

AUDIT PRACTICE BULLETIN NO. 1 OF 2018

AUDIT OF REVISED FINANCIAL STATEMENTS UNDER SECTIONS 202A AND 202B OF THE COMPANIES ACT

INTRODUCTION

1. Section 202A and 202B of the Companies Act (“the Act”) and the related Companies (Revision of Defective Financial Statements, or Consolidated Financial Statements or Balance-Sheet) Regulations 2018 (the “Regulations”) took effect on 20 April 2018. These allow:
 - (a) directors to voluntarily revise Financial Statements that do not comply with the requirements of the Act (including compliance with the Accounting Standards¹); and
 - (b) the Registrar of Companies (the “Registrar”) to apply to court to require a company to revise its Financial Statements where defects had been detected.
2. This bulletin highlights some of the legislative requirements and provides guidance for auditors on the audit procedures and report on the revised Financial Statements². Separate guidance³ has been issued for companies. It should be noted that this guidance is not intended to be exhaustive and does not serve as a substitute for the relevant auditing standards nor does it constitute legal advice. For complete and authoritative guidance, reference should be made to the relevant sections of the Act and Regulations.

AUDITING OF REVISED FINANCIAL STATEMENTS (“RFS”)

3. Unless RFS are exempted from statutory audit requirements, all RFS must be audited. Provided the directors submit the RFS for audit in sufficient time, the auditor must furnish the directors with the auditor’s report in sufficient time to enable the directors to comply with the requirements of Regulation 7(1)(a) in relation to the auditor’s report.

Appointment of auditors

4. The RFS may be audited by the current auditor of the company. Alternatively the directors may resolve that the auditor of the original⁴ Financial Statements, if he is no longer the auditor of the company, report on the RFS, provided that the relevant auditor agrees to do so.

¹ Accounting Standards refer to the accounting standards made or formulated by the Accounting Standards Council under Part III of the Accounting Standards Act 2007

² In this bulletin, “Financial Statements” refers collectively to the financial statements, consolidated financial statements or balance-sheet as defined in Companies (Revision of Defective Financial Statements, or Consolidated Financial Statements or Balance-sheet) Regulations 2018

³ The guidance is available at https://www.acra.gov.sg/uploadedFiles/Content/Legislation/Companies_Act_Reform/CA_2014/Guidance%20for%20Companies_s202A%20and%20202B.pdf

⁴ Original in relation to any financial statements means the financial statements that are the subject of revision under section 202A or 202B(4) of the Act

Requirements of the Regulations and the auditor’s report

5. Regulation 6(1) requires the RFS to include a statement that the RFS are taken as having been prepared on the date of the original Financial Statements⁵.
6. The RFS cannot consider the effects of adjusting and non-adjusting events occurring in the period between the date of the original Financial Statements and the date of the RFS.
7. The requirements of the auditor’s report are summarised in the table below.

Requirements	RFS which are taken as having been prepared on the date of the original Financial Statements
Regulations 10 (7)(a)	Auditor’s report to refer to statement made by the directors of the company (i) as to the aspects in which the original Financial Statements did not comply with the Act; and (ii) the material revisions to the original Financial Statements
Regulations 10 (7)(b)	Auditor’s report to state whether in the auditor’s opinion, the RFS are in compliance with the Act as applied by the Regulations seen <u>as at the date of the original Financial Statements</u>
SSA 560 <i>Subsequent Events</i> para 16 ⁶	Auditor’s report to include Emphasis of Matter paragraph or Other Matter paragraph referring to a note to the RFS that more extensively discusses the reason for the amendment of the previously issued Financial Statements and to the earlier auditor’s report
SSA 560 <i>Subsequent Events</i> para 12 ⁷	Auditor’s report to state in Emphasis of Matter paragraph or Other Matter paragraph that the amendment of the Financial Statements is restricted to the effect of the subsequent event(s) causing that amendment and the subsequent events review procedures is restricted to the amendment.

8. ISCA will be issuing an illustration of the independent auditor’s report on the RFS for a group audit engagement as part of Audit Guidance Statement 1 (AGS 1)⁸.

⁵ The date of original Financial Statements is the date on which the original directors’ statement was signed on behalf of the directors of the company, as provided in Regulation 3.

⁶ SSA 560 *Subsequent Events* para 16 states that “The auditor shall include in the new or amended auditor’s report an Emphasis of Matter paragraph or Other Matter paragraph referring to a note to the financial statements that more extensively discusses the reason for the amendment of the previously issued financial statements and to the earlier report provided by the auditor.”

⁷ SSA 560 *Subsequent Events* para 12 states that “Where law, regulation or the financial reporting framework does not prohibit management from restricting the amendment of the financial statements to the effects of the subsequent event or events causing that amendment and those responsible for approving the financial statements are not prohibited from restricting their approval to that amendment, the auditor is permitted to restrict the audit procedures on subsequent events required in paragraph 11(b)(i) to that amendment....” Para 11(b)(i) states that “If management amends the financial statements, the auditor shall: Unless the circumstances in paragraph 12 apply: Extend the audit procedures referred to in paragraphs 6 and 7 to the date of the new auditor’s report...”

⁸ AGS 1 *Sample Independent Auditor’s Reports*

Audit procedures on the RFS

9. To opine on the RFS, the overriding principle is that auditor needs to not only audit the revision to the Financial Statements but also obtain sufficient appropriate evidence as to whether the RFS as a whole provide a true and fair view, seen as at the date of the original Financial Statements.
10. Therefore, for auditors who had audited the original Financial Statements, the audit procedures on the revision to the Financial Statements may entail:
 - Obtaining an understanding of the procedures that management has established to ascertain the completeness of the revision;
 - Discussing with the management and corroboration of available evidence to determine the reasons for the revision and that the reasons are valid;
 - Inspecting of documents to adequately support the revision to the Financial Statements;
 - Determining the adequacy of disclosure in the RFS for the amendments made;
 - Considering whether the revision to the Financial Statements affects the other information (as defined in SSA 720 *The Auditor's Responsibilities Relating to Other Information*) and whether there is a material inconsistency between the other information and the Financial Statements. Where there are material inconsistencies, to refer to SSA 720.19⁹ for further consideration;
 - Reviewing the steps taken by management to ensure that anyone in receipt of the previously issued Financial Statements together with the auditor's report thereon is informed of the revision¹⁰; and
 - Consideration of the integrity of management and evaluation of earlier representations by management.
11. For auditors who are not auditors of the original Financial Statements, in addition to the procedures set out in paragraph 10, in order to gather sufficient, appropriate audit evidence on which to form the audit opinion on the RFS as a whole, the auditor may consider reviewing the working papers of the auditor of the original Financial Statements and perform additional audit procedures as appropriate; or perform an independent audit of the original Financial Statements.

⁹ SSA 720 *The Auditor's Responsibilities Relating to Other Information* para 19 states that "If the auditor concludes that a material misstatement exists in other information obtained after the date of the auditor's report, the auditor shall:

(a) If the other information is corrected, perform the procedures necessary in the circumstances; or (Ref: Para. A48)

(b) If the other information is not corrected after communicating with those charged with governance, take appropriate action considering the auditor's legal rights and obligations, to seek to have the uncorrected material misstatement appropriately brought to the attention of users for whom the auditor's report is prepared. (Ref: Para. A49–A50)"

¹⁰ SSA 560 *Subsequent Events* para 17 states that "If management does not take the necessary steps to ensure that anyone in receipt of the previously issued financial statements is informed of the situation and does not amend the financial statements in circumstances where the auditor believes they need to be amended, the auditor shall notify management and, unless all of those charged with governance are involved in managing the entity, those charged with governance, that the auditor will seek to prevent future reliance on the auditor's report. If, despite such notification, management or those charged with governance do not take these necessary steps, the auditor shall take appropriate action to seek to prevent reliance on the auditor's report. (Ref: Para. A20)"

Dating the auditor's report to the RFS

12. The date of the auditor's report on the RFS must be the date which the directors authorise and approve the RFS for issue¹¹. The RFS is taken to have replaced the original Financial Statements from this date.

CONCLUSION

13. The introduction of sections 202A and 202B of the Act enables companies to rectify defective Financial Statements and file RFS more expediently. This allows an accurate set of Financial Statements to be made available to public for use. Public accountants need to exercise judgement when auditing RFS by understanding the causes of the amendments to the original Financial Statements; and applying relevant procedures to obtain sufficient and appropriate audit evidence to support their opinion on the RFS.

Note: Please note that the contents of ACRA's Audit Practice Bulletins are provided for the guidance of public accountants to supplement prescribed professional standards, and include criteria that ACRA considers in evaluating the work of public accountants. They are not rules of ACRA and are not intended to serve as a substitute for the relevant auditing standards. Public accountants must observe, maintain and apply the prescribed professional standards, methods, procedures and other requirements in carrying out the audits of financial statements.

¹¹ SSA 700 *Forming an Opinion and Reporting on Financial Statements* paragraph 49(b) states that "the auditor's report shall be dated no earlier than the date on which to base the auditor's opinion on the financial statements, including evidence that: (b) those with the recognized authority have asserted that they have taken responsibility for those financial statements." Therefore, in all practicality, as the RFS as indicated by the Regulations are to be dated on the date of revision, the auditor's report should be dated likewise.