the Singapore QP, a post-university professional accountancy qualification programme and promote it as the educational pathway of choice for professional accountants seeking to achieve the CA (Singapore) designation, a prestigious title that is expected to attain global recognition and portability.

There are about 28,000 ISCA members making their stride in businesses across industries in Singapore and around the world.

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# CONTENTS

Executive Summary	2
Introduction	3
Profile of the Respondents	4
Level of Knowledge of Changes	5
Perceived Benefits	8
Perceived Challenges	12
Perceived Costs and Efforts	13
Stakeholder Overall Perception	16
Support and Promotion	16
Concluding Thoughts	18
Appendix	20

## Executive Summary

The global financial crisis and the European Commission (EC) proposals on audit reform call for auditors' reports to be more informative and transparent. In response, the International Auditing and Assurance Standards Board (IAASB) is working towards an enhanced independent auditor's report possibly by end 2014, and effective for financial years beginning on or after 15 December 2015. Among other changes, the proposed enhanced independent auditor's report (PEIAR) will include a new section on Key Audit Matters (KAMs) and whether a material uncertainty about going concern has been identified. We surveyed members of the Institute of Singapore Chartered Accountants (ISCA) in February to March 2014 on the PEIAR and obtained 120 responses.

At the time of the survey, the proposed changes had yet to be confirmed although the deadline for reply to an exposure draft was over. The timing may explain the low awareness of the changes with only 20% of respondents indicating a high awareness of the PEIAR. However, 91% of the respondents with low awareness are keen to find out more, especially among preparers and non-listed companies. ISCA should continue its outreach efforts to engage stakeholder organisations and professional accounts in business (PAIBs) to deepen the level of awareness. Auditors should embark on engagement plans with their clients to share relevant information about the proposed changes. Companies should set the appropriate tone at the top to engage the auditors, and to re-train their staff to meet the new requirements.

Half of the respondents are unsure if the PEIAR will improve audit reporting, with 42% believing it will and 8% thinking it will not. At the aggregate level, 72% of the respondents have the view that the PEIAR is a better representation of the services provided by the auditors. For respondents who believe that the PEIAR is beneficial, the benefit is 44% higher than the current auditor's report with about the same increase in costs and efforts. Half the respondents are unsure if stakeholders believe the PEIAR is an improvement over the current auditor's report, with 37% thinking that it will and 18% disagreeing.

The top three challenges of implementing the PEIAR are: (1) Increased costs and efforts in preparing for the audit by management, (2) Potential disagreement between the independent auditors and management over the disclosure of key audit matters, and (3) Increased audit fees. From the auditor's perspective, managing these challenges can include: preparing the clients for changes (e.g. field testing, knowledge sharing); engaging clients early - especially for group audits; negotiating fees early; ensuring regular communication with clients throughout the audit process on potential KAMs.

For support for implementation, there is a clear request for technical-preparation advice from the regulators and ISCA; and a clear request for a reasonable time frame from the regulators. Audit firms must be familiar with the requirements and be ready to address client concerns. ISCA should provide guidance if necessary, plan for relevant Continuous Professional Education (CPE) courses, and engage Singapore Institute of Directors (SID) and Singapore Accountancy Commission (SAC) as part of stakeholders' education.

The results from this survey are limited by the small sample size (N=120), especially when dividing into smaller sub-groups.

## Introduction

1. In the aftermath of the global financial crisis, the call for auditors' reports to be more informative and transparent is among the many proposals from the European Commission (EC) on audit reform. IAASB which promulgates auditing standards has taken on this challenge and has undertaken several rounds of consultation in both 2011 and 2012 to examine the informativeness of the auditor's report and to propose amendments to further its usefulness. The consultations resulted in an exposure draft for proposed changes to the following auditing standards (including a new standard, ISA 701) :
  - ISA 260 Communication with Those Charged with Governance
  - ISA 570 Going Concern
  - ISA 700 Forming an Opinion and Reporting on Financial Statements
  - ISA 701 Communicating Key Audit Matters in the Independent Auditor's Report
  - ISA 705 Modifications to the Opinion in the Independent Auditor's Report
  - ISA 706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report.
2. The major reform resulted in the call for the introduction of a proposed enhanced independent auditor's report (PEIAR). There are two important changes introduced in the PEIAR. First, the PEIAR for listed entities will include a new section on Key Audit Matters (KAMs). KAMs are defined as *matters of most significance in the audit of the financial statements of the current period*, and the specific matters include:
  - Areas identified as significant risks;
  - Areas involving significant auditor's judgement;
  - Areas where the auditor encountered significant difficulty during the audit, including with respect to obtaining sufficient appropriate audit evidence, and
  - Circumstances that required significant modification in the auditor's planned approach, including as a result of the identification of a significant deficiency in internal control.
3. Some have likened inclusion of KAMs in the PEIAR to the current disclosure of the letter to management or the audit committee – by the auditors upon the completion of their audit – to documenting their major findings, discussions or differing views with the management. This inclusion suggests that what was previously private communication between the management and audit committee with the auditors may potentially become public information in the PEIAR. The inclusion of KAMs can potentially disclose the significant issues which the auditors have concerns with and which the client may not want to be disclosed in their audited financial statement. There is an expectation that the KAMs can cause delay and significant discussions between the auditors and the client.
4. A second major change is that the auditor has to specifically report on whether the firm is a going concern, including giving a conclusion on the appropriateness of the directors' use of the going concern basis and a statement on whether a material uncertainty about going concern has been identified, if any.
5. Other changes include an explicit statement of the auditor's independence and fulfilment of other ethical requirements; the audited financial statements must state the name of the audit engagement partner; placing the auditor's opinion at the front as part of the re-ordering of the placement of elements of the audit report.

6. The changes to the auditing standards are most likely to be accepted by the end of 2014, and a possible effective date for the implementation to audits of financial statements will be for the financial year beginning on or after 15 December 2015.
7. This proposal is one of the most significant changes to the auditor's report in recent years and motivated the conduct of the current survey. In this survey, ISCA-NUS seek to document an understanding of the awareness of the various stakeholders concerning the PEIAR. It specifically seeks stakeholders' view on the following issues:
  - Level of awareness of the PEIAR;
  - Perception on the usefulness of the PEIAR;
  - Perceived challenges facing the implementation of the PEIAR;
  - Perception on the additional benefits, costs and efforts pertaining to the PEIAR; and
  - The types of help needed in implementing the PEIAR.

### Profile of the Respondents

8. We administered an online survey to members of the Institute of Singapore Chartered Accountants (ISCA) from February to March 2014. Having sent three rounds of reminders, we obtained 120 valid responses, of which 52% (N=62) are preparers and 48% (N=58) are non-preparers.
9. Among the preparers, 89% (N=55) are responsible for the preparation of financial reports (CEOs, CFOs, financial controllers and accountants), 5% (N=3) are related to shareholders (i.e. Audit Committee and Directors), and 6% (N=4) are in both groups. Preparers represent a wide range of industries as shown in Table 1 below.

**Table 1 : Industry Membership of Respondents**

Industry	N	%
Automotive	1	2%
Construction and real estate	4	6%
Consumer goods	2	3%
Education	1	2%
Energy and natural resources	2	3%
Entertainment, media and publishing	1	2%
Financial services	3	5%
Healthcare, pharmaceutical and biotech	2	3%
Logistics and distribution	3	5%
Manufacturing	11	18%
Professional services	10	16%
Retail	6	10%
Telecommunications	2	3%
Transportation, travel and tourism	3	5%
Other	11	18%

10. Four industries are not represented by the respondents. They are: Agriculture and agribusiness, Chemicals, Defence and Aerospace, and Information Technology. From Table 1, Manufacturing and Professional Services have the largest number and percentage of respondents.
11. Among the non-preparers, auditors take up 64% (N=37), investors take up 9% (N=5), dual role of auditor-investor takes up 9% (N=5), regulators 5% (N=3) and others 14% (N=8). The non-preparers are therefore dominated by auditors.
12. Overall, the demographic profile is dominated by those responsible for preparing financial reports (52% or 62 respondents) and auditors (31% or 37 respondents). Therefore, sub-group analysis of preparers (dominated by CEO, CFO, financial controllers and accountants) versus non-preparers (dominated by external auditors) will be performed.<sup>1</sup>
13. We also asked the respondents to classify their firms based on market capitalization if they represent listed companies and Table 2 shows the summary of the size attribute.

**Table 2: Size Attribute of Respondents**

Size Attribute	N	%
Non-listed Companies	64	53.3%
Listed Companies	56	46.7%
Total	120	100.0%

**Breakdown of Listed Companies**

Less than S\$300million	32	26.7%	57.2%
S\$300million to less than S\$1billion	12	10.0%	21.4%
More than S\$1 billion	12	10.0%	21.4%
	Base	N=120	N=56

14. From Table 2, the majority of respondents are from non-listed companies (53.3%) while the rest are from listed companies.
15. For the listed companies, most of the respondents were from companies with market capitalisations below S\$300m (57.2%) and this group makes up slightly more than a quarter of all respondents. Given the small sample size among the three-sub groups of listed companies, it is only feasible statistically to do sub-group analysis<sup>2</sup> comparing listed and non-listed companies and not among the listed companies.

**Level of Knowledge of Changes**

16. We asked the respondents to rate their knowledge of the proposed changes described in the introduction on the scale of 1 (No Knowledge) to 5 (In-depth knowledge). Table 3 provides a summary of the responses. Table 3 shows the responses based on an overall basis, and is thereafter broken down into sub-groups: Non-Preparers versus Preparers, and Listed Companies versus Non-Listed Companies

<sup>1</sup> We adhere to a rule of thumb for power of test for statistical analysis in having a sample size of not smaller than 30.

<sup>2</sup> Standard inter-group two-tailed t-tests will be conducted for sub-samples whenever possible

**Table 3 : Responses Based on Level of Knowledge**

(Knowledge Scale: 1 – No Knowledge; 5 – In-depth Knowledge)

Knowledge Scale	N* (%)	1	2	3	4	5	Mean Knowledge Score,
Overall	120 (100.0%)	31 (25.8%)	33 (27.5%)	32 (26.7%)	22 (18.3%)	2 (1.7%),	2.4
Non-Preparers	58 (48.3%)	14 (24.1%)	13 (22.4%)	15 (25.9%)	15 (25.9%)	1 (1.7%),	2.6
Preparers	62 (51.7%)	17 (27.4%)	20 (32.3%)	17 (27.4%)	7 (11.3%)	1 (1.6%),	2.3
Listed Companies	56 (46.7%)	19 (33.9%)	15 (26.8%)	9 (16.1%)	11 (19.6%)	2 (3.6%),	2.3
Non-listed Companies	64 (53.3%)	12 (18.8%)	18 (28.1%)	23 (35.9%)	11 (17.2%)	0 (0.0%),	2.5

\*N is the base number of responses for each group and Columns 1 to 5 use N as the base to calculate percentage in each row

17. For the overall sample, the level of knowledge is low as the majority of the respondents (53.3%) gave a knowledge rating of 1 (25.8%) or 2 (27.5%) and only 20.0% of the respondents rated themselves at knowledge levels 4 (18.3%) or 5 (1.7%).
18. At the sub-group level, non-preparers (dominated by auditors) appeared to have a higher mean level of knowledge of 2.6 against a mean score of 2.3 for preparers. Examining the level of knowledge of 4 or 5, 27.6% of non-preparers indicated a level of 4 or 5 while only 12.9% of preparers indicated the same. However, the difference in knowledge levels between the preparer and non-preparers is not statistically significant.<sup>3</sup>
19. Surprisingly, the level of knowledge of respondents from listed companies who indicated a score of 1 or 2 is much higher than those from non-listed companies, namely, 60.7% versus 46.9% respectively. However, we also document the level of knowledge of 4 or 5 is higher for respondents from listed companies (23.2%) as compared to those from non-listed companies (17.2%).<sup>4</sup>
20. For the respondents that indicated a low level of knowledge (1 or 2), we asked if they are interested to know more about the changes. The results are summarised in Table 4.

<sup>3</sup> To further test for any statistical difference in the level of knowledge between the two sub-groups, a t-test of unequal variance was conducted for the sub-group of auditors versus preparers. The mean knowledge score is 2.8 for the auditors and 2.3 for the preparers and they are statistically different at the 5% level of confidence.

<sup>4</sup> Likewise a t-test of the differences in mean was conducted for the listed and non-listed companies' sub-groups and the difference is not statistically different.



**Table 4: Willingness to Know More by Respondents with Low Level of Knowledge**

Categories	Number of Respondents which indicated Level 1 or 2 Knowledge	Number (%) of respondents who are not interested to learn more	Number (%) of respondents who are interested to learn more
Overall	64	6 (9.4%)	58 (90.6%)
Non-Preparer	27	4 (14.8%)	23 (85.2%)
Preparers	37	2 (5.4%)	35 (94.6%)
Listed-companies	34	4 (11.8%)	30 (88.2%)
Non-Listed Companies	30	2 (6.7%)	28 (93.3%)

21. There is an overwhelming interest (90.6%) for the low knowledge group to find out more about the changes in the PEIAR. The proportion of interested preparers (94.6%) seems more than non-preparers (85.2%), although there is no statistical difference due to the small sample size. Similarly, respondents from non-listed company seem more interested (93.3%) compared to those from listed companies (88.2%), although again there is no statistical difference due to the small sample size.

22. For the respondents that have mid-to-high-level of knowledge (3 to 5), we asked if the changes in the PEIAR had been discussed by the Board of Directors. Table 5 summarises the responses.

**Table 5: Discussion at Board Level for Respondents with Mid to High Level of Knowledge**

Categories	Number of Respondents which indicated Level 3 to 5 Knowledge	No Discussion at Board Level	Yes – Discussion at Board
Overall	56	40 (71.4%)	16 (28.6%)
Non-Preparer	31	22 (71.0%)	9 (29.0%)
Preparers	25	18 (72.0%)	7 (28.0%)
Listed Companies	22	14 (63.6%)	8 (36.4%)
Non-listed Companies	34	26 (76.5%)	8 (23.5%)

23. The result shows that only 28.6% of respondents with mid-to-high-level of knowledge of the changes in the PEIAR have discussed these changes at the Board level. This result is not surprising because the changes are still ongoing and only expected to be finalized at the end of 2014 and the effective date is most likely to be for the financial year beginning on or after 15 December 2015. The results are almost similar for both the non-preparers and preparers sub-groups. The sub-group of respondents from listed companies (36%) seems to be more informed than those from non-listed companies (23.5%), although there is no statistical significance due to the small sample size.
24. We also asked the respondents with mid to high level of knowledge (3 to 5) if their companies were supportive of the changes in the PEIAR. The result is summarised in Table 6 below.

**Table 6: Support by Respondents with Mid-to-High-Level of Knowledge**

Categories	Number of Respondents which indicated Level 3 to 5 Knowledge	Supportive of Changes - No	Supportive of Changes - Yes
Overall	56	18 (32.1%)	38 (67.9%)
Non-Preparer	31	13 (41.9%)	18 (58.1%)
Preparers	25	5 (20.0%)	20 (80.0%)
Listed Companies	22	4 (18.2%)	18 (81.8%)
Non-Listed Companies	34	14 (41.2%)	20 (58.8%)

25. The result shows that respondents with mid-to-high-levels of knowledge of the changes in the PEIAR are generally supportive of the change (67.9%). Preparers are more enthusiastic (80.0%) as compared to non-preparers (58.1%). This result may have arisen because knowledgeable preparers see the value of greater disclosure resulting in the reduction in asymmetry of information between the firm and investors that could potentially lead to a lower cost of capital. The auditors (which dominate non-preparers) are worried about disagreement with management about the disclosure of KAMs if the PEIAR is implemented. Respondents from listed companies (81.8%) appear more enthusiastic than those from non-listed companies (58.8%) possibly due to greater resource endowments in listed companies, and their views that the change is better for reporting purposes.

### Perceived Benefits

26. The respondents were asked if they believe the PEIAR will help to improve current reporting by independent auditors. Table 7 summarises the findings.

**Table 7: Responses on Whether the PEIAR Will Improve Current Reporting**

Categories	Number of respondents	Yes	No	Maybe
Overall	120	50 (41.7%)	10 (8.3%)	60 (50.0%)
Non-Preparer	58	24 (41.4%)	4 (6.9%)	30 (51.7%)
Preparers	62	26 (41.9%)	6 (9.7%)	30 (48.4%)
Listed Companies	56	25 (44.6%)	3 (5.4%)	28 (50.0%)
Non-listed Companies	64	25 (39.1%)	7 (10.9%)	32 (50.0%)

27. The results in Table 7 show that 41.7% of the respondents believe that the PEIAR improves current reporting by auditors; however 50.0% of respondents expressed ambivalence while 8.3% expressed a negative response. This result is consistent with the low knowledge level of the changes in the PEIAR in Table 3. The results at the sub-group level reflect the responses at the overall sample. This similarity suggests that significant amounts of education, outreach and exposure will have to be done in order to raise the knowledge level of the respondents and market players, to convince them of the benefits of the PEIAR.
28. We further examine the results in Table 7 by partitioning the respondents according to the level of knowledge of the changes. Table 8 provides a summary of the results.

**Table 8: Responses on Whether the PEIAR Will Improve Current Reporting By Level of Knowledge**

Categories	Knowledge Level	Number of respondents	Yes	No	Maybe
Overall	Level 1 to 2	64	23 (35.9%)	4 (6.3%)	37 (57.8%)
	Level 3 to 5	56	27 (48.2%)	6 (10.7%)	23 (41.1%)
Non-Preparer	Level 1 to 2	27	9 (33.3%)	1 (3.7%)	17 (63.0%)
	Level 3 to 5	31	15 (48.4%)	3 (9.7%)	13 (41.9%)
Preparers	Level 1 to 2	37	14 (37.8%)	3 (8.1%)	20 (54.1%)
	Level 3 to 5	25	12 (48.0%)	3 (12.0%)	10 (40.0%)
Listed Companies	Level 1 to 2	34	12 (35.3%)	2 (5.9%)	20 (58.8%)
	Level 3 to 5	22	13 (59.1%)	1 (4.5%)	8 (36.4%)
Non-listed Companies	Level 1 to 2	30	11 (36.7%)	2 (6.7%)	17 (56.7%)
	Level 3 to 5	34	14 (41.2%)	5 (14.7%)	15 (44.1%)

29. The number of respondents for each of the sub-group in Table 8 is too small to test for the significance in the differences in response. However, respondents with knowledge levels 3 to 5 responded more positively, with the view that the PEIAR will improve the current reporting (48.2% versus 35.9%). As the knowledge level increases, the percentage of “Maybe” decreases, the percentage of “No” increases slightly, and the percentage of “Yes” increases significantly. This finding further reinforces the importance of education and outreach, as individuals will not be enthusiastic about adopting a new reporting regime if they do not have sufficient knowledge to make a judgement call. The same conclusion holds for the sub-group level analysis.
30. We asked respondents who believed the PEIAR is beneficial (N=50) to identify the applicable benefits. Table 9 tabulates their responses.

**Table 9: Types of Benefits from Adopting the PEIAR**

Categories	Number of Respondents	Benefit (1)	Benefit (2)	Benefit (3)	Benefit (4)	Benefit (5)
Overall	50	36 72.0%	33 66.0%	33 66.0%	32 64.0%	31 62.0%
Non-Preparer	24	16 66.7%	16 66.7%	14 58.3%	15 62.5%	13 54.2%
Preparers	26	20 76.9%	17 65.4%	19 73.1%	17 65.4%	18 69.2%
Listed Companies	25	20 80.0%	18 72.0%	16 64.0%	18 72.0%	16 64.0%
Non-listed Companies	25	16 64.0%	15 60.0%	17 68.0%	14 56.0%	15 60.0%

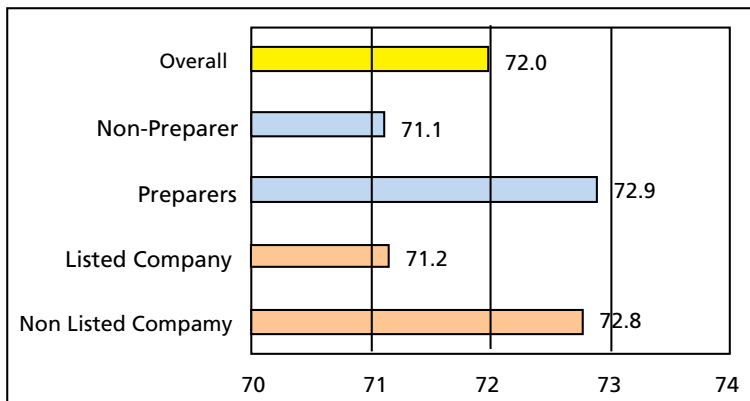
**Legend:**

- Benefit (1) Better representation of the services rendered by the Independent Auditors  
Benefit (2) Improve communication with external stakeholders  
Benefit (3) Increase in the usefulness of the Independent Auditor's Report  
Benefit (4) Increase in the information content conveyed by the Independent Auditors  
Benefit (5) Improve transparency and governance reporting

31. The results in Table 9 show that the majority of respondents endorsed the five identified benefits of the PEIAR. The benefit of 'better representation of the services rendered by the Independent Auditors' is the most popular response (72.0%), followed by 'improve communication with external stakeholders' (66.0%) and 'increase in the usefulness of the Independent Auditor's Report' (66.0%).
32. In addition, the respondents do not distinguish between the benefits very much at the aggregate level except for the benefit of 'better representation of the services rendered by the auditors'.
33. At the sub-group level, a higher proportion of preparers agree with the five benefits articulated as compared to non-preparers except for the benefit of 'improve communication with external stakeholders'. This result is counter-intuitive as one of the main purposes of the PEIAR is to improve communication with external stakeholders – because there is a perception that the current auditor's report can be improved to communicate key audit findings with stakeholders. This finding could have been affected by the small sample size.
34. At the sub-group level, respondents from listed companies similarly expressed greater agreement with the five benefits articulated as compared to those from non-listed companies except for the benefit of 'increase in the usefulness of the independent auditor's report'. The usefulness of an independent auditor's report may be perceived as binary for listed companies, namely qualified or unqualified, which is different from the enhanced information content of the audit report. The PEIAR does not result in a change in the perceived usefulness of the report although its information content may have been enhanced.

35. We further asked respondents who believed the PEIAR will improve current reporting (N=50) to quantify the benefits of the PEIAR, using the benefits of the current auditor’s report calibrated with a score of 50 as a baseline. Figure 1 shows the mean score.

**Figure 1: Mean Score for the Benefits of PEIAR as Against a Baseline Score of 50 for the Benefits of Current Reporting**



36. The results in Figure 1 show that the mean perceived benefit is approximately 44.0%<sup>5</sup> above the baseline of the benefits for current reporting. The average perceived level of benefits for preparers is higher than the non-preparers’ average perceived benefits, namely, 72.9 (45.8%) versus 71.1 (42.2%) respectively.

37. Interestingly, Figure 1 also shows that the PEIAR is perceived to provide a higher level of benefits as compared to the current reporting for non-listed companies against the response of listed companies, namely 72.8 (45.6%) versus 71.2 (42.4%) respectively.

**Perceived Challenges**

38. Table 10 documents the responses of the respondents as they were asked to select the top three challenges in adopting the PEIAR.

<sup>5</sup>  $(72/50 - 1) * 100\% = 44.0\%$

**Table 10: Selection of Top Three Challenges in Adopting the PEIAR**

Categories	C1	C2	C3	C4	C5	C6	C7	C8	C9
Overall	33 (27.5%)	34 (28.3%)	17 (14.2%)	54 (45.0%)	65 (54.2%)	38 (31.7%)	37 (30.8%)	57 (47.5%)	25 (20.8%)
Non-Preparer	12 (20.7%)	19 (32.8%)	8 (13.8%)	23 (39.7%)	28 (48.3%)	24 (41.4%)	14 (24.1%)	30 (51.7%)	16 (27.6%)
Preparers	21 (33.9%)	15 (24.2%)	9 (14.5%)	31 (50.0%)	37 (59.7%)	14 (22.6%)	23 (37.1%)	27 (43.5%)	9 (14.5%)
Listed Companies	18 (32.1%)	12 (21.4%)	10 (17.9%)	34 (60.7%)	32 (57.1%)	18 (32.1%)	15 (26.8%)	19 (33.9%)	10 (17.9%)
Non-listed Companies	15 (23.4%)	22 (34.4%)	7 (10.9%)	20 (31.3%)	33 (51.6%)	20 (31.3%)	22 (34.4%)	38 (59.4%)	15 (23.4%)

**Legend**

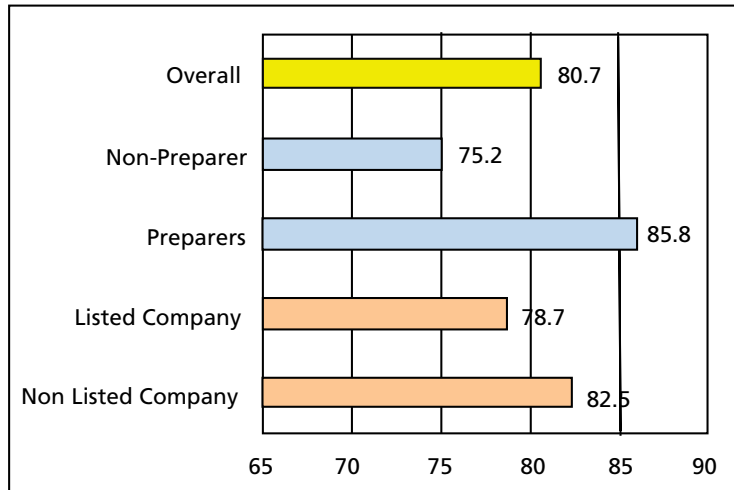
- C1 Fear of divulging market or price sensitive information
- C2 Fear of litigation given the disclosure of key audit matters
- C3 Insufficient evidence of investors' interest
- C4 Increased audit fees
- C5 Increased costs and efforts in preparing for the audit by management
- C6 Lack of understanding of the PEIAR by the Board and management
- C7 Over-audit as key audit matters have to be disclosed
- C8 Potential disagreement between the independent auditors and management over the disclosures of key audit matters
- C9 Fear of litigation given the disclosure on-going concern

39. The top three most frequently selected challenges are: increased costs and efforts in preparing for the audit by management (C5), potential disagreement between the independent auditors and management over the disclosures of key audit matters (C8) and increased audit fees (C4). These three top challenges were selected by preparers, non-preparers and respondents from listed companies. Non-listed companies replaced increased audit fees (C4) with two equally emphasized concerns: fear of litigation given the disclosure of key audit matters (C2) and over-audit as key audit matters have to be disclosed (C7).

**Perceived Costs and Efforts**

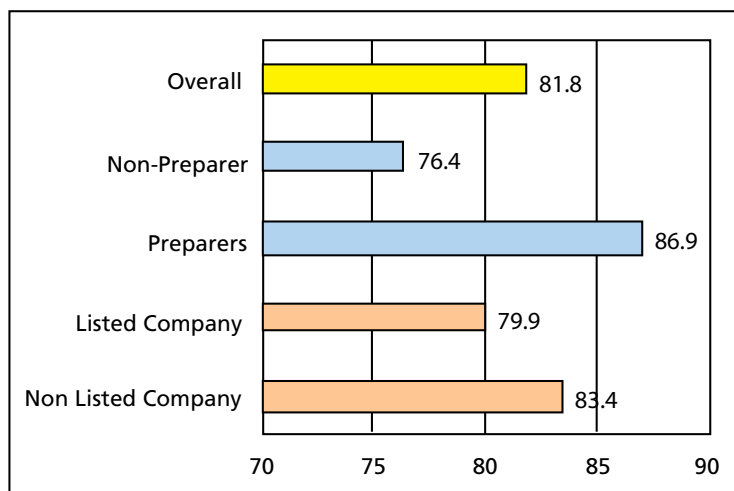
40. All 120 respondents were asked to quantify the costs of preparing the PEIAR, using the costs of preparing the current auditor's report as a benchmark and set at 50. Figure 2 shows the results of the mean score.

**Figure 2: Mean Score for Perceived Costs of Preparing the PEIAR**



41. Overall, the average perceived costs of preparing the PEIAR is 61.4%<sup>6</sup> more than the current auditor’s report using the costs of preparing the current auditor’s report as a benchmark. Non-preparers (mainly auditors) indicated that their average perceived costs increase is 50.4% while preparers perceived that the costs on average increased by 71.6%.
42. Respondents from non-listed companies perceived the increase in cost of preparing the PEIAR to be marginally more than listed companies (82.5<sup>7</sup> versus 78.7<sup>8</sup>), namely average increase of 65.0% versus 57.4% respectively.
43. We further asked all respondents to quantify the level of effort in preparing the PEIAR, using the effort of preparing the current auditor’s report as a benchmark, with a score of 50. Figure 3 shows the results of the mean score.

**Figure 3: Mean Score for Perceived Efforts of Preparing the PEIAR**



<sup>6</sup>  $(80.7/50 - 1) * 100\% = 61.4\%$

<sup>7</sup> 65.0%

<sup>8</sup> 57.4%



44. As expected, the results in Figure 3 are very similar to the results in Figure 2, with the average perceived effort levels being slightly higher.
45. The analysis for Figure 2 and 3 involved all 120 respondents, but only 50 respondents who indicated that the PEIAR will improve current reporting were asked to quantify the benefits.
46. Table 11 summarises the costs and efforts of respondents based on their responses as to whether they perceived that the PEIAR will improve current reporting, namely, the 50 respondents in paragraph 45.

**Table 11: Costs and Efforts of Respondents Based on Their Response on Whether the PEIAR will Improve Current Reporting**

Categories	Costs			Efforts		
	Full Sample (N=120)	Non-Positive Response (N=70)	Positive Response (N=50)	Full Sample (N=120)	Non-Positive Response (N=70)	Positive Response (N=50)
Overall	80.7	87.8	70.7	81.8	88.3	72.7
Non-Preparer	75.2	78.0	71.3	76.4	78.5	73.3
Preparers	85.8	97.1	70.2	86.9	97.5	72.1
Listed Companies	78.7	87.1	68.2	79.9	87.7	70.2
Non-listed Companies	82.3	88.4	73.2	83.3	88.7	75.2

47. The results in Table 11 show that the perceived costs and efforts in preparing the PEIAR are higher for respondents who are non-positive that the enhanced independent auditor's report will improve the current auditor's report. The difference is statistically significant.
48. Table 12 documents the average perceived benefits, costs and efforts for the 50 respondents who indicated that the PEIAR will improve the current reporting.

**Table 12: Benefits, Costs and Efforts of Respondents Who Indicated that the PEIAR Will Improve Current Reporting.**

Categories (N = 50)	Benefits	Cost	Effort
Overall	72.0	70.7	72.7
Non-Preparer	71.1	71.3	73.3
Preparers	72.9	70.2	72.1
Listed Companies	71.2	68.2	70.2
Non-listed Companies	72.8	73.2	75.2

49. The findings in Table 11 are very encouraging as they show that respondents who believed that the PEIAR will improve the current reporting generally indicate that the benefits of the PEIAR outweighs the costs except for the sub-categories of respondents from non-listed companies and non-preparers where ratings are marginally lower. However, the average perceived efforts in preparing the PEIAR outweigh the benefits for the sub-categories of respondents from non-listed companies and non-preparers. The results of t-tests with unequal variance shows that the differences of benefits versus cost, and benefits versus efforts, are not statistically different.

Therefore, there seems to be a case to conclude that respondents – who have a reasonable knowledge of the impending changes to the PEIAR and who believe the use of it will improve current reporting – will perceive the increased benefits are commensurate with the perceived increase in costs and efforts.

### Stakeholder Overall Perception

50. The respondents were asked if stakeholders will perceive the PEIAR as an improvement over the current auditor’s report. Table 13 tabulates the findings.

**Table 13: Respondents’ Perception of Stakeholders’ View of the PEIAR as an Improvement over the Current auditor’s report**

Categories	Number of Respondents	Yes	No	Maybe
Overall	120	44 (36.7%)	21 (17.5%)	55 (45.8%)
Non-Preparer	58	17 (29.3%)	8 (13.8%)	33 (56.9%)
Preparers	62	27 (43.5%)	13 (21.0%)	22 (35.5%)
Listed Companies	56	24 (42.9%)	10 (17.9%)	22 (39.3%)
Non-Listed Companies	64	20 (31.3%)	11 (17.2%)	33 (51.6%)

51. The responses in Table 13 mirror those in Table 7 where the respondents were asked about their perception of whether the PEIAR will improve the current reporting. The findings in Table 13 suggest that less than 50% of the respondents believe that the PEIAR is an improvement over the current auditor’s report from the perspective of stakeholders.

52. The uncertainty that the respondent’s perception that stakeholders will perceive the PEIAR as an improvement is clear from the proportion who responded with a “Maybe” (45.8%) and “No” (17.5%). Only 36.7% of the respondents believe that the PEIAR is an improvement from the perspective of stakeholders. The preparers are more optimistic than non-preparers that stakeholders will find the PEIAR as an improvement (43.5% vs. 29.3%), and so are the respondents from the listed companies (42.9% vs. 31.3%) as compared to those from non-listed companies.

### Support and Promotion

53. We asked respondents what kind of support they would expect from the regulators (ACRA, MAS, SGX etc) if the PEIAR is adopted in Singapore. The suggested supports are (1) Reasonable timeframe for implementation (H1), (2) Technical and preparation advice (H2) and “Others”. The results are summarized in Table 14.<sup>9</sup>

<sup>9</sup> “Others” was not chosen by any respondent

**Table 14: Types of Help Expected from Regulators**

Regulatory Support (N)	Number of Respondents	H1 : Reasonable timeframe for implementation	H2 : Technical and preparation advice
Overall	120	108 90.0%	103 85.8%
Non-Preparer	58	51 87.9%	48 82.8%
Preparers	62	57 91.9%	55 88.7%
Listed Companies	56	52 92.9%	48 85.7%
Non-listed Companies	64	56 87.5%	55 85.9%

54. The respondents overwhelmingly agree with the suggested supports.

55. Respondents were also asked what ISCA can specifically do to assist the implementation of the PEIAR in Singapore. The responses are documented in Table 15.

**Table 15: Types of Help ISCA Can Specifically Offer**

ISCA Support	Overall	Non-Preparer	Preparers	Listed Companies	Non-listed Companies
Number of Respondents	120	58	62	56	64
H1 : Conduct research on the benefits and costs of the PEIAR	65 (54.2%)	29 (50.0%)	36 (58.1%)	31 (55.4%)	34 (53.1%)
H2 : Showcase samples of the Independent Auditor's Report issued based on the format of the PEIAR from international sources to serve as examples	78 (65.0%)	36 (62.1%)	42 (67.7%)	34 (60.7%)	44 (68.8%)
H3 : Conduct training seminars on the PEIAR	99 (82.5%)	47 (81.0%)	52 (83.9%)	47 (83.9%)	52 (81.3%)
H4 : Provide technical clarification on the requirements of the PEIAR	101 (84.2%)	51 (87.9%)	50 (80.6%)	44 (78.6%)	57 (89.1%)
H5 : Educate the stakeholders on the reasons for and usefulness of the PEIAR	87 (72.5%)	43 (74.1%)	44 (71.0%)	41 (73.2%)	46 (71.9%)
H6 : Consider having a later effective date for the PEIAR, to allow a reasonable timeframe for implementation	73 (60.8%)	34 (58.6%)	39 (62.9%)	32 (57.1%)	41 (64.1%)

56. There are strong indications from the respondents for ISCA to provide technical clarification (H4 : 84.2%) and to conduct training seminars (H3 : 82.5%) and is similar to the request for the regulators (H2 : 85.8%) in Table 14. The lowest response received is for the need for further research on the benefits and costs of the PEIAR (H1: 54.2%) as if the respondents are resigned to the fact that the PEIAR will be implemented regardless. However, 60.8% of the respondents indicated a desire that ISCA consider having a later effective date for the new standard. This is to allow a reasonable timeframe for implementation.
57. The sub-groups have minor differences. The largest difference is that respondents from non-listed companies are 10% more likely than those from listed companies (89.1% vs. 78.6%) to request technical clarification (H4).

### Concluding Thoughts

58. There is general support for the changes in the PEIAR in this survey as evidenced by the finding that 67.9% of knowledgeable respondents support the adoption and 90.6% of non-knowledgeable respondents want to find out more. This observation is consistent with the responses received in the IAASB exposure draft. The survey results therefore confirm that IAASB is moving in the right direction and the global auditing profession should embrace these proposed changes. The benefits accrue not only to investors, but also to auditors in showcasing their audit expertise, and to preparers in enhancing their communication with auditors.
59. At the time when the survey was conducted from February to March 2014, the proposed changes had yet to be confirmed although the deadline for reply to an exposure draft was over. The timing may explain the low awareness of the impending changes. However, 90.6% of the respondents with low level of knowledge of the PEIAR (Levels 1 or 2) are keen to find out more, especially among preparers and non-listed companies.
60. For respondents with mid-to-high-level of knowledge (Levels 3 to 5), less than a third of these respondents has discussed the PEIAR at the Board level with a higher proportion of listed companies doing so as compared to non-listed companies. For respondents with mid-to-high-level of knowledge, 67.9% were supportive of the changes, with greater support from preparers (80.0%) as compared to non-preparers (58.1%), and greater support from respondents from listed companies (81.8%) as compared to those from non-listed companies (58.8%).
61. Given low awareness but high interest to know more about the PEIAR, there is much to be done. ISCA should continue its active outreach efforts to engage relevant non-auditor stakeholder organisations and PAIBs. Auditors should engage their clients to share relevant information about the changes. Companies should set an appropriate tone at the top that this is something important which the CFO, financial controllers or accountants need to engage the auditors in. This will also require re-tooling staff with relevant training to meet the new expectations.
62. Half of the respondents are unsure if the PEIAR will improve the current auditor's report, 41.7% believe that there will be improvement, and a minority of 8.3% disagree.
63. At the aggregate level, the most selected benefit from the PEIAR is that it is a better representation of the services rendered by the independent auditors.
64. If we compare the average benefits (N=50) with the average costs and efforts (N=120), the average perceived costs and efforts outweigh the benefits, and appears to contradict the general support for the PEIAR. However, when we only consider respondents who provided quantitative responses to all three variables, namely, those who believe that the PEIAB is an improvement with respect to the current reporting, the difference disappeared.

65. For the group (N=50) that believes that the PEIAB is an improvement with respect to the current reporting, on average the perceived benefits (score of 72.0) and cost (score of 70.7) are almost equivalent at about 44% and 41.4% above the current level of reporting respectively. The efforts level is slightly higher (score of 72.7) or 45.4% above the current effort level in preparing the current reports. The difference in benefits, costs and efforts are not statistically (economically) significant.
66. The top three challenges of implementing the PEIAR are: (1) Increased costs and efforts in preparing for the audit by management, (2) Potential disagreement between the independent auditors and management over the disclosures of key audit matters, and (3) Increased audit fees, in order of importance.
67. From the auditor's perspective, managing these challenges can include: preparing the clients for changes (e.g. field testing, knowledge sharing); engaging clients early - especially for group audits; negotiating fees early; ensuring regular communication with clients throughout the audit process on potential KAMs.
68. Only 36.1% of the respondents replied positively that stakeholders believe the PEIAR is an improvement over the current auditor's report, and this is consistent with the respondents' personal perception.
69. For feedback on the support for implementation requested by the respondents, there is a clear request for technical-preparation advice from the regulators and ISCA; and a clear request for a reasonable time frame from the regulators.
70. In view of the changes, what needs to be done? How can ISCA help? Audit firms must be familiar with the requirements and be ready to address client concerns. ISCA should provide guidance if necessary, plan for relevant CPE courses, and engage stakeholders' organisations like SID, SAC as part of stakeholders' education.
71. The results from this survey is limited by the small sample size (N=120), especially when analyses are conducted at the sub-group level.

**Appendix**



**ISCA-NUS  
The Enhanced  
Independent Auditor's  
Report  
Survey 2014**



**Objectives of the Survey**

This survey, jointly conducted by ISCA-NUS, seeks to determine the awareness – of various stakeholders – of the proposed revision to the Independent Auditor's Report). It specifically seeks to understand stakeholders' view on the proposed revisions to the Independent Auditor's report (proposed revisions) in the following areas :

- Level of awareness of the proposed revised Independent Auditor's Report;
- Perception on the usefulness of the proposed revised Independent Auditor's Report;
- Challenges facing the implementation of the proposed revised Independent Auditor's Report;
- The additional costs, benefits and efforts pertaining to the proposed revised Independent Auditor's Report;
- The types of help needed in implementing the proposed revised Independent Auditor's Report.

The findings will form the basis for the Institute to conceive initiatives to raise awareness of the enhanced Independent Auditor's Report as well as to help address implementation issues faced by key stakeholders.

We appreciate your inputs and thank you very much for taking time to complete this survey.

Your individual response is confidential and only aggregated response is reported

**Profile of respondents**

Name: \_\_\_\_\_

Organization: \_\_\_\_\_

**Stakeholders Category**

(You can tick more than one category if you belong to more than one category):

- Financial Report Preparers (e.g. CEOs, CFOs, Financial Controllers, Accountants)
- Financial Report Preparers (e.g. Audit Committee, Directors)
- Auditors
- Investors (e.g. Shareholders, Analysts)
- Regulators
- Others, please state: \_\_\_\_\_

Preferred email address: \_\_\_\_\_

Contact number: \_\_\_\_\_

**For Financial Report Preparers Only****Please Tick Your Industry:**

- Agriculture and agribusiness
- Automotive
- Chemicals
- Construction and real estate
- Consumer goods
- Defense and aerospace
- Education
  
- Energy and natural resources
- Entertainment, media and publishing
- Financial services
- Healthcare, pharmaceuticals and biotechnology
- Information technology
- Logistics and distribution
- Manufacturing
- Professional services
- Retail
- Telecommunications
- Transportation, travel and tourism
- Other (please specify):
- \_\_\_\_\_

**Market Capitalisation**

(as at 31 Dec 2013 where appropriate)

- Less than S\$300million
- S\$300million to less than S\$1billion
- More than S\$1 billion
- Non-listed Company

Is your company a Temasek-Linked Company (TLC) or Government Linked Company (GLC)?

- Yes       No

## Questionnaire

### A. Level of awareness

1. How much do you know about the proposed revised Independent Auditor's Report?  
(1= No knowledge and 5= in-depth knowledge)?

1	2	3	4	5

### B. Perceived benefits

2. Do you believe the proposed revised Independent Auditor's Report will help to improve current reporting by independent auditors?

Yes     No     Maybe

3. If yes for Q2, what are the perceived benefit(s) in adopting the proposed revised Independent Auditor's Report?

Please tick all that applies.

- Better representation of the services rendered by the Independent Auditors
- Improve communication with external stakeholders
- Increase in the usefulness of the Independent Auditor's Report
- Increase in the information content conveyed by the Independent Auditors
- Improve transparency and governance reporting
- Others

\_\_\_\_\_



4. If yes to Q2, assuming the benefits derived from current Independent Auditor's Report is given a score of 50, how would you score the benefits of the proposed revised Independent Auditor's Report?

Please write your score in this box (min 50)

### C. Perceived challenges

5. What do you foresee are the top three challenge(s) in adopting the proposed revised Independent Auditor's Report?

Please tick your answers.

- Fear of divulging market or price sensitive information
- Fear of litigation given the disclosure on going concern
- Fear of litigation given the disclosure of key audit matters
- Insufficient evidence of investors' interest
- Increased audit fees
- Increased costs and efforts in preparing for the audit by management
- Lack of understanding of the proposed revised Independent Auditor's Report by the Board and management
- Over-audit as key audit matters have to be disclosed
- Potential disagreement between the independent auditors and management over the disclosures of key audit matters
- Others

6. Assuming the cost of preparing the financial reports under the current Independent Auditor's Report is given a score of 50, how would you score the costs of preparing financial reports under the proposed revised Independent Auditor's Report for your company?

Please write your score in this box (min 50)

7. Assuming the current efforts expended by your company in preparing financial reports under current Independent Auditor's Report is given a score of 50, how would you score the expected efforts of preparing the financial reports for your company under the proposed revised Independent Auditor's Report?

Please write your score in this box (min 50)

### D. Stakeholder perception

8. Do you think stakeholders will perceive that the proposed revised Independent Auditor's Report is an improvement over the current Independent Auditor's Report? Please tick your answer.

- Yes       No       Maybe

**E. Support and promotion**

9. What support(s) do you expect from the regulators (ACRA, MAS, SGX etc) if the proposed revised Independent Auditor’s Report is adopted in Singapore?
- Reasonable timeframe for implementation
  - Technical and preparation advice
  - Others : \_\_\_\_\_
10. What can ISCA do to assist the implementation of the proposed revised Independent Auditor’s Report in Singapore?
- Conduct research on the benefits and cost of the proposed revised Independent Auditor’s Report
  - Showcase samples of the Independent Auditor’s Report issued based on the format of the proposed revised Independent Auditor’s Report from international sources to serve as examples
  - Conduct training seminars on the proposed revised Independent Auditor’s Report
  - Provide technical clarification on the requirements of the proposed revised Independent Auditor’s Report
  
  - Educate the stakeholders on the reasons for and usefulness of the proposed revised Independent Auditor’s Report
  - Consider having a later effective date of the Standard on Independent Auditor’s Report, to allow a reasonable timeframe for implementation
  - Others : \_\_\_\_\_

**F. General**

11. Any other comments:

## Acknowledgements

### Principal Investigators:

Prof. Ho Yew Kee  
Head and Professor  
Department of Accounting  
NUS Business School

Dr Tan Boon Seng  
Assistant Director  
Technical Research  
Institute of Singapore Chartered Accountants

### Contributors:

Ms. Lim Ai Leen  
Executive Director  
Technical Knowledge Centre and Quality Assurance  
Institute of Singapore Chartered Accountants

Mr. Kang Wai Geat  
Deputy Head  
Technical Standards Development & Advisory  
Institute of Singapore Chartered Accountants

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NUS Business School has consistently received top rankings in the Asia-Pacific region by independent publications and agencies such as The Financial Times, Economist Intelligence Unit, and QS Top MBA, in recognition of the quality of its programmes, faculty research and graduates.

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ISCA Research identifies, explores and analyses the major issues driving today's business dynamics and shaping tomorrow's marketplace. We aim to closely monitor the accounting and auditing industry in order to provide an outlook for tomorrow. ISCA Research is committed to participating in and supporting high quality research which is focused, timely, relevant and useful to the accountancy profession. We support the conduct of research with a global or local perspective. ISCA Research focuses our attention on continuously connecting with our practice members. Practitioners have numerous concerns and issues on their day-to-day practice. These may range from technical understanding to practical applications or even operational issues. A part of our research is directed at engaging our members to examine these practice matters and exploring practical solutions with them. The various ways that ISCA shows its commitment to the research arena include partnering with business partners or interested parties and involvement in thought leadership activities. There will also be conferences held to feature and showcase the results of our research with our members and the public.

We will continuously seek comments from ISCA members through surveys to gather views from the CA (Singapore) community. Do send your comments to [isca.research@isca.org.sg](mailto:isca.research@isca.org.sg)

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**Institute of Singapore Chartered Accountants**  
60 Cecil Street, ISCA House, Singapore 049709  
Tel: (65) 6749 8060 Fax: (65) 6749 8061

[www.isca.org.sg](http://www.isca.org.sg)