

Auditors and Public Offering Documents

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

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STATEMENT OF AUDITING PRACTICE

SAP 2

Auditors and Public Offering Documents

Introduction

1. The purpose of this statement is to provide guidance on the general principles governing engagements in the context of public offering documents. 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), other related Statements of Auditing Practice (SAPs), 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:

<i>Auditor</i>	Has the same meaning as an "approved company auditor" in Section 4 of the Companies Act, viz. <i>"approved company auditor means a person approved as such by the Minister under section 9 whose approval has not been revoked and in relation to a corporation, not being a company, includes a person qualified to act as auditor of the corporation under the law of the place in which the corporation is incorporated"</i> .
<i>Financial statements</i>	The balance sheets, income statements, cash flow statements, 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 a public offering
<i>Predecessor auditor</i>	An auditor who was previously the auditor of a company 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) on historical financial information in, or in connection with, a prospectus

Prospectuses

5. A prospectus has the same meaning as in Section 239(1)(c) of the Securities and Futures Act 2001, Part XIII, Offers of Investments, Division 1 – Shares and Debentures (SFA). The basic form and content of prospectuses are determined by the SFA, the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2002 (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. For an offering of shares, a prospectus should include the annual audited (consolidated, if the issuer is a holding company) financial statements for the 3 most recent 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. Where the issuer has been in existence for less than 3 years, the SFR also requires the inclusion of the annual audited consolidated financial statements of any previous holding company for any financial year for which annual consolidated financial statements of the issuer has not been provided. 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 there is an acquisition of a sub-group, the parent company of 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, giving the same effect as applying the pooling of interest method.
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, particularly where another auditor audited the historical financial statements. For guidance on necessary adjustments to audited financial statements so that one auditors' report may be issued, refer to Appendix 2. For guidance on other considerations relating to re audits of prior year's financial statements, refer to Appendix 4.
11. In accordance with the SFR, audited financial statements should be prepared in accordance with approved Generally Accepted Accounting Principles (GAAP) and be audited under approved Generally Accepted Auditing Standards (GAAS). If they were not prepared in accordance with an approved GAAP basis, the financial statements are required to be re-stated to an approved GAAP basis. Except for the most current financial period, the previously audited financial statements need not be 're-audited' under an approved GAAS. The requirements and guidance for restatement are detailed in paragraphs 12 to 14.

Financial Statements Re-Styled to Approved GAAP

12. The SFR requires the auditor to express an opinion that nothing came to their attention that caused them to believe that the re-stated financial statements had not been properly restated in all material aspects in accordance with an approved GAAP basis. When an auditor expresses this opinion, 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 2 for a sample auditors' report.)
13. 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; and
 - (d) ascertain whether accounting policies have been applied consistently for the different financial periods being reported on.
14. 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 audit reports on financial statements apply.

Communications Between Predecessor Auditor and Reporting Auditor

15. 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 Engagements - Opening Balances".
16. A reporting auditor should not accept an engagement until he has communicated with and made appropriate inquiries of the predecessor auditor.

17. The initiative for communicating rests with the reporting auditor. The communication may be either written and/or oral. Both the predecessor and reporting auditor should hold in confidence information obtained from each other. This obligation applies whether or not the reporting auditor accepts the engagement.
18. Making enquiries of the predecessor auditor is a necessary procedure because the predecessor 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 auditor and the client may have disagreed about accounting principles, auditing procedures, or similarly significant matters.
19. The reporting auditor should request permission from the prospective client to make an enquiry of the predecessor 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 auditor to respond fully to the reporting auditor's enquiries. If a prospective client refuses to permit the predecessor 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.
20. The reporting auditor should request that the client authorise the predecessor auditor to allow a review of the predecessor 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 auditor to make himself or herself available to the reporting auditor and make available for review certain of the working papers.
21. The predecessor auditor should determine which working papers are to be made available for review and which may be copied. The predecessor 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 balance sheet accounts, and those relating to contingencies.
22. The predecessor 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 auditor permits access to the working papers, is a matter of judgement.
23. The reporting auditor's review of the predecessor 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.

Profit Forecasts

24. Where a profit forecast is included in a public offering document, an auditor is normally required to examine and prepare a separate report on the accounting policies and calculations used in the forecast. Guidance on this subject is given in SSAE 3400: "The Examination of Prospective Financial Information" and is not dealt with in this statement. Where the relevant laws, rules and regulations require reports by an "auditor" or an "expert", the 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 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.
25. When an auditor takes on the role of an "expert", he should be aware of the high risks involved. He could be held accountable for assumptions and risks over which he has no control. He should ensure that he has adequate expertise to handle industry risks. Auditors

should be very careful in evaluating his ability to act as an “expert” under the SFR, prior to undertaking this role.

26. 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.

APPENDIX 1

Example Reports

Example 1: Independent auditor's report where the reporting auditor acted as auditor for the whole of the relevant period.

[Appropriate Addressee]

Report on the Financial Statements

We have audited the accompanying financial statements of ABC Company Limited (the "Company") and its subsidiaries (collectively the "Group"), comprising the consolidated (or "combined", as appropriate) statements of financial position as at 31 December 20X1, 20X2 and 20X3, its consolidated (or "combined", as appropriate) income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the financial years ended 31 December 20X1, 20X2 and 20X3, and a summary of significant accounting policies and other explanatory notes, as set out on pages [] to [].

Management's Responsibility¹ for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these consolidated (or "combined", as appropriate) financial statements in accordance with the provisions of [Singapore Financial Reporting Standards]², 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated (or "combined", as appropriate) financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated (or "combined", as appropriate) financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of consolidated (or "combined", as appropriate) financial statements 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 consolidated (or "combined", as appropriate) financial statements.

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

¹ If the subject company is not incorporated in Singapore, to consider using the wordings in ISA 700 *Forming an Opinion and Reporting on Financial Statements* for this section.

² Insert applicable financial reporting framework.

Opinion

In our opinion, the abovementioned consolidated (or “combined”, as appropriate) financial statements of the Group present fairly, in all material respects, the state of affairs of the Group as at 31 December 20X1, 20X2 and 20X3, and its results of operations, changes in equity and cash flows for each of the financial years ended 31 December 20X1, 20X2 and 20X3 in accordance with [Singapore Financial Reporting Standards]².

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

Note: If the reporting auditor has not acted as auditor for all 3 years, the example should be revised to reflect only those relevant periods being reported on.

Example 2: Report on GAAP Re-statement

[Appropriate Addressee]

Dear Sirs:

We report on the re-statement adjustments set out in Note [] of the prospectus (the “Prospectus”). We have read the audited statutory³ 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 (“FRS”)]⁴ in respect of the financial year ended [31 December 20X2].

The audit reports of [name of foreign auditor] and our audit 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 [FRS]⁴ 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 [FRS]⁴.

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 FRS.

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

³ Refer to financial statements that are issued for the purposes of local legislative requirements.
⁴ Insert applicable financial reporting framework.

Example 3: 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 letter⁵, 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

⁵ Reference should only be made to the report or letter of the reporting auditors, and not the accompanying financial information.

APPENDIX 2

Adjustments to the Audited Financial Information

1. Adjustments to historical financial information should only be made in respect of material items in order to:
 - (a) present the financial information for all years on the basis of consistent, acceptable and appropriately applied accounting policies; and
 - (b) correct fundamental errors.
2. The financial information included in the prospectus is based on the records of the issuer for the periods reported on. These records reflect the representations and intentions of the issuer's management. Matters such as the selection of accounting policies, accounting estimates and valuation judgements form part of the responsibilities of management in compiling a record of their stewardship.
3. The financial information is intended to provide a record of the business as operated and accounted for. Therefore, it is not normally appropriate to make adjustments to eliminate items of earned income or expenses incurred, nor to recognise notional items of income and expense.

Trend of results

4. The financial information presents a trend of results for the relevant period. In this respect the financial information may be distinguished from the financial information contained in the statutory financial statements. It is sometimes suggested that it is appropriate to introduce notional, or other, adjustments in order to make the 'track record' more consistent with the issuer's expected operations or structure following the transaction. As such adjustments would anticipate future events it is inappropriate to reflect them in the adjusted financial statements.

Adjustments for change in basis of accounting

5. Adjustments are made to ensure that, wherever practicable, all the financial information in the prospectus is stated on the basis of the current accounting policies and accounting standards. The relevant date for determining which accounting policies are current will normally be the most recent year-end date. When, however, the issuer has disclosed that it intends to change an accounting policy, the prospectus is usually prepared on the basis of the new policy. Where an issuer is seeking a new listing, it would be advisable that the accounting policies be critically re-examined by the auditors, advisers and directors. If the directors agree to a change of policy in these circumstances, this would be reflected in the prospectus.
6. Where a new accounting standard has been introduced during, or subsequent to the period to be reported on, consideration needs to be given to whether it is required that the new accounting standard should be applied retrospectively, once adopted. Where adoption of a new accounting standard has led, or will lead, to the inclusion in the accounts of a prior year adjustment, adjustments are made, to the extent practicable, to reflect the effect of the policy in earlier periods. Where there has been, or will be, no prior year adjustment, for example, when the accounting standard is effective for transactions first accounted for after a certain date, no such adjustment is made to the financial information in the prospectus. Where an issuer intends or has chosen previously to adopt a new accounting standard early and this is permitted or encouraged, although not required, by the standard, the prospectus reflects the same treatment as was adopted or is intended to be adopted by the issuer.
7. Although adjustments may be made for changes in accounting policies, adjustments are not normally made for changes in the methods of applying an accounting policy (whether a one-off change or a series of gradual refinements) or otherwise to correct the issuer's accounting estimates, provided that there were no fundamental errors. The effect of correcting an estimate in a later period is normally reflected in the result of that period. The auditor should

consider whether separate disclosure of changes in the methods of applying accounting policies or the impact of a correction of an accounting estimate as an exceptional item is necessary in the profit and loss tabulations. Consideration is also given to any additional disclosure which may be necessary in order to assist in understanding the trend of results.

Audit qualifications

8. Where the auditor's report on the underlying financial statements was previously qualified on grounds for example of failure to comply with an applicable accounting standard or disagreement over an accounting treatment, it may be possible to make adjustments so as to remove the need for similar qualification in the prospectus. For example, where a qualification arises from difficulty in ascertaining some accounting estimates, with the benefit of hindsight, the auditor may be able to make adjustments so that the financial information in his audit report gives a "present fairly" view and thus void the need to qualify his opinion on the financial information.

Post balance sheet events

9. In determining whether adjustments should be made for post balance sheet events, subject to the guidance set out above, it is normal practice to consider events only up to the date on which the auditors' report on the relevant financial statements was originally signed by the auditors except in relation to the final period reported upon, when it will be necessary for post balance sheet events to be reflected up to the date of the prospectus. Where the financial information is based upon financial records which were not audited, the relevant date for post balance sheet event considerations in the earlier periods is normally taken to be the date at which the balance sheet was originally finalised.

Presentation of the financial information

10. The financial information should be presented on a consistent and comparable basis from period to period.
11. Presentational changes might be made to:
 - (a) present the financial information in a comparable way; and
 - (b) give due prominence to matters of particular importance in the context of the document in which the prospectus is included.
12. The financial information contained in the issuer's records may not have been presented on a comparable basis from period to period because the convention for presenting financial information adopted in earlier periods may have been different from that adopted in later periods (for example a business segment classed as a continuing operation in one year may have been designated a discontinued operation in financial statements drawn up for a later period).

Changes in group structure

13. Disposal of subsidiaries or a discontinuation of a material segment of the business is reflected by separate analysis between the continuing and the disposed or discontinued segment either under the relevant headings in the profit and loss table or in the notes to the table. It is not normally appropriate to make adjustments to eliminate the results of subsidiaries that have been disposed of or operation discontinued.

Consistency of disclosure

14. Where the basis of presentation in the issuer's financial reporting has changed during the period to be reported on, presentational changes are made to bring the financial information onto a consistent basis. Presentational changes of this nature, which do not have an impact on net profits or net assets, may be categorised as follows:
 - (a) reclassifications (for example, cost of sales reclassified as distribution costs);

- (b) re-analyses (for example, re-statements of analyses between continuing and discontinued activities);
- (c) grossing up items netted off in earlier periods (for example, matched assets and liabilities previously left off the balance sheet); and
- (d) derivation or computation of information undisclosed in earlier periods (for example, profit and loss account subtotals or cash flow statements).
- (e) Where another auditor has audited the financial statements of the prior period, the reporting auditor should refer to the relevant auditing standards e.g. SSA 710 "Comparatives".

APPENDIX 3

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.

Terms of reference

2. The reporting auditor should establish, in writing, the terms of any engagement to provide an opinion on any information (for example, 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. (Refer to Appendix 3 for guidance on audit procedures relating to public offering documents.)
3. 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

4. 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: "Terms of Audit Engagements" should be applied, with appropriate modifications. An engagement letter should be prepared, dealing with, *inter alia*:
 - the preparation of any long-form report;
 - the preparation of an independent auditors' report for inclusion in the prospectus or circular;
 - 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 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.
5. The reporting auditor should request that the engagement letter is acknowledged and confirmed in writing.
6. 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 jointly and severally 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.
7. 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. As well as assisting the planning of his work, this review 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. In practice, this preliminary review may often be carried out before the engagement has been formally accepted.

8. 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.
9. Where other material financial information is to be included in the accountants' report 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.
10. 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.
11. 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

12. The reporting auditor should obtain relevant and reliable evidence sufficient to enable him to prepare the financial information to be included in his report and to form an opinion on that information.
13. To assist the reporting auditor in presenting his report and forming an opinion as to whether the financial information it contains is presented fairly, in all material respects, he should review and discuss with management the features and trends of the results during the relevant period.
14. 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.
15. 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.
16. 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.

17. 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.
18. 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

19. 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.
20. In carrying out a review of the financial statements, the reporting auditor should give special attention to any matters which have resulted in qualified 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 qualified 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 qualified audit opinion, he should indicate in his auditor's report how the matter was resolved - for example as a result of adjustments made or additional procedures carried out.
21. 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 in the accountants' report should be set out on the basis of the current accounting policies, i.e. the policies to be obtain the assurance he needs for his report.
22. 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 4

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 and Reporting Auditor* of this SAP apply (refer to paragraphs 15 to 23). 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 competent evidential matter 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;
 they should indicate in their report how the matter was resolved.

10. The reporting auditors' opinion is arrived at independently of any audit opinion previously given on the financial statements. Nevertheless, because the modification of audit reports is important information for readers, it is necessary for reference to be made to the way in which matters which give rise to audit 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 indicate 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 make a written statement of the adjustments or reconciliation with such explanation as will show how the reported figures reconcile to the corresponding information in the published accounts. For the purposes of the reporting auditor's statement, the adjustments required to be explained are those that affect reported results rather than adjustments relating to presentational matters.
15. The reporting auditor should address his report to the directors of the issuer.
16. 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 prospectus. The date used by the reporting auditor could be earlier than, or at the same date of, issue of the prospectus.
17. In case a subsequent event of the type requiring adjustment of the financial statements occurs after the date of the audit 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.
18. 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.
19. The reporting auditor has two methods available for dating his report when a subsequent event disclosed in the financial statements occurs after completion of his fieldwork but before issuance of his report. He may use "dual dating", for example, "19 September, 20X0, except for Note ___, as to which the date is 9 October 20X0," or he may date his report as of the later date. In the former instance, his responsibility for events occurring subsequent to the completion of his fieldwork is limited to the specific event referred to in the note. In the latter instance, the reporting auditor's responsibility for subsequent events extends to the date of his report and, accordingly, the procedures outlined in SSA 560 "Subsequent Events" generally should be extended to that date.