



**Board Governance Forum Webinar Series:**

# First year implementation of Key Audit Matters (KAMs)

Thursday, 23 September 2021  
09.00 a.m. – 10.30 a.m. (JKT Time)



# With you today



**Harry Widjaja**  
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**Budi Susanto**  
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# Key Audit Matters - Summary



## Enhanced Auditor's Report:

Without changing the scope of an independent audit, enhancement made to the auditor's report opens the door for the auditor to give users more insight into the audit and improve transparency.



## Key Audit Matters:

This is the most significant change introduced by the new auditor reporting standard, i.e. the auditor to include descriptions of key audit matters in the auditor's report.



## Effective date:

The new and revised Auditor Reporting Standards are planned to be effective for the audit of financial statements for periods beginning on or after 1 January 2022.

# Key Audit Matters



# What are the Changes in the Audit Report?

## Current Audit Report

1. Title and addressee
2. Management's responsibility
3. Auditor's responsibility
4. Basis for opinion (for modification)
5. Auditor's opinion
6. EOM (if any)
7. Other matters (if any)
8. Report on Other Legal and Regulatory Requirements (if any)
9. Signature
10. Date of auditor's report
11. Address

## Enhanced Audit Report

1. Title and addressee
2. Auditor's opinion
3. Basis for opinion
4. Material uncertainty related to going concern (if any)
5. EOM (if any)
6. KAMs
7. Other matters (if any)
8. Other information (if any)
9. Management and TCWG' responsibilities
10. Auditor's responsibility
11. Responsibility on other reporting
12. Name of the engagement partner
13. Signature
14. Address/date of auditor's report

Started  
with listed  
entities

# What are the Key Audit Matters (KAMs)?



- ✓ Key Audit Matters are those matters, that in the auditor's professional judgment were of **most significance** in the audit of the entity's financial statements of the current period.
- ✓ Key Audit Matters are selected from matters communicated with those charged with governance and placed in a separate section of the auditors' report.
- ✓ Determination of KAM is auditor's judgement and KAMs are expected to be entity-specific and specific to the audit that was performed.

# Value of Communicating KAMs



- ✓ Help **better communication** between the auditors and those charged with governance, this in turn contributes to **better governance**
- ✓ Opens up transparency on the audit process relating to the auditors professional judgment
- ✓ Contribute to **higher audit quality**
- ✓ Contribute to **higher quality financial reporting**

# Example of KAM



# INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SINGAPORE AIRLINES LIMITED

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinion

We have audited the financial statements of Singapore Airlines Limited ("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 March 2021, the consolidated profit and loss account, consolidated statements of comprehensive income, changes in equity and cash flows of the Group, and the statement of changes in equity of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 111 to 210.

In our opinion, the accompanying consolidated financial statements of the Group and the statements of financial position and changes in equity of the Company are properly drawn up in accordance with the provisions of the Singapore Companies Act, Chapter 50 ("the Act"), Singapore Financial Reporting Standards (International) ("SFRS(I)s") and International Financial Reporting Standards ("IFRSs") 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 March 2021 and the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and the changes in equity of the Company for the year ended on that date.

### 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 "Auditors' 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 *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.

# INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SINGAPORE AIRLINES LIMITED

## Accounting for the carrying values of aircraft and related assets

Refer to note 2(h) "Property, plant and equipment", note 2(f)(iv) "Intangible assets – goodwill", note 3(a) "Impairment of property, plant and equipment – aircraft fleet" and note 3(b) "Depreciation of property, plant and equipment – aircraft fleet" for the relevant accounting policy and a discussion of significant accounting estimates.

The key audit matter	How the matter was addressed in our audit
<p>The accounting for the carrying value of aircraft and related assets has a material impact on the Group due to the significant cumulative value of the aircraft and long-lived nature of these assets.</p>	<p>We held discussions with senior management to understand the rationale and assumptions underpinning the review of the longer-term network.</p>
<p>The Covid-19 pandemic has resulted in international borders being effectively closed via total closures or 14 to 21-day quarantine requirements in key markets. As a consequence, the international aviation industry has entered into a deep and prolonged recession and the return to pre-pandemic levels is not expected by the industry body until at least the calendar year 2023. Consequently, certain surplus aircraft were identified during the Group's longer-term network review.</p>	<p>We assessed the appropriateness of management's allocation of aircraft and related assets to the FSC and LCC CGUs and the identified surplus aircraft.</p>
<p>The remaining aircraft within the two Cash Generating Units ("CGUs") – the low cost airline ("LCC") and full service and cargo operations ("FSC") were assessed for impairment based on their respective values-in-use.</p>	<p>In relation to the impaired aircraft and their related assets which were removed from the FSC and LCC CGUs, we assessed the appropriateness of the basis used in determining the fair values.</p>
<p>As a result, the entire goodwill relating to the LCC CGU was impaired, and the surplus aircraft in both CGUs were impaired to their respective fair values.</p>	<p>In relation to the aircraft and related assets remaining within the FSC and LCC CGUs, we held discussions with senior management to understand the assumptions used in forming the estimates underpinning the assessment of the recoverable amount of the FSC and LCC CGUs. These estimates include those relating to yield, operating costs (excluding fuel costs), fuel costs, growth rates, projected aircraft usage, aircraft capital expenditure and discount rates.</p>
<p>The value-in-use assessment requires significant estimates and assumptions to be made over areas including future revenues (yield), operating costs (excluding fuel costs), fuel costs, growth rates, projected aircraft usage, aircraft capital expenditure and discount rates for each of the two CGUs.</p>	<p>We challenged these estimates based on our knowledge of the business, the aviation industry and our understanding of the different possible recovery scenarios of global passenger demand.</p>
<p>These estimates and assumptions are in turn, subject to a high degree of estimation uncertainty and significant judgement. As such, this is a key area of focus for our audit.</p>	<p>We corroborated our knowledge and understanding by reading publicly available aviation industry reports relating to the impact that the Covid-19 pandemic is expected to have on global passenger demand, where relevant to the Group, to understand the possible recovery scenarios.</p>
	<p>We performed scenario analyses over the LCC CGU's recovery scenarios and sensitivity analyses for both CGUs over certain inputs, being long term growth rates and yield used in assessing the recoverable amount CGUs.</p>
	<p>We assessed the arithmetical accuracy of the computations used in assessing the recoverable amount of the FSC and LCC CGUs.</p>

## Findings

The surplus aircraft identified and the subsequent allocation of aircraft and related assets to the two CGUs reflected how management intended to utilise these assets arising from the longer-term network review. The assessment of the fair values of aircraft removed from the FSC and LCC CGUs were appropriate. Key inputs including yield, discount rates and growth rates used in assessing the recoverable amount of the FSC and LCC CGUs are subject to significant amounts of volatility and uncertainty. Nevertheless, we found the estimates underpinning the cashflow projections involved in the computation of the recoverable amount of the FSC and LCC CGUs, to be reasonable in the context of currently available relevant information.

# INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SINGAPORE AIRLINES LIMITED

## Accounting for fuel hedges

Refer to note 2(k) "Financial Instruments" and note 3(g) "Hedge effectiveness of fuel derivatives" for the relevant accounting policy and a discussion of significant accounting estimates.

The key audit matter	How the matter was addressed in our audit
<p>The Group uses a variety of crude oil and jet fuel derivative financial instruments as part of its multi-year hedging program to hedge the risks associated with jet fuel price fluctuations arising from its forecasted passenger and cargo flight operations.</p> <p>The Group continues to be in an over-hedged position due to the significant capacity cuts brought about by the travel restrictions associated with the Covid-19 pandemic as compared to the forecasted capacity when these hedges were first entered into by the Group. As a result, hedge accounting for certain crude oil and jet fuel derivative financial instruments has been discontinued as the forecasted transactions are either no longer highly probable or no longer expected to occur.</p> <p>There continues to be a high degree of estimation uncertainty inherent and significant judgement is required in assessing the expected duration and severity of the Covid-19 pandemic and the associated impact on passenger flight operations over the multi-year hedging horizon. The application of hedge accounting requirements is extensive and complex. As a result, this is a key area of focus for our audit.</p>	<p>We read publicly available aviation industry reports relating to the impact the Covid-19 pandemic is expected to have on global passenger demand, where relevant to the Group, to understand the possible recovery scenarios.</p> <p>We held discussions with senior management to understand the basis of the assumptions used in forming the forecasted jet fuel consumption for passenger and cargo flight operations.</p> <p>We challenged these estimates based on our understanding of the range of possible Covid-19 recovery scenarios for passenger flight operations.</p> <p>We checked that the requirements associated with hedge accounting were appropriately applied.</p> <p>We tested the accuracy of the fair value losses of the underlying derivative instruments and the allocation of those losses in the statement of financial position and income statement.</p>

## Findings

The near-term travel restrictions associated with the Covid-19 pandemic remains uncertain, and the forecasted passenger flight operations remain significantly disrupted. However, gradual improvement is expected with the rollout of vaccines and testing regimes globally, the opening of "travel bubbles" between Singapore and other countries and the recovery of transit traffic through the Group's Singapore hub. The key assumptions used in the forecasted future flight operations, and hence jet fuel consumption, were reasonable in the context of currently available relevant information.

## Other Information

Management is responsible for the other information contained in the annual report. Other information is defined as all information in the annual report other than the financial statements and our auditors' report thereon. We have obtained the *Three-year Financial Highlights, SIA Group Portfolio, Statistical Highlights, Our Transformation Journey, Network, Products and Services, SIA Cargo, Awards and Statement on Risk Management* prior to the date of this auditors' report. The remaining other information contained in the annual report is 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 auditors' 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 Reports, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee and take appropriate actions in accordance with SSAs.

# INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SINGAPORE AIRLINES LIMITED

## 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, SFRS(I)s and IFRSs, 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.

## Auditors' 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 auditors' 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 controls.
- Obtain an understanding of internal controls 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 controls.
- 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 auditors' 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 auditors' 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 Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

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

# INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SINGAPORE AIRLINES LIMITED

## **Auditors' responsibilities for the audit of the financial statements (continued)**

From the matters communicated with the Audit Committee, 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 auditors' report unless the law or regulations preclude 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 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.

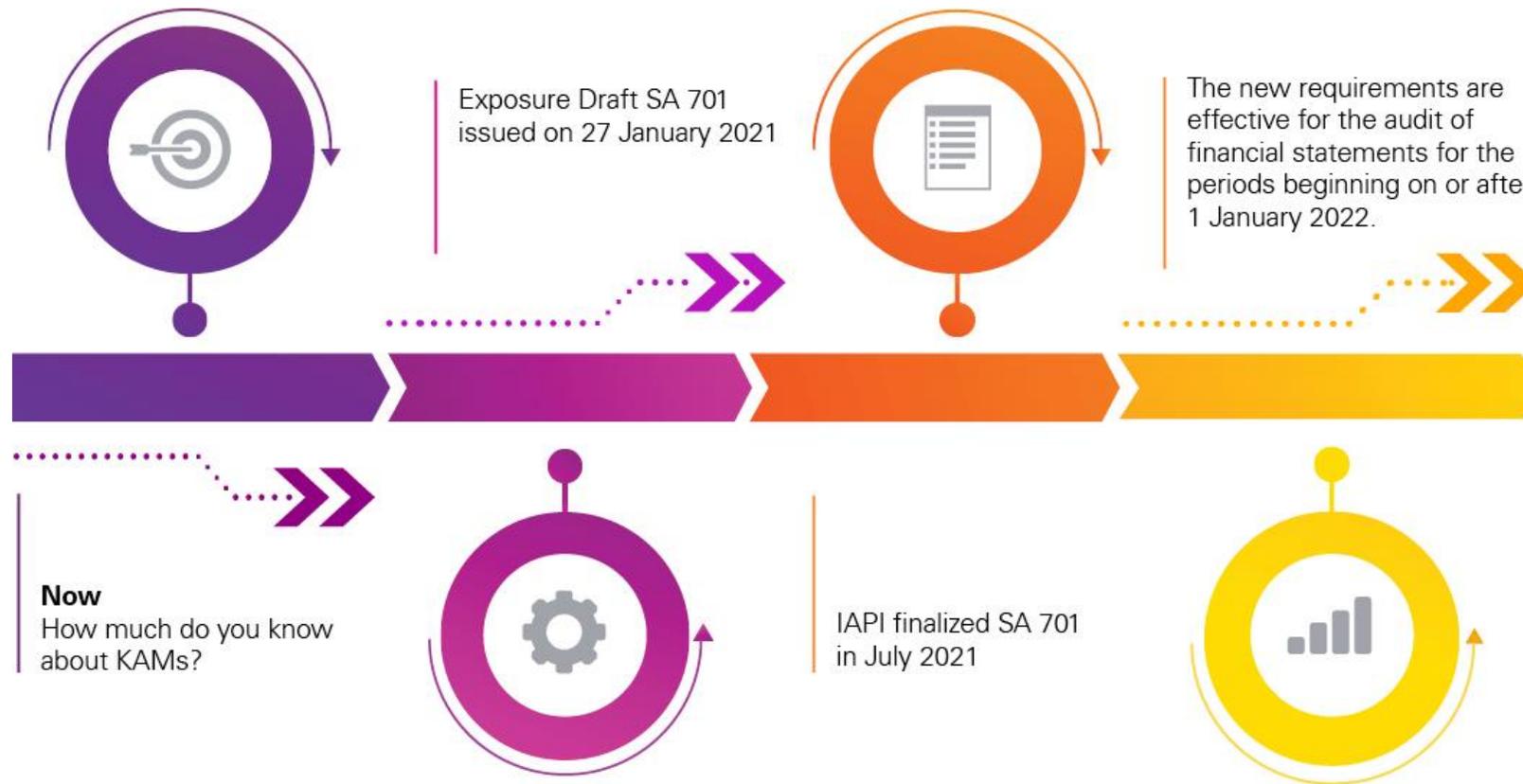
The engagement partner on the audit resulting in this independent auditors' report is Malcolm Ramsay.

## **KPMG LLP**

Public Accountants and  
Chartered Accountants

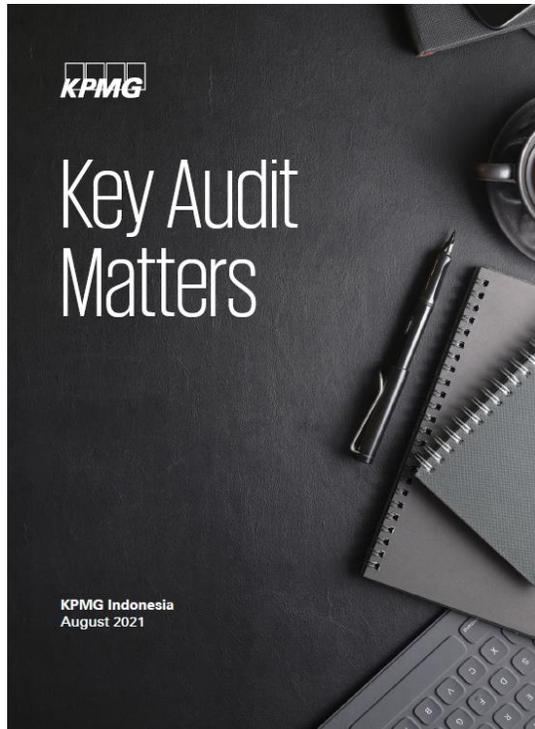
Dated this 19th day of May 2021  
Singapore

# Key Audit Matters - Timeline



# KPMG Key Audit Matters

## The highlights on the new auditor's report requirements introduced by Standard on Auditing 701



New and revised auditor reporting standards which include a new Standard on Auditing (SA) 701, Communicating Key Audit Matters (KAMs) in the Independent Auditor's Report, was finalized in July 2021. SA 701 will be effective for the audits of the financial statements of listed entities beginning on or after 1 January 2022. The inclusion of KAMs in auditor's report is expected to provide greater transparency about the audit that would be performed and increase in the communicative value of an auditor's report.

This publication aims to explain the concept of key audit matters that are part of new auditor's report.

Read more from [this link](#).

Thank you





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