CLA Global TS
The Growth Strategist For Asia

Fair Value Is Not A Year-End Exercise: Audit and Valuation Readiness for Fund Managers

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For fund managers, overseeing the financial reporting of the funds they manage is more than an annual compliance exercise. High-quality financial reporting supports investor confidence, regulatory compliance and the effective governance of each fund.

This is particularly important where the funds hold unquoted investments. Unlike listed securities, these investments do not have readily observable market prices. Their valuation may involve significant judgement, complex contractual rights, limited financial information and rapidly changing market conditions.

In May 2026, the Monetary Authority of Singapore (MAS) published its **Information Paper on Valuation Practices for Fund Management Companies**, setting out its supervisory expectations following thematic inspections of fund management companies (FMCs) across a range of investment strategies. The paper covers governance over valuation matters, valuation policies and procedures, ongoing price validation checks, and valuation approaches and methodologies. Notably, many of the gaps that the MAS identified — valuation processes that lack independence from portfolio management, policies and procedures that are not kept up to date, fair value assessments that are inadequately supported, and reliance on third-party service providers without sufficient due diligence — echo precisely the issues we encounter from the audit and valuation perspective when working with fund managers holding unquoted and illiquid investments.

As auditors, we frequently find that the main challenge is not whether a valuation has been prepared for the fund's investments. It is whether that valuation is supported by an appropriate methodology, reasonable assumptions, reliable information and sufficient documentation.

Common Valuation and Audit Challenges

In our experience across venture capital, private equity, private credit and real estate funds, the same handful of issues resurface time and again.

Valuation issues often arise because the process begins too late. Where valuations are prepared only after the reporting date, there may be insufficient time for management to obtain information from portfolio companies, assess the valuation assumptions and resolve issues identified by valuers or auditors.

Another common challenge is that valuation estimates rely heavily on portfolio-company forecasts without sufficient support. Forecasts prepared for operational or fundraising purposes may be optimistic and should be assessed against historical performance, available cash runway, financing requirements and current market conditions.

Recent funding rounds may also be relied on without sufficient analysis. Although a recent transaction can provide useful evidence of fair value, the transaction price should not automatically be carried forward to subsequent reporting dates. Fund managers should consider developments since the transaction, changes in market conditions and whether the securities issued in the funding round have different rights from those held by the fund.

Complex capital structures are another frequent source of difficulty. Liquidation preferences, conversion rights, anti-dilution provisions, warrants and other preferential terms may mean that value cannot simply be allocated according to ownership percentages.

Historical cost and reported Net Asset Value (NAV) may likewise be used without sufficient assessment of whether they remain representative of fair value. Cost may cease to reflect fair value as the investee's performance, financing position or market conditions change. Similarly, NAV may provide an appropriate basis for valuing an interest in another fund only where the underlying investments are measured at fair value and the NAV reflects the relevant reporting date and the investor's economic rights.

Finally, valuation estimates may be difficult to audit where the methodology, assumptions or supporting evidence are incomplete. The valuation memorandum should be supported by relevant financial information, investment agreements, capitalisation tables, market data and clear evidence of management's review and challenge.

What The Financial Reporting and Auditing Standards Require

Under the applicable Singapore financial reporting standards, fair value is based on the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

From an audit perspective, the objective of SSA 540 (Revised), Auditing Accounting Estimates and Related Disclosures, is for the auditor to "obtain sufficient appropriate audit evidence" as to whether the accounting estimates and related disclosures are reasonable under the applicable financial reporting framework. The auditor's work is therefore not limited to understanding how the valuation was prepared. Audit procedures must respond to the assessed risks and evaluate the valuation methodology, significant assumptions and underlying data, how management selected its valuation estimate, and whether the related disclosures adequately explain the estimation uncertainty. The higher the assessed risk, the more persuasive the audit evidence required.

Institute of Singapore Chartered Accountants (ISCA)'s Audit Bulletin 8 applies these requirements specifically to unquoted equity investments. In practice, this may require the auditor to assess whether the selected valuation method is appropriate, whether the calculations are mathematically accurate, whether forecasts, discount rates, valuation multiples and comparable companies are supportable and consistently applied, and whether the valuation properly reflects complex share rights. The auditor must also remain alert to management bias and consider evidence that supports or contradicts management's valuation.

Where management engages an external valuation specialist, the valuation report does not replace the need for audit evidence. The auditor must evaluate the specialist's competence, capabilities and objectivity, understand the work performed, and determine whether the methodology, assumptions, data and conclusions are appropriate as evidence supporting the valuation. Where the valuation is particularly complex or judgemental, the auditor may also involve an auditor's valuation specialist.

Put simply:

> "A valuation report is the beginning of the audit conversation, not the end of it."

Common Valuation Approaches

There is no single valuation method that is appropriate for every unquoted investment. The selected approach should reflect the nature of the investee, its stage of development, the information available and how market participants would price the investment.

The **market approach** uses information from comparable listed companies, comparable transactions or other relevant market data. The reliability of the resulting valuation depends on the comparability of the selected companies or transactions and the reasonableness of any adjustments made. A recent transaction price may provide a useful starting point or calibration input, but it is not a standalone valuation technique. Changes in the business, market conditions and the rights attached to different securities must still be considered.

The **income approach** estimates value by reference to future cash flows or earnings. Discounted cash flow models may be appropriate where sufficiently reliable forecasts are available, although assumptions such as revenue growth, profitability, terminal value and discount rates require careful support.

The **cost or replacement cost approach** may be relevant in more limited circumstances, particularly where value is driven mainly by the fair value of the underlying assets rather than earnings. It should not be confused with simply retaining an investment at its historical purchase price. For investments in other private funds, the reported NAV may provide an appropriate basis for estimating fair value where the underlying investments are themselves measured at fair value. Adjustments may be needed for differences in reporting dates, subsequent investments or realisations, carried interest, restrictions and other known developments.

For investments with complex capital structures, more specialised techniques may be required to allocate value among different classes of shares and instruments.

Preparing For The Audit

Fund managers can reduce year-end disruption by treating valuation as an ongoing governance process rather than a final audit deliverable.

This means maintaining an appropriate valuation policy, obtaining portfolio-company information early, documenting key assumptions and judgements, and ensuring that the valuation memoranda are consistent with the related financial statement disclosures.

In practice, this comes down to a few concrete steps well before year end:

- Confirm the valuation policy is current and consistently applied across the portfolio
- Request portfolio-company financials and forecasts early, rather than at the reporting date
- Document the basis for each valuation approach used, including why it was considered appropriate
- Flag complex capital structures, recent funding rounds or specialist valuer involvement to the audit team in advance

Material or complex valuation matters should also be discussed with the auditor before year end, particularly where specialist valuation input may be required as part of the audit. The earlier these conversations happen, the more options both management and the auditor have to resolve them.

Speak to CLA Global TS

At **CLA Global TS**, we work closely with fund managers across a range of fund types and investment strategies, including venture capital, private equity, private credit and real estate funds. We understand the financial reporting, valuation and audit considerations that arise throughout a fund's lifecycle, including the challenges associated with unquoted and illiquid investments.

Where management requires independent valuation support, our valuation specialists can assist with selecting and applying appropriate valuation methodologies, financial modelling, market benchmarking and the preparation of valuation reports that are clear, well-supported and designed to withstand audit scrutiny. By ensuring that the methodology, assumptions, source data and key judgements are properly documented, management can address many foreseeable audit questions upfront and reduce avoidable delays during the fund's audit, subject to applicable independence requirements. Where we act as management's valuation specialist for a fund, independence rules mean we cannot also serve as that fund's auditor, and vice versa — the two roles are mutually exclusive on the same engagement.

Where **CLA Global TS** acts as the independent auditor, our Audit Directors and teams bring a practical and commercially aware approach to fund audits, while maintaining the required standards of audit quality, professional scepticism and independence. Where appropriate, they are supported by internal valuation specialists who assist the auditors in evaluating and challenging valuations prepared by management or management's independent valuers.

Whether you are launching a new fund, preparing for your next reporting cycle, reviewing your valuation processes or seeking an auditor experienced in funds with unquoted investments, the time to have that conversation with CLA Global TS is before the pressure of year end sets in — not during it.

Get in touch with our audit and valuation teams today to find out where your fund stands.

Contact us

Valuation & Transaction Specialists

Grace Lui
Co- Advisory Leader
Director, Valuation, Transaction
Services & Outsourcing
graceluі@sg.cla-ts.com

Karen Lau
Associate Director,
Valuation & Transaction Services
karenlau@sg.cla-ts.com

Audit Specialists

Glenn Lee
Director, Assurance
glennlee@sg.cla-ts.com

Amanda Wong
Associate Director, Assurance
amandawong@sg.cla-ts.com

T: (+65) 6534 5700
connect@sg.cla-ts.com
cla-ts.com

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