

Enhanced Auditor Reporting Implementation of New and Revised Standards

Frequently Asked Questions
June 2018



Preface

The Institute of Singapore Chartered Accountants (ISCA) issued the new and revised auditor reporting standards in July 2015, which are effective for audits of financial statements for periods ended on or after 15 December 2016. ISCA has heard from stakeholders on the actual experiences in the implementation of the standards as well as the practical challenges faced. This publication is hence developed by the ISCA Auditing and Assurance Standards Committee to provide guidance in areas where there are practical implementation issues and where there are differences in the interpretation of the new and revised auditor reporting standards.

As ISCA continues to examine how the standards have been implemented and understand the practical challenges faced, this publication will be updated on an on-going basis to address some of the common questions relating to the new and revised auditor reporting standards.

This publication does not constitute an authoritative pronouncement of ISCA, nor does it amend or override the Singapore Standards on Auditing (SSAs). Further, this publication is not meant to be exhaustive and reading it is not a substitute for reading the SSAs.

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FAQ 1

FAQ 1 – Definition of “Listed Entities”

Paragraph 5 of SSA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report* states that SSA 701 applies to audits of complete sets of general purpose financial statements of **listed entities** and circumstances when the auditor otherwise decides to communicate key audit matters (KAM) in the auditor’s report. SSA 701 also applies when the auditor is required by law or regulation to communicate KAM in the auditor’s report.

Which entities are considered “listed entities” when applying SSA 701?

The *Glossary of Terms* defines a “listed entity” as an entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulations of a recognised stock exchange or other equivalent body.

Accordingly, SSA 701 is applicable for audits of complete sets of general purpose financial statements of listed entities as defined in the *Glossary of Terms*.

When considering whether an entity meets the definition of “listed entity” for purpose of KAM reporting, it would require the determination of:

- Whether the stock exchange is “recognised”; and
- What are considered “other equivalent bodies”.

The New Auditor’s Report: Questions and Answers issued by the International Auditing and Assurance Standards Board (IAASB) provides guidance as follows:

The determination of whether a stock exchange is “recognised” may include consideration of matters such as the following:

- Whether the exchange is a public exchange.
- Whether there is a generally accepted framework, criteria or standards that govern admission to listing on the exchange (e.g. “listing rules”).
- Whether the exchange on which entities’ shares are traded sets forth trading related regulations, for example, those in respect of offering securities to the public, announcements etc.

Singapore

Applying the above principles, the Singapore Exchange (SGX) is a recognised stock exchange. Accordingly, entities whose shares, stock or debt are listed on SGX meet the definition of “listed entity” and hence auditors of these entities would be required to communicate KAM in their auditor’s report. For the avoidance of doubt, this would include entities with only debts listed on SGX (i.e. no equity securities listed on SGX).

In Singapore, there is no other equivalent body as SGX.

Other jurisdictions

It would not be feasible to provide an exhaustive list of recognised overseas stock exchanges.

In determining whether an overseas stock exchange can be considered a “recognised” stock exchange, the audit profession can:

- Consider the judgements made by the national standard setters on the “recognised” status of exchanges in their respective jurisdictions (for jurisdictions that adopt International Standards on Auditing (ISAs)).
- Consult network firms or the professional accountancy body of the relevant jurisdiction on the “recognised” status of exchanges (for jurisdictions that adopt ISAs).
- Take guidance from the IAASB’s FAQ and exercise appropriate professional judgement to determine if an exchange is considered a “recognised” stock exchange.

The auditor should discuss with those charged with governance (TCWG) on the auditor’s assessment of the “recognised” status of the relevant exchange. It is also important to document the factors considered and evaluations made, including the communication with TCWG, in concluding whether an entity listed on an overseas stock exchange meets the definition of “listed entity” for purpose of KAM reporting.

FAQ 2 – Applicability of Key Audit Matter Reporting When There is a Change in the Listing Status of An Entity

- (a) The entity is a private entity as at 31 December 2016 (its financial year end), but lists on an exchange shortly after year end. Is the auditor required to communicate KAM for the audit on the 2016 financial statements?
- (b) The entity is a listed entity as at 31 December 2016 (its financial year end), but de-lists shortly after year end. Is the auditor required to communicate KAM for the audit on the 2016 financial statements?

Auditors may take guidance from the filing obligations of the entity under the listing rules of the relevant stock exchange in determining whether to communicate KAM in the auditor's report.

Applying the above principle, for scenario (a), if the entity is required to comply with the filing obligations under the listing rules to announce its 2016 financial results and issue its 2016 annual report despite only listing after its 31 December 2016 year end, it would be appropriate to regard the entity as a listed entity as defined in the SSAs, and for the purposes of communication of KAM for the 31 December 2016 audit.

Similarly, for scenario (b), if the entity is not required to comply with the filing obligations in relation to its 2016 financial statements despite it being a listed entity as at 31 December 2016, it would be appropriate to not regard the entity as a listed entity as defined in the SSAs, and for the purposes of communication of KAM for the 31 December 2016 audit.

- For a private entity that lists on SGX after 31 December 2016

An entity is required to comply with the SGX Listing Rules once it is listed. If the entity is announcing its 2016 full year financial statements and issuing its annual report in accordance with the SGX Listing Rules, the auditor should also, accordingly, communicate KAM, even for the audit on the 2016 financial statements.

- For a SGX-listed entity that de-lists after 31 December 2016

Under the SGX Listing Rules, a listed issuer with a 31 December year end has to issue its annual report at least 14 days before the date of the Annual General Meeting (AGM) (i.e. 16 April 2017) as its AGM has to be held by 30 April 2017. Hence, if the entity de-lists before 16 April 2017, it is not required to comply with the filing obligations with respect to its 2016 financial statements. Accordingly, it would be appropriate to not regard the entity as a listed entity for the purposes of SSAs, and the auditor does not have to communicate KAM in the auditor's report on the 2016 financial statements.

If the entity de-lists after 16 April 2017, it would still have to fulfil its filing obligations as a listed entity and issue its annual report by 16 April 2017. Accordingly, the auditor should communicate KAM in the auditor's report on the 2016 financial statements. Where the requirement to issue the annual report to SGX is waived by SGX, the auditor does not have to communicate KAM.

FAQ 2

Notwithstanding the above, the purpose of communicating KAM is to enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed. The auditor may, depending on the facts and circumstances of the situation, decide to communicate KAM in the interests of the shareholders even when the entity does not need to follow the filing obligations under the listing rules. In this case, it may be helpful to make reference in the terms of the audit engagement to the possibility of communicating KAM in the auditor's report.

For the avoidance of doubt, the year end of 31 December 2016 is used as an illustration. This FAQ may be applied to any financial year end.

FAQ 3

FAQ 3 – Scope of Other Information: Preliminary Announcements of Financial Information

Paragraph 7(a) of SSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* states that this SSA does not apply to preliminary announcements of financial information.

Do preliminary announcements of financial information include announcements of audited financial statements?

In the IAASB's *Basis for Conclusions for ISA 720 (Revised)*, it is stated that the Explanatory Memorandum of ED-ISA 720 (2014) highlighted the IAASB's decision to exclude preliminary announcements of financial information and securities offering documents (including prospectuses) from the scope of ISA 720 (Revised). This decision took into account feedback from respondents to ED-ISA 720 (2012) that national law or regulation typically address the auditor's responsibilities in relation to preliminary announcements and securities offering documents, and that there is potential for significant conflict with such law or regulation.

In Singapore, the announcements of financial statements, whether audited or unaudited, are subject to the SGX Listing Rules.

Accordingly, all announcements of financial information, regardless of whether the announcements pertained to audited or unaudited financial statements, are not considered Other Information within the scope of SSA 720 (Revised).

FAQ 4

FAQ 4 – Scope of Other Information: Directors’ Statement and Other Equivalent Statements

Are the following documents Other Information within the scope of SSA 720 (Revised)?

- (a) For a company – the Directors’ Statement
- (b) For a branch – the Branch Manager’s Statement¹
- (c) For a charity – the Directors’ Statement / Statement by the Management Committee¹
- (d) For a society – the Statement by the Management Committee¹
- (e) For a statutory board – the Statement by the Board / Statement by the Authority¹

These Statements usually accompany the financial statements and the auditor’s report, and form part of the combination of documents that comprise an annual report. Therefore, they are considered Other Information within the scope of SSA 720 (Revised).

For many private companies, the Directors’ Statement may be the only document that constitutes Other Information.

Auditors may refer to [guidance](#) issued by ISCA in June 2016 on whether material inconsistencies exist in relation to the Directors’ Statement for particular circumstances and how the auditor should report them.

¹ The name of the Statement may vary according to the branch, charity, society or statutory board.

FAQ 5 – Scope of Other Information: Annual Reports of Statutory Boards

Is the annual report prepared by a statutory board, as required by the relevant statutory board act, considered Other Information within the scope of SSA 720 (Revised)?

The annual report and the audited financial statements of a statutory board are generally presented together to Parliament at the same time, whether as one single document or as separate documents. The annual report can therefore be seen as accompanying the financial statements and the auditor's report thereon, and providing the intended stakeholders with information on the statutory board's operations, financial results and financial position as set out in the financial statements. Although a minority of statutory boards may present the documents separately at different times, the objective of the documents remains the same.

Accordingly, the annual report of a statutory board is considered Other Information within the scope of SSA 720 (Revised). Auditor's responsibilities relating to Other Information under SSA 720 (Revised) will therefore apply regardless of whether the annual report is obtained by the auditor prior to, or after, the date of the auditor's report.

FAQ 6

FAQ 6 – Scope of Other Information: Sustainability Report

Is the sustainability report (SR) considered Other Information within the scope of SSA 720 (Revised)?

SGX introduced mandatory sustainability reporting on a “comply or explain” basis, effective for financial year ended on or after 31 December 2017. Companies are given up to 12 months from the end of the financial year to publish their first report. Thereafter, companies will need to file reports within 5 months after their financial year.

Based on the *SGX-ST Listing Rules - Practice Note 7.6: Sustainability Reporting Guide*, paragraph 5.1, the issuer’s sustainability disclosure may be done:

- (a) In its annual report (the inclusion of sustainability risks and opportunities with the businesses’ other risks and strategy in the same document presents advantages to the user); or
- (b) If more appropriate for the circumstances of the issuer, by including a summary in its annual report and issuing a full standalone SR.

Paragraph 5.2 of the Practice Note also allows an issuer to, after a few years of sustainability reporting, maintain static information, such as policies and historical sustainability information, on its website while presenting the current year’s changes as well as performance in the annual SR.

Guiding principles

Auditors should always go back to the definitions of “Other Information” and “Annual Report” in SSA 720 (Revised) when determining whether the SR is considered Other Information.

Paragraph 12(c) of SSA 720 (Revised) defines “Other Information” as financial or non-financial information (other than financial statements and the auditor’s report thereon) included in an entity’s Annual Report.

Paragraph 12(a) of SSA 720 (Revised) defines “Annual Report” as a document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity’s operations and the entity’s financial results and financial position as set out in the financial statements. An Annual Report contains or accompanies the financial statements and the auditor’s report thereon and usually includes information about the entity’s developments, its future outlook and risks and uncertainties, a statement by the entity’s governing body, and reports covering governance matters.

FAQ 6

- When sustainability disclosure is done in the annual report

“Other Information” is defined as financial or non-financial information (other than financial statements and the auditor’s report thereon) included in an entity’s Annual Report. Accordingly, any information, including the SR that is included as part of the entity’s annual report, other than the financial statements and the auditor’s report, would be considered Other Information within the scope of SSA 720 (Revised).

- When a summary of sustainability disclosure is included in the annual report and a full standalone SR is issued, separate from the annual report

Applying the above principle, the summary of sustainability disclosure included in the annual report is considered Other Information within the scope of SSA 720 (Revised).

For the full SR presented as a standalone document, separate from the annual report, the auditor would need to consider whether it is part of the Annual Report, i.e. if it meets the definition of “Annual Report” under SSA 720 (Revised).

Paragraph A5 of SSA 720 (Revised) explains that an Annual Report is different in nature, purpose and content from other reports, such as a report prepared to meet the information needs of a specific stakeholder group or a report prepared to comply with a specific regulatory reporting objective (even when such a report is required to be publicly available). It lists, among others, SR as an example of a report that, when issued as a standalone document, is not typically part of the combination of documents that comprise an Annual Report (subject to law, regulation or custom), and therefore is not Other Information within the scope of SSA 720 (Revised).

Taking guidance from paragraph A5 of SSA 720 (Revised), the full SR, issued as a standalone document, would generally not form part of the documents that comprise an entity’s Annual Report and accordingly, is not considered Other Information.

There are companies which may, within the annual report, make reference to the separate standalone SR. The mere reference to such separate documents would not constitute such separate documents as OI.

As this FAQ cannot cover all possible scenarios that may arise, auditors should always go back to the definitions of “Other Information” and “Annual Report” in SSA 720 (Revised) when determining whether the SR is considered Other Information.

In addition, it is important at the start of the audit for auditors to determine, through discussions with management, which documents comprise the Annual Report and the entity’s planned manner and timing of the issuance of such documents.

FAQ 7

FAQ 7 – Change of Wordings in “Auditor’s Responsibilities for the Audit of the Financial Statements” Section When Financial Statements are Prepared on a Basis Other Than Going Concern

The “Auditor’s Responsibilities for the Audit of the Financial Statements” section of the auditor’s report includes the following:

“We also:

Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.”

Are these wordings still appropriate in the scenario where the financial statements (general purpose) are prepared on a basis other than going concern?

The auditor’s responsibilities for an audit of financial statements are prescribed by the SSAs and should generally remain the same. However, as provided for under paragraph A50 of SSA 700, *Forming an Opinion and Reporting on Financial Statements*, the description of the auditor’s responsibilities may be tailored to reflect the specific nature of the entity, for example, when the auditor’s report addresses consolidated financial statements.

Where the financial statements are prepared on a basis other than going concern, the above wordings should be tailored accordingly to reflect the auditor’s responsibilities prescribed by the auditing standards under such a situation so as to provide relevant and useful information to users of the financial statements and the auditor’s report thereon. Guidance can be taken from paragraph A27 of SSA 570, *Going Concern* on the auditor’s responsibilities when the financial statements are prepared on a basis other than going concern.

An example of how the auditor’s responsibilities can be described is provided below for reference. The auditor should tailor the wordings as appropriate depending on the circumstances.

Conclude on the appropriateness of management’s use of the going concern basis of accounting. When such use is inappropriate and management uses an alternative basis of accounting, we conclude whether the alternative basis used by management is acceptable in the circumstances. We also evaluate the adequacy of the disclosures describing the alternative basis of accounting and reasons for its use. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report.

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. 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 12 chartered accountancy bodies connecting and representing the interests of over 1.7 million members and students globally.

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

About ISCA Auditing and Assurance Standards Committee

ISCA's Auditing and Assurance Standards Committee (AASC) develops Singapore's auditing and assurance standards in furtherance of the public interest. The standard-setting process is robust and essentially one that draws from the resources of the International Auditing and Assurance Standards Board. The AASC also develops local standards to establish requirements for matters of relevance in Singapore. The process is overseen by the Accounting and Corporate Regulatory Authority's (ACRA) Public Accountants Oversight Committee to ensure that the development of the auditing and assurance standards, to be adopted by ACRA, is robust, credible and promotes public confidence.

The AASC's strategic direction as reflected in its terms of reference also includes monitoring policy and implementation issues relating to the development of auditing and assurance standards internationally and in Singapore, and giving consideration to the need for guidance to provide practice assistance and promote best practices. The AASC also engages with international bodies and promotes Singapore's interests in relation to standards and where appropriate, takes a leading role in representing regional interests.

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