INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

Auditor's Report on Financial Statements Prepared in Accordance with Singapore Financial Reporting Standards (International)

Frequently Asked Questions
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Preface

The Accounting Standards Council issued Singapore Financial Reporting Standards (International) (SFRS(I)s), Singapore's equivalent of the International Financial Reporting Standards issued by the International Accounting Standards Board, on 29 December 2017.

Singapore-incorporated companies that have issued, or are in the process of issuing, equity or debt instruments for trading in a public market in Singapore shall apply SFRS(I)s for annual periods beginning on or after 1 January 2018.

SFRS(I)s is also available to other Singapore-incorporated companies as an alternative framework to the Financial Reporting Standards in Singapore as well as the Singapore Financial Reporting Standard for Small Entities.

This publication is developed by the Institute of Singapore Chartered Accountants (ISCA) Auditing and Assurance Standards Committee to address some of the common questions relating to the auditor's report on financial statements prepared in accordance with SFRS(I)s.

This publication does not constitute an authoritative pronouncement of ISCA, nor does it amend or override the Singapore Standards on Auditing (SSAs). Further, this publication is not meant to be exhaustive and reading it is not a substitute for reading the SSAs.

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How does the change in the financial reporting framework from Financial Reporting Standards in Singapore (FRSs) to Singapore Financial Reporting Standards (International) (SFRS(I)s) impact the auditor's report on the first set of financial statements prepared in accordance with SFRS(I)s?

The change in the financial reporting framework from FRSs to SFRS(I)s requires the application of the specific transition requirements in SFRS(I) 1, *First-time Adoption of SFRS(I)s*. For a set of financial statements with 31 December 2018 year end prepared in accordance with SFRS(I)s, SFRS(I) 1 requires presentation of comparative information for 2017 and an opening statement of financial position as at 1 January 2017 that comply with SFRS(I)s.

Generally, the auditor would not have been engaged to audit and report on the comparative information prepared in accordance with SFRS(I)s. However, the auditor would have audited and reported on the comparative information which were prepared in accordance with FRSs (i.e. 2017 financial statements). Furthermore, as part of the audit of the current year's financial statements, the auditor would have performed the necessary procedures to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current year's financial statements. Although no audit opinion has been issued on the comparative information prepared in accordance with SFRS(I)s, it may not be appropriate for the auditor to state that this comparative information is unaudited in the auditor's report.

The impact to the comparative information arising from the change in the financial reporting framework (i.e. the extent of the restatement of comparatives) may vary across different entities. Depending on the circumstances and the auditor's professional judgement, the auditor may determine that one of the following options is appropriate:

(a) Include a key audit matter (KAM) in the auditor's report;

(b) Include an Emphasis of Matter paragraph (EoM) in the auditor's report;

(c) Include an Other Matter paragraph (OM) in the auditor's report; or

(d) No additional disclosure in the auditor's report.

FAQ 1

(a) Include a KAM in the auditor's report

The auditor may, in accordance with the requirements of SSA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, determine that the change in the financial reporting framework is a KAM.

This may be the case when the change in the financial reporting framework results in significant changes to the comparative information. For example, various financial statement line items are materially affected.

Notwithstanding the above, it is possible that while two entities (Entity A and Entity B) may have similar significant changes to their comparative information, their respective auditors may assess and conclude them differently. The auditor of Entity A may have determined the change in the financial reporting framework to be a KAM whereas the auditor of Entity B has not. This is because the determination of KAMs is entity-specific and is based on the auditor's judgement on which matters required significant auditor attention in the audit of the financial statements of that entity.

(b) Include an EoM in the auditor's report

The auditor may not have determined the change in the financial reporting framework to be a KAM. However, in the auditor's judgement, the matter is of such importance that it is fundamental to users' understanding of the financial statements. Paragraph 23 of SFRS(I) 1 requires an entity to explain how the transition from previous GAAP to SFRS(I)s affected its reported financial position, financial performance and cash flows. Accordingly, the auditor may include an EoM in the auditor's report in accordance with SSA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* to draw users' attention to the above disclosure in the financial statements.

An example of the EoM wordings may be as follows:

> ***Emphasis of Matter***
>
> *We draw attention to Note [X] of the financial statements, which describes [refer to entity's disclosure on the change in financial reporting framework and changes to the comparative information]. Our opinion is not modified in respect of this matter.*

(c) Include an OM in the auditor's report

The auditor may have determined the change in the financial reporting framework is not a KAM or an EoM. However, the auditor may consider it necessary to communicate the audit aspects arising from the change in the financial reporting framework to users of financial statements. The auditor may determine that the audit procedures performed on the opening balances is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, even if the impact of the change in the financial reporting framework is not considered to be significant. For example, the financial statements of the prior period were audited by a predecessor auditor. Arising from the change in the financial reporting framework, the comparative information was restated, and the current auditor performed the necessary procedures on the opening balances. If the auditor decides to refer to the predecessor auditor's report in an OM in the auditor's report, the auditor could then include in the OM a description of the auditor's responsibilities on the opening balances.

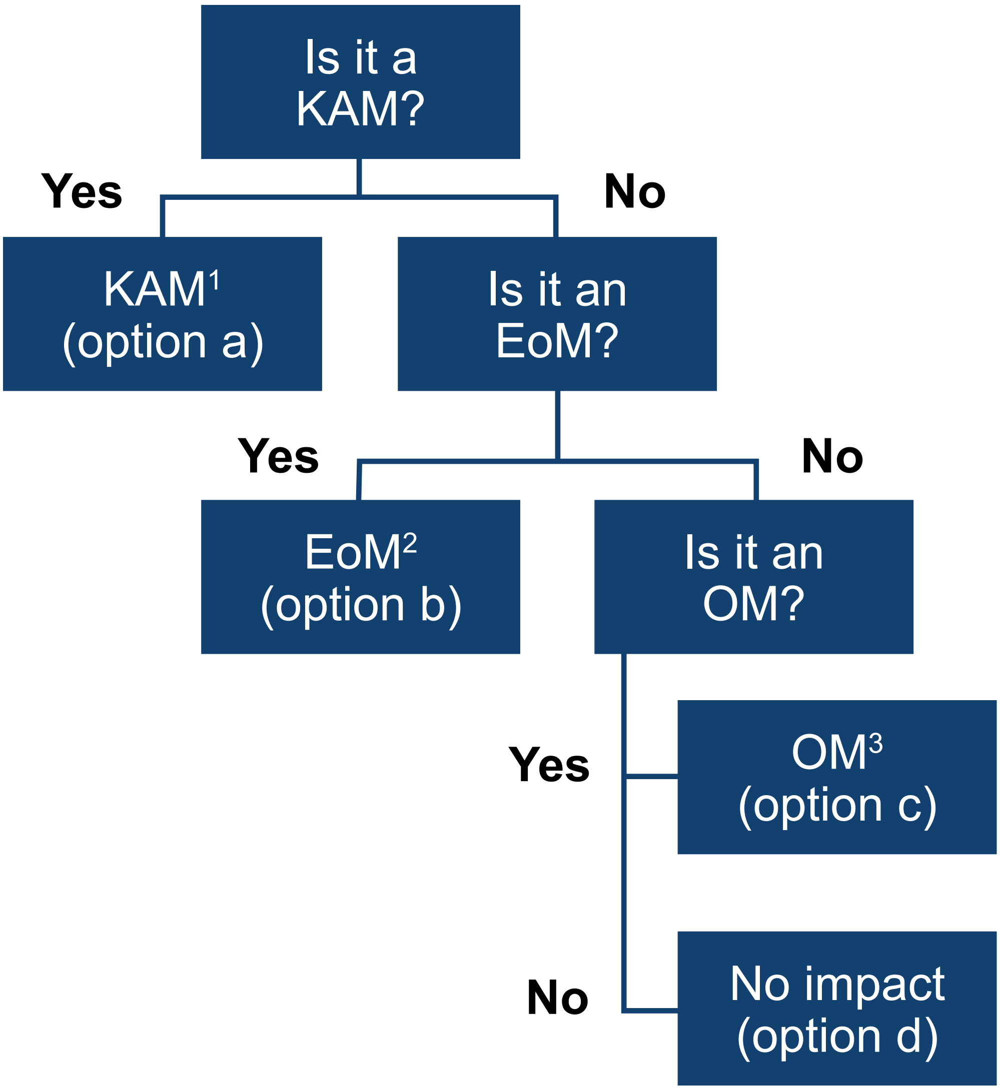
In the OM, in addition to the audit aspects arising from the change in the financial reporting framework, the auditor may wish to make reference to the disclosure in the financial statements as required under paragraph 23 of SFRS(I) 1 as mentioned above in (b). In this instance, the auditor may do so in the OM and need not have a separate EoM to make reference to the disclosure in the financial statements again.

(d) No additional disclosure in the auditor's report

The auditor may have determined the change in the financial reporting framework is not a KAM, an EoM or an OM. Accordingly, no additional disclosure in relation to the change in the financial reporting framework is made in the auditor's report.

FAQ 1

Decision tree to determine the appropriate option



[1] The auditor shall determine KAMs in accordance with the requirements of SSA 701.
[2] The auditor shall include an EoM if in the auditor's judgement, the change in the financial reporting framework may be of such importance that it is fundamental to users' understanding of the financial statements.
[3] The auditor may consider it necessary to make additional communication in relation to the change in the financial reporting framework (other than those disclosed in the financial statements) that, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

FAQ 2 – Comparatives and the Impact on the Auditor's Report on the First Set of Financial Statements Prepared in Accordance with Singapore Financial Reporting Standards (International): Non-Listed Entity

Other than listed entities, Singapore-incorporated entities which are in the process of issuing equity or debt instruments for trading in a public market in Singapore are also required to apply SFRS(I)s. For other Singapore-incorporated non-listed entities[4], SFRS(I)s is also available for election as an alternative financial reporting framework.

How does the change in the financial reporting framework to SFRS(I)s impact the auditor's report on the first set of financial statements prepared in accordance with SFRS(I)s for these entities?

The same options provided for in FAQ 1 would apply except for option (a) as KAM is not applicable for audits of financial statements of these entities, unless the auditor decides to communicate KAM in the auditor's report.

[4] Please refer to the *Singapore Financial Reporting Standards (International) Statement on Applicability* issued by the Accounting Standards Council on the entities which can elect to apply SFRS(I)s as an alternative financial reporting framework.

FAQ 3

FAQ 3 – Comparatives and the Impact on the Auditor's Review Report on Interim Financial Statements Issued in Accordance with Singapore Standard on Review Engagement 2410

SFRS(I) 1 also applies to interim financial statements prepared in accordance with SFRS(I) 1-34, *Interim Financial Reporting* for any part of the period covered by its first SFRS(I) financial statements. Singapore Exchange (SGX) listed companies are expected to provide SFRS(I) compliant comparatives and disclosures about their transition to SFRS(I)s in their 2018 quarterly and half-yearly announcements.

How would this impact the auditor's review report on the company's interim financial statements issued in accordance with Singapore Standard on Review Engagement 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*?

The same options provided for in FAQ 1 would apply, except for option (a) as KAM is not applicable for review reports.

FAQ 4

FAQ 4 – Issuing Audit Opinions on Financial Statements Prepared in Accordance with Singapore Financial Reporting Standards (International) and International Financial Reporting Standards

If an entity applying SFRS(I)s elects to state simultaneous compliance with both SFRS(I)s and International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board in its financial statements, is the auditor also expected to opine on the compliance of the financial statements with both SFRS(I)s and IFRSs?

While there is no statutory requirement for the auditor to opine on the compliance of the financial statements with two financial reporting frameworks (e.g. SFRS(I)s and IFRSs), it is possible that an entity's financial statements state that they are prepared in accordance with two financial reporting frameworks. In such instances, as guided in paragraph A13 of SSA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, both are the applicable financial reporting frameworks. To be regarded as being prepared in accordance with both frameworks, the financial statements need to comply with both frameworks simultaneously and without any need for reconciling statements.

When an entity intends to state simultaneous compliance with both SFRS(I)s and IFRSs in the financial statements, this should be communicated to the auditor early and, in which case, the scope of the audit engagement and the audit opinions to be expressed on the compliance of the financial statements with both financial reporting frameworks should be agreed as part of the terms of the audit engagement with management.

The financial reporting frameworks for which the financial statements assert compliance with should be consistent with the audit opinions issued by the auditor.

FAQ 5

FAQ 5 – Presentation of Audit Opinions on Financial Statements Prepared in Accordance with Singapore Financial Reporting Standards (International) and International Financial Reporting Standards

How should the auditor present the audit opinions if the auditor is reporting on the compliance of the financial statements with both SFRS(I)s and IFRSs?

Paragraph A30 of SSA 700 (Revised) provides that each financial reporting framework is considered separately when forming the auditor's opinion on the financial statements, and the auditor's opinion refers to both frameworks as follows:

(a) If the financial statements comply with each of the frameworks individually, two opinions are expressed: that is, that the financial statements are prepared in accordance with one of the applicable financial reporting frameworks and an opinion that the financial statements are prepared in accordance with the other applicable financial reporting framework. <u>These opinions may be expressed separately or in a single sentence.</u>

(b) If the financial statements comply with one of the frameworks but fail to comply with the other framework, an unmodified opinion can be given that the financial statements are prepared in accordance with the one framework but a modified opinion given with regard to the other framework in accordance with SSA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*.

In this case, assuming the entity is a Singapore incorporated listed company with subsidiaries and the audit opinions are unmodified, the audit opinions may be presented as follows:

Presentation of the audit opinions in a single sentence

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), 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 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.

OR

Presentation of the audit opinions separately

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 Singapore Financial Reporting Standards (International) (SFRS(I)s) 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.

Separate Opinion in Relation to International Financial Reporting Standards

As explained in Note [X] to the financial statements, [the Group and the Company], in addition to applying SFRS(I)s, have also applied International Financial Reporting Standards (IFRSs).

In our opinion, the consolidated financial statements of the Group [and the statement of financial position of the Company] 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 for the year then ended in accordance with IFRSs.

FAQ 5

The “Responsibilities of Management and Directors for the Financial Statements” section of the auditor’s report would also be amended as follows:

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.

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 a member of Chartered Accountants Worldwide (CAW). CAW brings together 12 chartered accountancy bodies connecting and representing the interests of over 1.7 million members and students globally.

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

About ISCA Auditing and Assurance Standards Committee

ISCA's Auditing and Assurance Standards Committee (AASC) develops Singapore's auditing and assurance standards in furtherance of the public interest. The standard-setting process is robust and essentially one that draws from the resources of the International Auditing and Assurance Standards Board. The AASC also develops local standards to establish requirements for matters of relevance in Singapore. The process is overseen by the Accounting and Corporate Regulatory Authority's (ACRA) Public Accountants Oversight Committee to ensure that the development of the auditing and assurance standards, to be adopted by ACRA, is robust, credible and promotes public confidence.

The AASC's strategic direction as reflected in its terms of reference also includes monitoring policy and implementation issues relating to the development of auditing and assurance standards internationally and in Singapore, and giving consideration to the need for guidance to provide practice assistance and promote best practices. The AASC also engages with international bodies and promotes Singapore's interests in relation to standards and where appropriate, takes a leading role in representing regional interests.

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