Securities Investors Association (Singapore)

ENHANCED AUDITOR'S REPORT

A Guide to Prepare Retail Investors for Annual General Meetings

A joint production by ACRA, ISCA and SIAS

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A Guide to Prepare Retail Investors for Annual General Meetings

The production of this Guide is made possible with the collaboration and content contribution of the Accounting and Corporate Regulatory Authority of Singapore (ACRA) and the Institute of Singapore Chartered Accountants (ISCA).

Accounting And Corporate Regulatory Authority

Global Mindset, Asian Insights

Disclaimer

This Guide aims to provide basic and practical guidance for retail investors when they read auditor's reports issued by auditors of companies listed on the Singapore Exchange. It does not constitute any advice and is provided for the user's information only. This Guide is not exhaustive and investors should exercise their own judgement on the manner and extent to which the guidance would be applicable to them.

While efforts have been made in the preparation of this Guide, we make no warranty as to the accuracy or completeness of information contained in this Guide and accept no responsibility for any errors or omissions. We reserve the right to make changes to this Guide from time to time, as and when necessary or appropriate.

Abbreviations

The following abbreviations are used in this Guide:

AGM	Annual General Meeting
FY	Financial Year
KAM	Key Audit Matter
OI	Other Information

In This Guide

1. Introduction

What is an audit?

An audit is akin to a financial health check for a company. It involves an independent examination on the state of a company's financial performance and position at a given date. At the end of the audit, the auditor issues an auditor's report, explaining what they have done and providing assurance that the company's financial health is what is reflected in the financial statements.

How does an audit help you as an investor?

In Singapore, under the Singapore Exchange (SGX) Listing Rules, a listed company must appoint a suitable audit firm to meet its audit obligations[1]. Similarly, the Companies Act requires a director of a company to appoint an accounting entity to be the auditor of the company within 3 months after incorporation of the company[2].

These requirements play an essential role in the effective functioning of our capital markets. Similar to health checks by a qualified doctor, an auditor's report lends a stamp of credibility to a company's financial statements. This provides investors with confidence over the financial information disclosed by companies. Existing shareholders and prospective investors can hence place greater reliance on these information to make assessments and investment decisions on the company.

What can't an audit do?

Audits are designed to provide reasonable assurance over the financial statements. This assurance is however not absolute due to reasons such as impracticability to test every single transaction of the company and the judgement calls which have to be made in auditing management estimates and assumptions. Hence, investors should note that an audit is not a guarantee that:

- a company is able to pay all its debts as and when they fall due (i.e. solvent in the foreseeable future);
- a company is able to continue operations in the foreseeable future (i.e. a going concern);
- all occurrences of fraud are identified or reported;
- all financial figures are accurate; and
- all operating and financial reporting processes within the company have been tested and are effective.

[1] Rule 712(1) of the Listing Manual
[2] Section 205(1) of Companies Act, Chapter 50

Introduction of the Enhanced Auditor's Report

From 2017 onwards, auditor's reports of listed companies have become more transparent with the adoption of the enhanced auditor reporting standards[3] in Singapore. The enhanced auditor's report was introduced in response to strong calls from investors and users of financial statements for more information to be included to help them in their decision-making. These standards were adapted from the International Standards on Auditing issued by the International Auditing and Assurance Standards Board which have been widely adopted and have far-reaching implications globally.

The most significant enhancement to the auditor's report is the new requirement for auditors of listed companies to communicate KAMs – matters judged by auditors to be of most significance in the audit of financial statements, with an explanation of how they were addressed in the audit. Going beyond the traditional pass/fail opinion to offer greater insights on KAMs encountered during the audit, auditors are striving to provide investors with deeper understanding of the significant risk areas in the financial statements so as to facilitate their engagement with directors, management and auditors at AGMs.

Objective of Guide

The focus of the Guide is to help retail investors leverage on information from the enhanced auditor's report to ask relevant and pertinent questions at AGMs. With this in mind, the Guide aims to:

(1) Enhance the understanding of retail investors in respect of different types of audit opinions;
(2) Provide an overview of the changes to the auditor's report, including KAMs and the auditor's responsibilities on going concern and OI; and
(3) Illustrate possible questions relating to the enhanced auditor's report that retail investors can ask during AGMs.

[3] The enhanced auditor reporting standards took effect for audits of financial statements of listed companies for periods ended on or after 15 December 2016.

2. Overview of the enhanced auditor's report

2.1 What are the key changes in the enhanced auditor's report?

ALL ENTITIES

(1) Audit opinion presented right in front of the auditor's report

(2) Basis of opinion includes positive statement of auditor's independence and fulfillment of ethical responsibilities

(3) Going concern:

- Description of management's and auditor's responsibilities
- Dedicated section on material uncertainty, where exists

(4) Expanded description of auditor's responsibilities and key features of an audit

(5) OI in annual report:

- Auditor's responsibility on OI is now described
- Material misstatement (if any) of the OI received before the date of auditor's report is now reported

LISTED ENTITIES

(additional requirement)

(6) Communication of KAMs

2.2 How does the enhanced auditor's report look like?

The illustration below shows the headers in an enhanced auditor's report of a listed company. For the full report, please refer to **Appendix I**.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company

Report on the Audit of the Financial Statements

Opinion
[……………….…] — Elaborated in Section 2.3

Basis for Opinion
[……………….…]

Material Uncertainty Related to Going Concern* (Only when applicable)
[……………….…] — Elaborated in Section 2.4

Key Audit Matters*
[……………….…] — Elaborated in Section 2.5

Other Information*
[……………….…] — Elaborated in Section 2.6

Responsibilities of Management and Directors for the Financial Statements
[……………….…]

Auditor's Responsibilities for the Audit of the Financial Statements
[……………….…]

Report on Other Legal and Regulatory Requirements
[……………….…]

______________________________ (Firm)
Public Accountants and
Chartered Accountants
Singapore
______________________________ (Date)

denotes new requirements

2.3 What is the auditor trying to say in the audit opinion?

The auditor will perform audit procedures in accordance with the prescribed auditing standards in Singapore before issuing an audit opinion as to whether the financial statements of the company and its subsidiaries are properly drawn up in accordance with the provisions of the Companies Act and financial reporting standards in Singapore so as to present a true and fair view of its financial position and performance. A summary of the types of audit opinions issued by the auditor and what they mean are elaborated below.

Unmodified Audit Opinion	
What does this mean?	"Clean" audit opinion Implications for investors: the **financial statements can be relied upon** for decision-making.
Examples which may lead to unmodified opinion (including but not limited to)	• Generally effective internal controls • Generally strong accounting teams
What questions should investors consider raising at AGMs?	• Were there any significant events which occurred after the auditor's report date, that the investors should be aware of? • Were audit adjustments proposed by the auditor to correct the financial statements significant? What were their root causes and what does the company plan to do about it?

Modified Audit Opinions		
What does this mean?	**Qualified Opinion**	A "clean" opinion cannot be issued. The impact of the misstatement on the financial statements is significant but is not extensive and generally limited to a small number of areas. Implications for investors: **there is something wrong with certain aspects of the financial statements** as described in the auditor's report. Except for those areas highlighted by the auditor, there are **generally no issues with the other aspects of the financial statements**.

<table>
<tr><th colspan="3"><u>Modified</u> Audit Opinions</th></tr>
<tr><td rowspan="2">What does this mean?</td><td>Disclaimer of Opinion</td><td>The auditor is unable to give an opinion on the financial statements as a whole. The auditor is unable to carry out certain key audit procedures to obtain sufficient appropriate audit evidence and the auditor also concludes that the possible effect of undetected misstatements could be both significant and pervasive.

Implications for investors: investors should exercise caution when relying on the financial statements for decision-making.</td></tr>
<tr><td>Adverse Opinion</td><td>The auditor is of the view that the misstatements are both significant and pervasive to the financial statements.

Implications for investors: the financial statements are not reliable.</td></tr>
<tr><td colspan="2">Examples which may lead to modified opinion (including but not limited to)

* Depending on circumstances, the examples may give rise to different types of modified opinions.</td><td>• Goodwill and doubtful trade receivables were not properly impaired
• Inventories were not stated at lower of cost and net realisable value
• Non-consolidation of significant subsidiaries
• No access to working papers of the auditors of significant foreign subsidiaries or associates</td></tr>
<tr><td colspan="2">What questions should investors consider raising at AGMs?</td><td>Please refer to Section 3(C) for illustrations.</td></tr>
</table>

2.4 What will the auditor report on going concern?

Financial statements are generally prepared on the assumption that the company is able to continue operations in the foreseeable future (i.e. a going concern). The auditor's responsibilities are to determine if such a basis is appropriate and to determine if there are potential going concern issues that should be highlighted.

Over the past years, there have been increasing calls from investors for auditors to give early warning of potential issues with respect to a company's ability to continue as a going concern. Although the responsibility of assessing a company's ability to continue as a going concern remains with management, changes have been made in the auditor's report to enhance communications in this aspect.

This table illustrates the auditor's communication depending on the facts and circumstances of the company:

Facts and Circumstances	Auditor's Communication in the Auditor's Report
In all circumstances	**(NEW)** The auditor describes the auditor's responsibilities relating to going concern under the section *"Auditor's Responsibilities for the Audit of the Financial Statements"* in the enhanced auditor's report.
No material uncertainty in respect of going concern assumption	
The auditor concludes that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.	The auditor issues an unmodified ("clean") audit opinion.

Material uncertainty exists (section 2.2)	
The auditor concludes that management's use of the going concern basis of accounting in the preparation of the financial statements is still appropriate. However, 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. (In other words, there are issues that may affect the company's viability.) Examples of issues include: • Net liability or net current liability position • Inability to refinance debts as and when they fall due • Substantial operating losses over time • Loss of major markets or key customers	The auditor issues an unmodified ("clean") audit opinion. **(NEW)** In addition, a section with the header *"Material Uncertainty Related to Going Concern"* is included in the enhanced auditor's report. This section will draw attention to the note in the financial statements that describes the material uncertainty. Please refer to Section 3(B) for illustration on questions that investors should consider raising at AGMs.
The above circumstances apply. However, management had not describe the material uncertainty in the financial statements, or such disclosures by management are not considered adequate by the auditor.	The auditor issues a qualified or adverse opinion. The going concern issues will not be highlighted in the *"Material Uncertainty Related to Going Concern"* section. Instead, the issues will be described in the *"Basis for Qualified/Adverse Opinion"* section.
Going concern basis of accounting not appropriate	
The auditor has substantial doubts about the company's ability to operate in the foreseeable future but management prepares the financial statements assuming that there is no going concern issue.	The auditor issues an adverse audit opinion. The going concern issues will not be highlighted in the *"Material Uncertainty Related to Going Concern"* section. Instead, the issues will be described in the *"Basis for Adverse Opinion"* section.

2.5 What is a KAM?

- New requirement for auditors of listed companies.
- Those matters that, in the auditor's professional judgement, were of **most significance** in the audit of the financial statements of the current period. *In other words, these are matters which require extensive audit efforts which often relate to areas of complexity and significant management judgement in the financial statements.*
- KAMs are selected from matters communicated by the auditors to audit committees.
- Communication of KAMs does not mean that there is something wrong with the financial statements. It is to provide more information to users of the financial statements (including investors) on the most critical areas the auditor focused on during the audit, which may help users in understanding the financial statements.

KAM Reporting ≠ **Separate Audit Opinion on Individual KAMs**

Modified Audit Opinion

Example of KAMs

Accounting for business combinations	Impairment of assets	Valuation of significant investments	Complex taxation issues

What would auditors include in description of each KAM?

Why was the matter considered one of the most significant in the audit?

How was the matter addressed in the audit?

Where was this matter disclosed in the financial statements?

What was the outcome of the auditor's procedures? (optional)

Please refer to Section 3(A) for illustrations of KAM descriptions.

2.6 What are the auditor’s responsibilities relating to OI in the annual reports?

OI comprises financial or non-financial information (other than financial statements and the auditor’s report) in the annual report. It excludes SGX announcements of financial results.

In relation to OI, the auditor is responsible to:

(1) **Read and consider** if there are any significant inconsistencies between OI, the financial statements and the auditor’s knowledge obtained in the audit;

(2) **Take appropriate actions** when any significant inconsistencies arise, for example, discuss with management and the audit committee; and

(3) **Highlight** in the auditor’s report, whether there is any material misstatement of the OI.

The auditor's reading and consideration of OI is not an audit of OI.

Auditor’s reporting on OI differs depending on when the OI is received

The auditor will agree with the company the documents which are considered OI at the commencement of the audit. Depending on when the auditor receives the OI from the company, the auditor will report differently in the auditor’s report. **Appendix II** illustrates the differences in the auditor’s reporting of the OI under different scenarios.

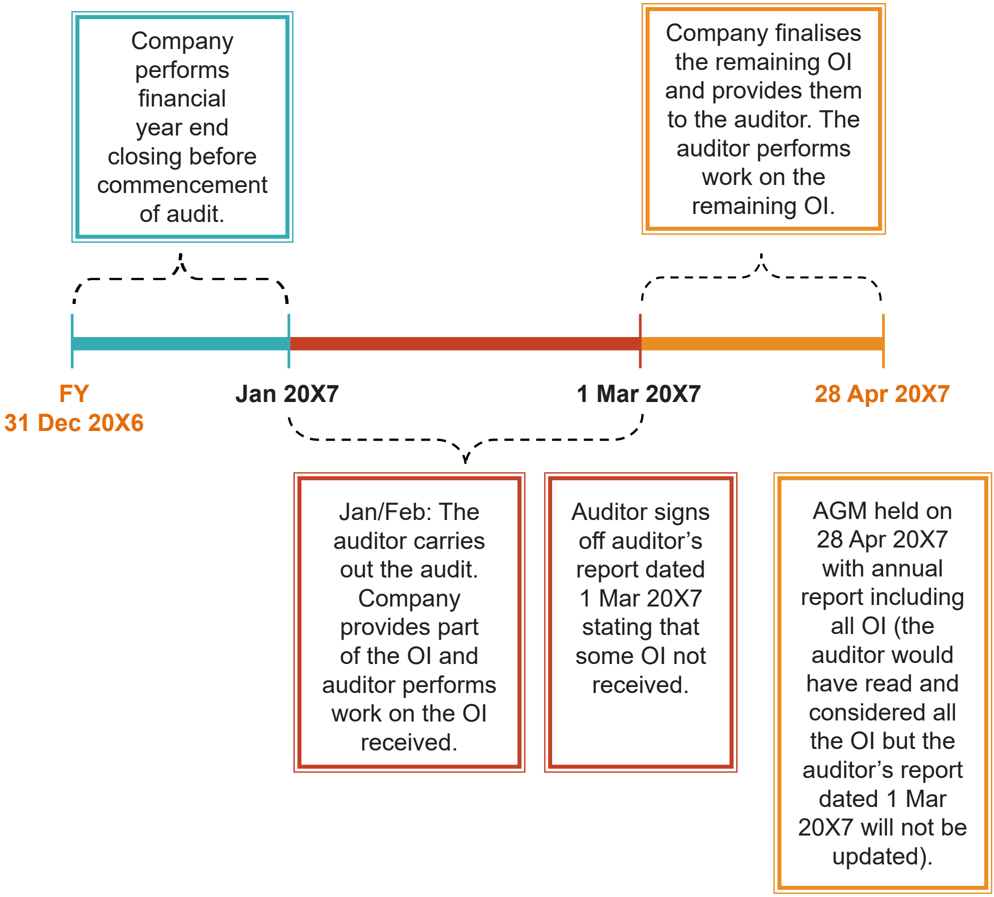
Assume that the date of the auditor’s report is 1 March 20X7 with an unmodified audit opinion and there is no significant misstatement of OI.

	How would the auditor's report look like?
All OI received before 1 March 20X7	**Appendix II (A)**
Partial OI received before 1 March 20X7	**Appendix II (B)**

In certain instances, listed companies may not be able to finalise and provide all the OI to the auditor before the auditor signs off the auditor’s report. The auditor will then state in the auditor’s report that some of the OI have not been received as per report (B) in **Appendix II**.

When these OI are subsequently provided, investors can be assured that the auditor will still perform the necessary work on OI and highlight material inconsistencies to management or those charged with governance, as appropriate. However, the auditor’s report signed earlier will not be updated to reflect the auditor’s conclusion on these OI received at a later date.

As an illustration, the following timeline shows the sequence of events from the company's financial year (FY) end to the AGM:



3. What questions should investors ask at AGMs?

The table below provides examples of extracts from enhanced auditor's reports and related questions which investors should consider raising at AGMs. These questions enable investors to gain more insights into the companies they are investing in. These examples are for illustrative purposes only.

(A) KAMs

For reference, auditors would typically describe KAMs as follows:

Why was the matter considered one of the most significant in the audit?	**How** was the matter addressed in the audit?
Where was this matter disclosed in the financial statements?	**What** was the outcome of the auditor's procedures? (optional)

Extract of Auditor's Report – Example 1
<u>Acquisition of ABC Company</u>
Why In August 2016, the Group completed the acquisition of ABC Company (ABC). Under FRS 103 *Business Combinations*, the Group is required to recognise the identifiable assets, liabilities and contingent liabilities at fair value at the date of acquisition, with the excess of the acquisition cost over the identified fair values recognised as goodwill. This requires a significant amount of management estimation and judgement, particularly in relation to the identification and valuation of intangible assets and determination of their useful lives. The intangible assets and goodwill recognised in the financial statements amounted to $100 million and $150 million respectively.
Where The Group has disclosed the related business combination accounting in Note 2 to the financial statements.
How Our Audit Addressed the KAM
How We have discussed with management and their external valuation experts on the purchase price allocation (PPA), and engaged our in-house valuation experts to assist in the audit of the PPA, including the identification and valuation of intangible assets acquired. We challenged the appropriateness of the useful lives of the identified intangible assets, taking into consideration the expected use of these assets.

What Based on our procedures, we noted that the PPA has been performed in accordance with FRS 103, including the disclosures thereon, and that the intangible assets identified are appropriate and within industry expectations. We also noted management's key assumptions applied in the PPA in arriving at the fair value of the assets acquired (including identified intangible assets) and liabilities assumed, to be reasonable within our audit expectations.

Questions to ask the Board of Directors	Questions to ask the Auditor
• What was the Board's intention in this acquisition? What were the considerations in deciding to acquire ABC with such goodwill? • On what basis did the Board accept the purchase price? How has the Board justified the goodwill payment? • Can the Board share more on the Group's acquisition policies? What are the governance controls in place over acquisitions?	• What is the audit partner's relevant experience in auditing the PPA of companies in similar industries? • How did the audit partner get comfort that management's valuation of intangible assets was appropriate? • Was a qualified valuer involved in the valuation process?

Extract of Auditor's Report – Example 2

Impairment of Non-Current Assets

Why The Group has significant investments in non-current assets including goodwill, vessels, plant and equipment, mine properties, associates and joint ventures. The assessment of impairment of these assets involves significant estimation uncertainty and requires management to exercise significant judgement and develop subjective assumptions.

Goodwill impairment review

Why Under FRSs, the Group is required to annually test goodwill for impairment. This assessment requires the exercise of significant judgement about future market conditions, including growth rates and discount rates. The goodwill in XYZ company constituted 15.3% of the Group's total assets at 31 December 2016.

Where The key assumptions to the impairment test and the sensitivity of changes in these assumptions to the risk of impairment are disclosed in Note 28 to the financial statements.

How Our Audit Addressed the KAM

How The approach to assessing impairment varied for different assets, and included the following:

- We assessed whether the impairment model applied was appropriate by understanding the model methodology and comparing that to our understanding of the asset. Discounted cashflow models were prepared by management for all assessments.
- We compared key estimates, including commodity prices, foreign exchange rates and interest rates, against market data, where available. We also tested the consistency of the assumptions (a) across the portfolio of assets that used common market related estimates and (b) across periods.
- We performed our own sensitivity analyses to assess the range of acceptable valuations.
- We tested the mathematical accuracy of the models.
- We employed internal valuation specialists to assist us with our audit of the impairment assessment models.
- We also assessed the adequacy of the related disclosures in the notes to the financial statements.

What Based on our procedures, we noted management's key assumptions to be within a reasonable range of our expectations. We have also assessed and validated the adequacy and appropriateness of the disclosures made in the financial statements.	
Questions to ask the Board of Directors	**Questions to ask the Auditor**
• Why is impairment charge not considered necessary, despite the poor market sentiment and losses incurred for certain business units? • What are the significant estimates and judgements made by management? How has the Board challenged these estimates and judgements? • How did management develop the estimates and assumptions used in the impairment models? What are the assumptions, if changed, would result in impairment? • Can the Board comment on how the market environment may affect the valuation of these assets going forward? • Are there any idle assets on the balance sheet? What are the plans for these assets?	• Are the impairment models used appropriate and commonly used by the industry for each type of assets? • What is the headroom available for the asset before it is impaired? Based on the sensitivity analysis performed, what is the extent of changes in key estimates that would lead to impairment? • Given that this is a complex area, how involved was the audit partner in this aspect of the work? How does his hours compare vis-à-vis ACRA's AQI targets? • What is the competency and experience level of the audit team in the assessment of impairment?

Extract of Auditor's Report – Example 3

Taxation Matters

Why The Group's subsidiaries, associates and joint ventures operate across several jurisdictions and are subject to periodic challenges by local tax authorities. The Group's tax position is dependent on judgements and estimates made by management. As at 31 December 2016, the Group has current tax payable of $2.8 million and deferred tax liabilities of $3.3 million.

We have focused on two matters:

(a) *Provisioning claim for withholding tax*

There continues to be uncertainty regarding the resolution of the legal claim from the tax authorities of Country Z in respect of withholding tax on certain payments made to non-resident entities. No provision in respect of the withholding tax has been made as at 31 December 2016.

(b) *Deferred tax liabilities on unremitted earnings*

There is potential tax exposure of $5.5 million on the unremitted earnings held in the Group's overseas subsidiaries which is significant.

Where The Group has made disclosures on the above matters in Note 38 to the financial statements.

How Our Audit Addressed the KAM

(a) *Provisioning claim for withholding tax*

How **What** We used our tax specialists to gain an understanding of the current status of the tax investigation in Country Z and monitored changes in the disputes by reading external advice received from the Group's tax consultant, where relevant, to establish that tax provisions had been appropriately adjusted to reflect the latest external developments.

(b) *Deferred tax liabilities on unremitted earnings*

How **What** Through inquiry, we ascertained that management has no intention to repatriate the earnings to Singapore. We also assessed that it is unlikely for management to repatriate the earnings held with the Group's overseas subsidiaries to the Company as the Company has sufficient cash resources to meet its short-term liabilities and does not have any significant external borrowings.

Questions to ask the Board of Directors	Questions to ask the Auditor
• How does the Group manage its tax risks given that it operates in several jurisdictions? • Are there any other significant tax exposure for the Group in the foreseeable future? • With regards to the provisioning claim for withholding tax, can the Board share the considerations and judgements made in determining that no provision is necessary? What would be the maximum exposure to the Group, if any? • What are the plans for the unremitted earnings of the overseas subsidiaries? Why is management keeping such huge profits overseas instead of declaring dividends out of these earnings?	• What are the auditor's views on the provision for tax? Is it sufficient? And is it too prudent? • What are the auditor's views on management's approach towards managing the Group's tax exposures? Is management too aggressive? • How has the auditor assessed the competency of the Group's tax consultant in dealing with cross-border tax issues?

(B) MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

Extract of Auditor's Report – Example 4

We draw attention to Note 5 to the financial statements, which indicates that the Group incurred a net loss of $3 million for the year ended 31 December 2016 and, as of that date, the Group's current liabilities exceeded its total assets by $4 million. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

Investors to take note

As stated in Note 5, the Group's ability to continue as going concern is dependent on the successful implementation of the business plan and ability to drawdown on the loan from the Company's major shareholder to pay its debts as and when they fall due. Our opinion is not modified in respect of this matter.

If modified, this may indicate that the auditor disagrees with the Board on its going concern position.

Questions to ask the Board of Directors

- Can the Board elaborate on the key points of the business plan? How confident is the Board that the plan will be successfully executed and will improve the performance of the Group? What are the potential challenges of the plan and how does the Board plan to address them?
- Has the Board identified under-performing businesses that are loss-making and not generating positive cash flows? What are the Board's plans for these businesses?
- How committed is the major shareholder in extending the loan to the Group? What are the terms of repayment for the loan?
- Is the Group in danger of breaching any debt covenants? Has the Group's ability to borrow money from banks been affected by its recent performance?

Questions to ask the Auditor

- Why did the auditor believe that the company can continue as a going concern, despite the circumstances?
- What were the audit procedures performed, as well as the judgements made by the auditor, in arriving at the unmodified (or "clean") audit opinion?
- Are there other red flags that investors should be aware of?

(C) BASIS FOR MODIFIED OPINION

Extract of Auditor's Report – Example 5

Modified Audit Opinion Due to Non-Consolidation of a Subsidiary

As explained in Note 2 to the financial statements, the Group has not consolidated subsidiary XYZ because it has not been able to determine the fair values of certain of the subsidiary's material assets and liabilities at the acquisition date. This investment is therefore accounted for on a cost basis.

Under Financial Reporting Standards in Singapore, the Company should have consolidated this subsidiary and accounted for the acquisition based on provisional amounts. Had the subsidiary been consolidated, many elements in the accompanying consolidated financial statements would have been materially affected. The effects on the consolidated financial statements of the failure to consolidate have not been determined.

Questions to ask the Board of Directors	Questions to ask the Auditor
• Why is the Company unable to determine the fair value of its subsidiary's material assets and liabilities? Does this signal any red flags for the Company or issues in the preparation of the subsidiary's financial statements? • What is the Board planning to do about this issue? When can this issue be resolved? • What are the elements in the consolidated financial statements that would likely be affected? How material are they to the Group's financial results?	• Does this signal any red flags or issues regarding the Group's financial reporting process?

Extract of Auditor's Report – Example 6

<u>Modified Opinion Due to Auditor's Inability to Obtain Sufficient Audit Evidence Regarding a Foreign Associate</u>

During the year, the Company acquired a foreign associate, XYZ Company (XYZ), which is accounted for using the equity method. The investment in XYZ is carried at $1 million on the consolidated statement of financial position as at 31 December 2016, and the Company's share of XYZ's net income of $300,000 is included in the Group's income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of the Company's investment in XYZ as at 31 December 2016 and the Company's share of XYZ's net income for the year because we were denied access to the financial information, management, and the auditor of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Questions to ask the Board of Directors	Questions to ask the Auditor
• Why was the auditor denied access to the financial information, management, and the auditor of the associate? • Was the Board similarly denied access to the financial information and auditor of the associate? If so, how did the Board obtain comfort that the accounting for the associate was correct? • What is the Board doing to overcome this? When does the Board expect this to be resolved?	• Was the Company's share of the associate's net income based on the associate's audited or unaudited financial statements? If audited, what concerns does the auditor have in relying on them?

(D) OI

Extract of Auditor's Report – Example 7	
Management is responsible for the other information. The other information comprises the Directors' Statement, which we obtained prior to the date of this auditor's report, and the other sections of the Annual Report but does not include the financial statements and the auditor's report thereon (the Other Sections), which are expected to be made available to us after that date. Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the Other Sections of the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and take appropriate actions in accordance with the Singapore Standards on Auditing.	
Questions to ask the Board of Directors	**Questions to ask the Auditor**
• (If there are issues communicated by the auditor to the Board in respect of Other Sections furnished to the auditor after the date of the auditor's report) How had the Board dealt with such issues? • Why were the Other Sections given to the auditor only after the date of the auditor's report? Could it not be given earlier?	• For the Other Sections furnished to the auditor after the date of the auditor's report, did the auditor identify any issues? Have these issues been communicated to the Board?

Appendix I – Illustrative enhanced auditor's report

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of ABC Company (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 20X1 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

If the financial statements are not in compliance with the above, the auditor's report, depending on the type of modified opinion, will include the following paragraphs:

Qualified Opinion → Refer to Section 2.3

We have audited…………..including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 20X1 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

Adverse Opinion

We have audited……………including a summary of significant accounting policies.

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company do not give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 20X1 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year then ended in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Financial Reporting Standards in Singapore (FRSs).

Disclaimer of Opinion

We were engaged to audit the financial statements of ABC Company (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying consolidated financial statements of the Group and the statement of financial position of the Company. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter]

Other Information

[Please refer to Appendix II of the Guide]

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- 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 Group'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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor’s report is [name].

___________________________ (Firm)
Public Accountants and
Chartered Accountants
Singapore
___________________________ (Date)

Appendix II – Illustrative auditor's reporting on OI

(A) All OI received before auditor's report date

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

The auditor's reading and consideration of OI is not an audit of OI.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In other words, no material exceptions have been noted by the auditor.

(B) Partial OI received before auditor's report date

Other Information

Management is responsible for the other information. The other information comprises the Chairman's Statement and the Directors' Statement, which we obtained prior to the date of this auditor's report, and the other sections of the annual report but does not include the financial statements and the auditor's report thereon, which are expected to be made available to us after that date.

In other words, some parts of the OI were not provided to the auditor before the auditor issues the auditor's report. Subsequently, the auditor is still required to perform work on the OI received at a later date. However, the auditor's report will not be updated.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other sections of the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and take appropriate actions in accordance with SSAs.

During AGMs, investors should ask the auditor on the outcome of his work performed on the remaining OI.

About the Accounting and Corporate Regulatory Authority

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. ACRA's role is to achieve synergies between the monitoring of corporate compliance with disclosure requirements and regulation of public accountants performing statutory audit.

ACRA's goal is to make good corporate governance, quality corporate financial reporting and high quality audit the hallmarks of our financial and corporate sectors.

For more information, please visit: www.acra.gov.sg.

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 an Associate 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 SIAS

The Securities Investors Association Singapore (SIAS), a charity and Institution of Public Character (IPC) as of 6 August 2015, is the largest organized investor lobby group in Asia, with almost 71,000 retail investors as members. It is run by a Management Committee comprising of professionals who are volunteers. It actively promotes Investor Education, Corporate Governance and Transparency and is the champion for Investor rights in Singapore. SIAS has, since year 2000, successfully organised over 1000 investor education programmes. Thus far, more than 140,000 retail investors have benefited from these programmes, which are offered largely free.

Members are educated on the features of investment products, and the attendant risks involved in each product. Investors are taught to make informed decisions on investing. SIAS is able to provide a variety of investor education programmes to its members and the investing community at large through collaborative arrangements with financial institutions and listed companies interested in investor education as part of its corporate social responsibility agenda.

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