

What are Financial Statements?

Financial statements are a set of reports prepared annually on the financial position and financial performance of an organisation. They are meant to provide information useful to people who need to know the financial health of the organisation for various reasons, including for making economic decisions.

The main reports are:

- **Statement of Financial Position** - Showing the assets of the organisation (i.e. what it owns) and its liabilities (i.e. what it owes);
- **Statement of Profit and Loss and Other Comprehensive Income** - Showing the income and expenditure and the results of operations [a surplus (profit) or deficit (loss)] of the organisation for the year; and
- **Notes to the Accounts** - Giving explanatory materials that are an integral part of the financial statements.

Financial statements are usually required by law to be submitted to owners (those who provide capital) of the organisations concerned and to regulatory bodies. In the case of the Government and statutory boards, their financial statements are submitted to Parliament and are available to the public for scrutiny. In this way, public sector organisations are made accountable to Parliament and to the public for the funds entrusted to them.

To ensure that financial statements are understood by readers, they must be prepared in accordance with relevant laws, rules and applicable accounting standards and guidelines.

Why should Financial Statements be audited?

The responsibility for preparing reliable financial statements rests with the organisations concerned. Audit provides an independent check of the statements to give confidence and assurance to users that they are prepared in accordance with applicable laws, rules and accounting standards and guidelines and are free from *material* errors.

The financial statements of the Government of Singapore are audited by the Auditor-General, the independent national auditor of the Government, appointed under the Constitution. For statutory boards, audits are carried out by the Auditor-General or commercial auditors appointed by the Minister, in consultation with the Auditor-General.

How is a Financial Statements Audit carried out?

A financial statements audit is carried out in accordance with prescribed standards and guidelines issued by the Institute of Singapore Chartered Accountants (ISCA) which is the professional body in Singapore for accountants and auditors. In general, these auditing standards require the auditor to do the following:



- Check for compliance with laws and established accounting standards;
- Evaluate internal controls and governance structures in the organisation;
- Assess risk of fraud and error;
- Test check transactions and balances;
- Ascertain that important information is not omitted; and
- Obtain evidence to substantiate material balances in the financial statements.

At the end of the audit, the auditor will have to conclude and report whether the financial statements are fairly presented. If nothing material is amiss, the auditor will issue an unqualified report which states that the financial statements “show fairly” the financial position and the financial results of the organisation audited, or words to that effect.

Otherwise, depending on the severity of what he found wrong, he may issue a “qualified” opinion, a “disclaimer” of opinion or an “adverse” opinion – in order of seriousness, the most serious being an “adverse” opinion. This will alert the reader that something is not quite right with the financial statements.

Sometimes, what the auditor finds in his audit is not serious enough to deserve a qualification but he would like the reader to know his concerns. In this case, the auditor would still give a “show fairly” opinion on the financial statements but with a short note added to his audit report to draw the reader’s attention to his concerns.

What are the limitations of a Financial Statements audit?

In conducting an audit in accordance with auditing standards and guidelines issued by the ISCA, the auditor's main objective is to obtain reasonable assurance (not absolute assurance) that the financial statements as a whole are fairly stated and are free from material misstatements, whether due to fraud or error. The audit approach is generally based on:

- the information provided by management;
- the auditor's evaluation of the controls that exist in the organisation; and
- **test checks** on controls and transactions.

Test checks have inherent limitations. By their nature, they will not detect all errors, irregularities and frauds, especially if the amounts involved are small.

A financial statements audit is also not a fraud investigation and is not designed to detect well-concealed fraud.

Nevertheless, a financial statements audit does serve a purpose. Like a general medical examination which gives a general clean bill of health to the patient, an unqualified audit report would give general assurance that the financial statements of the organisation reported on is free from material error.



Auditor-General ticks off errant agencies

Advance payments improperly made and other lapses highlighted in report

cess of the actual materials cost incurred by DSTA. "This translates to about 87.8 per cent of the total estimated materials cost being paid out by the fifth (ment); and Ministry of Trade and Industry (non-compliance with the Public Service Division's directive). Statutory boards such as petition were not ad to." Examples include ing competition bas weak grounds; setti unrealistically short

The Business Times, 14 October 2011

Human error or system fault?
Kelly Tay & Ludwig Ilio take a light-hearted look at some government agencies' lapses

National Parks Board (NParks)
An employee created and backdated documents to satisfy audit queries

Inland Revenue Authority of Singapore (IRAS)
Gave 266 GST refunds amounting to S\$35,300, to 11 claimants pretending to be tourists

Agri-Food and Veterinary Authority (AVA)
Spent S\$152,800 on two projects to gain ISO accreditation, only to later discover certification not needed

Ministry of Health (MOH)
Continued to pay S\$64,000 worth of financial assistance to 99 dead citizens – for 2 to 32 months after their passing

The Business Times, 18 July 2014

Financial Statements Audit



Auditor-General's Office
Singapore

Auditing for the Nation

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