



# **PRACTICE MONITORING PROGRAMME**

## **PUBLIC REPORT**

**July 2007**

The Accounting & Corporate Regulatory Authority (ACRA) is Singapore's corporate regulator as well as the independent regulator for public accountants. It was formed from the merger of the Registry of Companies and Businesses (RCB) and the Public Accountants Board (PAB) on 1st April 2004.

ACRA's primary role is that of the regulator of businesses and public accountants. Its secondary role is that of a facilitator of businesses.

ACRA plays an important role in facilitating the doing of business in Singapore but our main role remains that of a regulator. In line with the need to create a responsive and trusted regulatory environment, ACRA seeks to facilitate a pro-enterprise environment. ACRA is committed to continually reviewing the legislation and reducing the regulatory burden to be in tune with business needs and international developments and to help promote entrepreneurship and enterprise. To this end, ACRA sees confidence in corporate reporting and governance as vital to the healthy functioning of businesses and the market, and making a significant contribution to the overall economy and Singapore's competitiveness in international markets.

## CONTENTS

		<b>Page</b>
One	Introduction	1
<hr/>		
Two	The Practice Monitoring Programme	3
<hr/>		
Three	Results of PMP Conducted	9
<hr/>		
Four	Observations and Common Findings	10
<hr/>		
Five	PMP Going Forward	30
<hr/>		

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## **ONE - INTRODUCTION**

1.1 ACRA regards the Practice Monitoring Programme (PMP) as an important regulatory instrument with which to promote audit quality. Audit quality is the cornerstone of market confidence in the reliability of the financial information upon which the market makes capital allocation decisions.

1.2 The PMP provides quality assurance to the market through ascertaining whether public accountants have complied with the prescribed auditing standards, methods, procedures and other requirements. This assurance gives users of financial reports increased confidence in audit opinions. The desired regulatory outcome is for the PMP to be a constructive exercise for ACRA, the accounting profession, as well as the business and investor communities.

1.3 In April 2005, ACRA commenced an enhanced PMP. Under the enhanced PMP, ACRA performed distinct programmes for auditors of public interest entities and non-public interest entities. ACRA conducts audit engagement reviews (also known as file engagement reviews) on all public accountants over a cycle. In the case of auditors of public interest entities, ACRA further reviews the firm policies in addition to the file engagement reviews.

1.4 This public report publishes observations and common findings arising from reviews conducted under ACRA's Practice Monitoring Programme during the period from April 2005 to March 2007. The reviews conducted in this period covered the Big 4, a medium size accounting entity, and small accounting entities.

1.5 Through publishing public reports, ACRA aims to achieve transparency in its regulatory activities. To facilitate a better appreciation of the regulatory objective and focus of the PMP, we would encourage readers of this document to

read this in the broader context of ACRA’s overall regulatory strategy for auditing and corporate reporting, as set out in its separate paper entitled “***ACRA’s Regulatory Strategy on Auditing and Corporate Reporting***”.

## **TWO - THE PRACTICE MONITORING PROGRAMME**

### *Overview*

2.1 The PMP is administered under the oversight of the Public Accountants Oversight Committee (PAOC), which is a board committee under the Accounting & Corporate Regulatory Authority (ACRA). The PAOC comprises senior public accountants as well as experienced independent professionals.

2.2 The PAOC appoints the Practice Monitoring Sub-Committee (PMSC), which comprises experienced public accountants, qualified professionals and a representative from the ACRA Board, to assist the PAOC in the administration of the PMP. The PAOC appoints suitably qualified professionals as PMP reviewers to carry out PMP reviews in accordance with the practice monitoring methodology and programme approved by the PAOC.

2.3 The review process takes on a consultative and iterative approach. The PMP reviewers conduct on-site PMP reviews at the public accountants' offices and report the findings of their reviews to the PMSC. The PMSC assesses the reviewers' findings, and submits a report and recommendation to the PAOC. All final assessments and decisions are then made by the PAOC. The public accountants under review are engaged throughout the review and deliberation process to provide clarifications, comments and views on the findings from the review.

2.4 For the purpose of the administration of the PMP, the PAOC has adopted the following auditing standards/pronouncements issued by the Institute of Certified Public Accountants of Singapore (ICPAS), which have equivalent auditing standards/pronouncements issued by the International Federation of

Accountants (IFAC):

- (a) Singapore Standards on Auditing (SSA);
- (b) Singapore Auditing Practice Statements (SAP);
- (c) Singapore Standards on Review Engagements (SSRE);
- (d) Singapore Standards on Assurance Engagements (SSAE);
- (e) Singapore Standards on Related Services (SSRS);
- (f) Singapore Standards on Quality Control (SSQC);
- (g) Singapore Review Engagement Practice Statements (SREP);
- (h) Singapore Assurance Engagement Practice Statements (SAEP); and
- (i) Singapore Related Services Practice Statements (SRSP).

### *Scope*

2.5 The PMP covers all public accountants and the reviewers select the public accountants to be reviewed using a risk-based approach. In line with its objective of promoting market confidence, ACRA focuses its resources on reviewing public accountants and accounting entities that audit public interest entities. Public interest entities include:

- (a) Companies listed on the Singapore Stock Exchange (the “Exchange”) and companies wishing to list on the Exchange by way of an initial public offering;
- (b) Companies in regulated industries such as banks and insurance companies; and
- (c) Other entities which raise funds from the public, such as charities.

2.6 When audits of public interest entities are under review, ACRA reviews firm policies in conjunction with the engagement reviews. The PAOC currently

appoints reviewers from the ICPAS to assist the PAOC in the review of audits of non-public interest entities.

### ***Review Process***

#### *Engagement Reviews*

2.7 The PMP review involves a detailed review of the engagement files of a public accountant to assess whether the public accountant's work has been conducted in compliance with the relevant auditing standards.

2.8 Depending on the scope of the review, the reviewers generally hold a series of meetings with the public accountant in the course of the review to discuss the findings and recommendations. These meetings give the public accountant as well as the reviewers an opportunity to seek clarifications and provide responses.

2.9 After the final meeting, the reviewers send the findings report for the engagement review to the public accountant under review. A copy of this report is also extended to the managing partner. The findings report includes a discussion on the findings raised, a reference to the relevant prescribed standards, as well as recommendations of areas for improvements. The public accountant is given time to respond to the findings raised.

#### *Firm Reviews*

2.10 ACRA recognises the importance that firm policies and controls play in promoting audit quality. For accounting entities which audit public interest entities, the reviewers obtain an understanding of the accounting entity's system of quality control and the effectiveness of the implementation and/or compliance

with the firm policies, in addition to engagement file reviews. As part of this process, engagement reviews serve to confirm whether the individual public accountants have adhered to the firm policies, procedures and methodology. ACRA seeks to obtain an assessment of the state of audit quality through reviews at the firm level.

2.11 Firm reviews are benchmarked against Singapore Standard on Quality Control 1 (SSQC 1), which is adapted from the International Standard on Quality Control 1, issued by the International Federation of Accountants. Under SSQC 1, a firm's system of quality control should include policies and procedures addressing each of the following elements:

- (a) Leadership Responsibilities for Quality Within the Firm;
- (b) Ethical Requirements (which include the Code of Professional Conduct and Ethics set out in the 4<sup>th</sup> Schedule to the Accountants (Public Accountants) Rules);
- (c) Acceptance and Continuance of Client Relationships and Specific Engagements;
- (d) Human Resources;
- (e) Engagement Performance; and
- (f) Monitoring.

2.12 During firm reviews, the reviewers hold a series of meetings with the managing partner and the senior management team to discuss the firm's policies. Following these meetings, ACRA will send a review report on the firm's policies to the managing partner. The findings on firm policies will be reviewed and assessed separately from the findings of the engagement reviews of individual public accountants.

### ***Deliberation Process for Engagement Reviews***

2.13 The findings report together with the public accountant's response is submitted to the PMSC as is, without modification.

2.14 The PMSC assesses the public accountant's response to the findings raised and, if necessary, seeks further clarification with the public accountant, before submitting a report and recommendation to the PAOC.

2.15 The PAOC deliberates on the PMSC's report and makes the final decision about whether a public accountant passes or fails a review, and decides on the appropriate consequential action to be taken. If a public accountant has met the required standards, he or she will be informed accordingly.

2.16 Where a public accountant fails to meet the required standard and serious consequences are proposed, the PAOC will grant the public accountant a further opportunity to be heard before making its final decision and order. The decision of the PAOC will always be communicated to the public accountant.

### ***Consequences Arising From A Public Accountant Failing the PMP Review***

2.17 The Accountants Act sets out a range of consequences to be administered by the PAOC where a public accountant fails to pass the PMP review. The actions fall into two categories.

2.18 The actions to be taken by the PAOC in the first category are to:

- (a) Impose such conditions as are necessary to restrict the provision of public accountancy services by the public accountant in such manner as the

PAOC thinks fit for a period not exceeding 2 years. Examples of such orders include prohibiting the public accountant from auditing public interest entities for a certain period, or requiring the public accountant's audit work to be reviewed by another suitably qualified person (known as 'hot review');

(b) Require the public accountant to undergo and satisfactorily complete such remedial programme as may be specified by the PAOC; or

(c) Require the public accountant to take other steps as may be specified by the PAOC to improve the practice of the public accountant or to give such undertaking as the PAOC thinks fit.

2.19 Where the PAOC is of the opinion that it is contrary to the public interest or the interest of the profession of public accountancy for the public accountant to continue in practice, or if the public accountant has failed to comply with any order or requirement of the PAOC under the first category, the PAOC may:

(a) Refuse to renew the registration of the public accountant concerned;

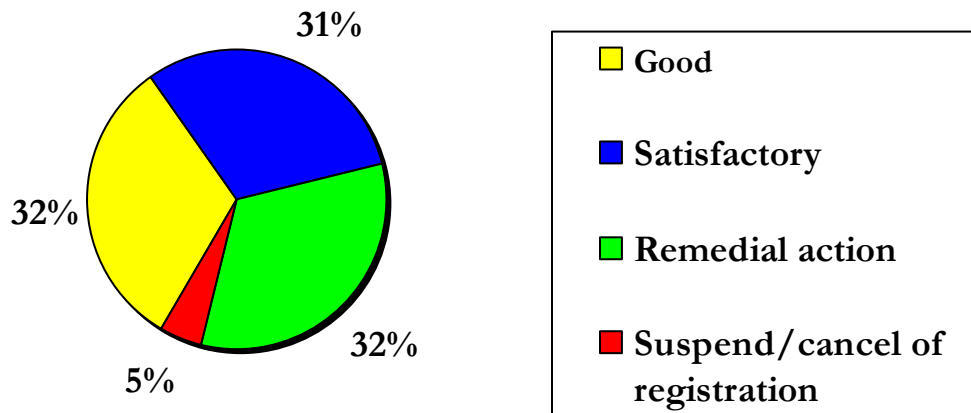
(b) Suspend the registration of the public accountant concerned for a period not exceeding 2 years; or

(c) Cancel the registration of the public accountant concerned.

### THREE - RESULTS OF PMP CONDUCTED

3.1 The following chart shows the overall results of PMP reviews conducted on the public accountants for the period from April 2005 to March 2007. Based on 110 public accountants who were reviewed:

- (a) the majority of the public accountants (63%, or 69 public accountants) had ‘*Good*’ or ‘*Satisfactory*’ review outcomes;
- (b) 33% (36 public accountants) were asked to undergo some remedial action; and
- (c) 5% (5 public accountants) had had their registration suspended or cancelled.



## **FOUR - OBSERVATIONS AND COMMON FINDINGS**

4.1 This section focuses on areas identified for improvement in selected accounting entities and audit engagements. The observations and common findings in this report were either found in multiple audit engagement files or were considered significant enough to be highlighted to the profession as matters to take note of.

4.2 It should be noted that as the focus is on improvements, this section lists down only the areas of improvements and concerns from the PMP review. As such, conclusions about the overall quality of auditing in Singapore should not be drawn from reading the section.

### ***General Commentary and Observation***

#### *Communication between reviewers and public accountants under review*

4.3 ACRA believes that open communication is the best and most efficient way to achieve a constructive and fair outcome from the practice review.

4.4 As the findings report forms the basis of the PMSC's deliberations and recommendations to the PAOC and the eventual decision by the PAOC, it is of utmost importance that public accountants provide all engagement work papers and relevant supporting information to the reviewers during the review. Public accountants should clearly and completely clarify and address the findings raised during the meetings and in the findings report. It is important for the public accountants under review to respond comprehensively to the findings report to ensure that all relevant information is presented to the PMSC in the first instance, and thereafter to the PAOC.

## *Documentation*

4.5 A significant number of findings involved either insufficient or no documentation.

4.6 The importance of documentation is also a matter that is close to the heart of audit regulators internationally. ACRA would like to take this opportunity to emphasise that adequate documentation is particularly important for the purpose of understanding how the public accountant arrived at the audit opinion. Documentation also affects the ability of the public accountant, if challenged subsequently, to justify the conclusions reached.

4.7 ACRA would like to highlight the particular importance of compliance with the revised SSA 230 *Audit Documentation*, especially paragraph 9:

*“The auditor should prepare the audit documentation so as to enable an experienced auditor, having no previous connection with the audit, to understand:*

- (a) The nature, timing, and extent of the audit procedures performed to comply with SSAs and applicable legal and regulatory requirements;*
- (b) The results of the audit procedures and the audit evidence obtained;*  
*and*
- (c) Significant matters arising during the audit and the conclusions reached thereon.”*

4.8 ACRA would also like to highlight paragraph 11 of SSA 230, which states that *“oral explanations by the auditor, on their own, do not represent adequate support for the work the auditor performed or conclusions the auditor reached, but may be used to explain or clarify information contained in the audit documentation.”*

## *Significant Observations*

### *Observation 1: Acceptance and Continuance of Client Relationships and Specific Engagements*

4.9 For firm review, the accounting entities reviewed generally have policies and procedures in place, including assessment forms for acceptance and continuance of client relationships and specific engagements. Notwithstanding, there can be improvement in the policies and procedures, as well as in their implementation by public accountants during engagements.

4.10 Findings identified for firm review in relation to acceptance and continuance of client relationships and specific engagements included:

- (a) Incorrect or inconsistent assessments made in assessment forms for acceptance and continuance of client relationships and specific engagements; and
- (b) Commencement of audit fieldwork without completion of the assessment forms.

### *Observation 2: Audit Planning*

4.11 Planning is an integral and important part of an audit and should not be regarded as only a 'form-filling' compliance exercise.

4.12 ACRA would like to highlight concerns in engagements where the documented planned procedures differed from the actual audit work performed. Any modifications to the audit strategy and audit plan during the course of the audit should be updated as required under paragraph 16 of SSA 300 *Planning an*

*Audit of Financial Statements.*

4.13 Findings identified for engagement review in relation to audit planning included:

- (a) Planned audit approach (i.e., test of controls or substantive procedures) was not followed through in the execution of audit; and
- (b) Reasons for the change to audit approach and risk assessment were not documented.

*Observation 3: External Confirmation*

4.14 External confirmation is one of the commonly used audit procedures to confirm the existence of assets and liabilities. If the public accountant seeks external confirmations and fails to obtain replies from the direct external source(s), the public accountant should apply appropriate alternative audit procedures to obtain the required audit evidence.

4.15 Findings identified for engagement review in relation to external confirmation included:

- (a) No alternative procedures performed where no responses were received to requests for confirmation from external parties;
- (b) Inadequate alternative procedures (for example, vouching to partial subsequent receipts and/or vouching to internally generated documents instead of customers' acknowledged documents) performed in situations where there was no response to confirmation requests from external parties;
- (c) No alternative work done to verify authenticity of responses for confirmation responses received where the responses carry no official

- identification of the source; and
- (d) No validating the source of replies received in electronic format (for example, faxed confirmation responses). In particular, the auditor should consider whether there is any indication that external confirmations received are not reliable. Where there is any indication that an external confirmation received is not reliable, the auditor should dispel the ensuing concern arising from that particular indication by considering the authenticity of the confirmation received vis-a-vis the performance of further audit procedures, for example, verifying the source and content of a response via a telephone call to the purported sender; requesting the purported sender to mail the original confirmation directly to the auditor, etc.

*Observation 4: Subsequent Events*

4.16 Subsequent events may materially affect the financial statements and therefore the validity of the audit opinion. It is therefore important to undertake audit procedures in relation to identification of material subsequent events up to the date of the audit report.

4.17 ACRA would like to draw attention to paragraph 6 of the revised SSA 560 *Subsequent Events* for the list of audit procedures for subsequent events.

4.18 Findings identified for engagement review in relation to subsequent events included:

- (a) No documentation to justify why subsequent events review was not performed;
- (b) No effective follow-through of the audit procedures required for subsequent

- events in accordance to the audit programme devised by the public accountants. In some cases, it was found that this particular audit procedure was updated as “noted” or “done” in the audit programme without actual audit work or assessments being carried out; and
- (c) No or insufficient documentation on discussion with management on the follow-ups on subsequent events.

*Observation 5: Assessment of the Work of Another Auditor*

4.19 Assessing the professional competence of other auditors is an essential part of assessing how the work of another auditor could affect the audit. This is an area of increasing concern and emphasis for the profession, in the light of the growing number of overseas investments by Singapore companies.

4.20 SSA 600 *Using the Work of Another Auditor* requires the principal auditor to determine how the work of the other auditor will affect the audit and to consider the professional competence of the other auditor in the context of the specific assignment when using the work of another auditor.

4.21 ACRA would like to emphasise the importance of careful consideration of the professional competence of overseas subsidiaries’ auditors as well as the assessment of the adequacy of the audit performed, before reliance is placed on the audited financial statements audited by such auditors. In some of the engagement reviews in the PMP, it was found that there was no or insufficient consideration given by the auditor in using the work of another auditor.

*Observation 6: Inventory Count Procedures*

4.22 Sufficient inventory count procedures that address both the assertions pertaining to existence and completeness are necessary to avoid inventory over/understatement, leading to over/understated profits.

4.23 Findings identified for engagement review in relation to inventory count procedures included:

- (a) No assessment of client's physical count procedures to ensure a proper and complete count;
- (b) Test counts were performed only one way instead of both ways (i.e. from list to floor and from floor to list) so as to address both the existence and completeness assertions;
- (c) Where physical count was performed on a date other than the year-end date, there was no work done to test the roll forward or roll back of the physical count quantities to year end quantities to ensure that changes between the two dates were correctly recorded;
- (d) No work was performed to investigate differences between quantities on actual test counts and final inventory list;
- (e) Where the inventories were kept at different locations, there was no documentation of the rationale of arriving at the locations selected for inventory count (i.e. taking into account the materiality of the inventory, the risk of misstatement at different locations etc); and
- (f) No confirmation was obtained in respect of material inventories held by third-party custodians.

*Observation 7: Assessment of Susceptibility of Financial Statements to Material Misstatement due to Error or Fraud*

4.24 Current auditing standards, SSA 240 *The Auditors Responsibility to Consider Fraud in an Audit of Financial Statements* and SSA 315 *Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement*, set out the requirements expected from auditors in relation to this area. In particular, these standards require auditors to document discussions, conclusions and significant decisions regarding the susceptibility of the entity's financial statements to material misstatement due to error or fraud.

4.25 Notable findings were made in cases where there was no documentation of discussion regarding susceptibility of financial statements to material misstatement due to fraud or error.

*Observation 8: Corroborative Evidence*

4.26 Corroborative evidence is an integral component of obtaining audit evidence. Paragraph 9 of SSA 500 *Audit Evidence* states that audit evidence is more reliable when it exists in documentary form, whether paper, electronic, or other medium (for example, a contemporaneously written record of a meeting is more reliable than a subsequent oral representation of the matters discussed).

4.27 The use of oral inquiry alone to obtain sufficient appropriate audit evidence ordinarily does not provide sufficient audit evidence to detect a material misstatement. Hence, public accountants should obtain corroborative evidence to verify representations from the auditee, especially if it is material or pertains to a material matter.

4.28 Findings identified for engagement review in relation to corroborative evidence included:

- (a) Lack of corroborative evidence on the adequacy and/or reasonableness of provision; and
- (b) Lack of corroborative evidence on the assessment of recoverability of external parties receivables.

***List of Common Findings***

4.29 Tables 1A and 1B show the list of common findings compiled from all the PMP reviews and firm policy reviews. The objective of publishing these findings is to create awareness with the profession of the general issues and gaps identified in the PMP.

4.30 In reading the common findings, it should be noted that, while efforts have been made to provide as much of the context as possible under which these findings arose in the PMP, there is a limit as to how much this can be done. Thus, the findings should not be read in isolation or regarded as rules imposed on the profession for mandatory compliance. Instead, public accountants and accounting entities should read and review 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 actual situations for individual engagements.

**Table 1A: Common findings for firm policy reviews**

Areas	Findings
Ethical Requirements	No policy for review of high risk non-listed engagements by concurring partners.
	No policies and procedures established to set out criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time.
	No mechanism to test information submitted by public accountants and staff members for compliance with Independence requirements.
Acceptance and Continuance of Client Relationships and Specific Engagements	<p>Instances of incomplete or errors in assessment forms for acceptance of client relationships and specific engagements ('acceptance form'), consent to act and/or engagement letters:</p> <ul style="list-style-type: none"> <li>(i) Approvals in acceptance forms were signed by engagement directors instead of engagement partners and concurring partners as required in the firms' own policies and procedures.</li> <li>(ii) Consent to act were dated later than engagement letters.</li> <li>(iii) Consent to act were dated earlier than the acceptance forms.</li> <li>(iv) Engagement letters were not acknowledged by auditee.</li> <li>(v) Engagement letters were not dated by auditee who acknowledged the engagement letters.</li> <li>(vi) Engagement letters were dated earlier than acceptance forms.</li> <li>(vii) No indication of preparer and date by preparer in acceptance forms.</li> </ul>

Areas	Findings
	<p>Incorrect or inconsistent assessments made in assessment forms for acceptance and continuance of client relationships and specific engagements. For example, going concern was indicated in the assessment form for continuance of specific engagement that there was no doubt about the auditee’s ability to continue as a going concern but going concern was identified as one of the key issues in the same document.</p>
Human Resource	<p>Goals and targets set by staff were not comprehensively documented in staff appraisal and supervisor's feedback was not in relation to the set goals.</p>
	<p>Lack of follow-up of staff absence from core modules training.</p>
Engagement Performance	<p>Planned audit approach (i.e. test of controls or substantive procedures) was not followed through in the execution of audit.</p>
	<p>Reasons for the change to audit approach and risk assessment were not documented.</p>
	<p>Written representations from management did not include the summary of uncorrected financial statement misstatements.</p>
	<p>Substantive analytical review performed lacked robustness and no expectations were formed.</p>
	<p>Fax confirmation responses received not authenticated.</p>
	<p>Time cost incurred by public accountants was not recorded to monitor the recoveries of engagements.</p>

<b>Areas</b>	<b>Findings</b>
Monitoring	No timely follow-up on findings raised by international peer review.

**Table 1B: Common and notable findings for engagement reviews**

Areas	Findings
Planning	No planning and risk assessment performed.
	No documentation of discussion regarding susceptibility of financial statements to material misstatement due to fraud or error.
	Lack of evidence of review by the concurring partner.
	Setting of materiality at inappropriate levels.
Test of controls	Procedures designed for test of controls were not performed.
	Effectiveness of key processing controls not assessed before placing reliance on them.
	Samples selected did not test the effectiveness of key controls identified.
	The identifying characteristics of the samples tested were not documented.
Analytical procedures	No analytical procedures performed.
	Year-on-year variances were tabulated with no analytical procedures performed.
	Analytical procedures performed lacked robustness and no expectations were formed.

Areas	Findings
Audit evidence	No work done to ascertain the reliability of audit schedules prepared by auditee.
	Lack of corroboration of management's responses for <ul style="list-style-type: none"> <li>• adequacy and/or reasonableness of provision; and</li> <li>• assessment of recoverability of external parties receivables.</li> </ul>
Circularisation	No alternative procedures performed for where no response was received to confirmation requests from external parties.
	Inadequate alternative procedures (for example, vouching to partial subsequent receipts and/or vouching to internally generated documents instead of customers' acknowledged documents) performed for no response to confirmation requests from external parties.
	No alternative work done to verify authenticity of responses for confirmation responses received where the responses carry no official identification of the source.
	No validating the source of replies received in electronic format (for example, faxed confirmation responses)
Property, plant and equipment	No work done to assess whether there were any indicators of impairment. Where there was indicator of impairment, there was inadequate work to assess the recoverable amount of the asset.
Inventories	No assessment of client's physical count procedures to ensure a proper and complete count.

Areas	Findings
	Test counts were performed only one way instead of both ways (i.e. from list to floor and from floor to list) so as to address both the existence and completeness assertions.
	Where physical count was performed on a date other than the year-end date, there was no work done to test the roll forward or roll back of the physical count quantities to year end quantities to ensure that changes between the two dates were correctly recorded.
	No work was performed to investigate differences between quantities on actual test counts and final inventory list.
	Where the inventories were kept at different locations, there was no documentation of the rationale of arriving at the locations selected for inventory count (i.e. taking into account the materiality of the inventory, the risk of misstatement at different locations etc).
	No confirmation was obtained in respect of material inventories held by third-party custodians.
	Inadequate work done to test costing of inventories in accordance with the auditee's accounting policy.
	Inadequate work done to ensure that inventories were stated at the lower of cost and net realisable value.
	No assessment for allowance for inventory obsolescence.

Areas	Findings
Work in progress	No work done to verify the stage of completion of projects under construction.
	No work done to verify labour and overheads components.
	No work done to assess whether there were any foreseeable losses.
Trade and other receivables	No or inadequate work performed on recoverability of trade and other receivables (including intercompany balances).
	No work done to verify the classification between current and non-current portions of the intercompany balances.
Cash	Bank confirmations were not obtained.
	Significant reconciling items in bank reconciliations were not investigated.
Trade payables and accruals	No work done for search for unrecorded liabilities.
	No work done to assess accrual for unutilised employee leave.
Hire Purchase	No work done to assess whether the interest charged was allocated to periods during the lease term so as to produce a constant rate of interest on the remaining balance of liability for each period.
	No confirmation obtained in respect of hire purchase balances.

Areas	Findings
Provisions	No constructive obligation for provisions made.
Profit and Loss	No analysis of monthly fluctuations in salaries versus the fluctuations in headcounts for payroll reasonableness test.
	No work done for significant operating expenses.
	No work done on sales and purchase cut-off.
Consolidation	No work done to assess reasonableness of minority interest and translation reserves balances.
	No work done to assess whether there were any indicators of impairment of goodwill and investments. Where there was indicator of impairment, there was inadequate work to assess the recoverable amount of the asset.
	Staff costs classified under administrative expenses and not allocated to the correct functions (for example, cost of sales and distribution expenses).
	No work done to ensure that the accounting policies of subsidiaries were in line with those of the holding company's.
	Subsequent events clearance letter and management letter were not received from the auditors of the subsidiaries.
	No consideration of professional competence of overseas subsidiaries' auditors before reliance was placed on the audited financial statements audited by these auditors.

Areas	Findings
Subsequent events	No documentation to justify why subsequent events review was not performed.
	No audit procedures performed despite completing audit programme as “noted” or “done”.
	Discussion with management on subsequent events not documented.
Management representations	Written representations from management did not include the summary of uncorrected financial statement misstatements.
Auditor's report on financial statements	Incoming auditor’s report did not state that the prior period was audited by another auditor.
	No documentation in the work papers to justify the audit qualification.
	No emphasis of matter paragraph that highlights the existence of a material uncertainty relating to the event or condition that may cast significant doubt on the entity’s ability to continue as a going concern.
	Auditor’s report was dated prior to the completion of work papers.
Financial statements	Inconsistent classification of balances with prior period’s financial statements.

Areas	Findings
Disclosure	No disclosure of net income recognised directly in equity and total recognised income and expense for the period in the Consolidated Statements of Changes in Equity.
	The entity's registered office and principal place of business was not updated.
	<p>No disclosures in note to the accounts for:</p> <ul style="list-style-type: none"> <li>• Significant accounting policies (for example, consolidation, impairment, revenue recognition, finance lease);</li> <li>• Reconciliation of the carrying amount of property, plant and equipment at the beginning and end of prior year;</li> <li>• Financial assets and liabilities denominated in foreign currencies;</li> <li>• Inventories written off to the cost of sales account;</li> <li>• Unrecognised deferred tax assets (for example, unutilised tax losses);</li> <li>• Operating lease expense;</li> <li>• Contingent liabilities; and</li> <li>• Maturity dates and effective interest rates on fixed deposits, term loans and hire purchase.</li> </ul>
	Inventories stated at net realisable value was derived by taking the total finished goods at cost less allowance for inventory write-down.

Areas	Findings
	<p>Deferred tax assets and deferred tax liabilities were disclosed gross even though the deferred tax assets and the deferred tax liabilities were levied by the same taxation authority on the same taxable entity.</p>
	<p>Profit and loss account was presented using a hybrid classification of expenses by nature and by function.</p>

## **FIVE - PMP GOING FORWARD**

5.1 The PMP will continue to cover all public accountants, using a risk-based approach and with a continuing emphasis on auditors of public interest entities.

5.2 Going forward, ACRA will work with the profession to ensure that the PMP is a constructive programme that leads to the overall objective of enhancing the quality of audits in Singapore.



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