What are Financial Statements?

Financial statements are a set of reports that reflect an organisation’s financial position, financial results and cash flows. They are prepared to give the reader more information about the organisation’s financial health. The main statements are:

- Statement of Financial Position
- Statement of Comprehensive Income
- Statement of Cash Flows

Why should Financial Statements be audited?

The responsibility for preparing reliable financial statements rests with the management of the organisation. Audit provides an independent check on the statements to give assurance to readers 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, appointed under the Constitution. For statutory boards, audits of their financial statements 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 applicable accounting standards;
- Evaluate internal controls and governance structures in the organisation;
- Assess risk of fraud and error;
- Test check transactions and balances;
- Ascertain that material 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 the financial statements fairly present the organisation’s financial position, results and cash flows, the auditor will issue an unmodified i.e. a “clean” opinion.

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

Sometimes, what the auditor finds in his audit is not serious enough to deserve a modified opinion but he would like the readers to know his concerns. In this case, the auditor would still issue a “clean” opinion on the financial statements but with a short note added in his auditor’s 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 (and not absolute) assurance that the financial statements as a whole are fairly presented 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 internal controls in place 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 serves an important purpose. Like a general medical examination which gives a general clean bill of health to the patient, an unmodified audit report would give general assurance that the financial statements of the organisation reported on is free from material error.

What professional certifications do AGO auditors hold?

AGO encourages its auditors to attain relevant professional certifications such as Chartered Accountant of Singapore (CA Singapore), Chartered Financial Analyst (CFA), and Certified Internal Auditor (CIA).

AGO is an Accredited Training Organisation for CA Singapore.