

THE BUSINESS TIMES

BTINVEST

Published on Monday, 21 September 2015



Audit Committees Must Now Work Even Harder
By Gerard Tan

It is understandable if audit committee members feel they are the most hardworking of the board committees. This position is partly reflected in their compensation: audit committee chairmen and members usually receive higher director fees than their peers.

The audit committee is the only board committee that is mandated by law. It is often viewed as "the last line of defence for a company to prevent and manage risks" (SID Statement of Good Practices No 4). Its role is to ensure that the company's internal controls are adequate and effective, and to scrutinise the accounts so as to recommend the adoption of the company financial statements to the board and the shareholders.

The job of the audit committee is made more difficult with the ever changing accounting standards. At present, all listed companies in Singapore must comply with the Singapore Financial Reporting Standards (SFRS), which closely track the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

Already made complex with fair value accounting since 2013, the IFRS will introduce a new set of revenue recognition standards by 2018. This will require audit committee members to stay updated with increasingly technical standards that require levels of understanding and judgement even seasoned accountants find challenging.

Apart from these, audit committee members also need to keep track of developments in the regulatory landscape. Three recent developments that have a significant impact on the audit committee are:

- Financial Reporting Surveillance Programme (FRSP)
- Enhanced Auditor's Report
- Audit Quality Indicators (AQIs)

Financial Reporting Surveillance Programme

The FRSP is a programme under the Accounting and Corporate Regulatory Authority (ACRA) that reviews the financial statements of companies for compliance with the SFRS. All companies incorporated in Singapore are selected for this review using a risk-based approach annually.

Audit Committees Must Now Work Even Harder

The programme has actually been around since 2011. What is new is that it is now enhanced to include reviews of listed companies with "clean" audit reports and ACRA will soon release the findings of its review of the FY2013 financial statements. The Companies Act places the responsibility on directors (and not management) to ensure that the financial statements are "true and fair" and are prepared "in compliance with the accounting standards". Thus, ACRA has taken the position that feedback and sanctions, if any, from its review will go directly to the directors of the company.

Enhanced Auditor's Report

The familiar (and bland) auditor's report will soon be transformed.

In response to widespread investors' concerns and public feedback, accounting bodies around the world are proposing amendments to the content and structure of the auditor's report. In Singapore, ACRA and the Institute of Singapore Chartered Accountants recently announced that the new auditor's report will be effective for financial statements with accounting periods ending on or after Dec 15, 2016.

The most significant change is the reporting of "key audit matters" for listed companies beyond the traditional pass or fail audit opinion. These should cover areas of significant risks, and require extensive audit judgement, effort or change in the planned approach to the audit.

The implication for boards is that this will likely result in greater shareholder and public scrutiny on the disclosures being made in key audit matters of the auditor's report. Directors should take advantage of the long implementation period given to have "internal dry-runs" of the expanded auditor's report for FY2015.

Audit Quality Indicators (AQIs)

Presently, most audit committees also have difficulty differentiating between audit firms. When changing or retaining auditors, some audit committees apply their own internal guidelines of audit quality markers. However, for better comparison, audit committees could benefit from a standard set of quality markers that can be applied across different companies.

Hence, ACRA has been working with the audit firms, with feedback from audit committees, on a set of AQIs that can help towards this cause. Such AQIs include the time spent by audit partners on the audit, the years of experience of the audit team and the results of audit inspections carried out by ACRA.

ACRA will be unveiling these AQIs next month and it is intended for these AQIs to be shared by the audit firm with the individual audit committees on a private and voluntary basis. The hope is that this level of disclosure should provide audit committees with a more effective means with which to assess the audit firm and engagement team, and obtain greater value from them.

Work hard for long-term benefit

In the long term, these three developments should augur well for the audit committee and benefit the company. The FRSP and AQIs provide additional input and information, hitherto not available that will help the audit committee function better, while the enhanced auditor's report increases the transparency of the auditors' work and the financials of the company.

However, in the short term, audit committee members will need to spend time coming to grips with the implications and technicalities of the new requirements and tools.

In the meantime, the SID will be working with the regulators and accounting bodies to facilitate the process of understanding. Watch this space for education programmes and guides for audit committee members.

The writer is a member of the Finance Committee of the Singapore Institute of Directors. This article first appeared in BTInvest,