

## **Auditors and Public Offering Documents**

SAP 24 was issued by the Institute of Singapore Chartered Accountants (formerly known as Institute of Certified Public Accountants of Singapore) in August 2003.

SAP 24 superseded the SAP of the same title in June 2004. No substantive changes were made to the original approved text and all cross references were updated, as appropriate.

SAP 24 superseded the SAP of the same title in October 2007. No substantive changes were made to the original approved text and all cross references were updated, as appropriate.

SAP 24 was renumbered to SAP 2 for greater clarity and consistency in February 2013.

SAP 2 was amended in July 2013.

SAP 2 was revised in October 2014 and is effective for reports dated on or after 1 January 2015.

The new and revised auditor reporting standards gave rise to conforming amendments in this SAP in July 2015. These amendments are effective for audits of financial statements for periods ended on or after 15 December 2016.

Singapore Financial Reporting Standards (International) give rise to conforming amendments in this SSA in November 2018. These amendments are effective for audits of financial statements for periods beginning on or after 1 January 2018.

SAP 2 is enhanced in June 2019 with the inclusion of a new section on private reports on profit forecasts. These enhancements are effective for reports dated on or after 1 October 2019.

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# STATEMENT OF AUDITING PRACTICE

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## SAP 2 (REVISED)

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### Introduction

1. The purpose of this statement is to provide guidance on the general principles governing engagements in the context of public offering documents. For avoidance of doubt, in addition to offers of listed shares, this SAP also applies to offers of securities that require a prospectus under the Securities and Futures Act (Cap. 289) (SFA), which includes offers of unlisted shares, units in business trust and debentures. There is a wide range of roles and activities that may be undertaken by auditors in the context of such engagements, many of which will involve them in issuing a report. In some cases, their report will be included in the public offering documents and published; in others, the report will be a private document with restricted circulation.
2. The guidance issued should be read in conjunction with Singapore Standards on Auditing (SSAs), Singapore Standards on Review Engagements (SSREs), Singapore Standards on Assurance Engagements (SSAEs), Singapore Standards on Related Services (SSRSs), other related Statements of Auditing Practice (SAPs) and Audit Guidance Statements (AGSs), relevant legislation and regulations. The auditor should be familiar with these regulations, including those that govern the minimum contents of the particular type of document of which his report will form a part.
3. This statement establishes generic matters of principle rather than details of statutory, regulatory and stock exchange requirements. It does not purport to be a comprehensive guide on the roles and responsibilities of the auditor engaged as a professional in a public offering exercise.

### Definitions

4. In this Statement, unless the contrary intention appears, the terms have meanings as follows:

*Auditor*

As defined in the SFA, means a public accountant who is registered or deemed to be registered under the Accountants Act (Cap. 2) and, in Divisions 1 and 1A of Part XIII, when used in relation to an entity not being a company, includes (a) a person who is duly registered, licensed, approved or otherwise authorised to practise as an auditor (such practice to include the issue of any opinion, report or other document on the audit of any financial statement) under the laws of the place where the entity is formed or constituted; or under the laws of the place of his practice, if the auditing standards that are or will be applied to the financial statements of the entity are auditing standards commonly applied in that place, or international auditing standards (by whatever name called); or (b) such other person as may be approved by the Monetary Authority of Singapore (MAS) in any particular case to be an auditor for such entity.

*Financial statements*

The statements of financial position, income statements, statements of comprehensive income, statements of cash flows, statement of changes in equity, notes and other statements and explanatory material which are identified as being part of the financial statements.

<i>Issuer</i>	A company or undertaking, any of whose securities is, or is proposed to be, the subject of an offer. Securities include: equity securities, debt securities, or investment funds.
<i>Predecessor auditor</i>	An auditor who was previously the auditor of <b>an issuer</b> and who has been replaced by another auditor.
<i>Public Offering Documents</i>	A generic term defined as: 'Any document issued by an entity pursuant to statutory or regulatory requirements relating to shares or debentures on which it is intended that a third party should make an investment decision, including a prospectus, listing particulars, circular to shareholders or similar document'.
<i>Reporting auditor</i>	An auditor engaged to prepare report(s) for inclusion in, or in connection with, a prospectus

## Prospectuses

5. A prospectus has the same meaning as in Section 239(1) (under Part XIII, Offers of Investments, Division 1 – Securities and Securities-based Derivatives Contracts) of the SFA. It is also useful to note that Rule 407 of the Singapore Exchange Catalist Listing Rules, the definition of “prospectus” is incorporated by reference to also mean a reference to offer document to be issued by an issuer seeing a listing on Catalist. The basic form and content of prospectuses are determined by the SFA, the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 (SFR) and other laws, rules or regulations that may be enacted from time to time and, where securities are to be listed, the Singapore Exchange (SGX) Listing Rules.
6. A prospectus should contain all the information required by Section 243 of the SFA. Section 243 includes an overriding requirement that the prospectus shall contain all the information that investors and their professional advisers would reasonably require to make an informed assessment of the offering.

## Audited Financial Statements

7. The requirements to include annual audited financial statements in an equity securities offer prospectus are set out in the section “Audited Financial Information” in Part 9 of the Fifth Schedule of the SFR, which include the following:
  - ***In a case where*** the issuer or any other entity in the group has acquired a common control entity, business or business trust between the beginning of the period comprising the 3 most recently completed financial years and the date of the registration of prospectus, the prospectus should include:
    - the annual audited (consolidated/combined, if the issuer is a holding company) financial statements for the 3 most recently completed financial years; **or**
    - ***where neither the issuer nor any other entity in the group has been in existence for at least*** 3 completed financial years and no common control entity, business or business trust has been held and controlled, whether directly or indirectly, by a person who controls the relevant corporation as at the end of the earliest of the 3 most recently completed financial years, the prospectus should include the annual (consolidated/combined, if the issuer is a holding company) financial statements for each financial year beginning with the financial year in which the issuer or any other entity in the group came into existence, or any of the common control entities, businesses, or business trusts was first held and controlled by a person who controls the issuer, which ever is earlier; **or**

- In any other case, the prospectus should include the annual consolidated financial statements for the 3 most recently completed financial years or where the issuer has been in existence for less than 3 completed financial years, for each of the financial years during which it has been in existence.
8. Sometimes, there may also have been significant changes in the group structure of the issuer during the relevant 3 years, and, in that case, the following guidance is relevant for the purpose of meeting the above requirement of the SFR:
- Acquisition where consolidated financial statements are not available

There may be cases where the entities to be reported on have audited financial statements, but where consolidated financial statements do not exist. This may arise, for example, where the issuer is an intermediate parent of a sub-group which was exempt from the requirement to prepare consolidated financial statements, or where there is an acquisition of companies under common ownership but which were not constituted as a legal sub-group.

Where there has been a legal sub-group, it would usually be appropriate, for ease of analysis and comprehension, for the financial statements of the subsidiaries to be consolidated into the financial statements of the parent company. For this purpose, specially prepared consolidated financial statements may be compiled by the relevant entity, which may be subject to audit and reported upon.
  - Restructuring

Groups of companies with existing businesses may be restructured just before a public offering. Where the restructuring involves companies or businesses under common control, the financial information will normally be presented on a combined or aggregated basis, as if the group had always existed.

Guidance on the accounting treatment for “combined financial statements” arising from the above scenario can be found in Recommended Accounting Practice (RAP) 12 “Merger Accounting for Common Control Combinations for financial statements prepared under Part 9 of the Fifth Schedule to the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018”.
9. The current legislation and regulations allow issuers to present the audited historical financial statements for the 3 years as they were issued. Since the audited historical financial statements would not have been presented as one set, it may be appropriate to present a summary of the 3 years’ financial information in a table. The summary of historical financial information sets out financial information that had previously been included in the audited financial statements and is appropriate presentation where there are no significant adjustments arising from changes in accounting bases/policies or from subsequent events. Since the underlying financial statements had been audited and are accompanied by auditors’ reports for each of the 3 years, the summary of the 3 years’ financial information in a table need not be accompanied by any auditors’ report.
10. When it is deemed to be necessary, the reporting auditor may be asked to perform a re-audit when the 3 years’ audited financial statements are presented as one set. This would typically occur where there has been a change in accounting policy in a later year. The reporting auditor needs to be aware that he takes responsibility for the 3 years audited financial statements presented as one set. It is not always possible to perform a re-audit as he may not be able to obtain the audit evidence he needs. For guidance on other considerations relating to re-audits of prior year’s financial statements, refer to Appendix 3. Format of an auditor’s report by the reporting auditor is set out in Appendix 1 Example 1.
11. In accordance with paragraph 8 of Part 9 of the Fifth Schedule to the SFR, each of the annual audited financial statements included in the prospectus should be prepared or re-stated in

accordance with the Singapore Financial Reporting Standards (International) (SFR(I)s), the International Financial Reporting Standards (IFRSs) or the US Generally Accepted Accounting Principles (US GAAP). Where the annual financial statements are not prepared in accordance with SFR(I)s<sup>1</sup>, IFRSs or US GAAP (“approved GAAP”), they must be:

- restated in accordance with any of the approved GAAP;
- if no material adjustments are required to re-state the annual financial statements in accordance with any of the approved GAAP, accompanied by an opinion from the auditors that this is so; or
- prepared in accordance with such other body of accounting standards as may be approved in any particular case by the MAS.

The requirements and guidance for re-statement are detailed in paragraphs 16 to 18.

12. In accordance with paragraph 11 of Part 9 of the Fifth Schedule to the SFR, each of the annual audited financial statements (or underlying financial statements in the case of re-statement) included in the prospectus should be audited in accordance with:

- the Singapore Standards on Auditing (SSAs), the International Standards on Auditing (ISAs), or US Generally Accepted Auditing Standards (US GAAS) [“approved GAAS”];
- any body of auditing standards which is not materially different from the approved GAAS to the extent applicable to the audit of annual financial statements; or
- such other body of auditing standards as may be approved by the MAS.

Where the annual financial statements (or underlying financial statements in the case of restatement) are audited in accordance with any other body of auditing standards which is not materially different from the approved GAAS, the prospectus should include an opinion from the auditors that there are no material differences between the body of auditing standards adopted in the audit of those financial statements and the approved GAAS to the extent applicable to the audit of those financial statements.

13. Auditors should carefully consider the risks of giving an opinion on GAAP and GAAS differences, especially when the existing framework adopted by the issuer does not contain as much detailed guidance as the approved GAAP and approved GAAS.

## **Interim Financial Information**

14. In accordance with SFR, if the date of lodgement of prospectus is more than 6 months after the end of the most recently completed financial year for which audited financial statements have been prepared, the issuer is required to present interim financial statements, which should be accompanied by a report from the reporting auditors. The period to be covered by the interim financial statements and whether the interim financial statements are subject to a review or an audit, depend on the period lapsed since the end of the most recently completed financial year for which audited financial statements were prepared, to the date of lodgement. For detailed guidance, refer to the section on “Interim Financial Information” in Part 9 of the Fifth Schedule to the SFR.

15. Where a review conclusion is required of the reporting auditor who also audits the annual financial statements, guidance can be found in SSRE 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” and is not dealt with in this statement. (Format of a review report by the reporting auditors is set out in Appendix 1 Example 2.)

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<sup>1</sup> Please refer to paragraph 9 of Part 9 of the Fifth Schedule to the SFR for the transitional relief from prospectus disclosure requirements (effective 1 January 2018) to prepare financial statements in accordance with the SFRS(I)s.

## **Financial Statements Re-Stated to Approved GAAP**

16. The SFR requires the auditor to express a conclusion that nothing came to their attention that caused them to believe that the re-stated annual financial statements had not been properly re-stated in all material aspects in accordance with an approved GAAP basis. When an auditor expresses this conclusion, there is a high risk of misunderstanding on the scope of his work. Therefore, the auditor should ensure that he does not express any opinion on the re-stated financial statements per se. His report should include an appropriate disclaimer of opinion to the effect that he has not audited or reviewed the re-stated financial statements reported on. In addition, the auditor should consider whether the re-stated financial statements contain adequate disclosure to the effect that the auditor did not audit or review the original or re-stated financial statements. (Refer to Appendix 1 Example 4 for a sample auditors' report.)
17. In reporting on re-stated financial statements, the reporting auditor should, as a minimum, carry out the following work:
  - (a) read the financial statements for obvious material misstatements and ensure that each page of the re-stated financial statements be clearly and conspicuously marked as unaudited;
  - (b) discuss with management to obtain an understanding of the business and the financial position and performance of the issuer for the financial years under review;
  - (c) discuss with management to obtain an understanding of the re-statement procedures applied and the decisions made by management in identifying, quantifying and making the re-statement adjustments;
  - (d) ascertain whether accounting policies have been applied consistently for the different financial periods being reported on and the additional disclosures required by regulations (for example, statement of reconciliation) are included; and
  - (e) obtain letter of representation from management for the preparation of re-stated financial statements.
18. Where financial statements are re-stated under a different comprehensive basis of accounting, such re-stated financial statements should comply with all the accounting and disclosure requirements of the adopted comprehensive basis of accounting. Where an audit opinion is issued on these re-stated financial statements, auditing standards relevant to auditor's reports on financial statements apply. However, as highlighted in paragraph 12 above, the auditor should consider carefully the risks involved in interpreting GAAP differences.

## **Communications Between Predecessor Auditor, Current Auditor and Reporting Auditor**

19. On changes in appointment, a reporting auditor should comply with the Code of Professional Conduct and Ethics and relevant Singapore Standards on Auditing, such as SSA 510: "Initial Audit Engagements - Opening Balances".
20. A reporting auditor should not accept an engagement until he has communicated with and made appropriate inquiries of the predecessor or current auditor.
21. The initiative for communicating rests with the reporting auditor. The communication may be written and/or oral. The predecessor or current auditor and the reporting auditor should hold in confidence information obtained from each other. This obligation applies whether or not the reporting auditor accepts the engagement.
22. Making enquiries of the predecessor or current auditor is a necessary procedure because the predecessor or current auditor may be able to provide information that will assist the reporting auditor in determining whether to accept the engagement. The reporting auditor should bear in mind that, among other things, the predecessor or current auditor and the client may have

disagreed about accounting principles, auditing procedures, or similarly significant matters. If a letter of consent is required from the predecessor or current auditor for inclusion of their report in the prospectus, the reporting auditor should discuss this matter with the prospective client before accepting the engagement.

23. The reporting auditor should request permission from the prospective client to make an enquiry of the predecessor or current auditor prior to final acceptance of the engagement. Except as permitted by the ACRA Rules, an auditor is precluded from disclosing confidential information obtained in the course of an engagement unless the client specifically consents. Thus, the reporting auditor should ask the prospective client to authorise the predecessor or current auditor to respond fully to the reporting auditor's enquiries. If a prospective client refuses to permit the predecessor or current auditor to respond, or limits the response, the reporting auditor should inquire as to the reasons and consider the implications of that refusal in deciding whether to accept the engagement.
24. The reporting auditor should request that the client authorise the predecessor or current auditor to allow a review of the predecessor or current auditor's working papers. The predecessor auditor may wish to request a consent and acknowledgement letter from the client to document this authorisation in an effort to reduce misunderstandings about the scope of the communications being authorised. It is customary in such circumstances for the predecessor or current auditor to make himself or herself available to the reporting auditor and make available for review certain of the working papers.
25. The predecessor or current auditor should determine which working papers are to be made available for review and which may be copied. The predecessor or current auditor should ordinarily permit the reporting auditor to review working papers, including documentation of planning, internal control, audit results, and other matters of continuing accounting and auditing significance, such as the working paper analysis of accounts on the statement of financial position, and those relating to contingencies.
26. The predecessor or current auditor should reach an understanding with the reporting auditor as to the use of the working papers. The extent, if any, to which a predecessor or current auditor permits access to the working papers, is a matter of judgement.
27. In the event that the predecessor or current auditor does not make available the working papers for review by the reporting auditor or limits the access of the working papers to the reporting auditor, it is the responsibility of the reporting auditor to obtain sufficient appropriate audit evidence through other means in accordance with SSA 510, and, if sufficient audit evidence cannot be obtained, consideration is given to the effect on the reporting auditor's opinion.
28. The reporting auditor's review of the predecessor or current auditor's working papers may affect the nature, timing, and extent of the reporting auditor's procedures with respect to the opening balances and consistency of accounting principles. However, the nature, timing, and extent of audit work performed and the conclusion reached in both these areas are solely the responsibility of the reporting auditor.

### **Public Reports on Profit Forecasts**

29. Where the profit forecast is included in a public offering document, Part 6 of the Fifth Schedule to SFR requires a statement by a reporting auditor as to whether the profit forecast has been properly prepared on the basis of the assumptions stated in the profit forecast, is consistent with the accounting policies adopted by the issuer and is presented in accordance with the accounting standards adopted by the issuer in the preparation of its financial statements. In addition, Part 6 of the Fifth Schedule to SFR also requires a statement by a reporting auditor, prepared on the basis of the auditor's examination of the evidence supporting the assumptions and in accordance with the Singapore Standards on Auditing or such other auditing standards, to the effect that no matter has come to the auditor's attention which gives the auditor reason to believe that the assumptions do not provide reasonable grounds for the profit forecast.

30. As mentioned in paragraph 5 of this statement, the basic form and content of prospectuses are determined by the SFA, SFR and other laws, rules or regulations that may be enacted from time to time and, where securities are to be listed, the SGX Listing Rules. The question of whether to include a profit forecast in a prospectus is essentially a commercial one for the issuer and its advisers to decide. Profit forecasts are typically included in prospectuses from industries such as Real Estate Investment Trust (REIT) and Business Trust (BT).
31. Where a profit forecast is included in a public offering document, a reporting auditor is normally required to examine and prepare a separate report on the accounting policies and calculations used in the forecast. The reporting auditor may also be required to report on the basis of assumptions used in the preparation of a profit forecast. Guidance on this subject is given in SSAE 3400: "The Examination of Prospective Financial Information" and is not dealt with in this statement. (Format of a report by the reporting auditors is set out in Appendix 1, Example 3). Where the relevant laws, rules and regulations require reports by an "auditor" or an "expert", the reporting auditor should be cognisant of the risks and responsibilities of being associated as an "auditor". When the "expert" issues an opinion he disagrees with, the reporting auditor should consider whether it is appropriate to consent to the issue of his own report and whether his own report together with the "expert's" report could be misleading if read together. Any report issued in accordance with SSAE 3400: "The Examination of Prospective Financial Information" is not to be construed as a report given by an expert.
32. It is emphasised that profit forecasts necessarily depend on subjective judgements. They are, to a greater or lesser extent according to the nature of the business and period the profit forecast covers, subject to numerous and substantial inherent uncertainties. In consequence, profit forecasts are not capable of being substantiated by reporting auditors in the same way as financial statements which present the results of completed accounting periods. Due to the uncertainties mentioned above, reporting auditors should normally restrict their reporting on profit forecasts to those for one year or less from the date to which the last audited financial statements were made up. Only in exceptional circumstances should they report on profit forecasts for a future accounting period which should in any case be limited to the immediately succeeding period and then only if a significant part of the current period has already elapsed. An example is a report on the profit forecast for a REIT where committed tenancy or lease contracts are in place.
- In practice, it is unusual to provide a forecast for a succeeding period unless:
- (a) at least substantial period of the current period has elapsed; and
  - (b) the company's operations lend themselves to reasonably accurate forecasting such as in the case of a property investment company.
33. It is, therefore, important that reporting auditors should make the reporting period clear when they accept instructions to examine the accounting policies, assumptions and calculations for profit forecasts, and in the wording of their report they should take care to avoid giving any impression that they are in any way confirming, underwriting, guaranteeing or otherwise accepting responsibility for the ultimate accuracy and realisation of forecasts. Moreover, bearing in mind their special status and authority, reporting auditors should do or say nothing to encourage directors, third parties or the public to place a mistaken degree of reliance on statements as to future profits, the achievement of which will always be subject to uncertainty.

### **Private Reports on Profit Forecasts**

34. Private reports on profit forecasts are reports that are not prepared for inclusion in a prospectus.
35. Part 6 of the Fifth Schedule to SFR as mentioned in paragraph 29 of this statement does not apply to profit forecasts that are not prepared for inclusion in a prospectus. Where a profit forecast is not prepared for inclusion in the prospectus but included in a directors' board memorandum, the reporting auditors may be requested to provide a private report on the profit forecast. This is a private arrangement between the reporting auditor and the issuer and its advisers, and is not mandated by SFR.

36. A directors' board memorandum which includes the profit forecasts and projections, is a private document which is not prepared for inclusion in a public offering document. The reporting auditor may be requested to issue a private report on profit forecasts and projections which may be submitted together with the director's board memorandum upon request by regulators.
37. The engagement should be carried out in accordance with SSRS 4400: "Engagements to Perform Agreed-upon Procedures Regarding Financial Information" and SAP 2 (Revised): "Auditors and Public Offering Documents". Guidance on agreed-upon procedures is given in SSRS 4400 and is not dealt with in this statement,
38. The report on an agreed-upon procedures engagement needs to describe the purpose and the agreed-upon procedures of the engagement in sufficient detail to enable the reader to understand the nature and the extent of the work performed.

The elements of the report on profit forecast (whereby the profit forecast is not prepared for inclusion in the prospectus) should contain:

- (a) Addressees (the board of directors of the company who engaged the reporting auditor, the issue manager(s)/sponsor(s)<sup>2</sup> of the proposed listing);
  - (b) Scope of work, but not limited to the following:
    - (i) Checking the arithmetic accuracy of the profit forecasts, including the application of assumptions in the computation of profit forecasts;
    - (ii) Reading and comparing for consistency, the accounting policies used in the preparation of the profit forecasts with those in the last audited financial statements, which are in accordance with the accounting standards adopted by the issuer in the preparation of its financial statements; and
  - (c) Period covered under the profit forecast (generally one year forecast from the date to which the last audited financial statements were made up, plus one year projection).
39. It is not the reporting auditors' responsibility to report on the assumptions or to report on the prospects of the issuer achieving the profit forecast. Nevertheless, reporting auditors should not allow any assumption to be published which appears to them to be unrealistic (or any material assumptions to be omitted which appears to them to be important), without commenting on it in their report.
  40. If the agreed upon procedures report is issued to the issue manager / sponsor, the terms of engagement should be set out in a letter of engagement with the issue manager / sponsor in accordance with SSRS 4400 "Engagements to Perform Agreed-Up Upon Procedures Regarding Financial Information".
  41. As the reporting auditor simply provides a report of the factual findings of agreed-upon procedures, no assurance in accordance with Singapore Standards on Auditing or Singapore Standards on Review Engagements is expressed. Instead, users of the report assess for themselves the procedures and findings reported by the reporting auditor and draw their own conclusions from the reporting auditor's work.
  42. A sample format of a report by the reporting auditors on profit forecasts (whereby the profit forecast is not prepared for inclusion in the prospectus) is set out in Appendix 1, Example 6.

## Letters of Consent

43. If a prospectus contains any statement purporting to be made by an expert, the expert must have given and not withdrawn his or her written consent to the issue of the prospectus with the

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<sup>2</sup> Addressees to include issue manager(s)/sponsor(s) only if they are a party to the engagement letter with the reporting auditors

inclusion of the statement in the form and context in which it is included. A statement to the effect that he or she has given and not withdrawn his or her written consent must be made in the prospectus. The reporting auditor is one of the experts coming within the scope of this requirement.

44. Financial and other information is contained throughout a prospectus. Whilst the responsibility of the reporting auditor does not extend to other information in the prospectus which is not within the scope of his own report, he should consider the prospectus as a whole. He should be satisfied that nothing contained within the prospectus as a whole is inconsistent with the information in his report, and that all relevant matters which have come to his attention have been properly reflected. In particular he should take steps to make himself aware of all the principal issues arising during the drafting of the prospectus. He should give consent to the publication of the prospectus containing his report only if he is satisfied with the form and context in which his report appears in the published document.
45. An appropriate form of letter of consent to the directors of the issuer which is similar to the sample provided in the MAS Practice Note 1/2005 on Lodgment Of Documents is attached in Appendix 1 Example 5.
46. The SFR requires a duly signed letter of consent to be furnished by the reporting auditor on the date of lodgement and registration of the prospectus. The letter of consent is also available for public inspection.
47. If, at any time before the listing takes place under the prospectus, the reporting auditor becomes aware that the prospectus contains an untrue statement purporting to be made by him, he should withdraw his consent in writing, and give reasonable public notice of the withdrawal and the reasons for it.

#### **Comfort Letters and Due Diligence Meetings on Financial and Non-Financial Information**

48. In connection with the issuance of a prospectus by an issuer, reporting auditors may be requested by sponsors to perform procedures to provide comfort in respect of the integrity of certain information disclosed in the prospectus, or to comment on changes in selected financial statement items subsequent to the latest period reported on in the reporting auditors' reports. This is similar to international capital market practices. Reporting auditors issuing a comfort letter or verification meeting for an offering of securities should follow the guidance in AGS 11 *Comfort Letters and Due Diligence Meetings*.

## APPENDIX 1

### Example Reports

#### Example 1: Independent Auditor's Report on the Consolidated (or "Combined", as appropriate) Financial Statements for the 3 Most Recently Completed Financial Years

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

- Audit of a complete set of consolidated (or "combined", as appropriate) financial statements for the 3 most recently completed financial years of a Singapore incorporated company using a fair presentation framework. The audit is a group audit of a company with subsidiaries (i.e., SSA 600<sup>3</sup> applies).
- The consolidated (or "combined", as appropriate) financial statements are prepared by management of the company in accordance with Singapore Financial Reporting Standards (International) (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the consolidated (or "combined", as appropriate) financial statements in SSA 210<sup>4</sup>.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate for each of the 3 years based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit comprise the Accounting and Corporate Regulatory Authority (ACRA) *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (ACRA Code) together with the ethical requirements relating to the audit in Singapore, and the auditor refers to both.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern in accordance with SSA 570 (Revised)<sup>5</sup>.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with SSA 701<sup>6</sup>.
- Those responsible for oversight of the consolidated (or "combined", as appropriate) financial statements differ from those responsible for the preparation of the consolidated (or "combined", as appropriate) financial statements.
- The auditor has no other reporting responsibilities required under local law.

### INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

#### Opinion

We have audited the consolidated (or "combined", as appropriate) financial statements of ABC Company Limited (the "Company") and its subsidiaries (collectively the "Group"), which comprise the consolidated (or "combined", as appropriate) statements of financial position as at 31 December 20X1, 20X2 and 20X3, and the consolidated (or "combined", as appropriate) statements of comprehensive

<sup>3</sup> SSA 600, "Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)."

<sup>4</sup> SSA 210, "Agreeing the Terms of Audit Engagements."

<sup>5</sup> SSA 570 (Revised), "Going Concern."

<sup>6</sup> SSA 701, "Communicating Key Audit Matters in the Independent Auditor's Report."

income, consolidated (or “combined”, as appropriate) statements of changes in equity and consolidated (or “combined”, as appropriate) statements of cash flows for each of the financial years ended 31 December 20X1, 20X2 and 20X3, and notes to the consolidated (or “combined”, as appropriate) financial statements, including a summary of significant accounting policies, as set out on pages [ ] to [ ].

In our opinion, the accompanying consolidated (or “combined”, as appropriate) financial statements of the Group are properly drawn up in accordance with the 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 as at 31 December 20X1, 20X2 and 20X3, and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for each of the financial years ended 31 December 20X1, 20X2 and 20X3.

### **Basis for Opinion**

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

### **Responsibilities of Management and Directors for the Consolidated (or “Combined”, as appropriate) Financial Statements**

Management is responsible for the preparation of consolidated (or “combined”, as appropriate) financial statements that give a true and fair view in accordance with SFRS(I)s, 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 consolidated (or “combined”, as appropriate) 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.

### **Auditor’s Responsibilities for the Audit of the Consolidated (or “Combined”, as appropriate) Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated (or “combined”, as appropriate) financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated (or “combined”, as appropriate) financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated (or “combined”, as appropriate) financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate

to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.<sup>7</sup>
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated (or "combined", as appropriate) financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated (or "combined", as appropriate) financial statements, including the disclosures, and whether the consolidated (or "combined", as appropriate) financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated (or "combined", as appropriate) financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

#### *Restriction on Distribution and Use*

This report is made solely to you as a body and for the inclusion in the prospectus to be issued in relation to the proposed offering of the [shares/debentures] of the Company in connection with the Company's listing on the Singapore Exchange Securities Trading Limited.

XYZ  
Public Accountants and  
Chartered Accountants  
Singapore

[Name of auditor]  
Partner  
Date

Example 2: Report on review of interim financial information where the reporting auditor also audits the annual financial statements

[Appropriate Addressee]

#### *Introduction*

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<sup>7</sup> This sentence would be modified, as appropriate, in circumstances when the auditor also has a responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the consolidated (or "combined", as appropriate) financial statements.

We have reviewed the [condensed<sup>8</sup>] interim consolidated (or “combined”, as appropriate) statement of financial position of ABC Company Limited (the “Company”) and its subsidiaries (collectively the “Group”) as at 31 March 20X1 and the related [condensed<sup>6</sup>] interim consolidated (or “combined”, as appropriate) income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the three-month period then ended, and [the selected explanatory notes<sup>6</sup>] / a summary of significant accounting policies and other explanatory information (the “interim financial information”). The Company’s management is responsible for the preparation and presentation of the interim financial information in accordance with [Singapore Financial Reporting Standard (International) 1-34 *Interim Financial Reporting*]<sup>9</sup>. Our responsibility is to express a conclusion on the interim financial information based on our review.

#### *Scope of Review*

We conducted our review in accordance with Singapore Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Singapore Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with [Singapore Financial Reporting Standard (International) 1-34 *Interim Financial Reporting*]<sup>7</sup>.

#### *Restriction on Distribution and Use*

This report is made solely to you as a body and for the inclusion in the prospectus to be issued in relation to the proposed offering of the [shares/debentures] of the Company in connection with the Company’s listing on the Singapore Exchange Securities Trading Limited.

XYZ  
Public Accountants and  
Chartered Accountants  
Singapore

[Name of auditor]  
Partner  
Date

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<sup>8</sup> Delete if the interim financial statements is not presented in a “condensed” format.

<sup>9</sup> In the case where the interim financial statements comply with all the requirements of Singapore Financial Reporting Standards (International), the financial reporting framework would be a fair presentation framework and the auditor’s report should be amended accordingly.

Example 3: Report on prospective information where reporting auditor reviews the basis of assumptions, calculations and accounting policies

[Appropriate Addressee]

### *Introduction*

ABC Company Limited's (the "Company") management is responsible for the preparation and presentation of the financial forecast for the financial year ending 31 December 20X0 (the "Forecast") on pages [ ] to [ ] of the prospectus (the "Prospectus"), including the assumptions as set out on pages [ ] to [ ] of the Prospectus on which it is based (*the "Assumptions"*). Our responsibility is to examine and report on the reasonableness of the *Assumptions* used in the preparation of the Forecast, and on the calculations and accounting policies of the Forecast.

### *Scope of Engagement*

We have examined the Forecast of the Company in accordance with Singapore Standard on Assurance Engagements 3400 "The Examination of Prospective Financial Information", as to whether the Assumptions provide a reasonable basis for the Forecast, whether the Forecast, so far as the accounting policies and calculations are concerned, has been properly prepared based on the Assumptions made by management and is consistent with the accounting policies adopted by the Company and the recognition and measurement principles of [Singapore Financial Reporting Standards (International) ("SFRS(I)s")]<sup>10</sup>.

The [SFRS(I)s]<sup>8</sup> set out the recognition, measurement, presentation and disclosure requirements dealing with transactions and events in the preparation of a full set of financial statements. As the Forecast does not present and disclose all of the explanatory information as those included in a full set of financial statements, we do not report on the compliance of the Forecast with respect to the presentation and disclosure requirements of [SFRS(I)s]<sup>8</sup>.

### *Conclusion*

Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that the assumptions do not provide a reasonable basis for the Forecast. Further, in our opinion, in all material respects, the Forecast, so far as the accounting policies and calculations are concerned, has been properly prepared based on the Assumptions made by management, and is consistent with the accounting policies adopted by the Company and the recognition and measurement principles of [SFRS(I)s]<sup>8</sup>.

Actual results are likely to be different from the Forecast since anticipated events frequently do not occur as expected and the variation could be material.

Attention is drawn, in particular, to the risk factors set out on pages [ ] to [ ] of the Prospectus which describe the principal risks associated with the offering, to which the Forecast are related.

For the reasons set out above, we do not express any assurance as to the possibility of achievement of the Forecast.

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<sup>10</sup> Insert applicable financial reporting framework.

*Restriction on Distribution and Use*

This report is made solely to you as a body and for the inclusion in the Prospectus to be issued in relation to the proposed offering of the [shares/debentures] of the Company in connection with the Company's listing on the Singapore Exchange Securities Trading Limited.

XYZ  
Public Accountants and  
Chartered Accountants  
Singapore

[Name of auditor]  
Partner  
Date

#### Example 4: Report on GAAP re-statement

[Appropriate Addressee]

We report on the re-statement adjustments set out in Note [ ] of the prospectus (the “Prospectus”). We have read the audited statutory<sup>11</sup> financial statements of ABC Company Limited (the “Company”) in respect of the financial years ended [31 December 20X0 and 20X1]. These financial statements were prepared in accordance with [original comprehensive basis of accounting for the statutory financial statements] and were audited by [name of foreign auditor]. We have not carried out any subsequent or additional audit procedures on those financial statements. We have audited the statutory financial statements of the Company prepared in accordance with [Singapore Financial Reporting Standards (International) in Singapore (“SFRS(I)s”)]<sup>12</sup> in respect of the financial year ended [31 December 20X2].

The auditor’s reports of [name of foreign auditor] and our auditor’s report are set out in pages [ ] to [ ] of the Prospectus.

Based on the audited statutory financial statements, the Company has made certain adjustments to re-state the financial statements in order to comply with [SFRS(I)s]<sup>11</sup> and the Re-stated Financial Statements are set out in pages [ ] to [ ] of the Prospectus.

Management is responsible for the Re-stated Financial Statements. Our responsibility in relation to the Re-stated Financial Statements is to issue a report on whether anything has come to our attention to cause us to believe that the Re-stated Financial Statements have not been properly re-stated, in all material respects, in accordance with [SFRS(I)s]<sup>11</sup>.

We conducted our procedures in accordance with Statement of Auditing Practice 2: “Auditors and Public Offering Documents”. This Statement requires that we discuss with management to obtain an understanding of the business and the financial position and performance of the Company for the financial years under review, and of the procedures applied and decisions made by management in identifying, quantifying and making the re-statement adjustments in arriving at the Re-stated Financial Statements. Our procedures in this regard did not involve any audit or review procedures on the statutory financial statements of the Company. Accordingly, we do not express any opinion on the Re-stated Financial Statements.

Based on our procedures, nothing came to our attention to cause us to believe that the Re-stated Financial Statements have not been properly re-stated, in all material respects, in accordance with [SFRS(I)s]<sup>11</sup>.

#### *Restriction on Distribution and Use*

This report is made solely to you as a body and for the inclusion in the Prospectus to be issued in relation to the proposed offering of the [shares/debentures] of the Company in connection with the Company’s listing on the Singapore Exchange Securities Trading Limited.

XYZ  
Public Accountants and  
Chartered Accountants  
Singapore

[Name of auditor]  
Partner  
Date

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<sup>11</sup> Refer to financial statements that are issued for the purposes of local legislative requirements.

<sup>12</sup> Insert applicable financial reporting framework.

Example 5: Sample Letter of Consent

[Appropriate Addressee]

**ABC Company Limited - Prospectus dated [ ] (the "Prospectus") in relation to the proposed offering of [shares/debentures] of the ABC Company Limited (the "Company") in connection with the Company's listing on the Singapore Exchange Securities Trading Limited ("the Offer")**

We, XYZ Chartered Accountants, named as reporting auditors in the Prospectus to be lodged with the Monetary Authority of Singapore on [(insert date of lodgement)] in relation to the Offer, do hereby consent to act in that capacity in relation to the Prospectus.

We have given and have not before the registration of the Prospectus withdrawn our written consent to the issue of the Prospectus with the inclusion of the following:

- (a) our name and all references thereto;
- (b) [(in the case of a report or letter, insert the title of the report or letter<sup>13</sup>, accompanied with a statement on where the report or letter can be found in the document lodged)]; and
- (c) [(in the case of a statement or paragraph, reproduce the statement or paragraph, accompanied with a statement on where the statement or paragraph can be found in the document lodged)],

in the form and context in which they are included in the Prospectus.

XYZ  
Public Accountants and  
Chartered Accountants  
Singapore

[Name of auditor]  
Partner  
Date

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<sup>13</sup> Reference should only be made to the report or letter of the reporting auditors, and not the accompanying financial information.

## Example 6: Private Report on prospective financial information

The Board of Directors

**[Company name]**

**[Address]**

*[Name of Issuer Manager(s)/Sponsor(s)]<sup>14</sup>*

*[Address]*

Dear Sirs

We have performed the procedures agreed with you in our letter of engagement dated [ ] and enumerated below with respect to the forecasted **[combined/consolidated]** statements of financial position of the Group as at **[date of financial year in the forecast]** and forecasted **[combined/consolidated]** statements of comprehensive income and statements of cash flow of the Group for the year ending on the respective dates (collectively, the "Forecast Financials") as set out in the board memorandum of **[Company name]** (the "Issuer" or "Company") and its subsidiaries (the "Group") prepared in conjunction with the new **[Catalist/Mainboard]** listing application of the Company on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). Our engagement was undertaken in accordance with the Singapore Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" and SAP 2 (Revised) "Auditors and Public Offering Documents".

The procedures which were agreed by the Board of Directors of the Company, were performed solely to assist you in evaluating whether the Forecast Financials as set out in Appendix **[XX]** are prepared on the basis substantially consistent with the assumptions set out in the board memorandum and that of the accounting policies of the Company. The procedures are summarised as follows:

1. Checked the arithmetic accuracy of Forecast Financials including the application of assumptions in the computation of the Forecast Financials.
2. Read and compared the accounting policies on which the Forecast Financials as set out in the board memorandum of the Group for the year **[date of financial year in the forecast]** has been based on and ensured that these are consistent with the accounting policies as set out in the audited **[combined/consolidated]** financial statements for the most recent financial year ended **[last audited financial year]**.

### Findings

We report our findings below:

(a) With respect to item 1 we found [insert findings]

(b) With respect to item 2 we found [insert findings]

[Detail the exceptions]

It should be understood that our work on the Forecast Financials as set out in the board memorandum is limited to applying the procedures and thus we make no representations regarding the sufficiency of the procedures for your purpose. We also make no comments as to the Group's determination as to what constitutes the appropriate presentations, disclosures, explanations or causal relationship of the Forecast Financials stated in the board memorandum. The Board of Directors of the Company is responsible for the Forecast Financials.

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<sup>14</sup> Addressees to include issue manager(s)/sponsor(s) only if they are a party to the engagement letter with the reporting auditors

Because the above procedures do not constitute either an audit or a review made in accordance with Singapore Standards on Auditing or Singapore Standards on Review Engagements, we do not express any assurance on the Forecast Financials.

Had we performed additional procedures or had we performed an audit or review of the Forecast Financials in accordance with Singapore Standards on Auditing or Singapore Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

### Restrictions on Our Report

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties. For this reason, it would be inappropriate for this report to be filed with or referred to (either in whole or in part) or otherwise quoted, circulated or used for any other purpose or to be distributed to any other parties, without prior written consent. We understand that a copy of our report will be distributed to [**Name of Issue Manager/Sponsor**] (the "Issue Manager/Sponsor") [**this could be included where the Issue Manager / Sponsor are excluded as the addressee**]. We accept no duty, responsibility or liability to any other party in connection with the report or this engagement. This report relates only to the information and items specified above and does not extend to any financial statements of the Company, taken as a whole.

\_\_\_\_\_  
(Firm)  
[Public Accountants and]<sup>15</sup>  
Chartered Accountants  
Singapore

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

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<sup>15</sup> Where the report is signed by a professional accountant in public practice with the CA (Singapore) professional designation, who is not a public accountant, the signing convention shall be amended as appropriate by deleting the wordings "Public Accountants and".

## APPENDIX 2

### Audit Procedures Relating to Public Offering Documents

1. The principles set out in *Singapore Standards on Auditing* are generally appropriate to the conduct of the reporting auditors' work. The following procedures amplify those given in the standards, and are applicable to this type of engagement.

#### Engagement acceptance and terms of reference

2. The reporting auditor should observe the requirements in SSQC 1 "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and other Assurance and Related Services Engagements" relating to engagement acceptance procedures in paragraphs 28 to 35.
3. The reporting auditor should establish, in writing, the terms of any engagement to provide an opinion on any information (for example, audit of financial statements for the track record period, report on pro forma financial information; re-stated financial statements; interim financial information; profit forecasts) to be included in a prospectus. It is recommended that for these terms be set out in a letter covering all of the specified reports or other work requested of the reporting auditor.
4. The reporting auditor may be appointed to act alone or jointly with another auditor with regard to the public offering document. When the reporting auditor is appointed as joint auditors, he should be aware that the other auditor would need access to information contained in his audit files. In principle, therefore, the reporting auditor should be prepared to cooperate with the other auditor and to make available to him such information as he may require for the purpose of the report.

#### Planning, controlling and recording

5. The reporting auditor should agree the terms of his engagement with the issuer. This should be done even where the reporting auditor has an existing audit engagement with the issuer. The principles contained in SSA 210: "Agreeing the Terms of Audit Engagements" should be applied, with appropriate modifications. An engagement letter should be prepared, dealing with, *inter alia*:
  - the preparation of an independent auditors' report for inclusion in the prospectus or circular;
  - the audit or review of any interim accounts which may be necessary;
  - the nature of any comfort letters required in relation to the directors' statements concerning borrowings, the adequacy of working capital, or other financial information;
  - the review of any profit forecasts and the preparation of a report thereon to be included in the prospectus with the forecasts;
  - the reporting auditor's need to have the opportunity to attend meetings at which the prospectus will be drafted, to receive draft copies of the prospectus, and generally to be satisfied with the form and context of his report in the final version before giving his consent to the issue of the prospectus;
  - the timeline for preparation and publication of the prospectus, and the deadlines which are to be met; and
  - the reporting auditor's need to be able to communicate with the issuer's auditors and other professional advisers if applicable.

6. The reporting auditor should request that the engagement letter is acknowledged and confirmed in writing.
7. When joint reporting auditors are appointed the detailed work involved in preparing the reporting auditors' report may, for practical reasons, be divided between them. This should be agreed between the joint-reporting auditors, and may form part of the engagement letter. However, irrespective of any such arrangement, the joint reporting auditors are responsible for the entire accountants' report. Accordingly, the firms of accountants should liaise with each other on a regular basis, having particular regard to any problems that are identified. Procedures by which such consultations are to take place should be agreed at the planning stage.
8. In planning the detailed procedures to be carried out, the reporting auditor should conduct a preliminary review of the affairs of the issuer, and of the financial information that will form the basis of his report. A consideration of the design and implementation of internal controls relating to financial reporting should also be performed as part of risk assessment and planning. Apart from assisting the planning of his work, such considerations may also indicate whether there may be factors likely to restrict the scope of his work, or give rise to a qualification of his report, or are such that the issuer or its adviser might decide not to proceed, or the purpose of the prospectus might fail to be achieved. If any such factors are identified they should be reported immediately to the issuer and the adviser.
9. The extent of the work which the reporting auditor will need to carry out in relation to his report will be influenced by whether all the financial statements to be reported upon have previously been subjected to audit, and whether the reporting auditor himself audited the financial statements on which the report is to be based.
10. Where other material financial information is to be included in the financial statements it will be necessary to carry out audit work before it can be included in order to ensure that it can provide a satisfactory basis for his opinion. Audit work will also be required where financial information has been a constituent part of audited financial statements, without having been the specific subject of an audit opinion, e.g. the results of a single division or branch of a large company. Even if he does not carry out the detailed additional audit work himself, the reporting auditor should be closely involved in its planning, control and review.
11. The reporting auditor should apply the procedures described in SSA 560 "Subsequent Events" to ensure that any significant events between the dates of the latest audited financial statements and the publication of the prospectus are identified and correctly reflected in the financial information reported on.
12. The reporting auditor should control and record his work. This will involve the direction and supervision of his staff and the review of their work, and the preparation of working papers to record the procedures carried out. A large part of the work performed will often take the form of reviewing files and documents, and discussions with the issuer's management, staff and professional advisers. Particular care should be taken to ensure that the working papers adequately reflect the nature of these procedures, the evidence examined and the conclusions reached.

#### Evidence

13. The reporting auditor should obtain sufficient appropriate evidence to enable him to prepare the financial information to be included in his report and to form an opinion on that information.
14. To assist the reporting auditor in presenting his report and forming an opinion as to whether the financial information it contains is presented in accordance with [applicable financial reporting framework], in all material respects, he should review and discuss with management the features and trends of the results during the relevant period.
15. The reporting auditor should review the audit working papers relating to the periods to be covered by his report. Where the reporting auditor was not himself the auditor for these periods, he will need to liaise with the auditor in order to make use of his working papers, and to obtain

the information and explanations necessary to answer any questions resulting from this review. The reporting auditor may also seek further clarification from the auditor of any important issues arising from his discussions with management.

16. The object of this review of the audit working papers is to enable the reporting auditor to determine the extent to which he is able to rely on the audit work already performed, and to ascertain whether any further procedures are necessary. Careful consideration should be given to any problems which arose during the audit of the financial statements for the relevant periods, and to the manner in which they were resolved.
17. As part of his review of the audit working papers, the reporting auditor should undertake a general assessment of the issuer's accounting systems and records during the period covered by his report, in order to determine their reliability as sources of evidence.
18. The reporting auditor should pay particular attention to any difficult or contentious points which come to light during his discussions with the issuer's management (or auditors), and to matters critical to the ascertainment of profit or the presentation of results.
19. If the reporting auditor cannot satisfy himself in all material aspects by the procedures outlined above, he may need to undertake further detailed audit procedures. Where it is impracticable for him to carry out auditing procedures relating to earlier years, his reservations should be stated in his report. However, if additional assurance is required by the accountant only in respect of the latest period under review, then it may still be possible to arrange for supplementary audit procedures in the relevant areas to be carried out.

#### Review of financial statements

20. The reporting auditor will need to review the relevant financial statements at several stages of his work, for example:
  - as part of his planning and preliminary review procedures;
  - during his review of the audit working papers; and
  - in order to determine whether any adjustments are required to the figures for the purposes of his report.
21. In carrying out a review of the financial statements, the reporting auditor should give special attention to any matters which have resulted in modified auditors' reports. The reporting auditor will need to consider carefully the significance of any such qualifications for his auditor's report. In some cases uncertainties which gave rise to a modified auditors' report in previous financial statements may have been resolved, and it may therefore be possible to make adjustments to the reported results in order to avoid any need to qualify the opinion in the auditor's report. Where the reporting auditor concludes that he need not, for the purposes of his report, repeat a previously modified audit opinion which is significant, the financial statements should clearly state how the matter was resolved in the basis of preparation - for example as a result of adjustments made or additional procedures carried out.
22. The reporting auditor will need to review the appropriateness of all the accounting policies, as well as their compliance with accounting standards and the consistency of their application. Wherever practicable all the financial information included to be reported by the reporting auditor should be set out on the basis of the current accounting policies, i.e. the policies to obtain the assurance he needs for his report.
23. The use of analytical review procedures as part of the review of the financial statements will enable the reporting auditor to form a better understanding of the nature of the business and of the principal factors influencing its development during the relevant period. Any unusual features or unexpected fluctuations need to be adequately explained if the reporting auditor is to obtain the assurance he needs for his report.

## APPENDIX 3

### Considerations Relating to Re-Audits of Prior Years' Financial Statements

#### Audits of Financial Statements That Have Been Previously Audited

1. The relevant laws, rules and regulations do not require an audit to be performed on financial statements that have been previously audited and reported on.
2. If the reporting auditor is considering performing a re-audit, the communications described under *Communications Between Predecessor Auditor, Current Auditor and Reporting Auditor* of this SAP apply (refer to paragraphs [19] to [28]). In addition, the reporting auditor should state that the purpose of the inquiries is to obtain information about whether to accept an engagement to perform a re-audit.
3. If the reporting auditor accepts the re-audit engagement, he or she may consider the information obtained from inquiries of the predecessor auditor and review of the predecessor auditor's report and working papers in planning the re-audit. However, the information obtained from those inquiries and any review of the predecessor auditor's report and working papers is not sufficient to afford a basis for expressing an opinion. The nature, timing, and extent of the audit work performed and the conclusions reached in the re-audit are solely the responsibility of the reporting auditor performing the re-audit.
4. The reporting auditor should plan and perform the re-audit in accordance with SSAs. The reporting auditor should not assume responsibility for the predecessor auditor's work or issue a report that reflects divided responsibility.
5. If the reporting auditor has audited the current period, the results of that audit may be considered in planning and performing the re-audit of the preceding period or periods and may provide evidential matter that is useful in performing the re-audit.
6. If, in a re-audit engagement, the reporting auditor is unable to obtain sufficient appropriate evidence to express an opinion on the financial statements, the reporting auditor should qualify or disclaim an opinion because of the inability to perform procedures he considers necessary in the circumstances.
7. The reporting auditor should request working papers for the period or periods under re-audit and the period prior to the re-audit period. However, the extent, if any, to which the predecessor auditor permits access to the working papers is matter of judgement.
8. In a re-audit, the reporting auditor generally will be unable to observe inventory or make physical counts at the re-audit date or dates. In such cases, the reporting auditor may consider the knowledge obtained from his or her review of the predecessor auditor's working papers and inquiries of the predecessor auditor to determine the nature, timing, and extent of procedures to be applied in the circumstances. The reporting auditor performing the re-audit should, if material, observe or perform some physical counts of inventory at a date subsequent to the period of the re-audit, in connection with a current audit or otherwise, and apply appropriate tests of intervening transactions. Appropriate procedures may include tests of prior transactions, reviews of records of prior counts, and the application of analytical procedures, such as gross profit tests.

#### Reporting

9. When the reporting auditors conclude that they need not, for the purposes of their report, repeat either:
  - a previously qualified audit opinion; or
  - a fundamental uncertainty reported as part of the basis of their opinion;

the financial statements should clearly state how the matter was resolved if the matter concerned is material..

10. The reporting auditors' opinion is arrived at independently of any audit opinion previously given on the financial statements. Nevertheless, because the modification of auditors' reports is important information for readers, it is necessary for reference to be made to the way in which matters which give rise to auditor's report qualifications and fundamental uncertainties in the basis of the auditors' opinion have been dealt with.
11. Where the reporting auditors' own opinion is not qualified, perhaps because adjustments have been made to the financial information or additional procedures have been performed, the reference to the previous qualifications is not given undue prominence in the auditors' report. Such references and those superseded matters of fundamental uncertainty would normally be included in the prospectus. An example of a report giving an opinion on the 3 years' audited financial statements is found in Appendix 1, Example 1.
12. Circumstances may arise where the reporting auditors' opinions disagree with the predecessor auditors' opinion on financial statements. Reporting auditors should obtain sufficient evidence on how they have resolved matters previously reported by the auditors. Accordingly, the reporting auditors should explain in such circumstances why they have a different opinion from that of the predecessor auditors. In all instances of disagreement, reporting auditors are recommended, as a matter of professional courtesy, to consult the predecessor auditors and to explain their position to them.
13. The reporting auditor should indicate whether all such adjustments have been made as are necessary. When no adjustments have been made, the reporting auditor should state that this is the case.
14. The reporting auditor should address his report to the directors of the issuer.
15. The report by the reporting auditor should be dated. The date used by the reporting auditor should be that on which the directors authorise the issue of the financial statement. The date used by the reporting auditor could be earlier than, or at the same date of, issue of the prospectus.
16. In case a subsequent event of the type requiring adjustment of the financial statements occurs after the date of the auditor's report but before its issuance, and the event comes to the attention of the reporting auditor, the financial statements should be adjusted or the reporting auditor should qualify his opinion.
17. In case a subsequent event of the type requiring disclosure occurs after the date of the accountants' report but before issuance of his report, and the event comes to the attention of the reporting auditor, it should be disclosed in a note to the financial statements or the reporting auditor should qualify his opinion.