

## **Modifications to the Opinion in the Independent Auditor's Report**

Proposed Singapore Standard on Auditing (SSA) 705 (Revised): *Modifications to the Opinion in the Independent Auditor's Report* is based on Proposed International Standard on Auditing (ISA) 705 (Revised): *Modifications to the Opinion in the Independent Auditor's Report*, published by the International Federation of Accountants (IFAC) in July 2013, and used with the permission of IFAC.

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# PROPOSED SINGAPORE STANDARD ON AUDITING 705 (REVISED) MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT

(Effective for audits of financial statements for periods beginning/ending on or after 15-December-2009date)

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\* In developing proposed SSA 705 (Revised), certain requirements and application material in extant SSA 705 (beginning at paragraph 16) were moved. Where requirements and application material were moved, a reference to the relevant extant paragraph number(s) follows the revised text to each new paragraph as follows: [Extant paragraph A#]. Where new requirements and new application material were developed, those corresponding paragraphs numbers are underlined.

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Proposed Singapore Standard on Auditing (SSA) 705 (Revised), “Modifications to the Opinion in the Independent Auditor’s Report” should be read in conjunction with SSA 200 “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Singapore Standards on Auditing.”

## Introduction

### Scope of this SSA

1. This Singapore Standard on Auditing (SSA) deals with the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with [proposed SSA 700 \(Revised\)](#)<sup>1</sup>, the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary.

### Types of Modified Opinions

2. This SSA establishes three types of modified opinions, namely, a qualified opinion, an adverse opinion, and a disclaimer of opinion. The decision regarding which type of modified opinion is appropriate depends upon:
  - (a) The nature of the matter giving rise to the modification, that is, whether the financial statements are materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and
  - (b) The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements. (Ref: Para. A1)

### Effective Date

3. This SSA is effective for audits of financial statements for periods [\[beginning/ending on or after 15 December 2009date\]](#).

### Objective

4. The objective of the auditor is to express clearly an appropriately modified opinion on the financial statements that is necessary when:
  - (a) The auditor concludes, based on the audit evidence obtained, that the financial statements as a whole are not free from material misstatement; or
  - (b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

### Definitions

5. For purposes of the SSAs, the following terms have the meanings attributed below:
  - (a) Pervasive – A term used, in the context of misstatements, to describe the effects on the financial statements of misstatements or the possible effects on the financial statements

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<sup>1</sup> [Proposed SSA 700 \(Revised\)](#), *Forming an Opinion and Reporting on Financial Statements*

of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the auditor's judgment:

- (i) Are not confined to specific elements, accounts or items of the financial statements;
  - (ii) If so confined, represent or could represent a substantial proportion of the financial statements; or
  - (iii) In relation to disclosures, are fundamental to users' understanding of the financial statements.
- (b) Modified opinion – A qualified opinion, an adverse opinion or a disclaimer of opinion.

## Requirements

### Circumstances When a Modification to the Auditor's Opinion is Required

6. The auditor shall modify the opinion in the auditor's report when:
- (a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or (Ref: Para. A2-A7)
  - (b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. (Ref: Para. A8-A12)

### Determining the Type of Modification to the Auditor's Opinion

#### *Qualified Opinion*

7. The auditor shall express a qualified opinion when:
- (a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
  - (b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

#### *Adverse Opinion*

8. The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

#### *Disclaimer of Opinion*

9. The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.
10. The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple

uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

*Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation after the Auditor Has Accepted the Engagement*

11. If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope of the audit that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor shall request that management remove the limitation.
12. If management refuses to remove the limitation referred to in paragraph 11 [of this SSA](#), the auditor shall communicate the matter to those charged with governance, unless all of those charged with governance are involved in managing the entity<sup>2</sup>, and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.
13. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows:
  - (a) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or
  - (b) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall:
    - (i) Withdraw from the audit, where practicable and possible under applicable law or regulation; or (Ref: Para. A13-A14)
    - (ii) If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial statements.
14. If the auditor withdraws as contemplated by paragraph 13(b)(i), before withdrawing, the auditor shall communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion. (Ref: Para. A15)

*Other Considerations Relating to an Adverse Opinion or Disclaimer of Opinion*

15. When the auditor considers it necessary to express an adverse opinion or disclaim an opinion on the financial statements as a whole, the auditor's report shall not also include an unmodified opinion with respect to the same financial reporting framework on a single financial statement or one or more specific elements, accounts or items of a financial statement. To include such an unmodified opinion in the same report<sup>3</sup> in these circumstances would contradict the auditor's adverse opinion or disclaimer of opinion on the financial statements as a whole. (Ref: Para. A16)

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<sup>2</sup> [Proposed SSA 260 \(Revised\)](#), *Communication with those Charged with Governance*, paragraph 13

<sup>3</sup> SSA 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*, deals with circumstances where the auditor is engaged to express a separate opinion on one or more specific elements, accounts or items of a financial statement.

## Form and Content of the Auditor’s Report When the Opinion is Modified

### Auditor’s Opinion-Paragraph

16. When the auditor modifies the audit opinion, the auditor shall use the heading “Qualified Opinion,” “Adverse Opinion,” or “Disclaimer of Opinion,” as appropriate, for the opinion paragraph. (Ref: Para. [A17-A19A21, A23-A24](#)) [Moved from paragraph 22 of extant]

### Qualified Opinion

17. When the auditor expresses a qualified opinion due to a material misstatement in the financial statements, the auditor shall state ~~in the opinion paragraph~~ that, in the auditor’s opinion, except for the effects of the matter(s) described in the Basis for Qualified Opinion ~~section~~paragraph:
- (a) ~~When reporting in accordance with a fair presentation framework, T~~the accompanying financial statements present fairly, in all material respects (or give a true and fair view of)<sup>3a</sup> [...] in accordance with [the applicable financial reporting framework]~~when reporting in accordance with a fair presentation framework~~; or
- (b) ~~When reporting in accordance with compliance framework, T~~the accompanying financial statements have been prepared, in all material respects, in accordance with [the applicable financial reporting framework]~~when reporting in accordance with a compliance framework~~.

When the modification arises from an inability to obtain sufficient appropriate audit evidence, the auditor shall use the corresponding phrase “except for the possible effects of the matter(s) ...” for the modified opinion. (Ref: Para. [A20A22](#)) [Moved from paragraph 23 of extant]

### Adverse Opinion

18. When the auditor expresses an adverse opinion, the auditor shall state ~~in the opinion paragraph~~ that, in the auditor’s opinion, because of the significance of the matter(s) described in the Basis for Adverse Opinion ~~paragraph~~ section:
- (a) ~~When reporting in accordance with a fair presentation framework, T~~the accompanying financial statements do not present fairly (or give a true and fair view of)<sup>3b</sup> [...] in accordance with [the applicable financial reporting framework]~~when reporting in accordance with a fair presentation framework~~; or
- (b) ~~When reporting in accordance with compliance framework, T~~the accompanying financial statements have not been prepared, in all material respects, in accordance with [the applicable financial reporting framework]~~when reporting in accordance with a compliance framework~~. [Moved from paragraph 24 of extant]

### Disclaimer of Opinion

19. When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor shall ~~state in the opinion paragraph that~~: [Moved from paragraphs 25 and 27 of extant and list reordered]
- (a) ~~State that T~~the auditor does not express an opinion on the accompanying financial statements~~;~~.

<sup>3a</sup> Statutory financial statements require a “true and fair view” to be expressed.

<sup>3b</sup> Statutory financial statements require a “true and fair view” to be expressed.

- (b) State that, Bbecause of the significance of the matter(s) described in the Basis for Disclaimer of Opinion sectionparagraph, the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements; and, accordingly;
- (c) Amend the introductory paragraph of the auditor's report to state statement that indicates that the financial statements have been audited required by paragraph 27(b) of proposed SSA 700 (Revised) to state that the auditor was engaged to audit the financial statements.

*Basis for Opinion Modification Paragraph*

20. When the auditor modifies the opinion on the financial statements, the auditor shall, in addition to the specific elements required by proposed SSA 700 (Revised); (Ref: Para. A17A21-A22) [Moved from paragraph 16 of extant]
  - (a) ~~The auditor shall place this paragraph immediately before the opinion paragraph in the auditor's report and a~~Amend the heading "Basis for Opinion" required by paragraph 28 of proposed SSA 700 (Revised) use the heading to "Basis for Qualified Opinion," "Basis for Adverse Opinion," or "Basis for Disclaimer of Opinion," as appropriate; and
  - (b) Within this section, include ~~a paragraph in the auditor's report that provides~~a description of the matter giving rise to the modification.
21. If there is a material misstatement of the financial statements that relates to specific amounts in the financial statements (including quantitative disclosures in the notes to the financial statements), the auditor shall include in the bBasis for modification paragraphOpinion section a description and quantification of the financial effects of the misstatement, unless impracticable. If it is not practicable to quantify the financial effects, the auditor shall so state in this sectionthe basis for modification paragraph. (Ref: Para. A18A23) [Moved from paragraph 17 of extant]
22. If there is a material misstatement of the financial statements that relates to narrative disclosures, the auditor shall include in the bBasis for modification paragraphOpinion section an explanation of how the disclosures are misstated. [Moved from paragraph 18 of extant]
23. If there is a material misstatement of the financial statements that relates to the non-disclosure of information required to be disclosed, the auditor shall:
  - (a) Discuss the non-disclosure with those charged with governance;
  - (b) Describe in the bBasis for modification paragraphOpinion section the nature of the omitted information; and
  - (c) Unless prohibited by law or regulation, include the omitted disclosures, provided it is practicable to do so and the auditor has obtained sufficient appropriate audit evidence about the omitted information. (Ref: Para. A19A24) [Moved from paragraph 19 of extant]
24. If the modification results from an inability to obtain sufficient appropriate audit evidence, the auditor shall include in the bBasis for modification paragraphOpinion section the reasons for that inability. [Moved from paragraph 20 of extant]
25. When the auditor expresses a qualified or adverse opinion, the auditor shall amend the description of the auditor's responsibility to state that the the statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion required by paragraph 28(d) of proposed SSA 700 (Revised) auditor believes that the audit



~~evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's modified audit opinion to include the word "qualified" or "adverse", as appropriate. [Moved from paragraph 26 of extant]~~

26. When the auditor disclaims an opinion on the financial statement, the auditor's report shall not include the elements required by paragraphs 28(b) and 28(d) of proposed SSA 700 (Revised). Those elements are:

(a) A reference to the section of the auditor's report where the auditor's responsibilities are described; and

(b) A statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

27. Even if the auditor has expressed an adverse opinion or disclaimed an opinion on the financial statements, the auditor shall describe in the ~~b~~Basis for modification paragraphOpinion section the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion, and the effects thereof. (Ref: Para. A25A20) [Moved from paragraph 21 of extant]

#### Description of Auditor's Responsibility When the Auditor Expresses a Qualified or Adverse Opinion

Description of Auditor's ResponsibilityResponsibilities for the Audit of the Financial Statements ~~When the Auditor Disclaims an Opinion~~

28. When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, ~~the auditor shall amend the introductory paragraph of the auditor's report to state that the auditor was engaged to audit the financial statements. [The auditor shall also amend the description of the auditor's responsibility responsibilities required by paragraphs 36-38 of proposed SSA 700 (Revised) and the description of the scope of the audit to include state only the following: (Ref: Para. A26)~~

(a) A statement that "Ourthe auditor's responsibility is to express an opinion onconduct an audit of the entity's financial statements based on conducting the audit in accordance with Singapore Standards on Auditing and to issue an auditor's report;

(b) As statement that, however, Bbecause of the matter(s) described in the Basis for Disclaimer of Opinion paragraph section, however, the auditor was we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.;" and

(c) The statement about auditor independence and other ethical responsibilities required by paragraph 28(c) of proposed SSA 700 (Revised).

#### Special Considerations When the Auditor Disclaims an Opinion

29. When the auditor disclaims an opinion on the financial statements, the auditor's report shall not include: (Ref: Para. A27)

(a) A section addressing the reporting requirements in proposed SSA 701;<sup>4</sup> (Ref: Para. A28)

(b) A section addressing the reporting requirements in proposed SSA 570 (Revised);<sup>5</sup>

<sup>4</sup> Paragraphs 9-11 and 13 of proposed SSA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

<sup>5</sup> Paragraphs 19-20 and 22-25 of proposed SSA 570 (Revised), *Going Concern*

(c) [A section addressing the reporting requirements in proposed SSA 720 \(Revised\);<sup>6</sup> or](#)

(d) [A further description of the audit and the auditor's responsibilities as required by paragraphs 37-38 of proposed SSA 700 \(Revised\).](#)

## Communication with Those Charged with Governance

30. When the auditor expects to modify the opinion in the auditor's report, the auditor shall communicate with those charged with governance the circumstances that led to the expected modification and the proposed wording of the modification. (Ref: Para. [A2925](#))

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## Application and Other Explanatory Material

### Types of Modified Opinions (Ref: Para. 2)

- A1. The table below illustrates how the auditor's judgment about the nature of the matter giving rise to the modification, and the pervasiveness of its effects or possible effects on the financial statements, affects the type of opinion to be expressed.

| <i>Nature of Matter Giving Rise to the Modification</i>   | <i>Auditor's Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements</i> |                               |
|---|--|-------------------------------|
|   | <i>Material but Not Pervasive</i>  | <i>Material and Pervasive</i> |
| Financial statements are materially misstated             | Qualified opinion  | Adverse opinion               |
| Inability to obtain sufficient appropriate audit evidence | Qualified opinion  | Disclaimer of opinion         |

### [Circumstances When a Modification to the Auditor's Opinion Is Required](#)

*Nature of Material Misstatements* (Ref: Para. 6(a))

- A2. [Proposed SSA 700 \(Revised\)](#) requires the auditor, in order to form an opinion on the financial statements, to conclude as to whether reasonable assurance has been obtained about whether the financial statements as a whole are free from material misstatement<sup>7</sup>. This conclusion takes into account the auditor's evaluation of uncorrected misstatements, if any, on the financial statements in accordance with SSA 450<sup>8</sup>.
- A3. SSA 450 defines a misstatement as a difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Accordingly, a material misstatement of the financial statements may arise in relation to:
- (a) The appropriateness of the selected accounting policies;

<sup>6</sup> [Proposed SSA 720 \(Revised\), The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon](#)

<sup>7</sup> [Proposed SSA 700 \(Revised\)](#), paragraph 11

<sup>8</sup> SSA 450, *Evaluation of Misstatements Identified during the Audit*, paragraph 11

- (b) The application of the selected accounting policies; or
- (c) The appropriateness or adequacy of disclosures in the financial statements.

#### Appropriateness of the Selected Accounting Policies

- A4. In relation to the appropriateness of the accounting policies management has selected, material misstatements of the financial statements may arise when:
- (a) The selected accounting policies are not consistent with the applicable financial reporting framework; or
  - (b) The financial statements, including the related notes, do not represent the underlying transactions and events in a manner that achieves fair presentation.
- A5. Financial reporting frameworks often contain requirements for the accounting for, and disclosure of, changes in accounting policies. Where the entity has changed its selection of significant accounting policies, a material misstatement of the financial statements may arise when the entity has not complied with these requirements.

#### Application of the Selected Accounting Policies

- A6. In relation to the application of the selected accounting policies, material misstatements of the financial statements may arise:
- (a) When management has not applied the selected accounting policies consistently with the financial reporting framework, including when management has not applied the selected accounting policies consistently between periods or to similar transactions and events (consistency in application); or
  - (b) Due to the method of application of the selected accounting policies (such as an unintentional error in application).

#### Appropriateness or Adequacy of Disclosures in the Financial Statements

- A7. In relation to the appropriateness or adequacy of disclosures in the financial statements, material misstatements of the financial statements may arise when:
- (a) The financial statements do not include all of the disclosures required by the applicable financial reporting framework;
  - (b) The disclosures in the financial statements are not presented in accordance with the applicable financial reporting framework; or
  - (c) The financial statements do not provide the disclosures necessary to achieve fair presentation.

#### *Nature of an Inability to Obtain Sufficient Appropriate Audit Evidence (Ref: Para. 6(b))*

- A8. The auditor's inability to obtain sufficient appropriate audit evidence (also referred to as a limitation on the scope of the audit) may arise from:
- (a) Circumstances beyond the control of the entity;
  - (b) Circumstances relating to the nature or timing of the auditor's work; or

(c) Limitations imposed by management.

A9. An inability to perform a specific procedure does not constitute a limitation on the scope of the audit if the auditor is able to obtain sufficient appropriate audit evidence by performing alternative procedures. If this is not possible, the requirements of paragraphs 7(b) and 10 apply as appropriate. Limitations imposed by management may have other implications for the audit, such as for the auditor's assessment of fraud risks and consideration of engagement continuance.

A10. Examples of circumstances beyond the control of the entity include when:

- The entity's accounting records have been destroyed.
- The accounting records of a significant component have been seized indefinitely by governmental authorities.

A11. Examples of circumstances relating to the nature or timing of the auditor's work include when:

- The entity is required to use the equity method of accounting for an associated entity, and the auditor is unable to obtain sufficient appropriate audit evidence about the latter's financial information to evaluate whether the equity method has been appropriately applied.
- The timing of the auditor's appointment is such that the auditor is unable to observe the counting of the physical inventories.
- The auditor determines that performing substantive procedures alone is not sufficient, but the entity's controls are not effective.

A12. Examples of an inability to obtain sufficient appropriate audit evidence arising from a limitation on the scope of the audit imposed by management include when:

- Management prevents the auditor from observing the counting of the physical inventory.
- Management prevents the auditor from requesting external confirmation of specific account balances.

### **Determining the Type of Modification to the Auditor's Opinion**

*Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation after the Auditor Has Accepted the Engagement (Ref: Para. 13(b)-14)*

A13. The practicality of withdrawing from the audit may depend on the stage of completion of the engagement at the time that management imposes the scope limitation. If the auditor has substantially completed the audit, the auditor may decide to complete the audit to the extent possible, disclaim an opinion and explain the scope limitation [within](#) the Basis for Disclaimer of Opinion [sectionparagraph](#) prior to withdrawing.

A14. In certain circumstances, withdrawal from the audit may not be possible if the auditor is required by law or regulation to continue the audit engagement. This may be the case for an auditor that is appointed to audit the financial statements of public sector entities. It may also be the case in jurisdictions where the auditor is appointed to audit the financial statements covering a specific period, or appointed for a specific period and is prohibited from withdrawing before the completion of the audit of those financial statements or before the end of that period, respectively. The auditor may also consider it necessary to include an Other Matter paragraph in the auditor's

report<sup>9</sup>.

- A15. When the auditor concludes that withdrawal from the audit is necessary because of a scope limitation, there may be a professional, legal or regulatory requirement for the auditor to communicate matters relating to the withdrawal from the engagement to regulators or the entity's owners.

*Other Considerations Relating to an Adverse Opinion or Disclaimer of Opinion* (Ref: Para. 15)

- A16. The following are examples of reporting circumstances that would not contradict the auditor's adverse opinion or disclaimer of opinion:
- The expression of an unmodified opinion on financial statements prepared under a given financial reporting framework and, within the same report, the expression of an adverse opinion on the same financial statements under a different financial reporting framework<sup>10</sup>.
  - The expression of a disclaimer of opinion regarding the results of operations, and cash flows, where relevant, and an unmodified opinion regarding the financial position (see SSA 510<sup>11</sup>). In this case, the auditor has not expressed a disclaimer of opinion on the financial statements as a whole.

## Form and Content of the Auditor's Report When the Opinion is Modified

### *Illustrative Auditor's Reports*

- A17. Illustrations 1 and 42 in the Appendix contain auditor's reports with qualified ~~and adverse~~ opinions, ~~whereas illustration 2 in the Appendix contains auditor's report with an adverse opinion respectively~~, as the financial statements are materially misstated. [Moved from paragraph A23 of extant]
- A18. Illustration 3 in the Appendix contains an auditor's report with a qualified opinion as the auditor is unable to obtain sufficient appropriate audit evidence. ~~Illustration 4 contains a disclaimer of opinion due to an inability to obtain sufficient appropriate audit evidence about a single element of the financial statements.~~ Illustration 5 contains a disclaimer of opinion due to an inability to obtain sufficient appropriate audit evidence about multiple elements of the financial statements. In ~~each of the latter two cases~~, the possible effects on the financial statements of the inability are both material and pervasive. ~~The Appendices to other SSAs that include reporting requirements, including proposed SSA 570 (Revised),<sup>12</sup> also include illustrations of auditor's reports with modified opinions.~~ [Moved from paragraph A24 of extant]

### *Auditor's Opinion Paragraph* (Ref: Para. 1648)

- A19. ~~Inclusion of Amending~~ this ~~paragraph~~-heading makes it clear to the user that the auditor's opinion is modified and indicates the type of modification. [Moved from paragraph A21 of extant]

### *Qualified Opinion* (Ref: Para. 17)

- A20. When the auditor expresses a qualified opinion, it would not be appropriate to use phrases such as "with the foregoing explanation" or "subject to" in the ~~o~~Opinion ~~section~~paragraph as these are

<sup>9</sup> [Proposed SSA 706 \(Revised\)](#), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraph A5

<sup>10</sup> See paragraph [A24A32](#) of [proposed SSA 700 \(Revised\)](#) for a description of this circumstance.

<sup>11</sup> SSA 510, *Initial Audit Engagements – Opening Balances*, paragraph 10

<sup>12</sup> [Proposed SSA 570 \(Revised\)](#), *Going Concern*

not sufficiently clear or forceful. [Moved from paragraph A22 of extant]

*Basis for Opinion Modification Paragraph* (Ref: Para. 20-27)

A21. Consistency in the auditor's report helps to promote users' understanding and to identify unusual circumstances when they occur. Accordingly, although uniformity in the wording of a modified opinion and in the description of the reasons basis for the modification may not be possible, consistency in both the form and content of the auditor's report is desirable. [Moved from paragraph A17 of extant]

A22. The Basis for Opinion section of the auditor's report provides important context about the auditor's opinion, in particular in cases where the auditor's opinion is modified. The placement of this information in close proximity to the auditor's opinion in the auditor's report enhances the usefulness of the auditor's report.

A23. An example of the financial effects of material misstatements that the auditor may describe within the bBasis for modification Opinion section paragraph in the auditor's report is the quantification of the effects on income tax, income before taxes, net income and equity if inventory is overstated. [Moved from paragraph A18 of extant]

A24. Disclosing the omitted information within the bBasis for modification paragraph Opinion section would not be practicable if:

- (a) The disclosures have not been prepared by management or the disclosures are otherwise not readily available to the auditor; or
- (b) In the auditor's judgment, the disclosures would be unduly voluminous in relation to the auditor's report. [Moved from paragraph A19 of extant]

A25. An adverse opinion or a disclaimer of opinion relating to a specific matter described within the bBasis for Opinion section qualification paragraph does not justify the omission of a description of other identified matters that would have otherwise required a modification of the auditor's opinion. In such cases, the disclosure of such other matters of which the auditor is aware may be relevant to users of the financial statements. [Moved from paragraph A20 of extant]

*Description of Auditor's Responsibilities for the Audit of the Financial Statements When the Auditor Disclaims an Opinion* (Ref: Para. 28)

A26. When the auditor disclaims an opinion on the financial statements, the following statements may be better positioned within the Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report, as illustrated in illustration 5 of the Appendix to this SSA:

- The statement required by paragraph 28(a) of proposed SSA 700 (Revised), amended to state that the auditor's responsibility is to conduct an audit of the entity's financial statements in accordance with SSAs; and
- The statement required by paragraph 28(c) of proposed SSA 700 (Revised) about independence and other ethical responsibilities.

*Special Considerations When the Auditor Disclaims an Opinion* (Ref: Para. 29)

A27. Providing the reasons for the auditor's inability to obtain sufficient appropriate audit evidence within the Basis for Disclaimer of Opinion section of the auditor's report provides useful information to users in understanding why the auditor has disclaimed an opinion on the financial statements and may further guard against inappropriate reliance on them. However, providing further details about the audit, including addressing the auditor's responsibilities about going

concern, key audit matters, other information, or providing an extensive description of the auditor's responsibilities for the audit of the financial statements may overshadow the disclaimer of opinion on the financial statements as a whole.

Key Audit Matters (Ref: Para. 29(a))

A28. Paragraph 27 of this SSA explains that, even when the auditor disclaims an opinion on the financial statements, any other matters of which the auditor is aware that would have required a modification to the opinion, and the effects thereof, should be addressed within the Basis for Opinion section of the auditor's report. In contrast, any discussion of key audit matters unrelated to the disclaimer of opinion may suggest the financial statements are more credible in relation to those matters than would be appropriate in the circumstances and would overshadow the disclaimer of an opinion on the financial statements as a whole.

**Communication with Those Charged with Governance (Ref: Para. 2830)**

- A29. Communicating with those charged with governance the circumstances that lead to an expected modification to the auditor's opinion and the proposed wording of the modification enables:
- (a) The auditor to give notice to those charged with governance of the intended modification(s) and the reasons (or circumstances) for the modification(s);
  - (b) The auditor to seek the concurrence of those charged with governance regarding the facts of the matter(s) giving rise to the expected modification(s), or to confirm matters of disagreement with management as such; and
  - (c) Those charged with governance to have an opportunity, where appropriate, to provide the auditor with further information and explanations in respect of the matter(s) giving rise to the expected modification(s).

## Appendix

(Ref: Para. [A17-A18, A26A23-24](#))

### Illustrations of Auditor's Reports with Modifications to the Opinion

Note: Only the required reporting elements that would be affected by the auditor expressing a modified opinion have been reproduced in these illustrations. The Appendix to proposed SSA 700 (Revised) contains the illustrative wording for sections whose contents would not be affected by this SSA.

- Illustration 1: An auditor's report containing a qualified opinion due to a material misstatement of the financial statements.
- Illustration 2: An auditor's report containing an adverse opinion due to a material misstatement of the [consolidated](#) financial statements.
- Illustration 3: An auditor's report containing a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence, [regarding a foreign associate](#).
- Illustration 4: An auditor's report containing a qualified opinion due to an omission of a statement of cash flows.
- Illustration 5: An auditor's report containing a disclaimer of opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about multiple elements of the financial statements.

When the auditor expects to modify the opinion in the auditor's report, the auditor shall communicate with those charged with governance the circumstances that led to the expected modification and the proposed wording of the modification in accordance with paragraph [3028](#).



Illustration 1 :- Qualified Opinion due to a Material Misstatement of the Financial Statements

For purposes of this illustrative auditor's report, the following circumstances are assumed to include the following:

- Audit of a complete set of general purpose financial statements prepared by management of a listed entity in accordance with Singapore Financial Reporting Standards (FRSs), which is a fair presentation framework. The audit is not a group audit conducted in accordance with SSA 600, Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SSA 210-, Agreeing the Terms of Audit Engagements.
- Inventories are misstated. The misstatement is deemed to be material but not pervasive to the financial statements (i.e., a qualified opinion is appropriate).
- Key audit matters have been communicated in accordance with proposed SSA 701.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

## INDEPENDENT AUDITOR'S REPORT

[To the Shareholders of ABC Company [or Other Appropriate Addressee]

### Report on the Audit of the Financial Statements<sup>13</sup>

#### Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraphsection of our report, the accompanying financial statements are properly drawn up in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the Act) and Singapore Financial Reporting Standards (FRSs) so as to give a true and fair view of the state of affairs of ABC Company (the Company) as at \_\_\_\_\_(date) and the results, changes in equity and cash flows of the Company for the year ended on that date.

We have audited the accompanying financial statements of ABC Company (the "Company"), which comprise the statement of financial position as at 31 December 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

#### Basis for Qualified Opinion

The Company's inventories are carried in the statement of financial position at xxx. Management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from FRS 2, *Inventories*. The Company's records indicate that had management stated the inventories at the lower of cost and net realizable value, an amount of xxx would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales

<sup>13</sup> The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

would have been increased by xxx, and income tax, net income and shareholders' equity would have been reduced by xxx, xxx and xxx, respectively.

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company within the meaning of the Accounting and Corporate Regulatory Authority (ACRA) *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* and have fulfilled our other responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. Key audit matters are selected from the matters communicated with *[those charged with governance]*, but are not intended to represent all matters that were discussed with them. In addition to the matter described in the Basis for Qualified Opinion section of our report, we have determined the matters described below to be the key audit matters. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

*[Reporting of individual matters in accordance with paragraph 10 of proposed SSA 701 – see illustration 1 in proposed SSA 700 (Revised).]*

### **Going Concern**

*[Reporting in accordance with proposed SSA 570 (Revised) – see illustration 1 in proposed SSA 700 (Revised) and proposed SSA 570 (Revised).]*

### **Other Information**

*[The illustrative wording for this section is subject to the finalization of proposed SSA 720 (Revised). The content of this section may include, among other matters: (a) a description of the auditor's responsibilities with respect to other information; (b) identification of the document(s) available at the date of the auditor's report that contain the other information to which the auditor's responsibilities apply; (c) a statement addressing the outcome of the auditor's work on the other information; and (d) a statement that the auditor has not audited or reviewed the other information and, accordingly, does not express an audit opinion or a review conclusion on it.]*

### **Responsibilities of [Management's<sup>14</sup> Responsibility and Those Charged with Governance or other appropriate terms] for the Financial Statements**

*[Reporting in accordance with proposed SSA 700 (Revised) – see illustration 1 in proposed SSA 700 (Revised).]*

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards ("FRS"), 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 profit and loss accounts and balance sheets and to

<sup>14</sup> Throughout the illustrative auditor's reports in the Proposed SSAs, the term management may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction. For example, those charged with governance, rather than management, may have these responsibilities. Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

<sup>14a</sup> This wording is based on that found in SSA 700, "Forming an Opinion and Reporting on Financial Statements."

maintain accountability of assets<sup>14a</sup>.

## **Auditor's Responsibility** ies for the Audit of the Financial Statements

[Reporting in accordance with proposed SSA 700 (Revised) – see illustrations 1 and 3 in proposed SSA 700 (Revised).]

~~Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.~~

~~An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control<sup>15</sup>. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.~~

~~We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.~~

### **Report on Other Legal and Regulatory Requirements**

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act<sup>\*</sup>.

[The form and content of this section of the auditor's report would/will vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law or regulation.]

The engagement partner responsible for the audit resulting in this independent auditor's report is [name].

\_\_\_\_\_  
(Firm)  
Public Accountants and  
Chartered Accountants  
Singapore

\_\_\_\_\_  
(Date)

<sup>15</sup> ~~In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."~~

\* Section 199(1) of the Companies Act states that the Company has to keep proper accounting and other records, to sufficiently explain the transactions and financial position of the Company; to enable true and fair profit and loss accounts and balance-sheets and any documents required to be attached thereto to be prepared from time to time; and to enable those records to be conveniently and properly audited.

\*\* The auditor shall make due consideration in opining on whether the accounting and other records are properly kept by the Company in accordance with the provisions of the Act. When the auditor qualifies on the audit opinion of the financial statements, the auditor should assess and evaluate how this impacts the opinion on the Company's accounting and other records, and determine whether the opinion on the accounting and other records needs to mirror that of the financial statements. In this illustration, it is assumed that the Company has kept proper accounting and other records in accordance with the provisions of the Act, but has selected an accounting treatment which departs from the Financial Reporting Standards ("FRS"). If the auditor concludes that the Company has not kept proper accounting and other records which resulted in a departure from FRS, the auditor shall qualify the opinion that, except for the matter referred to in the Basis for Qualified Opinion section paragraph, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Illustration 2 :- Adverse Opinion due to a Material Misstatement of the Consolidated Financial Statements

For purposes of this illustrative auditor's report, the following circumstances are assumed to include the following:

- Audit of consolidated general purpose financial statements prepared by management of the parent in accordance with Singapore Financial Reporting Standards (FRSs), where the parent is a listed entity. The audit is a group audit conducted in accordance with SSA 600.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SSA 210.
- The consolidated financial statements are materially misstated due to the lack of provision for losses on long-term contracts and matter affects the current year and does not affect the corresponding figures. The material misstatement is deemed to be pervasive to the consolidated financial statements (i.e., an adverse opinion is appropriate).
- Key audit matters have been communicated in accordance with proposed SSA 701.
- In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.

## INDEPENDENT AUDITOR'S REPORT

[To the Shareholders of ABC Company [or Other] Appropriate Addressee]

### Report on the Consolidated Financial Statements<sup>16</sup>

#### Adverse Opinion

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion paragraph/section of our report, the accompanying consolidated financial statements of ABC Company (the Company) and its subsidiaries (the Group) and the statement of financial position of the Company do not give a true and fair view of the state of affairs of the Group and of the Company as at \_\_\_\_\_ (date) and the results, changes in equity and cash flows of the Group for the year then ended in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the Act) and Singapore Financial Reporting Standards (FRSs).

We have audited the consolidated accompanying financial statements of ABC Company (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Company and 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 consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

#### Basis for Adverse Opinion

<sup>16</sup> The sub-title "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

As explained in Note X, no provision has been made for losses expected to arise on certain significant long-term contracts currently in progress, as management considers that such losses should be off-set against amounts recoverable on other long-term contracts. Provision for foreseeable losses on individual contracts is required by FRS 11, *Construction Contracts*. Had such losses been provided for, the effect as of 31 December 20X1 would have been to reduce the profit before tax and the contract work in progress by xxx, income taxes by xxx and retained earnings by xxx. Additionally, net profit for the year would have been reduced by xxx.

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group within the meaning of the Accounting and Corporate Regulatory Authority (ACRA) *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* and have fulfilled our other responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements. Key audit matters are selected from the matters communicated with *[those charged with governance]*, but are not intended to represent all matters that were discussed with them. In addition to the matter described in the Basis for Adverse Opinion section of our report, we have determined the matters described below to be the key audit matters. Our audit procedures relating to these matters were designed in the context of our audit of the consolidated financial statements as a whole. Our opinion on the consolidated financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

*[Reporting of individual matters in accordance with paragraph 10 of proposed SSA 701 – see illustration 2 in proposed SSA 700 (Revised).]*

### **Going Concern**

*[Reporting in accordance with proposed SSA 570 (Revised) – see illustration 2 in proposed SSA 700 (Revised) and proposed SSA 570 (Revised).]*

### **Other Information**

*[The illustrative wording for this section is subject to the finalization of proposed SSA 720 (Revised). The content of this section may include, among other matters: (a) a description of the auditor's responsibilities with respect to other information; (b) identification of the document(s) available at the date of the auditor's report that contain the other information to which the auditor's responsibilities apply; (c) a statement addressing the outcome of the auditor's work on the other information; and (d) a statement that the auditor has not audited or reviewed the other information and, accordingly, does not express an audit opinion or a review conclusion on it.]*

### **Responsibilities of ~~Management's~~<sup>17</sup> and Those Charged with Governance or other appropriate terms] Responsibility for the Consolidated Financial Statements**

*[Reporting in accordance with proposed SSA 700 (Revised) – see illustration 2 in proposed SSA 700 (Revised).]*

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards ("FRS"), and for devising and maintaining a system of internal accounting

<sup>17</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

~~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 profit and loss accounts and balance sheets and to maintain accountability of assets<sup>14a</sup>.~~

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

~~[Reporting in accordance with proposed SSA 700 (Revised) – see illustration 2 in proposed SSA 700 (Revised).]~~

~~Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.~~

~~An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control<sup>18</sup>. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.~~

~~We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.~~

## **Report on Other 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 subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act .

~~[The form and content of this section of the auditor's report will/would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law or regulation.]~~

~~The engagement partner responsible for the audit resulting in this independent auditor's report is [name].~~

<sup>14a</sup> This wording is based on that found in SSA 700, "Forming an Opinion and Reporting on Financial Statements."

<sup>18</sup> ~~In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the consolidated financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."~~

\* Section 199(1) of the Companies Act states that the Company has to keep proper accounting and other records, to sufficiently explain the transactions and financial position of the Company; to enable true and fair profit and loss accounts and balance sheets and any documents required to be attached thereto to be prepared from time to time; and to enable those records to be conveniently and properly audited.

\*\* The auditor shall make due consideration in opining on whether the accounting and other records are properly kept by the Company and by those subsidiaries incorporated in Singapore of which they are the auditors in accordance with the provisions of the Act. When the auditor modifies the audit opinion of the consolidated financial statements, the auditor should assess and evaluate how this impacts the opinion on the accounting and other records of the Company and those subsidiaries incorporated in Singapore of which they are the auditors, and determine whether the opinion on the accounting and other records needs to mirror that of the consolidated financial statements.

\_\_\_\_\_ (Firm)  
Public Accountants and  
Chartered Accountants  
Singapore

\_\_\_\_\_ (Date)

Illustration 3: - Qualified Opinion due to the Auditor's Inability to Obtain Sufficient Audit Evidence Regarding a Foreign Associate

For purposes of this illustrative auditor's report, the following circumstances are assumed to include the following:

- Audit of a complete set of consolidated general purpose consolidated financial statements of a listed entity prepared by management of the parent entity in accordance with Singapore Financial Reporting Standards (FRSs). The audit is a group audit of an entity with subsidiaries conducted in accordance with SSA 600.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SSA 210.
- The group auditor was unable to obtain sufficient appropriate audit evidence relating to a significant associate, XYZ Company, accounted for by the equity method because they did not have access to the accounting records, management, or auditor of the component. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the consolidated financial statements (i.e., a qualified auditor's opinion is appropriate)
- Key audit matters have been communicated in accordance with proposed SSA 701.
- In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.

## INDEPENDENT AUDITOR'S REPORT

[To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Consolidated Financial Statements<sup>19</sup>

### Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph section of our report, the accompanying consolidated financial statements of ABC Company (the Company) and its subsidiaries (the Group) and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the Act) and Singapore Financial Reporting Standards (FRSs) so as to give a true and fair view of the state of affairs of the Group and of the Company as at \_\_\_\_\_ (date) and the results, changes in equity and cash flows of the Group for the year ended on that date.

We have audited the accompanying consolidated financial statements of ABC Company (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Company and 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 consolidated financial statements, including and a summary of significant accounting policies and other explanatory information.

<sup>19</sup> The sub-title "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.



## **Basis for Qualified Opinion**

The Company's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at xxx on the [consolidated](#) statement of financial position of the Group as at 31 December 20X1, and the Company's share of XYZ's net income of xxx is included in the Group's income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of the Company's investment in XYZ as at 31 December 20X1 and the Company's share of XYZ's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

[We conducted our audit in accordance with Singapore Standards on Auditing \(SSAs\). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group within the meaning of the Accounting and Corporate Regulatory Authority \(ACRA\) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities and have fulfilled our other responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.](#)

## **Key Audit Matters**

[Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements. Key audit matters are selected from the matters communicated with \*\[those charged with governance\]\*, but are not intended to represent all matters that were discussed with them. In addition to the matter described in the Basis for Qualified Opinion section of our report, we have determined the matters described below to be the key audit matters. Our audit procedures relating to these matters were designed in the context of our audit of the consolidated financial statements as a whole. Our opinion on the consolidated financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.](#)

[\[Reporting of individual matters in accordance with paragraph 10 of proposed SSA 701 – see illustration 2 in proposed SSA 700 \(Revised\).\]](#)

## **Going Concern**

[\[Reporting in accordance with proposed SSA 570 \(Revised\) – see illustration 2 in proposed SSA 700 \(Revised\) and proposed SSA 570 \(Revised\).\]](#)

## **Other Information**

[\[The illustrative wording for this section is subject to the finalization of proposed SSA 720 \(Revised\). The content of this section may include, among other matters: \(a\) a description of the auditor's responsibilities with respect to other information; \(b\) identification of the document\(s\) available at the date of the auditor's report that contain the other information to which the auditor's responsibilities apply; \(c\) a statement addressing the outcome of the auditor's work on the other information; and \(d\) a statement that the auditor has not audited or reviewed the other information and, accordingly, does not express an audit opinion or a review conclusion on it.\]](#)

## **Responsibilities of [Management's<sup>20</sup> and Those Charged with Governance or other appropriate terms] Responsibility for the Consolidated Financial Statements**

<sup>20</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

[Reporting in accordance with proposed SSA 700 (Revised) – see illustration 2 in proposed SSA 700 (Revised).]

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the “Act”) and Singapore Financial Reporting Standards, 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 profit and loss accounts and balance sheets and to maintain accountability of assets<sup>17a</sup>.

## **Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements**

[Reporting in accordance with proposed SSA 700 (Revised) – see illustration 2 in proposed SSA 700 (Revised).]

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation of financial statements that give a true and fair view 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 entity’s internal control<sup>24</sup>. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

### **Report on Other Legal and Regulatory Requirements**

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept<sup>\*</sup> in accordance with the provisions of the Act<sup>\*\*</sup>.

[The form and content of this section of the auditor’s report will/would vary depending on the nature of the auditor’s other reporting responsibilities prescribed by local law or regulation.]

The engagement partner responsible for the audit resulting in this independent auditor’s report is [name].

<sup>17a</sup> This wording is based on that found in SSA 700, “Forming an Opinion and Reporting on Financial Statements.”

<sup>24</sup> In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances.”

\* Section 199(1) of the Companies Act states that the Company has to keep proper accounting and other records, to sufficiently explain the transactions and financial position of the Company; to enable true and fair profit and loss accounts and balance sheets and any documents required to be attached thereto to be prepared from time to time; and to enable those records to be conveniently and properly audited.

\*\* The auditor shall make due consideration in opining on whether the accounting and other records are properly kept by the Company in accordance with the provisions of the Act. When the auditor qualifies on the audit opinion of the financial statements, the auditor should assess and evaluate how this impacts the opinion on the Company’s accounting and other records, and determine whether the opinion on the accounting and other records needs to mirror that of the financial statements.

\_\_\_\_\_ (Firm)  
Public Accountants and  
Chartered Accountants  
Singapore

\_\_\_\_\_ (Date)

#### Illustration 4: - Qualified Opinion due to a Material Misstatement of the Financial Statements

For purposes of this illustrative auditor's report, the following cCircumstances are assumedinclude the following:

- Audit of a complete set of general purpose financial statements prepared by management of the a listed entity in accordance with Singapore Financial Reporting StandardsFRSs, which is a fair presentation framework. The audit is not a group audit conducted in accordance with SSA 600.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SSA 210.
- The management has not prepared a statement of cash flows (a basic financial statement) and this omission affects both current year and corresponding figures. This misstatement is deemed to be material but not pervasive to the financial statements, because the omitted information is deemed to be determinable by a user from the other information presented (i.e., a qualified opinion is appropriate). The disclosure of the omitted information by the auditor in the basis of modification paragraph is impracticable because such disclosure would be unduly voluminous. It is the management's decision to omit the statement of cash flows as it is impracticable and not due to a lack of underlying accounting records.
- Key audit matters have been communicated in accordance with proposed SSA 701.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

## **INDEPENDENT AUDITOR'S REPORT**

[To the Shareholders of ABC Company [or Other Appropriate Addressee]

**Report on the Audit of the Financial Statements<sup>22</sup>**

### **Qualified Opinion**

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraphsection of our report, the accompanying financial statements are properly drawn up in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the Act) and Singapore Financial Reporting Standards (FRSs) so as to give a true and fair view of the state of affairs of ABC Company (the Company) as at \_\_\_\_\_ (date) and the results and changes in equity of the Company for the year ended on that date.

We have audited the accompanying financial statements of ABC Company (the "Company"), which comprise the statement of financial position as at 31 December 20X1, and the statement of comprehensive income and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

### **Basis for Qualified Opinion**

<sup>22</sup> The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

The Company did not present a statement of cash flows for the year ended 31 December 20X1 and 31 December 20X0 as required by FRS 7, *Statement of Cash Flows*, to be part of the financial statements.

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company within the meaning of the Accounting and Corporate Regulatory Authority (ACRA) *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* and have fulfilled our other responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. Key audit matters are selected from the matters communicated with *[those charged with governance]*, but are not intended to represent all matters that were discussed with them. In addition to the matter described in the Basis for Qualified Opinion section of our report, we have determined the matters described below to be the key audit matters. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

*[Reporting of individual matters in accordance with paragraph 10 of proposed SSA 701 – see illustration 1 in proposed SSA 700 (Revised).]*

### **Going Concern**

*[Reporting in accordance with proposed SSA 570 (Revised) – see illustration 1 in proposed SSA 700 (Revised) and proposed SSA 570 (Revised).]*

### **Other Information**

*[The illustrative wording for this section is subject to the finalization of proposed SSA 720 (Revised). The content of this section may include, among other matters: (a) a description of the auditor's responsibilities with respect to other information; (b) identification of the document(s) available at the date of the auditor's report that contain the other information to which the auditor's responsibilities apply; (c) a statement addressing the outcome of the auditor's work on the other information; and (d) a statement that the auditor has not audited or reviewed the other information and, accordingly, does not express an audit opinion or a review conclusion on it.]*

### **Responsibilities of [Management's<sup>23</sup> Responsibility and Those Charged with Governance or other appropriate terms] for the Financial Statements**

*[Reporting in accordance with proposed SSA 700 (Revised) – see illustration 1 in proposed SSA 700 (Revised).]*

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards ("FRS"), 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 profit and loss accounts and balance sheets and to maintain accountability of assets<sup>20a</sup>.

<sup>23</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

<sup>20a</sup> This wording is based on that found in SSA 700, "Forming an Opinion and Reporting on Financial Statements."

## **Auditor's Responsibility ies for the Audit of the Financial Statements**

[Reporting in accordance with proposed SSA 700 (Revised) – see illustrations 1 and 3 in proposed SSA 700 (Revised).]

~~Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.~~

~~An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.~~

~~We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion~~

### **Report on Other Legal and Regulatory Requirements**

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act\*\*.

[The fForm and content of this section of the auditor's report ~~will~~ would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law or regulation.]

The engagement partner responsible for the audit resulting in this independent auditor's report is [name].

\_\_\_\_\_ (Firm)  
Public Accountants and  
Chartered Accountants  
Singapore  
\_\_\_\_\_ (Date)

\* Section 199(1) of the Companies Act states that the Company has to keep proper accounting and other records, to sufficiently explain the transactions and financial position of the Company; to enable true and fair profit and loss accounts and balance-sheets and any documents required to be attached thereto to be prepared from time to time; and to enable those records to be conveniently and properly audited.

\*\* The auditor shall make due consideration in opining on whether the accounting and other records are properly kept by the Company in accordance with the provisions of the Act. When the auditor qualifies on the audit opinion of the financial statements, the auditor should assess and evaluate how this impacts the opinion on the Company's accounting and other records, and determine whether the opinion on the accounting and other records needs to mirror that of the financial statements.

Illustration 5: - Disclaimer of Opinion due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence about Multiple Elements of the Financial Statements

For purposes of this illustrative auditor's report, the following cCircumstances are assumedinclude the following:

- Audit of a complete set of general purpose financial statements prepared by management of the an entity other than a listed entity in accordance with Singapore Financial Reporting StandardsFRSs. The audit is not a group audit conducted in accordance with SSA 600.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SSA 210.
- The auditor was unable to obtain sufficient appropriate audit evidence about multiple elements of the financial statements. That is, the auditor was unable to obtain audit evidence about the entity's inventories and accounts receivable. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law. The auditor should refer to this illustration as an example of the possible impact an opinion on the financial statements could have on that of the accounting and other records.
- As the auditor was unable to express an opinion on the financial statements as a whole, the sections on Going Concern, Key Audit Matters, and Other Information would not be applicable. Further, a more limited description of the auditor's responsibilities section is required.

## INDEPENDENT AUDITOR'S REPORT

[To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements<sup>24</sup>

### Disclaimer of Opinion

We do not express an opinion on the accompanying financial statements of ABC Company (the Company). Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphsection of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements. ~~Accordingly, we do not express an opinion on the financial statements.~~

We were engaged to audit the ~~accompanying~~ financial statements of ABC the Company (the "Company"), which comprise the statement of financial position as at 31 December 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies ~~and other explanatory information~~.

### Basis for Disclaimer of Opinion

<sup>24</sup> The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

The audit evidence available was limited because we were unable to observe the counting of physical inventories having a carrying amount of \$X and send confirmation letters to accounts receivable having a carrying amount of \$Y due to limitations placed on the scope of our work by the directors of the company. As a result of this, we have been unable to obtain sufficient evidence concerning both inventories and accounts receivables.

**Responsibilities of Management's<sup>25</sup> Responsibility and Those Charged with Governance or other appropriate terms] for the Financial Statements**

[Reporting in accordance with proposed SSA 700 (Revised) – see illustration 1 in proposed SSA 700 (Revised).]

~~Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards, 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 profit and loss accounts and balance sheets and to maintain accountability of assets<sup>22a</sup>;~~

**Auditor's Responsibilities for the Audit of the Financial Statements**

~~Our responsibility is to express an opinion~~conduct an audit of~~on~~ these Company's financial statements ~~based on conducting the audit~~ in accordance with Singapore Standards on Auditing and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion paragraph section of our report, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Company within the meaning of the Accounting and Corporate Regulatory Authority (ACRA) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities and have fulfilled our other responsibilities under those ethical requirements.

**Report on Other Legal and Regulatory Requirements**

In our opinion, in view of the significance of the matters referred to in the Basis for Disclaimer of Opinion paragraph section of our report, we do not express an opinion on whether the accounting and other records required by the Act to be kept by the Company have been properly kept<sup>\*</sup> in accordance with the provisions of the Act<sup>\*\*</sup>.

[The Form and content of this section of the auditor's report will/would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law or regulation.]

<sup>25</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

<sup>22a</sup> ~~This wording is based on that found in SSA 700, "Forming an Opinion and Reporting on Financial Statements."~~

\* Section 199(1) of the Companies Act states that the Company has to keep proper accounting and other records, to sufficiently explain the transactions and financial position of the Company; to enable true and fair profit and loss accounts and balance sheets and any documents required to be attached thereto to be prepared from time to time; and to enable those records to be conveniently and properly audited.

\*\* **The auditor shall make due consideration in opining on whether the accounting and other records are properly kept by the Company in accordance with the provisions of the Act. When the auditor disclaims the audit opinion of the financial statements, the auditor should assess and evaluate how this impacts the opinion on the Company's accounting and other records, and determine whether the opinion on the accounting and other records needs to mirror that of the financial statements.**



\_\_\_\_\_ (Firm)  
Public Accountants and  
Chartered Accountants  
Singapore

\_\_\_\_\_ (Date)