



# **PRACTICE MONITORING PROGRAMME**

## **FOURTH PUBLIC REPORT**

**July 2010**

The Accounting and Corporate Regulatory Authority (ACRA) is the national regulator of business entities and public accountants in Singapore. ACRA also plays the role of a facilitator for the development of business entities and the public accountancy profession. The mission of ACRA is to provide a responsive and trusted regulatory environment for businesses and public accountants.

### Scope/Disclaimer

ACRA's oversight of the profession has been stringent and its inspection methodologies have evolved to be more rigorous but also more targeted and risk based. Therefore the observations in this report, while raising some concerns, reflect a rigorous approach and a high benchmark reflecting the need to maintain a high degree of confidence in the financial information that underpins Singapore's markets.

In presenting the specific findings in this report, efforts have been made to provide as much of the context as possible under which these findings arose in the PMP. The findings should not be read in isolation or regarded as creating mandatory rules in addition to the auditing standards. Public accountants should read and assess the applicability and severity of each of the findings in the broader context of upholding the profession's standards and in careful consideration of the uniqueness of individual audit engagements.

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# **1 EXECUTIVE SUMMARY**

## **Keeping Up with Changing Times**

- 1.1 In this ever changing world, we are constantly challenged to keep up and indeed to stay ahead of changing times.
- 1.2 All professionals in every field, including public accountants, are faced with the challenge of keeping pace to stay ahead and to meet the needs of the changing business landscape and the needs of their clients.
- 1.3 As respected professionals, public accountants will have to make a commitment to keep up with changes, including: shorter economic cycles, globalisation of businesses, new communication media, a new generation of accounting professionals requiring innovative recruitment and retention strategies, increasingly complex accounting standards and disclosure requirements, the adoption of principles-based auditing standards and ethics requirements and the restructuring of network firms with some loss of local independence.
- 1.4 In Singapore, the latest development in the accountancy sector presents exciting opportunities for the public accountancy profession. In April 2010, the Committee to Develop the Accountancy Sector (CDAS), a special committee formed by the Ministry of Finance of the Government of Singapore, made 10 key recommendations under 3 key strategic thrusts to transform Singapore into a leading global accountancy hub for Asia-Pacific by 2020. All the recommendations have been accepted for implementation by the Government. Further information on the CDAS recommendations can be accessed at [www.acra.gov.sg](http://www.acra.gov.sg).

- 1.5 ACRA regulates the public accountancy profession in Singapore and a key regulatory tool is the Practice Monitoring Programme (PMP), under which ACRA carries out regular and cyclical inspections of public accounting firms and public accountants registered with ACRA. Having completed its first cycle of inspections which started in April 2005, ACRA has had the benefit of observing the workings of public accounting firms in Singapore. ACRA has found that there are some firms that are not responding fast enough to changes. In some cases, the firms do not appreciate the need to keep up with current standards. Inevitably, these firms have not been able to maintain a sufficiently high level of audit quality.
- 1.6 In this Report, ACRA would like to challenge the public accountancy profession to strive harder to keep up with changing times. While financial reporting practices in Singapore remain fundamentally sound, there is no room for complacency. Public accountants must continue to exercise vigilance and professional scepticism in order to maintain a high level of audit quality. This will form the foundation upon which Singapore can become a leading global accountancy hub.

### **PMP Inspection Findings**

- 1.7 Singapore's financial statement audit market can be divided broadly into two segments: audits of listed and other public interest entities<sup>1</sup> (PIEs) and audits of non-PIEs. This report deals with each segment separately as both segments face unique challenges.
- 1.8 Amongst various audit deficiencies noted during inspections of Singapore public accounting firms and public accountants, ACRA will highlight in this

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<sup>1</sup> PIEs include companies listed on the Singapore Stock Exchange (SGX), or intending to list on the SGX, companies in regulated industries such as banks and insurance companies, and other entities that raise funds from the public such as charities.

year's Public Report some areas of particular concern. These are outlined below:

### **Firm Level Reviews of PIE Firms**

- 1.9 With respect to firm level reviews, ACRA performs inspections of a public accounting firm's system of quality control vis-à-vis the requirements of SSQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*. "Leadership responsibilities for quality within the firm" is one of six overlapping quality control elements in SSQC 1. Whilst those responsible for leadership in the firms reviewed by ACRA seem committed to audit quality, more emphasis needs to be placed on ensuring that appropriate resources are made available to deliver a high quality audit.
- 1.10 SSQC 1 requires that audit firms institute a system of independent monitoring of quality on audit engagements. This can include independent Engagement Quality Control Reviews (EQCR) by designated reviewers as well as other internal review programmes (which may comprise pre or post-issuance, hot or cold reviews performed by persons independent of the audit team). ACRA found that improvements are needed in the effectiveness and quality of the EQCRs as well as for the different types of internal review programmes adopted in different firms.

### **Engagement Reviews of PIE Firms**

- 1.11 For the engagements reviewed, largely of listed companies, ACRA noted a need for public accountants to step up the level of professional scepticism and audit rigour, particularly in the assessment of impairment of non-financial assets.

1.12 For public accountants acting as the group auditor of a group of companies, ACRA found deficiencies in the way some of the group audits were performed, including insufficient work performed to rely on the work of component auditors.

### **Sustaining Audit Quality in Non-PIE Firms**

1.13 Some firms in the non-PIE segment face systemic issues including operating a high volume/low fee model that may lead to threats to audit quality. These include a superficial level of professional supervision by partners as well as a lack of depth in the quality and experience of staff in audit teams. Added to these systemic issues, some of these firms do not have robust systems of quality controls. Therefore audit quality is often entirely dependent on the individuals performing the audit and varies according to the competence and experience of audit team members. Frequently, audit quality is adversely affected by high attrition rates of audit staff.

1.14 ACRA urges these firms to institute a robust system of quality control that will provide a sustainable structure for ensuring consistency in audit quality.

### **Engagement Reviews of Non-PIE Firms**

1.15 ACRA continues to identify recurring findings in certain basic audit areas. The Report highlights five common and significant findings in the areas of:

- Planning and setting materiality
- Existence and accuracy of revenue
- Existence and recoverability of accounts receivables
- Valuation of inventory balances
- Functional currency

## **Upcoming Developments and Future Focus**

- 1.16 In section five of this Report, ACRA highlights upcoming developments in its regulatory oversight that public accountants should be aware of, including changes to the Continuing Professional Education (CPE) requirements. ACRA also highlights areas of future focus for the public accountancy profession including the need to keep abreast of new and revised accounting and auditing standards. In addition, key revisions to audit procedures applicable to group audits are outlined.
- 1.17 Section five also discusses one of the key challenges for the public accountancy profession, which is to enhance the appreciation of users of financial statements regarding the value of an audit, including an understanding of the determinants of audit quality. ACRA reminds both the public accountancy profession and those with an interest in quality audits, such as audit committees, that audit quality can vary and an auditor's remuneration should be commensurate with the audit value delivered.

## **Initiatives Available to Help the Profession**

- 1.18 The ultimate aim of the PMP is to improve audit quality and therefore includes elements designed to help public accountants make improvements and remedy audit deficiencies identified during inspections. In section six of this Report, public accountants are directed to initiatives available to assist in their professional development.

## **2 OVERVIEW OF THE PRACTICE MONITORING PROGRAMME**

- 2.1 Through the provision of audit and other assurance services, Singapore's public accountancy profession plays a key role in preserving and strengthening public confidence and trust in Singapore's business and financial markets.
- 2.2 ACRA regulates, and facilitates the development of, the public accountancy profession in Singapore. As an independent auditor regulatory authority, ACRA monitors the audit quality of public accountants through its PMP which has now completed its first cycle of inspections since it started in April 2005.

### **Objectives of the Annual PMP Public Report**

- 2.3 ACRA publishes this Annual PMP Public Report to promote an understanding of ACRA's work and the results ACRA is seeking to achieve. This Report, ACRA's fourth, communicates regulatory assessments of the Singapore public accountancy profession, with the ultimate objective of helping to ensure that the work of the Singapore profession meets the highest international professional standards.
- 2.4 With an economic recovery underway in Singapore, business activities are picking up again. Whilst this presents enhanced opportunities for the profession, it will also provide growing challenges as business operations and transactions increase in size and complexity. This will have implications in terms of public expectations and reliance on the work of public accountants.
- 2.5 The publication of this report in a post-financial crisis period serves as a timely reminder for public accountants to remain vigilant and maintain a high level of professional scepticism in their work. The profession must keep up with continuing changes, including changes to clients' businesses, changes to financial reporting standards and changes arising from the clarified auditing

standards<sup>2</sup>. A diligent public accountant keeps abreast of such changes and plans ahead to address the impact on financial reporting and audit procedures.

### **ACRA's Audit Regulatory Regime**

- 2.6 ACRA takes a proactive approach to the regulatory oversight of Singapore's auditors. One of ACRA's key regulatory activities is to carry out regular and cyclical inspections of public accounting firms and public accountants registered with ACRA under the PMP. Between April 2005 and March 2010, more than 350 public accountants have been inspected. In addition, ACRA monitors events and trends in the marketplace and carries out other regulatory oversight activities on the work and independence of statutory auditors when required.
- 2.7 The Public Accountants Oversight Committee (PAOC), established by ACRA under the Accountants Act, is the deciding authority on the outcome of PMP inspections. The PAOC requires public accountants who have failed to meet the expected professional standards to take necessary remedial actions. When warranted, the PAOC issues orders to protect the public interest by restricting a public accountant's practice.
- 2.8 At the conclusion of its inspections, ACRA advises public accounting firms and public accountants of areas that ACRA expects to be improved. ACRA also monitors common findings and the overall standard of performance across the profession. This Public Report includes the most important and pervasive of these issues.

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<sup>2</sup> Singapore has adopted the clarified International Standards on Auditing issued by the International Federation of Accountants, with necessary modifications for local statutory reporting requirements. The clarified Singapore Standards on Auditing are effective for financial periods beginning 15 December 2009.

- 2.9 Whilst ACRA's inspections continue to focus on audit process matters, we have also placed emphasis on the quality of audit risk assessments and judgements made by public accountants.
- 2.10 For a more detailed description of ACRA's PMP, please refer to ACRA's PMP Public Report 2007, which is available together with previous annual PMP reports at [www.acra.gov.sg](http://www.acra.gov.sg).

### **Benchmarked to International Standards**

- 2.11 ACRA is a founding member of the International Forum of Independent Audit Regulators (IFIAR) established in 2006. ACRA was elected to the six-member Advisory Council of IFIAR in October 2008 to assist and advise IFIAR's office bearers. In September 2009, ACRA successfully hosted the sixth IFIAR plenary meeting in Singapore. Information about IFIAR may be accessed at [www.ifiar.org](http://www.ifiar.org).
- 2.12 ACRA's PMP is benchmarked to international regulatory practices and standards. ACRA has participated in various IFIAR audit inspection workshops on international best practices in audit inspection methodologies and processes. This ensures that our inspection methodology and processes remain current and relevant to the changing global economy.
- 2.13 ACRA has previously conducted joint audit inspections with its US counterpart, the US Public Company Accounting Oversight Board (PCAOB), on Singapore audit firms that are registered in both Singapore and the US. In the past year, Singapore public accounting firms have also been accepted for registration with the independent auditor regulators of European Union countries such as Luxembourg, the Netherlands, Norway and United Kingdom. This was permitted on the basis of the strength of ACRA's independent auditor regulation process.

## **Key Regulatory Initiatives to Improve Audit Quality**

2.14 The ultimate aim of ACRA's PMP is to improve audit quality and therefore encompasses regulatory initiatives which are designed to ensure that public accountants make improvements and remedy audit deficiencies identified during the inspections. The following are three such initiatives that have helped public accountants improve audit quality.

### **(a) *Hot Review Orders***

2.15 The PAOC may subject a public accountant who did not pass the PMP inspection to a Hot Review Order<sup>3</sup> whereby the work of the public accountant is to be subject to a review, for a stipulated period, by a Hot Reviewer (who is a qualified public accountant or former public accountant approved by ACRA), when he provides public accountancy services. Under this order, a public accountant cannot sign off an audit engagement unless the Hot Reviewer has reviewed the audit work performed.

2.16 The Hot Reviewer serves as a mentor in assisting the public accountant to review the quality of the audit process undertaken. The focus is on helping the public accountant to improve the quality of his audit process. Notwithstanding the hot review process, the responsibility of the public accountant who is under hot review in signing off the audit report with respect to the audit judgement and audit opinion issued remains unchanged.

2.17 For engagements that are already subjected to an independent EQCR under SSQC 1, the Hot Reviewer adds an additional layer of review and guidance to the public accountant.

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<sup>3</sup> In September 2007, ACRA issued Practice Direction No. 4 of 2007 – Practice Monitoring Programme – “Hot Review” Order which may be accessed at [www.acra.gov.sg](http://www.acra.gov.sg).

**(b) *Peer Review Orders***

2.18 The benefits of mentorship have also been made available by means of a Peer Review<sup>4</sup> process for public accountants who did not pass the PMP inspection and were not subject to Hot Review Orders. Under a Peer Review Order, a Peer Reviewer (who is a suitably qualified public accountant or former public accountant) is appointed to perform peer reviews on any three statutory audit engagements of the public accountant. These must be completed within 12 months from the date of issuance of the PAOC order to the public accountant concerned.

2.19 The timing and selection of the audit engagements and Peer Reviewers for the three peer reviews will be determined by the public accountant involved and unlike hot reviews, can be carried out as a post-issuance review. The public accountant remains solely responsible for the audit engagements that have been signed off notwithstanding that the engagement has been reviewed by a peer reviewer.

**(c) *Mandatory Courses***

2.20 To enhance the remedial programme for public accountants who did not pass the PMP inspection, ACRA has collaborated with the Institute of Certified Public Accountants Singapore (ICPAS) to develop a detailed, three-day mandatory course<sup>5</sup> covering topics such as audit planning, application of audit procedures for individual balance sheet and profit and loss balances and financial statement disclosures. The course incorporates case studies to illustrate the common findings raised in the inspections.

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<sup>4</sup> In March 2009, ACRA issued Practice Direction No. 1 of 2009 “Peer Review Initiative to Assist Public Accountants to Upkeep the Quality of Professional Work” which may be accessed at [www.acra.gov.sg](http://www.acra.gov.sg).

<sup>5</sup> In May 2009, ACRA issued Practice Direction No. 3 of 2009 “Mandatory Course to Assist Public Accountants to Upkeep the Quality of Professional Work” which may be accessed at [www.acra.gov.sg](http://www.acra.gov.sg).

2.21 Together with ICPAS, which runs the course, ACRA regularly monitors and updates course contents and instruction methods.

### **Other PAOC Orders**

2.22 The PAOC metes out a range of orders<sup>6</sup> for public accountants who did not pass the individual audit engagement inspections depending on the severity of the audit deficiencies. These orders are to be strictly complied with and non-compliance may lead to disciplinary actions, non-renewal, restriction of practice, suspension or even cancellation of the public accountants' certification of registration with ACRA<sup>7</sup>.

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<sup>6</sup> For a range of orders that the PAOC may issue as a result of an inspection conducted under the PMP, please refer to the Appendix of ACRA's Third PMP Public Report 2009 which may be accessed at [www.acra.gov.sg](http://www.acra.gov.sg).

<sup>7</sup> Please refer section 38(1)(b) of Accountants Act, Cap. 2.

### 3 AUDITS OF PUBLIC INTEREST ENTITIES

- 3.1 Singapore's PIEs are audited by twenty<sup>8</sup> public accounting firms (referred to hereinafter as PIE firms). As at 31 March 2010, there were 276 public accountants practising in these PIE firms. This report covers PIE firms reviewed in the period from 1 April 2009 to 31 March 2010.
- 3.2 ACRA's inspections of PIE firms comprise the inspection of firm level systems of quality controls benchmarked against SSQC 1<sup>9</sup> as well as inspections of individual audit engagements to ensure compliance with prescribed accounting and auditing standards<sup>10</sup>. This inspection methodology is consistent with those of other leading jurisdictions.

#### About Firm Level Inspections

- 3.3 SSQC 1 is applicable to all firms and requires that the firm "*establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, and that reports issued by the firm or engagement partners are appropriate in the circumstances*".
- 3.4 A firm level system of quality control will provide a sustainable structure for ensuring consistency in audit quality without depending on any single individual to maintain the level of audit quality. Firms that invest in a robust system of quality control will be better positioned to maintain audit quality even when faced with ongoing recruitment and retention challenges.

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<sup>8</sup> There are additional public accounting firms that audit entities that raise funds from the public such as charities.

<sup>9</sup> Singapore has adopted the clarified International Standard on Quality Control 1 issued by the International Federation of Accountants. Systems of quality control in compliance with Singapore Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* are required to be established by 15 December 2009.

<sup>10</sup> In 2005, ACRA issued Practice Direction No. 2 of 2005 – Practice Monitoring Programme which stipulates the prescribed standards for the PMP and may be accessed at [www.acra.gov.sg](http://www.acra.gov.sg).

- 3.5 ACRA expects Singapore public accounting firms performing or seeking to perform audits and reviews of financial statements and other assurance and related services engagements, to ensure that their systems of quality control are in full compliance with the requirements of SSQC 1.
- 3.6 ACRA's inspections seek to identify needed improvements in the design and implementation of a firm's system of quality control in each of the six overlapping elements supporting the internal quality control system and which influence the overall effectiveness of the audit process and the audit quality of the firms.
- 3.7 ACRA uses its assessment of the firm's system of quality control to determine the number of engagements selected and the intensity of inspection of individual audit engagements.
- 3.8 At the conclusion of each inspection, ACRA advises the PIE firms and public accountants of areas of non-compliance with standards and practice areas that require improvement in line with best practices. ACRA then requires a response from the firms on their remediation plans to address deficiencies.
- 3.9 Currently, outcomes of firm level inspections have a bearing on ACRA's monitoring of the firm. Firms with less robust systems of quality controls may be inspected more frequently and extensively.

### **Individual Engagement Inspections**

- 3.10 Weaknesses found in individual audit engagement inspections are subject to a number of remedies and sanctions. These are outlined in paragraphs 2.14 to 2.22 of this Report.
- 3.11 ACRA has observed an increasing level of public awareness of audit quality as public accountants acting as reporting accountants for financial statements

included in the prospectuses of initial public offerings are now required to disclose to the Singapore Exchange if they have been subjected to any PMP sanctions.

3.12 This Report highlights the most important and common findings found in the PIE firms at both the firm level and in individual audit engagements.

<b>Key Observations: Firm Level Inspections of the PIE Segment</b>
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3.13 The quality of the reviewed PIE firms' quality control systems generally met ACRA's expectations. Progress was also noted in addressing issues identified in ACRA's previous inspections. However, there is a need for continued improvement in several areas. This Report highlights two such areas, considered to be of particular importance and discusses a number of needed improvements within each area.

### **Leadership Responsibilities for Quality within the Firm**

3.14 The firms' leaderships' commitment to and emphasis on quality audit work is a central element in creating the necessary "tone at the top". ACRA noted that the leaders of the reviewed firms are generally committed to audit quality. A summary of ACRA's observations in this area is set out below.

*(a) Setting of growth targets and risk levels*

3.15 The firms' leadership could be setting aggressive growth targets that will encourage the partners to grow the practice and increase market share without having regard to the adequacy of professional competence and resources to support a quality audit. Inappropriate growth targets may encourage the acceptance of new clients with fees below a reasonable level required to enable firms to deliver quality audits. However, ACRA noted instances in which firms made deliberate decisions to decline appointments or re-appointments as

auditors because the proposed fees were below the level required to deliver a quality audit commensurate with the level of audit risk. In such instances, the firms demonstrated an unwillingness to compromise on audit quality to meet growth targets.

**(b) *Communication***

3.16 An important factor in support of audit quality lies in the way the firm communicates the nature of its commitment to audit quality to its partners and professional staff. The promotion of a quality-oriented culture depends on clear, consistent and frequent messages and actions from all levels of the firm's management emphasising the firm's quality control policies and procedures. Such communications provide evidence of the firm's commitment to audit quality. ACRA noted some instances where the focus on quality was weak in communications to staff. Messages relating to audit quality in such communications were often focused on client satisfaction as opposed to ensuring audit quality.

**(c) *Putting appropriate resources in place***

3.17 Determining the appropriate level of resources to support those responsible for the firm's quality control system is a challenging task. The partners who have operational responsibility for the firm's important audit quality functions should have sufficient and appropriate experience as well as the ability, the resources and the necessary authority in the firm to discharge their responsibilities effectively. Audit quality may be enhanced if an efficient information structure is developed that enables the firm to monitor and detect non-compliance issues or potential violations. ACRA noted that some firms dedicated insufficient resources to supporting those who have operational responsibility for the firm's quality control system under the requirements of SSQC 1.

**(d) *Engagement partner involvement***

- 3.18 Most firms ensure that the engagement partner<sup>11</sup> has the appropriate competence and authority to perform the role. ACRA would like to emphasise the importance of the active and continuous involvement of the engagement partner in the audit engagements. Whilst the engagement partner may have competent professionals to carry out audit procedures and to review the audit, the responsibility for overall audit quality and for the auditor's report that is issued on behalf of the firm, lies with the engagement partner. In many of the audits inspected by ACRA, involvement by engagement partners were generally found to be inadequate. This issue is further aggravated when the staff members on the engagement are too junior and inexperienced to do an effective job without proper and timely supervision by the engagement partner and if the EQCR partner does not spend enough time to provide meaningful support to the engagement partner.
- 3.19 ACRA noted that certain firms designate senior experienced individuals as audit principals to support the engagement partner. In certain instances, ACRA found a particularly low level of involvement by the engagement partner resulting from over-reliance on the audit principal.
- 3.20 ACRA has not yet set a minimum standard for an acceptable level of engagement partner involvement as we recognise that the extent of involvement should be material and vary according to the complexity and risk of the engagement. Some firms regard 5% of total engagement time for low risk engagements as a reasonable target and up to 10% of total engagement

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<sup>11</sup> SSA 220 *Quality Control for an Audit of Financial Statements* defines engagement partner as “*The partner or other person in the firm who is responsible for the audit engagement and its performance, and for the auditor’s report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body*”. In the Singapore context, the engagement partner is a public accountant registered with ACRA.

time for higher risk engagements. ACRA regards this as an appropriate starting point for considering the sufficiency of engagement partner involvement.

*(e) Linking quality and remuneration*

3.21 A strong and well-understood linkage between audit quality and partner/staff performance evaluations and compensation is an important contributor to quality audits. Whilst some firms may have implicit consideration of audit quality during the evaluation/compensation process, incorporating audit quality indicators and giving them clear and sufficient weightings in the partner admission, partner evaluation and appraisal processes will help partners to further improve their strengths and identify areas for improvement. The same philosophy should apply to professional staff. For the firms inspected by ACRA, we noted that performance appraisal criteria may address some quality issues (for example client satisfaction, technical competence and people development) but do not cover all of the key performance indicators of audit quality. The firms evaluate the quality of their audits through a variety of monitoring procedures but, for the most part, the results of those procedures are only reflected in the partner admission and compensation processes infrequently and on an exception basis only.

3.22 ACRA noted instances where the partner and staff evaluation process appeared rather informal. There were instances where there were no formal enforceable procedures for giving feedback to staff on their performance in terms of their strengths and weaknesses, areas for improvements and objectives set on a timely basis. In other instances, there were no explanations or benchmarks to provide guidance to the appraisers to ensure that different appraisers follow a consistent approach in applying the performance ratings.

3.23 The establishment of appropriate policies and procedures that address performance evaluation, compensation, promotion and incentive reward

systems with clear linkage to audit quality will demonstrate the firm's overriding commitment to quality.

### **Monitoring of Audit Quality by EQCR and Internal Review Programmes**

3.24 SSQC 1 requires that audit firms institute a system of independent monitoring of quality on audit engagements. This will include independent EQCRs as well as other internal review programmes.

3.25 An effective internal review programme should have formalised policies and procedures, such as clear guidance on the frequency of reviews, selection of engagements, independence of the process from the management of the audit practice and communication of the results of the reviews. Processes to ensure a clear and transparent link between the results of internal reviews of engagement files and partner performance evaluations and remuneration should also be implemented.

3.26 The internal review programmes vary across different firms. Most firms which are members of an international network will be subjected to cyclical (for example, triennial) post-issuance reviews by their international network firms. These international reviews usually cover both the firm level system of quality controls as well as audit engagements.

3.27 ACRA also noted that some firms have instituted regional or internal pre- and post-issuance reviews on audit engagements to supplement their international reviews. For some firms, pre-issuance reviews involve high level supervision and approval by a reviewer throughout the engagement process from planning to completion of an audit. Oversight is primarily through ongoing discussion and review of key audit documents.

The following is a summary of ACRA's key findings on the firms' EQCRs and internal review programmes.

**(a) *Qualification of EQCR and internal reviewers***

- 3.28 Firms must ensure that the EQCR<sup>12</sup> and internal reviewers assigned to engagements have the relevant expertise and available time to perform their responsibilities appropriately. The EQCR and internal reviewers must have sufficient technical expertise and experience, including, where appropriate, knowledge of the client's industry, to provide an objective review and evaluation of significant judgements made on accounting and auditing matters.
- 3.29 In some instances, ACRA concluded that the EQCR and/or internal reviewers were not well suited for their responsibilities taking into account their technical competence and depth of experience relative to the engagement partner and risks associated with the audit engagement.

**(b) *EQCR process***

- 3.30 The EQCR process appears to be focused on the review and discussion of key documents and audit issues and generally does not extend to examinations of the audit files even in the areas where audit risk was assessed to be high. Typically the EQCR reviewer will consider issues raised for consideration by the audit team, rather than considering whether the right risks and audit issues have been raised. The minimal time often charged by the EQCR partner and the dating of sign offs also provided strong indications that the involvement of the EQCR partner was insufficient and/or untimely throughout all stages of the audit.
- 3.31 There was generally a lack of documented evidence of work performed by the EQCR partner and often, the only evidence of review was an initial on a checklist.

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<sup>12</sup> SSQC 1 defines the EQCR reviewer as “*A partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, none of whom is part of the engagement team, with sufficient and appropriate experience and authority to objectively evaluate the significant judgements the engagement team made and the conclusions it reached in formulating the report*”.

**(c) *Scope of internal reviews***

3.32 Certain important areas such as time spent on each audit engagement by audit team members, and selected administrative and personnel records pertaining to the quality control elements were not always covered in the internal reviews.

**(d) *Lack of robustness and rigour in the internal review process***

3.33 ACRA's inspections of some audit engagements that had been subjected to the firm's earlier internal review programme found significant audit deficiencies that had not been previously identified by the firm's internal reviewers. This suggests a lack of robustness and rigour in the internal review process.

3.34 Additionally, ACRA noted that ratings assigned by the internal reviewers were not always reflective of the severity of the review findings.

**(e) *Internal review ratings system***

3.35 ACRA found that the internal review rating systems of some firms were not granular enough to appropriately reflect the different levels of severity of audit deficiencies in the engagements reviewed. Often, such systems isolate only very poorly performed audit engagements but do not otherwise differentiate among levels of audit quality. A sufficiently granular rating system can provide more useful input on audit quality for the engagement partner's performance appraisal.

**(f) *Inappropriate follow-up on previous internal reviews***

3.36 In some firms inspected, there was no specific follow-up on the last internal review findings to ensure that appropriate remediation plans were developed by the respective engagement teams and implemented before the next review.

3.37 In such circumstances, the firm is unable to obtain reasonable assurance that its system of quality control is operating effectively as it did not ascertain whether past deficiencies arose due to weak controls over quality or due to systemic, repetitive non-compliance issues that require prompt corrective action.

<b>Key Observations: Engagement Reviews of the PIE Segment</b>
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3.38 In the audit engagement reviews conducted on the files of individual public accountants, ACRA assesses the work of public accountants in planning, supervising, conducting and completing the audit engagements in accordance with the auditing standards required of the profession.

3.39 Of the various issues identified by ACRA in the course of the engagement reviews of public accountants in the PIE segment, we have selected two of the more prevalent and significant areas of concern to elaborate on the deficiencies observed and how the level of professional scepticism and audit rigour can be strengthened in order to address these deficiencies.

### **Impairment of Non-Financial Assets**

3.40 The widespread economic slowdown experienced in the last 18 months has affected many businesses and has led to lower than expected cash flows from non-financial assets. This increases the likelihood that asset carrying amounts are greater than the present values of expected cash flows from the assets, giving rise to a possible need to record impairment charges for the affected assets.

3.41 For assets that are subject to annual impairment testing, such as goodwill and intangible assets with indefinite useful lives, management may need to reconsider assumptions applied in prior periods' impairment testing in light of the prevailing economic environment. For other non-financial assets,

management may no longer be able to provide evidence that there has been no indication of impairment and may need to perform detailed impairment testing.

3.42 Where the recoverable amount of an asset is less than its carrying amount, FRS 36 *Impairment of Assets* requires an impairment loss<sup>13</sup> to be immediately recognised in the income statement to reduce the carrying amount of the asset to its recoverable amount<sup>14</sup>.

3.43 ACRA's main findings in the area of impairment testing of non-financial assets performed by the public accountants are set out in the following paragraphs. This is a key area requiring improvement and attention from public accountants.

**(a) *No documentation on the basis of identification of the cash-generating unit (CGU)***

3.44 ACRA noted that, in most of the reviewed engagements, the public accountant treated the legal entity as the CGU and carried out impairment assessments of the entity's assets such as property, plant and equipment at the entity level. This may not be appropriate in situations where an entity is engaged in more than one activity, each capable of generating largely independent cash inflows. For example, in the case of an entity which is involved in both manufacturing and investment holding activities, the public accountant should consider whether each activity should be regarded as a separate CGU for impairment assessment and testing purposes. Treating the entity as the CGU may lead to an inappropriate conclusion that there are no impairment issues on the assets used, say, for the manufacturing activities despite losses incurred on those activities on the logic that the entity is profitable on an overall basis due to income generated from its investing activities.

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<sup>13</sup> FRS 36.59-60

<sup>14</sup> FRS 36.6

3.45 The public accountant should critically assess the appropriateness of the CGU identified by management and document such assessments in the engagement files. The public accountant should also challenge the asset groupings determined by management to ensure that the groupings are not set at too high a level as a smaller number of asset groups increases the chance that stronger assets i.e. assets generating higher cash flows can offset losses in weaker assets. In assessing the appropriateness of the asset groupings, the public accountant should consider the consistency of approach used by management in the determination of operating segments for the purpose of segment reporting under FRS108 *Operating Segments*.

**(b) *Inadequate impairment assessment carried out on pre-operating subsidiaries***

3.46 A newly set-up subsidiary in its pre-operating or start-up phase is likely to have a net tangible assets (NTA) value which falls short of the cost of investment made due to pre-operating costs incurred or initial losses incurred before operations are ramped up to an optimal level. ACRA has observed that the work done to assess impairment of the investment in such subsidiaries tends to be cursory and limited to inquiries of management without obtaining further corroborative audit evidence to support the conclusion that no impairment is required.

3.47 The public accountant should obtain and review management plans for the subsidiary to ascertain if operations are in line with management plans and determine whether the cost of the investment has become impaired.

***(c) Failure to consider impairment of underlying assets prior to using the net tangible assets value of subsidiaries to assess for indications of impairment of investments in subsidiaries***

3.48 ACRA noted the prevalent use of the net tangible asset value of a subsidiary to assess whether there is any indication that an investment in a subsidiary has been impaired before the public accountant carries out a more detailed impairment testing based on projected cash flows prepared by management.

3.49 FRS 36.12 requires the consideration of both external and internal sources of information when assessing whether there is any indication that an asset may be impaired.

3.50 Therefore, the public accountant should document the consideration given to the other indicators of impairment as listed in FRS 36.12 or provide justification for using net tangible assets value as the ***only*** basis for not performing a detailed review of impairment.

3.51 Further, prior to using the net tangible assets value to assess impairment indicators, public accountants should consider whether an impairment write-down is required of the underlying assets (such as consideration of impairment loss on the subsidiary's property, plant and equipment where the subsidiary itself is loss-making or on recorded receivables from loss-making or insolvent fellow subsidiaries) as this would in turn affect the net tangible assets value and may impact the conclusion.

***(d) No documentation on the basis of using profit (instead of cash flow) projections for value-in-use calculation***

3.52 FRS 36.31 requires that value-in-use estimates be based on future cash flows derived from the continuing use of the asset and from its ultimate disposal. ACRA has observed the use of profit-before-tax as a proxy for the projected

cash flows in the initial impairment assessment prior to carrying out a full impairment assessment based on projected cash flows. This approach may be inappropriate where there are significant non-cash items included in profit-before-tax or where the operating cash flows generated do not closely approximate profit-before-tax. Public accountants should evaluate and document the appropriateness of management's use of such proxies in support of value-in-use calculations.

3.53 When using profit projections to determine value-in-use as discussed above, public accountants should take care not to omit cash outflows from expected future capital expenditures necessary to support the projected revenue growth in the calculation.

***(e) Insufficient testing of or challenges to the cash flow projections prepared by management***

3.54 Examples of sub-standard audit work observed in the area of test of cash flow projections by the public accountants include:

- No assessment of the impact on the value-in-use calculation arising from the omission of cash flows from capital expenditures and the future disposal of the operations.
- Failure to discount the projected cash flows to present value before comparing them to the carrying amount of the asset that is the subject of the impairment review to establish whether an impairment loss has occurred.
- Reliance on the business plan without sufficient challenge to the assumptions (such as the revenue growth rates, profitability rates, terminal growth rates) used by management in preparing the forecasts.

- No assessment of the appropriateness of the growth rate applied for expenses vis-a-vis the growth rate used for revenue.
- No assessment of the reasonableness of the discount rate applied to the cash flow projections in order to derive present value.

3.55 Public accountants should assess the assumptions used in the business plan to ascertain whether they are reasonable and supportable and consistent with market evidence. Public accountants should appropriately challenge the key assumptions behind cash flow forecasts and projections. The review of cash flow forecasts should be performed by senior members of the audit team and should not be delegated to junior members who may lack the necessary experience to perform a rigorous review and the clout to challenge management's assumptions. In reviewing the cash flow forecasts, the public accountants should ask of management, *inter alia*, the following:

- How the changes in market conditions, changes in sales volume, pricing and costs have been incorporated into cash flow forecasts;
- Whether the projected margins, which are sometimes based on historical trends, is reasonable in a tough economic environment i.e. the public accountant should question the relevance of using historical gross margins in the projections given the change in economic conditions;
- How much room the entity has with its debt covenants; and
- Whether appropriate risk adjustments have been made to the cash flow forecast for risks such as counterparty risk, credit risk, liquidity risk and market risk.

3.56 It is critical that cash flow forecasts are appropriately stress tested. Sensitivity analysis should be performed for changes in sales volume, pricing and costs as

examples. “What if” scenarios such as 10-15% decrease or more in sales are not far-fetched in times of economic uncertainties.

3.57 Public accountants may also consider the use of experts to cross-check the reasonableness of management’s value-in-use calculations such as based on comparison of the implied earnings multiples resulting from the value-in-use calculation to market multiples for the entity, comparable quoted companies and, if any, comparable transactions. When using the work of an expert, public accountants should evaluate the professional competence and objectivity of the expert as required under the revised SSA 620 *Using the Work of an Auditor's Expert* and document such evaluation in the files.

3.58 The cash flows used for impairment testing should be based on the most recent business plan that reflects the expected impact of the economic downturn. Public accountants should check that the cash flow forecasts given by management for impairment purposes are consistent with the budgets that are presented to senior management and the Board.

**(f) *Reasonableness of discount rates used not adequately assessed***

3.59 In deriving the recoverable amount, the cash flows from the future use of the assets must be discounted to present value. Given the increase in market risk in the current economic conditions, a corresponding increase in discount rates would be expected. Factors that affect discount rates also include government interest rates, corporate lending rates and cost of capital. The discount rates used should be carefully considered for reasonableness.

3.60 ACRA noted instances where the rates used by management were based on the current cost of borrowings which had not been adjusted to reflect the way that the market would assess the specific risks associated with the entities’ estimated cash flows, timing and risk profile equivalent to those that the entity

expects to derive from the asset. These risks may include country risk, currency risk and price risk. The public accountant should document the work performed to assess the appropriateness of the discount rates used by management with reference to the requirements in FRS 36.55-57.

3.61 ACRA also noted an instance whereby management applied an arbitrary and unsupported discount to the value-in-use to account for subjectivity and inherent uncertainty in the assumptions used in the discounted cash flows. Such a basis is inconsistent with the requirements of FRS 36. The public accountant should instead address the subjectivity element in the cash flow projections specifically and ensure that the relevant stress tests on the estimates such as growth rate, gross profit margin and discount rate using the sensitivity analysis are performed.

**(g) *No assessment of reversal of impairment loss previously recognised***

3.62 FRS 36.114 provides that an impairment loss recognised in prior periods for an asset other than goodwill is to be reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. Changes in estimates include a change in the basis for recoverable amount, a change in the amount or timing of estimated future cash flows or in the discount rate or a change in estimate of the components of fair value less costs to sell.

3.63 As economic conditions improve, businesses are likely to generate higher cash flows which may necessitate the reversal of impairment losses previously recognised during the economic downturn. ACRA would expect public accountants to apply the same level of rigour in assessing whether impairment losses previously recognised should be reversed as was applied when the losses were originally recognised. Public accountants should also take note of requirements under FRS 36.117 and FRS 36.122 in ascertaining the amount of

impairment loss to be reversed for an individual asset and for a cash generating unit respectively.

## **Group Audits**

3.64 Singapore's businesses have grown and expanded their footprints overseas. Singapore's public accountants often use the work of component auditors in foreign jurisdictions when they act as the group auditor for clients with substantial foreign operations. Given the nature and importance of group financial reporting, this area continues to be a key focus of our inspection work.

3.65 ACRA's main findings for group audits are set out in the following paragraphs. This is another key area requiring attention and improvements from public accountants, especially in the light of clarifications on the extent of audit procedures set out in the revised SSA 600 *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*.

### **(a) *Poor co-ordination with the component auditors***

3.66 There were instances where no group planning materiality was determined and communicated to the component auditors.

3.67 Instances were found where group audit instructions were not sent to the component auditors.

### **(b) *No assessment of professional competence of component auditor***

3.68 ACRA noted instances where there was insufficient evidence that the group auditor had considered the professional competence of the component auditor. Regardless of whether the component auditor is part of the same international network of firms or not, it is still necessary for the group auditor to give appropriate consideration to the component auditor's competency. This includes an assessment of both the firm and the experience and qualifications

of the component engagement partner. Competence and audit quality cannot be an unchallenged presumption based on the component auditor's membership in the same international network as the group auditor.

**(c) *Inadequate audit evidence obtained to support group audit report***

3.69 Instances were found where there was no evidence that the working papers of the component auditors had been reviewed by the group auditor to identify the risk areas, or that the executed audit procedures and audit evidence obtained had been ascertained by the group auditor to be sufficient and appropriate for the purposes of the group audit report.

3.70 There were instances where no evidence was found to support that the group auditor had considered the impact of any substantial differences between the auditing and accounting standards applicable to the audit of the foreign entity and those applicable to the group financial statements.

**Group Audit Procedures**

3.71 The group auditor issuing the audit report on consolidated financial statements should consider the following procedures:

- Adopt a proactive approach in understanding the business of the entity and the group, including the consolidation process and controls.
- Allocate appropriate resources such as the deployment of competent professional staff on the engagement with the appropriate skills and language proficiency.
- Be involved in the co-ordination and communication with the component auditors during the planning stage of the engagement. Scoping of significant entities should be performed and group instructions should be

issued to the component auditors informing them of their scope of work on a timely basis.

- Review the component auditors' work papers to assess the appropriateness of audit procedures performed and adequacy of audit evidence obtained to address the high risk areas and significant accounts. The review should include a discussion with the engagement partner of the component auditor including specific country risk factors arising from business practices in the countries in which the group operates. In this connection, the group auditor should ascertain that there is compliance with tax and business regulations applicable in the relevant jurisdictions.
- Ensure that adequate procedures similar to those of the revised SSA 620 *Using the Work of an Auditor's Expert* have been applied by the component auditor where he has relied on the use of experts.
- Ensure all the work requested in the group instructions is performed and that group reporting deliverables are actually received and reviewed. The group auditor needs to follow up and resolve all issues which may have an impact on the consolidated financial statements.
- Ensure that appropriate procedures similar to those of the revised SSA 505 *External Confirmations* have been applied by the component auditor, especially in maintaining control<sup>15</sup> over external confirmations, since the risk over the authenticity of external confirmations in certain foreign jurisdictions may be higher than in Singapore.
- Consider the adequacy of confirmation procedures performed on bank balances, especially in certain jurisdictions where bank confirmations are

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<sup>15</sup> In May 2010, ACRA issued Audit Practice Bulletin No. 1 of 2010 on External Confirmations which reminds public accountants of “*the need for control to be maintained over communication between the intended recipient and the auditor minimises the possibility that the results of the confirmation process will be biased because of possible interception and alteration of the confirmation requests or responses.*”

highly susceptible to interception and alteration and should be obtained directly and in person from the confirming bank.

- 3.72 The above considerations are consistent with the requirements in the revised SSA 600 *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*<sup>16</sup>. The revised standard sets out the requirement for the group auditor to be involved in the risk assessment, planning and performance of the component auditor. The group auditor will be required to identify significant components, based on both the financial significance and risk to the group, with specific required procedures for each significant component. The revised standard also includes required procedures related to group-wide controls and the consolidation process.
- 3.73 The revised SSA 600 may lead to significant changes in audit practices for firms which have not yet implemented such requirements. ACRA urges public accountants to take steps to ensure that the requirements of the revised SSA 600 are met through timely and proper planning and execution. The clarified requirements are further discussed in section five of this Report.

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<sup>16</sup> The revised SSA 600 is effective for financial periods beginning 15 December 2009.

## **4 AUDITS OF NON-PUBLIC INTEREST ENTITIES**

- 4.1 Singapore has over 500 small public accounting entities (small practices) in the non-PIE segment. Most of these small practices are sole proprietorships and small partnerships. These small practices audit mostly small and medium private companies (SMEs).
- 4.2 The 2009 Public Report explained that some firms in this segment face systemic issues including operating a high volume/low fee model that may lead to threats to audit quality such as a superficial level of professional supervision by partners as well as a lack of depth in the quality and experience of staff in audit teams.

### **Firm Level System of Quality Controls Provides a Sustainable Structure to Maintain Audit Quality**

- 4.3 Added to these systemic issues, some of the firms in this segment also do not have robust systems of quality controls. Therefore audit quality is often determined solely by the individuals performing the audit and can vary according to the competence and experience of the auditor. Often, firms are further hindered in their efforts to improve audit quality by high attrition rates of audit staff.
- 4.4 SSQC 1 *“applies to all firms of professional accountants in respect of audits and reviews of financial statements, and other assurance and related services engagement. The nature and extent of the policies and procedures developed by an individual firm to comply with this SSQC will depend on various factors such as the size and operating characteristics of the firm, and whether it is part of a network<sup>17</sup>”*. Whilst some firms in this segment may feel that it is not practicable, in view of their size, to institute a system of quality control, in fact,

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<sup>17</sup> SSQC 1.4

SSQC 1.A75 states that “*Smaller firms may use more informal methods in the documentation of their systems of quality control such as manual notes, checklists and forms*”. Such a system, if properly and efficiently designed, will provide a sustainable structure to ensure consistency in audit quality without depending on any single individual to maintain the level of audit quality. Firms are advised to undertake a self-assessment to determine if they have implemented and met the requirements of SSQC 1.

- 4.5 In this regard, ACRA wishes to emphasise that the revised SSA 220 *Quality Control for an Audit of Financial Statements*, premised on the basis that the firm is subject to SSQC 1 requirements, applies to individual audit engagements and requires the engagement team to implement quality control procedures applicable to individual audit engagement. This would cover *inter alia* leadership responsibilities, ethical requirements, independence, acceptance and continuance of client relationships and specific audit engagements, assignment of audit teams, and engagement performance.
- 4.6 Furthermore, the revised SSA 220 stipulates that “*the engagement partner should take responsibility for the direction, supervision and performance of the audit engagement in compliance with professional standards and regulatory and legal requirements, and for the auditor’s report that is issued to be appropriate in the circumstances.*” Before the auditor’s report is issued, the public accountant, through review of the audit documentation and discussion with the engagement team, should be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and the auditor’s report that is to be issued.
- 4.7 In addition, the public accountant must ensure that there are appropriate resources for each audit engagement, especially for identified audit risk areas. Staff members should be equipped with the relevant industry knowledge,

appropriate level of audit skills and where possible, continuity for the engagement. It is the public accountant's responsibility to be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and the audit opinion issued.

### **Key Observations: Engagement Reviews in the Non-PIE Segment**

4.8 As in previous years, inspections in the non-PIE segment revealed weaknesses in a broad range of areas and ACRA continues to identify recurring findings in certain basic audit areas. This Report highlights five common and significant findings:

**(a) *Planning and setting materiality***

4.9 Planning is an integral and important part of an audit. The revised SSA 300 *Planning an Audit of Financial Statements* states that the auditor should establish the overall audit strategy for the audit. The revised SSA 315 *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment* requires the auditor to obtain an understanding of the entity and its environment that is sufficient to identify and assess the risks of material misstatement in the financial statements and sufficient to design and perform further audit procedures.

4.10 Adequate planning helps to ensure that appropriate attention is devoted to important areas of the audit and also that potential problems are identified and resolved on a timely basis. As part of the audit plan, the public accountant should set an acceptable materiality level based on the requirements of the revised SSA 320 *Materiality in Planning and Performing an Audit*. ICPAS Practical Guidance No. 3 on Materiality for Audit of Separate Financial Statements of Small Companies aims to share some practical considerations to auditors when establishing materiality during the planning stage of the audit.

4.11 ACRA found engagement files that did not have audit plans setting out the audit strategy based on an assessment of the risks of material misstatement in the financial statements. Public accountants should refer to the ICPAS Audit Manual for Small Companies for guidance in this area.

**(b) *Existence and accuracy of revenue***

4.12 ACRA noted cases where the audit work performed on revenue primarily consisted of vouching recorded sales to internally generated documents such as sales invoices, which is not sufficient. Vouching procedures should include verification to external documents such as customer-acknowledged delivery orders and contracts. International commercial terms (Incoterms) for cross border transactions should be considered where appropriate.

4.13 To elaborate further, public accountants should take note of audit findings on existence and accuracy of revenue especially in the area of revenue recognition, which carries a presumed risk of fraud. Public accountants should also perform appropriate audit procedures on revenue cut-off to ascertain that revenue has been recorded in the correct accounting period.

4.14 In some instances, ACRA has noted that the lack of professional scepticism often resulted in inadequate work performed for revenue. As always, public accountants should approach this area with sufficient professional scepticism. The revised SSA 240 *The Auditor's Responsibility relating to Fraud in an Audit of Financial Statements* requires the auditor to maintain an attitude of professional scepticism throughout the audit, recognising the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience with the entity and its management.

**(c) *Existence and recoverability of accounts receivables***

- 4.15 ACRA noted inadequate or no alternative procedures performed for non-responses to circularised balances. Alternative procedures are essential for obtaining sufficient and appropriate audit evidence about the assertions that the confirmation request was intended to provide.
- 4.16 ACRA noted that follow-up procedures were not duly performed to resolve exceptions arising from audit procedures. For example, when discrepancies are identified in responses to circularised balances.
- 4.17 ACRA's Audit Practice Bulletin No. 1 of 2010 on External Confirmations identifies common audit deficiencies in external confirmation work and discusses some practical issues for public accountants to consider.
- 4.18 Current market conditions may bring about greater uncertainties and audit risks with respect to the recoverability of receivables. The extent of the audit work performed should be properly evidenced in the engagement file to support the appropriateness of the audit judgements relating to valuations and impairment of accounts receivables.

**(d) *Valuation of inventory balances***

- 4.19 ACRA continues to find recurring weaknesses in the audit procedures carried out to ascertain the valuation of inventory balances. Some of the findings are:
- Inadequate work done to test costing of inventories in accordance with the entity's accounting policy (for example, the cost of the inventories were not re-computed to check that they were properly accounted for based on the weighted-average or first-in-first-out method in accordance with the company's accounting policy);

- Inadequate work done to ensure that inventories were stated at the lower of cost and net realisable value (for example, there was no follow-up to assess if a write-down to net realisable value was necessary when the latest sales was made below cost); and
- No assessment of allowance for inventory obsolescence.

4.20 Public accountants should ensure that appropriate audit work is performed and properly evidenced in the engagement file to support the valuation of inventory balances.

4.21 ICPAS Practical Guidance No. 1 on Inventory Obsolescence provides guidance that the nature of inventories is an important factor for the public accountant to consider in assessing the adequacy and reasonableness of provision or inventory obsolescence. Perishable products which have a short shelf life and electronic products such as computers and mobile phones in a fast changing technological environment are subject to higher risk of obsolescence. On the other hand, generic products like spare parts and hardware generally have longer shelf lives and a lower risk of obsolescence if they are properly stored and handled with due care.

(e) ***Functional currency***

4.22 The public accountant should critically review and assess the appropriateness of the functional currency determined by management, taking into account the requirements of FRS 21.9 and FRS 21.14.

4.23 In some of the files reviewed, the public accountant did not assess whether the functional currency determined by management was in compliance with FRS 21 *The Effects of Changes in Foreign Exchange Rates*. Complete reliance was placed on management representations and no independent audit procedures were carried out.

4.24 In some instances, the public accountant allowed management's justification for ease of practice in financial reporting to override the accounting principles set out in FRS 21.

## **5 UPCOMING DEVELOPMENTS AND FUTURE FOCUS**

5.1 The public accountancy profession faces many challenges in an ever changing world. In this section, ACRA highlights upcoming developments in its regulatory oversight that public accountants should be aware of. At the same time, ACRA reminds public accountants to stay vigilant and keep abreast of changes in accounting and auditing standards and ethics code so that they can remain relevant and continue to deliver quality audits. However, the most challenging task for the profession may be to enhance the appreciation of the value of audit in Singapore.

### **Upcoming Developments in ACRA's Regulatory Oversight**

#### **Enhancements to the PMP**

5.2 ACRA's regulatory oversight programme is rigorous and benchmarked against international regulatory practices and standards. In the past year, ACRA has developed initiatives to ensure that our work efficiently and effectively targets material risks to audit quality and market confidence, and has a lasting impact on audit quality.

##### ***(a) Risk rating framework for the PIE segment***

5.3 As a public accountant assesses the audit risks on its engagements, regulators also assess the risks that the public accounting firms that they regulate will perform substandard audits. Risk assessments enable regulators to deploy limited resources to target identified risk areas.

5.4 To this end, ACRA implemented a risk rating framework in late 2009. The framework provides a risk rating for the firm by benchmarking qualitative and quantitative key performance indicators (KPIs) of each firm against each of the

six elements of quality control in SSQC 1. Based on the benchmark, firms are rated on a six-grade scale ranging from “Very Weak” to “Very Strong”.

- 5.5 The risk rating framework will guide ACRA’s inspection plans, including the frequency and scope of its inspections of each public accounting firm.
- 5.6 For a start, ACRA applied the risk rating framework to six of the twenty firms in the PIE segment. The risk ratings and the key areas where improvements are needed were communicated to the leadership of these firms. The firms have committed to remediation plans in order to address ACRA’s findings.
- 5.7 It is ACRA’s intention to apply the risk rating framework to all public accounting firms involved in the audits of public interest entities in future cycles of inspections.

***(b) Off-site monitoring for the PIE segment***

- 5.8 To complement the PMP on-site inspections, ACRA has recently instituted an off-site monitoring initiative under which it will request data and information, including historical financial information, relevant to ACRA’s assessment of a firm’s system of quality controls with respect to the audits and other assurance and related services engagements.
- 5.9 ACRA will use the data and information for its internal regulatory assessment which, in turn, determine the intensity and approach appropriate for subsequent on-site inspections. In addition, as part of its off-site work, ACRA will require public accounting firms to provide ACRA with their status updates of remediation plans developed in response to the findings observed during the course of earlier firm-level on-site inspections.

## **Revisit Inspections of the Non-PIE Segment**

- 5.10 ACRA has commenced its revisit inspections of public accountants who did not pass the initial visit inspections and were subject to revisits in the first inspection cycle of the non-PIE segment<sup>18</sup>. ACRA would like to highlight that in the revisits, inspectors will check for overall improvements in the quality of audits performed by the public accountant.
- 5.11 Some public accountants subjected to the revisits were also ordered to be placed under the Hot Review process. The inspectors will be looking for documentary evidence that the public accountant had complied with the Hot Review order prior to signing off the audit engagement.
- 5.12 Public accountants who are not able to demonstrate proper remediation of significant audit deficiencies may face more severe outcomes, including having their certificates of registration suspended or cancelled if they do not pass the PMP revisit inspections.

## **Dating of Audit Reports**

- 5.13 SSA 700.52 requires that the auditor's report be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements. ACRA noted instances where the public accountants did not observe the dating requirements of SSA 700 *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements*. In certain instances, sufficient appropriate audit evidence was accumulated or audit procedures were only completed by the public accountant after the date of the audit report but prior to the date of the physical release of the audit report. In certain instances, the audit report was

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<sup>18</sup> As the number of public accountants is lower in the PIE segment, revisit reviews are carried out as and when an inspection of the firm is performed. In the non-PIE segment, revisit reviews have been scheduled after the completion of all initial visits.

back-dated for administrative reasons (for example, to align to the date of the relevant directors' resolutions). ACRA is of the view that such practices of dating the audit reports are not compliant with auditing standards.

- 5.14 Under the previous SSQC 1.73(b), an EQCR is required to be completed before the audit report is issued. The revised SSQC 1.42(b) now requires the EQCR to be completed on or before the date of the audit report. ACRA would like to remind public accountants to be cognisant of the revised requirements in dating their audit reports.

### **Three-Year Rolling CPE Period, Revised CPE Requirements and Syllabus**

- 5.15 Two improvements to the Continuing Professional Education (CPE) requirements for public accountants will take effect from 1 January 2011 as elaborated below.

#### ***(a) Three-year rolling CPE period***

- 5.16 The CPE requirement period will be changed from a one-year period to a three-year rolling period to give public accountants more flexibility to manage their CPE requirements according to their learning needs and priorities each year.
- 5.17 The new requirements retain the same required number of CPE hours but these will now be set over a three-year rolling period, with the minimum requirements being 120 CPE hours in each three-year rolling period, including: (i) 90 structured learning CPE hours out of the 120 hours, and (ii) 20 structured CPE hours each year.
- 5.18 To illustrate, the first three-year period is effective from 1 January 2011 to 31 December 2013, and the second three-year period will be from 1 January 2012 to 31 December 2014 and so on.

5.19 CPE is a very important obligation. Its purpose is to ensure that public accountants maintain their technical expertise. ACRA takes the requirements seriously and will not renew the certificates of registration of public accountants who fail to meet the CPE requirements, except in very limited circumstances, such as illness. With the introduction of the three-year rolling period, public accountants will be able to adjust their annual CPE according to their professional needs or, for example, if their professional work is interrupted by a study sabbatical or family commitments.

**(b) *Enhanced CPE Syllabus***

5.20 All public accountants are required to undertake CPE each year in accordance with the syllabus approved by the PAOC. In addition, the CPE Syllabus applies to the CPE hours that an applicant for registration to be a public accountant must obtain in the preceding 12 months of the date of application. The CPE Syllabus is structured into categories, comprising core and non-core expertise categories. The PAOC has approved a revised CPE Syllabus with three key enhancements.

**Restructuring of the core expertise categories**

5.21 One of the key enhancements is to restructure the core expertise categories into:

- Category 1: Financial Reporting Standards and Pronouncements<sup>19</sup>
- Category 2: Ethics and Professionalism<sup>20</sup>
- Category 3: Auditing Standards, Pronouncements and Methodology<sup>21</sup>

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<sup>19</sup> Formally part of A1 (Financial and Statutory Reporting Standards, Accounting and Auditing Standards and Pronouncements)

<sup>20</sup> Formerly in category A5 (Ethics and Professionalism)

<sup>21</sup> Formally part of A1 (Financial and Statutory Reporting Standards, Accounting and Auditing Standards and Pronouncements) and A2 (Assurance)

5.22 The new core expertise categories will ensure that public accountants obtain CPE in all areas in which it is essential for public accountants to maintain current technical knowledge and professional skills.

5.23 Because of the fundamental importance of ethics and professionalism, the revised CPE Syllabus requires public accountants to obtain 9 CPE hours in ethics and professionalism in each three-year rolling CPE period. Previously, ethics and professionalism were core requirements but there was no minimum number of required hours for them.

### **Allowing more flexibility in the non-core expertise areas**

5.24 In addition to CPE in the core expertise areas, public accountants need to obtain CPE in non-core areas of expertise, which under the old syllabus were defined in pre-determined categories. In recognition of the wide range of areas of expertise that public accountants are involved in, the PAOC has adopted a principles-based approach for CPE relating to non-core areas of expertise. The second enhancement is that instead of pre-determined categories, the revised CPE Syllabus will provide flexibility for public accountants to choose non-core expertise CPE that is relevant to their needs. However, public accountants will still need to demonstrate the relevance of the non-core expertise when reporting their CPE for purposes of their annual renewal of certificate of registration.

### **Tailored requirements for public accountants who are judicial managers or approved liquidators**

5.25 The third enhancement to the revised CPE syllabus is to better cater for the needs of public accountants who are judicial managers or approved liquidators. The revisions are:

- The revised CPE Syllabus includes a new core expertise category, *Insolvency and Restructuring (Category 4)*.
- Judicial managers who are registered as public accountants for this purpose only, and do not perform audits, will be required to undertake CPE under the *Insolvency and Restructuring* category instead of the *Auditing Standards, Pronouncements and Methodology* category.
- Public accountants who are approved liquidators will be required to obtain a combination of CPE under the *Insolvency and Restructuring* category and the *Auditing Standards, Pronouncements and Methodology* category. This is because public accountants who are approved liquidators can also sign off audit reports.

5.26 The revised CPE Syllabus will be effective from 1 January 2011 for the purposes of meeting the CPE requirements for the first three-year rolling CPE period. For registration purposes, the new CPE Syllabus will be effective for all applications received after a date in mid-2011 which will be announced in due course. Further information will be made available on ACRA's website at [www.acra.gov.sg](http://www.acra.gov.sg).

<p><b>Future Focus for the Public Accountancy Profession</b></p>
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**Responding to Challenges in Times of Economic Change**

5.27 Despite the anticipated economic recovery in Singapore, there remains uncertainty in the global economy. In this connection, public accountants must continue to exercise vigilance and professional scepticism when executing audit procedures, especially in areas relating to assessment of going concern and impairment of assets, confirmations of cash and bank balances, assessment of the adequacy of provisions and fraud considerations.

5.28 The anticipated economic recovery in Singapore will also present firms with challenges in talent recruitment and retention. A firm's leadership must take proactive steps to address these issues and ensure that high turnover of staff does not impact audit quality. In this respect, the firm needs to pay particular attention to ensure that replacement staff are adequately trained and supervised to perform the audit.

### **Responding to the Effects of Globalisation**

5.29 Business transactions are becoming increasingly global as companies increase the scope of their overseas operations and transact with more overseas counterparties. Foreign expansion plans often bring to the company a different set of risks, including business and country risks. Public accountants will need to identify the audit risks associated with the overseas assets and operations and, through a greater level of involvement in group audits, manage and respond to such risks on a timely basis. Audit procedures should be devised appropriately and responsive to such identified risks.

5.30 Globalisation and advances in technology are changing the business landscape. Business transactions, ranging from procurement to sales, are gradually being conducted online. Public accountants need to have a fundamental understanding of the various types of e-commerce transactions and their associated audit risks and engage information technology specialists, where applicable, in order to perform an effective and efficient audit.

### **Keeping Abreast of New and Revised Accounting and Auditing Standards**

5.31 Changes in the external environment have inevitably led to an increase in the number of new and revised financial reporting standards. Public accountants need to keep abreast of these changes and engage management of their clients to make necessary preparation to comply with the changes. Audit firms will

also need to invest more resources in training to prepare their staff for these new and revised standards in order to perform high quality audits.

5.32 Public accountants also need to keep abreast of the 36 revised and new SSAs and revised SSQC 1 which Singapore has adopted from the clarified ISAs issued by the International Federation of Accountants (IFAC).

5.33 Each revised SSA now clearly identifies the objectives of the auditor in the audit area addressed which are supported by clearly stated requirements designed to enhance consistency of practice. In all cases, requirements are expressed by the phrase "*the auditor shall*".

5.34 ACRA urges public accounting firms to perform a self-assessment to ensure that their audit methodology, internal processes and procedures are compliant with the requirements of the revised and new SSAs. Firms should also ensure that audit staff are trained on the requirements of the revised and new SSAs. This section highlights two key changes.

**(a) *Revised SSA 600: Procedures to be adopted for group audits***

5.35 The revised SSA 600 *Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)* seeks to provide enhanced guidance to address varying degrees of group audit practice around the world. Like many international regulators, ACRA is concerned with the rigour and consistency of practice in this important and complex area.

5.36 A major thrust of this standard is the application of the concept of risk assessments which provide the basis for determining the nature, timing and extent of work for the group audit. ACRA is of the view that such risk assessments should include an evaluation of the specific country risks arising from the business practices in which the subsidiary operates. The public

accountant must design appropriate audit procedures that are responsive to such identified risks.

## **Responsibility**

5.37 The group auditor alone is responsible<sup>22</sup> for the direction, supervision and performance of the group audit engagement in compliance with professional standards and applicable legal and regulatory requirements and for the group audit opinion. A reference to the component auditor<sup>23</sup> in the group audit opinion is no longer permitted unless required by law or regulation. The practical implications are therefore:

- The need to pay greater attention to where risks lie within the group; and
- Component auditors may expect the group auditor to be more involved in the audit of the component.

## **Acceptance and Continuance**

5.38 Under the previous standard, the main consideration was whether the portion of the group audited by the auditor was sufficient for the auditor to act as group auditor. The revised SSA 600 now requires the group auditor to consider and evaluate whether sufficient appropriate audit evidence can be obtained to express a group audit opinion before accepting the engagement.

5.39 Such consideration includes assessing whether the group auditor will be able to be involved in the component auditors' work and whether the group auditor

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<sup>22</sup> The emphasis on sole responsibility does not imply that the group audit should be performed by only one firm or one network as there is no such requirement in revised SSA 600. Different components may be audited by different component auditors.

<sup>23</sup> SSA 600.9(b) defines a component auditor as “An auditor who, at the request of the group engagement team, performs work on financial information related to a component for the group audit”.

will have unrestricted access<sup>24</sup> to component auditors and their work as well as management and those charged with governance of the group and components.

5.40 In the case of continuing engagements, the group auditor should consider if its ability to obtain sufficient appropriate audit evidence would be affected by significant changes, such as an acquisition, disposal or change in the components' business activities that are significant to the group.

### **Understanding the Component Auditor**

5.41 The revised SSA 600 requires the group auditor to obtain an understanding of the component auditor in several areas including assessing *inter alia*:

- Whether the component auditor understands and will comply with the ethical requirements that are relevant to the group audit and is independent;
- The component auditor's professional competence;
- Whether the group engagement team can be involved in the component auditor's work as necessary; and
- Whether the component auditor is subject to regulatory oversight.

5.42 The group auditor is specifically required to evaluate the competence of a component auditor and the quality of its work to ensure that the work is of the standard needed for the purpose of the group audit. This is a very important safeguard of audit quality as regulations and standards for auditing may sometimes differ significantly across different jurisdictions. Therefore, there can be no automatic assumption by the group auditor about the competency and quality of the component auditor's work, even if the component auditor is

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<sup>24</sup> The ability to have unrestricted access to components and the work of component auditors is a critical element of the engagement acceptance or continuance decision. Further application guidance can be found in SSA 600.A10-A21.

a member of the same international network to which the group auditor belongs.

## **Materiality**

5.43 There are now four different types of materiality to be determined:

- Group materiality;
- If relevant, materiality levels for particular classes of transactions, account balances or disclosures;
- Component materiality<sup>25</sup> where an audit or a review of a component is necessary. Such component materiality shall be lower than group materiality; and
- Thresholds above which misstatements cannot be regarded as clearly trivial to the group financial statements.

5.44 It is important to note that different component materiality levels may be set for different components. It is not necessary for component materiality to be an arithmetical portion of the group materiality. Consequently, the aggregate of component materiality for the different components may exceed group materiality. Component materiality is used when establishing the overall audit strategy for a component.

5.45 The group auditor is required to evaluate the appropriateness of performance materiality as determined at the component level. Performance materiality for the audit of the component financial information should be determined in accordance with the requirements of the revised SSA 320 *Materiality in Planning and Performing an Audit*.

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<sup>25</sup> SSA 600.9(d) defines a component materiality as “The materiality for a component determined by the group engagement team”.

## **Subsequent Events**

5.46 When an audit is performed, the group auditor and component auditors should perform procedures to identify subsequent events between the date of the component's financial information and the date of the auditor's report on the group financial statements that may require adjustment or disclosure in the group financial statements.

## **Communication with Component Auditors, Management and Those Charged with Governance**

5.47 Group audits are often complicated by the fact that components are located in different jurisdictions, apply different financial reporting frameworks, operate under different regulatory regimes or are audited by different auditors. Effective communication becomes important to ensure that expectations, roles and responsibilities are clear throughout the audit process. The standard provides specific guidance on matters that should be communicated to component auditors, with component management and group management.

5.48 Communications with the component auditors should be performed on a timely basis to enable them to adequately plan and perform their work. The group auditor is required to evaluate the adequacy of the component auditor's work and discuss significant matters that arise, including group-wide and component level internal control deficiencies, with the component auditor, component management or group management and those charged with governance of the group and component, as appropriate.

### **(b) *Revised SSA 700: Changes to Audit Reports***

5.49 The revised SSA 700 *Forming an Opinion and Reporting on Financial Statements* underwent a limited redrafting to reflect only the conventions and matters of clarity.

5.50 The revisions are meant to align both the auditing standard with the local statutory requirements with respect to management’s responsibility on internal controls as currently stipulated in the Singapore Companies Act, Cap. 50 and would apply to all public companies and subsidiaries of public companies governed by the Companies Act. The revision<sup>26</sup> to the description of the audit in the auditor’s report under “Auditor’s Responsibility” reflects the appropriate language<sup>27</sup> to be used in the context of Singapore’s “true and fair view” financial reporting framework.

5.51 Where the auditor has other reporting responsibilities<sup>28</sup> that are in addition to those under the SSAs to report on the financial statements, they are now to be addressed in a separate section sub-titled “Report on Other Legal and Regulatory Requirements” within the auditor’s report. The revised presentation requirements are meant to clearly distinguish them from the auditor’s responsibility under the SSAs to report on the financial statements. However, such separate presentation requirement of other reporting responsibilities does not, in any way, diminish the duties and responsibilities of the auditor required by applicable local laws and regulations.

### **Keeping Abreast of the Enhanced ACRA Code of Professional Conduct and Ethics (Enhanced Code)**

5.52 The Code of Professional Conduct and Ethics has long been the foundation of public confidence in the public accountancy profession, which has a vital role in maintaining a high degree of confidence in the financial information that underpins Singapore’s markets. The Enhanced Code, which came into effect

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<sup>26</sup> “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation of financial statements that give a true and fair view 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” replaces “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the 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”.

<sup>27</sup> SSA 700.32

<sup>28</sup> SSA 700.38-39

on 1 August 2009, further strengthens this foundation as public accountants perform their public interest role, by ensuring they proactively safeguard their independence and professionalism, both in fact and in the eyes of the public.

- 5.53 The Enhanced Code is based on the IFAC's Code of Ethics for Professional Accountants and provides more comprehensive guidance on how to apply principles and the independence rules in a variety of situations. The Enhanced Code encourages public accountants to be more proactive in identifying and eliminating potential threats to their independence and provides application guidance.
- 5.54 The Enhanced Code has removed some quantitative guidelines that existed in the old code. Public accountants and their firms will need to think more carefully about how to maintain their independence in a manner that makes sense in the environments in which they are operating.
- 5.55 Network firms must implement safeguards in order to avoid non-compliance. A firm's global leadership should send strong messages about the importance of compliance with independence and ethics requirements and should invest in education and training for network firm members. These firms should also have a good centralised monitoring system with adequate staffing and resources to act as effective preventive controls against non-compliance. Firms should develop their own sanctions to deal with breaches of the firm's independence and ethics policies.
- 5.56 ACRA's reviews under the PMP assess compliance with relevant ethics requirements. In particular, the inspections examine the policies and controls a public accounting firm has in place to ensure that audits are conducted in compliance with the Enhanced Code. This stems from the SSQC 1 requirement for a firm to have controls in place for independence matters.

- 5.57 ACRA expects the profession to comply with the requirements of the Enhanced Code and that public accountants and public accounting firms take measures to ensure that their activities comply with it. Failure to observe the requirements of the Enhanced Code may result in disciplinary action.
- 5.58 From time to time, ACRA has received information or complaints that reveal ethical or independence issues and these are taken through the Complaints Committee and Disciplinary Committee processes provided under the Accountants Act.

### **Enhancing the Appreciation of the Value of Audit**

- 5.59 Much has been written and debated about the value of audit. The appreciation by users of financial statements of the value of audit is one of the most challenging issues facing the public accountancy profession in Singapore.
- 5.60 Some see the value of audit as resting on the standard audit report. Implicit in this view is the notion that an audit is a commodity, producing a standard deliverable. This view does not recognise the potential for wide variations in audit quality and ascribes little value to the capacity of a good audit to reduce the risks that financial statements will contain material misstatements. This view also gives little weight to the key role played by the external auditor in preserving and strengthening confidence in Singapore's business and financial markets. This view of the value of an audit, which seems to be widespread, tends to undermine efforts to improve audit quality. Therefore, as part of its journey to improve audit quality, the profession must help to enhance the understanding and appreciation of the value of audit.
- 5.61 In April 2010, ACRA commissioned the Association of Chartered Certified Accountants (ACCA) to carry out a survey of Audit Committee (AC) Chairmen on the value of audit, what it meant to the AC Chairmen and how the

external auditor can meet the AC's expectations with respect to value. The results of the survey indicate that the value of audit is enhanced when the auditor is able to engage the AC effectively on all audit and related matters and when the audit report is substantiated by underlying audit work of high quality. Such views are aligned with ACRA's objective to encourage the public accountancy profession to achieve higher levels of audit quality.

- 5.62 In connection with the value of audit, ACs have a responsibility to manage costs and should consider cost-effectiveness when approving a level of audit fees sufficient to enable auditors to properly perform their statutory function of issuing a true and fair opinion on the financial statements. However, this responsibility must be exercised with careful attention paid to the indicators of audit quality in order to ensure that an excessive focus on audit costs does not compromise audit quality. The AC Chairmen surveyed commented that auditors who are able to deliver quality audits should be fairly remunerated for the value delivered.
- 5.63 The public accountancy profession should bear in mind that an auditor's remuneration should be commensurate with the quality of the audit. If the profession expects to be fairly remunerated, it needs to ensure that ACs understand the importance of a quality audit, the elements contributing to a quality audit, how such elements can vary depending on the approach taken by the audit firm, and the relationship between quality and cost.
- 5.64 During ACRA's firm level inspections, there were instances noted where firms had declined to accept or continue with certain audit engagements as the audit fees that the entity was willing to pay were below the level that would allow the firms to perform a quality audit. We commend such firms for making the right decision. However, we also caution firms accepting such appointments

that, while they may have gained market share, they may also find it difficult to perform a quality audit at the quoted fee levels.

## **6 INITIATIVES AVAILABLE TO HELP THE PROFESSION**

6.1 The ultimate aim of the PMP is to improve audit quality and therefore must encompass initiatives that are designed to help public accountants make improvements and remedy audit deficiencies identified during inspections. In this respect, ACRA works closely with ICPAS to raise awareness and provide avenues for learning. Initiatives that public accountants may wish to take advantage of include:

### **ICPAS Practical Guidances and ACRA Audit Practice Bulletins**

6.2 ICPAS has published several practical guidance documents to assist public accountants in their assessment and responses to identified common audit risks. Six practical guidance documents on the topics below have been issued up to the date of this Report. They can be accessed at [www.icpas.org.sg](http://www.icpas.org.sg).

- Inventory obsolescence
- Depreciation of freehold buildings
- Materiality for audit of separate financial statements of small companies
- Auditor's assessment of functional currency for a standalone Singapore incorporated company
- Occurrence of revenue from sale of goods
- Valuation of inventories

6.3 ACRA has also provided similar practical guidance in its Audit Practice Bulletins and recently issued one on External Confirmations. The bulletin may be accessed at [www.acra.gov.sg](http://www.acra.gov.sg).

## **Public Practice Programme (PPP)**

- 6.4 Every applicant for registration as a public accountant must complete a course on ethics and professional practice subjects<sup>29</sup>. ICPAS's 5-day Pre-admission Course (PAC) has to date been the prescribed course for this purpose. ACRA and ICPAS have carried out a review of the suitability of the PAC in meeting the course requirement. Arising from the review, ICPAS has developed the proposed PPP, which is tailored specifically to better meet the needs of prospective public accountants. A tailored PPP will help to ensure that all new public accountants are sufficiently prepared for the important responsibilities of their role, particularly in the role of statutory auditor, when they enter into public practice.
- 6.5 The objectives of the PPP are to provide practical insights on public practice and to better equip prospective public accountants in important areas, including:
- Reinforcing professional ethics and the public interest element of public practice;
  - Emphasising the principal laws and regulations that are relevant to the public accountancy profession;
  - Dealing with the commercial realities of running a public accountancy practice, and
  - Putting in place the right processes and procedures to efficiently manage resources and ensure compliance with the high standards required of a public accountant and his or her firm.
- 6.6 With this focus, the PPP aims at helping prospective public accountants to plan a successful, efficient and compliant practice in delivering quality services.

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<sup>29</sup> As stipulated by the Accountants (Public Accountants) Rules (the Rules).

6.7 At the date of this Report, the PAOC and ICPAS were considering feedback on the implementation of the course and the final details will be available in due course.

### **ICPAS Micro Sites**

6.8 ICPAS launched four micro sites in 2010 to equip its members and the public with timely resources related to business and accountancy matters. The four online knowledge centres – ICPAS Ethics Centre, ICPAS Country Desk, ICPAS Centre For Financial Reporting and ICPAS Research – offer information and updates on topics that are most relevant in today’s business world in an accessible, timely, user-friendly manner. The online knowledge centres and resources may be accessed at [www.icpas.org.sg/knowledge](http://www.icpas.org.sg/knowledge).

### **ICPAS Training Programmes**

6.9 With the revisions to the Public Accountant CPE Syllabus, ICPAS has developed several training programmes for each of the four core expertise areas. Training programmes are developed with three distinct levels of proficiency, namely Foundation, Intermediate and Advanced. Public accountants should watch for these training programmes at [www.icpas.org.sg](http://www.icpas.org.sg).



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