
THE BENEFITS OF INVESTING IN AUDIT

The Company Legislation and Regulatory Framework Committee has recommended several measures to promote entrepreneurship in Singapore. The Government has accepted all the recommendations raised by the Committee. These include no audited financial statements are required for dormant companies and exempt private companies with small annual turnover (not more than S\$2.5 million initially and not more than S\$5 million after one year of this change).

Certain private limited companies may be exempted from statutory audit. However, there are compelling reasons for companies to invest in external audit even if it is not statutorily required.

Some of these reasons are:

- Taxation issues

The audit process commonly unearths adjustments that are significant for the tax purposes and without an audit, tax compliance for many companies would be significantly more difficult than it is at present. If companies make mistakes, the accumulation of unpaid tax, interest and penalties could result in significant liabilities.

In additions, the powers and resources of the Inland Revenue Authority of Singapore and the Department of Customs and Excise are increasing. It is likely that there can be more investigations in the future, and that they are likely to be more thorough too.

- Banking covenants

Many companies are bound to banking covenants that required the financial statements to be audited, regardless of the statutory requirement. Audited financial statements provides banks with important information relating to their lending decisions and their subsequent monitoring of the financial health of companies. Companies currently not bound to banking covenants may not stay so in future. If audit were not performed for a number of years, the company would face many difficulties and possibly higher cost should an audit be required later. It may also not be possible to complete such audits within a short time frame, leading to possible loss of business opportunities and financial loss.

- Merger & Acquisition

Companies may seek potential buyers in future. Regular audit and the issue of an unqualified audit report for a numbers of years prior to a sale provides additional comfort to prospective purchasers and helps in the negotiation process. If no audit was done for some years and an audit is required for this purpose, many difficulties would be encountered and thus higher cost would need to be incurred. Longer time needed for the audit could lengthen the deal process and hence can lead to loss of opportunities and therefore financial loss.



- Growth

When small companies grow, they may eventually be required to comply with statutory audit requirement. It will be difficult to perform audit in the first year if the financial statements have not been audited for a number of years prior to that.

- Fraud and error

Audit report is not a guarantee that a company's financial statements are free of fraud and error. Nevertheless, it is a deterrent to fraud. In the absence of an audit, fraud and error are more likely to occur and to remain undetected.

- Advice on the structure and operations of systems

It is common for auditors to report to directors on structural and operational weaknesses in systems and make recommendations for improvements as auditors have unique insights into best practice and benchmarking across a range of industries.

- Quality of financial information

Smaller companies need assistance on adjustments arising from audit such as provision for inventories obsolescence, bad debts and other provisions, which is significant to the financial statements prepared by them. High quality and credible financial information facilitates decision-making by directors, investors, finance providers and stakeholders.

In summary, there are various benefits of investing in audit, and those that mentioned above are not intended to be comprehensive. Further details can be found in the two booklets "Investing in an Audit" and "The Benefits of an Audit" published by the Institute of Certified Public Accountants of Singapore.

Auditors serve the wider needs of society as a whole, as well as the needs of their clients. Audit contributes to the health of the economy and facilitates the creation of wealth by adding credibility to the financial information on which decisions are made in the financial markets. In conclusion, the cost of audit should be regarded as an investment, not an expense, by small and large businesses alike.

References

1. "Investing in an Audit" by Institute of Certified Public Accountants of Singapore
2. "The Benefits of an Audit" by Institute of Certified Public Accountants of Singapore

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