

The content of this 2008 circular is now superseded by the issue of the redrafted Singapore Standard on Auditing (SSA) 700 (in 2010) which now makes it amply clear that:
(a) the responsibility for internal controls rests with management; and
(b) management has to acknowledge its responsibility for internal controls, for audit purposes.

AGO CIRCULAR NO. 1/2008

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To: See Distribution List

**AUDIT OF FINANCIAL STATEMENTS
--- ACKNOWLEDGMENT OF RESPONSIBILITY FOR INTERNAL CONTROL BY
MANAGEMENT OF STATUTORY BOARDS AND PRIVATE COMPANIES UNDER
MINISTRIES / STATUTORY BOARDS**

Background

The management of an entity is responsible for the preparation and fair presentation of its financial statements in accordance with the applicable financial reporting framework. To fulfill this responsibility, the management designs and implements internal control to prevent or to detect and correct misstatements, whether due to fraud or error, in order to ensure the reliability of the financial statements.

2. In a financial statements audit, an auditor requires a written acknowledgement by the management that it is responsible for the design and implementation of internal control. Such an acknowledgement is usually included in the management representation letter.

3. When the SSA 700¹ was revised in March 2008, it had a footnote in the segment relating to the management's responsibility for internal control. The footnote could be misinterpreted to mean that management of an entity which is not a public company is no longer required to acknowledge its responsibility for internal control for audit purposes. (See Annex A for the relevant portion of SSA 700.)

AGO's Position

4. The footnote in SSA 700 does not in any way mean that the management of other entities no longer need to acknowledge its responsibility for internal control. What it simply means is that the wording of the segment on management's responsibility (being extracted from the Companies Act) applies to public companies.

5. Internal control forms the underlying basis for the preparation and fair presentation of financial statements. It is fundamental to effective corporate governance and is a means to

¹ The Singapore Standards on Auditing (SSA) 700 on "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements" issued by the Institute of Certified Public Accountants of Singapore (ICPAS) was revised on 17 March 2008.

protect an entity's resources from mismanagement or fraud. Management has no reason not to accept and acknowledge its responsibility for internal control unless there has in fact been no internal control. **Therefore, statutory boards and private companies under ministries/statutory boards should continue to acknowledge their responsibility for internal control in the management representation letter to their respective auditors.**

6. Where AGO is the auditor of a statutory board or private company under a ministry/statutory board and the management will not acknowledge its responsibility for internal control, a negative inference will be drawn by AGO. This would require AGO to consider whether an unqualified audit report can be issued.

Acknowledgement in Management Representation Letter

7. AGO requires the management of statutory boards and private companies under its audit to include the following statement² in their management representation letter to acknowledge their responsibility for internal control:

“We acknowledge our responsibility for the preparation and fair presentation of these financial statements in accordance with the provisions of the [Act of the statutory board/Companies Act] and [SFRS/SB FRS³]. This responsibility includes:

- (a) Designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- (b) ...”

TEO CHEE KHIANG
DEPUTY AUDITOR-GENERAL
for AUDITOR-GENERAL

Distribution List

- (a) Permanent Secretaries/Heads of Organs of State;
- (b) Accountant-General;
- (c) Chief Executive Officers of Statutory Boards; and
- (d) Chief Executive Officers of companies audited by AGO.

² The wording may be refined to take into account different circumstances of the entity, for e.g. different financial reporting framework.

³ SFRS: Singapore Financial Reporting Standards

SB FRS: Statutory Board Financial Reporting Standards

Extracts from SSA 700

PARAGRAPH 28 (MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS)

Management's Responsibility for the Financial Statements

28. **The auditor's report should state that management is responsible for the preparation and the fair presentation of the financial statements in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards*. This responsibility includes:**
- (a) **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; ****
 - (b) **Selecting and applying appropriate accounting policies; and**
 - (c) **Making accounting estimates that are reasonable in the circumstances.**

* Or in the case of an entity other than a company, in accordance with the applicable legal and financial reporting standards.

** Paragraph (a) is applicable to public companies and their subsidiaries: see section 199(2A) of the Companies Act Cap. 50.