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MEDIA RELEASE

GROUNDBREAKING AUDIT QUALITY INDICATORS FRAMEWORK TO RAISE QUALITY OF FINANCIAL REPORTING IN SINGAPORE

Singapore, 14 October 2015 – To further raise the quality of audits on financial statements in Singapore, the Accounting and Corporate Regulatory Authority (ACRA) today introduced an Audit Quality Indicators (AQIs) Disclosure Framework. The framework breaks new ground because it is the first time the Big-Four audit firms have collectively agreed to provide audit committees of listed companies with a set of comparable indicators on the auditors' ability and commitment to deliver quality audits. This is crucial in helping audit committees better evaluate and select the right auditors.

Audit's Role in Safeguarding Reliability and Integrity of Financial Information

2 Audit plays a crucial role in raising the quality and reliability of companies' financial disclosures to investors. Companies can ill afford to be caught in corporate failings or accounting scandals. The consequences include tarnished corporate image, share price plunges and loss of investor confidence. Appointing the right auditor who can act as an effective gatekeeper is therefore fundamental to protecting the longevity and value of a company.

3 But while many audit committees recognise the difference the right auditor can make in terms of audit quality, there is a widely held perception that it is difficult or unnecessary to differentiate between the larger audit firms during the selection process as they would uphold the same high standards of audit quality. In actual fact, these larger audit firms are run very differently, with varied business structures, growth strategies and quality priorities. These differences could affect the process undertaken to gather audit evidence and resolve complex accounting issues. Audit Committees should therefore take great care and effort to differentiate and choose the audit firm best suited to the size and complexity of their companies.

4 However, assessing and selecting the auditor best suited to deliver a quality audit for a company is a difficult task. The audit process requires auditors to exercise professional judgement and scepticism when assessing the risks of the company, planning appropriate procedures and gathering the right evidence. Assessing their

quality and skills comes with experience and also requires information kept largely within the audit firms, to be shared with the audit committees. Feedback gathered by ACRA from audit committees reveals that the lack of a comparable framework with a consistent format hampers proper inter-comparisons between firms on audit quality.

Singapore AQIs Disclosure Framework – First of Its Kind in the Region

5 The AQIs comprise eight (8) comparable quality markers that correlate closely with audit quality based on ACRA's observations from inspecting auditors over the past decade. These include hours spent by senior audit team members involved in the audit, relevant experience of the senior audit team members and results from internal and external inspections of auditors. Extensive consultations were carried out with audit firms and audit committees on the proposed set of AQIs. The sessions were facilitated by the Singapore Institute of Directors (SID) and the Certified Practising Accountants (CPA) Australia, Singapore Division. Details of the Framework are set out in **Annex B**.

6 The AQIs Disclosure Framework is the first of its kind in the region. Globally, there has been growing interest in developing indicators on audit quality. In recent years, audit regulators and audit firms in Europe and the United States as well as international organisations such as the International Auditing and Assurance Standards Board, have embarked on various projects to explore the use of AQIs. More details on global discussions on AQIs are in **Annex A**.

7 Audit committees will be able to utilise the AQIs Framework from 1 January 2016 onwards. The Big-Four accounting firms have confirmed their support for the framework and will communicate their AQIs data directly to audit committees each year when the process to re-appoint the incumbent auditor or appoint a new auditor is carried out.

8 To help audit committees with the practical application of the AQIs, a guidebook on the AQIs Framework will be disseminated to all audit committees. It is published jointly by the CPA Australia, Singapore Division, and ACRA. ACRA will also issue detailed guidance to audit firms on how to prepare AQI data consistently.

9 Announcing the AQIs Framework during his keynote address at the CPA Australia Congress conference today, Mr Kenneth Yap urged audit committees to view the AQIs as key tools that can help them obtain higher quality audits. He also noted that "the AQIs alone are not a silver bullet that guarantee high quality audits. They do however provide audit committees with a comparable basis on which to conduct a conversation on the effort, experience and resources that an audit firm will bring to bear on a particular audit." Mr Yap further added that "I am confident that audit committees that utilise the AQIs will see audit quality improve over time. This bodes well for Singapore's reputation as a transparent and trusted business hub".

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Annex A: Development of Audit Quality Indicators (AQIs) Globally and in Singapore
Annex B: Fact Sheet on the Audit Quality Indicators (AQIs) Disclosure Framework

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About ACRA

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. As at 30 September 2015, 468,283 business entities and 1,077 public accountants practising in public accounting firms, accounting limited liability partnerships and accounting corporations are registered with ACRA.

For more information, please visit www.acra.gov.sg.

Development of Audit Quality Indicators (AQIs) Globally and in Singapore

1. Audit Committees select their auditors based on multiple factors. One important factor would be the auditors' ability to deliver quality audits. However, to date, there is no consensus on the definition or the measure of audit quality.
2. Nonetheless, research has shown that a number of input, process and output factors can collectively indicate an auditor's ability and commitment to deliver high quality audits. These factors are commonly termed as AQIs.

Development of AQIs in the international arena












3. Internationally, the development of AQIs has gained much traction in the recent years.
4. Regulators such as the Financial Reporting Council in the United Kingdom and the Public Company Accounting Oversight Board in the United States have embarked on projects to identify AQIs that can provide early signs on audit quality.
5. The International Auditing and Assurance Standards Board published a suggested Framework for Audit Quality in 2014 to raise awareness and generate discussion. It describes the various factors that contribute to audit quality at the engagement, audit firm and national levels for financial statement audits. Several audit firms in the United States went a step further and started reporting their firms' AQIs publicly since 2013.





Development of AQI in Singapore

6. In Singapore, the AQIs were developed based on ACRA's observations from its inspections of auditors. As the regulator of public accountants, ACRA inspects the work performed by auditors through its Practice Monitoring Programme since 2005.
7. From these inspections, ACRA observed that poor quality audits were often driven by two root causes, namely (a) inadequate supervision and review by senior audit team members, and (b) inadequate level of competent resources dedicated to the audit. Therefore, AQIs such as time spent by senior audit team members, experience of senior audit team members and training, have been added to serve as indicators of audit quality.
8. Extensive consultations on the AQIs were carried out with audit firms and audit committees, facilitated independently by the Singapore Institute of Directors (SID) and the Certified Practising Accountants (CPA) Australia, Singapore Division.

Fact Sheet on the Audit Quality Indicators (AQIs) Disclosure Framework

1. The eight (8) AQIs in the Framework work collectively to provide audit committees with insights into factors contributing to audit quality. Audit committees would need to exercise their judgement in interpreting the AQI data and applying their relevance.
2. Where there are significant variances in the AQI data for a given period and/or among audit firms, audit committees are encouraged to ask for explanations. For continuing appointments, audit committees should examine the historical trends of the AQIs and urge the auditors to continuously improve their audit quality.
3. The Framework comprises the following eight (8) AQIs:

No	AQI	Engagement  / Firm-level AQI 	Relevance
1	Time Spent by Senior Audit Team Members		This AQI indicates the extent of involvement of the senior audit team members in an audit.
2	Years of Audit Experience and Industry Specialisation		This AQI indicates the audit firm's ability to deploy experienced resources to audit engagement based on its risk and complexity.
3	Average Training Hours and Industry Specific Training	 & 	This AQI indicates the training hours invested in the firm's partners and staff to equip them with the required knowledge and skills to perform quality audits.
4	Results of External and Internal Inspections	 & 	This AQI indicates the audit partner, concurring partner and audit firm's ability to consistently executing quality audits.
5	Compliance with Independence Requirements	 & 	This AQI indicates the audit firm's ability and commitment to maintaining auditor independence.
6	Headcount in Quality Control Functions		This AQI indicates the audit firm's investment to provide central resources to support the execution of quality audits.

No	AQI	Engagement  / Firm-level AQI 	Relevance
7	Staff per Partner / Manager Ratio		This AQI indicates the capacity of senior audit members (i.e. partners and managers) to supervise junior audit team members in the audit firm.
8	Degree of Personnel Losses		This AQI indicates the audit firm's ability to retain knowledge and experience.