

GUIDANCE TO AUDIT COMMITTEES ON ACRA'S AUDIT QUALITY INDICATORS DISCLOSURE FRAMEWORK



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OVERVIEW








Quality audits are the hallmark of the audit profession. Delivery of quality audits is vital to establishing trust in financial statements relied upon by investors and other stakeholders. Audit committees, given their dual oversight role over financial reporting and audit, are pivotal in raising market confidence and investor assurance.

Despite the common objectives, there is limited information available for audit committees to measure and evaluate the quality of an audit. A lack of a framework to measure audit quality also restricts the audit committee's ability to compare audit quality amongst audit firms. Given its role in appointing auditors, audit committees would benefit from a framework that promotes dialogue with auditors and provides insights into how high quality audits are achieved.

The Accounting and Corporate Regulatory Authority of Singapore (ACRA) has introduced an Audit Quality Indicators (AQIs) Disclosure Framework (the "Framework"). The aim is to enhance the discussions between audit committees and audit firms on audit quality matters during the selection or reappointment of auditors.

The Framework is available for voluntary adoption by ACs of all listed entities in Singapore. Developed in consultation with stakeholders from the audit profession and audit committees, the Framework will equip audit committees with information that allows them to exercise their professional judgements on elements that contribute to or are indicative of audit quality. Audit committees should then conduct a robust discussion with the auditors using the information.

The Framework comprises eight (8) AQIs to be disclosed at engagement and/or firm-level as follows:

| No. | AQI |  Engagement-Level  Firm-Level |
|-----|--|--|
| 1 | AUDIT HOURS Time Spent by Senior Audit Team Members |  |
| 2 | EXPERIENCE Years of Audit Experience and Industry Specialisation |  |
| 3 | TRAINING Average Training Hours and Industry Specific Training |  &  |
| 4 | INSPECTION Results of External and Internal Inspections |  &  |
| 5 | INDEPENDENCE Compliance with Independence Requirements |  &  |
| 6 | QUALITY CONTROL Headcount in Quality Control Functions |  |
| 7 | STAFF OVERSIGHT Staff per Partner / Manager Ratio |  |
| 8 | ATTRITION RATE Degree of Personnel Losses |  |

The AQIs work collectively to provide insights into factors contributing to audit quality. They have their inherent limitations and should not be read in isolation without considering the context and the interaction with each other as a group. While engagement-level indicators are directly related to the performance of the audit engagement team, firm-level indicators are equally important as they provide insights on the audit firm's commitment towards and delivery of audit quality. **Reasonable explanations can exist for divergent numbers, and a variety of other factors may also affect a particular audit engagement or an audit firm in a particular period.**

Under the Framework, audit firms are encouraged to share the AQI data privately with audit committees at the following junctures:

- (i) after each financial year's audit is completed (when ACs are considering whether to re-appoint the incumbent auditor); and
- (ii) when ACs are considering a change in auditor.

Such private communication allows for an open and frank discussion between both parties.

About this Guidance to Audit Committees

To facilitate use by audit committees, ACRA has developed this Guidance to explain the AQIs and how they should be interpreted by audit committees.

The Guidance is structured as follows:

- (i) **Definition:** To describe the AQI measure.
- (ii) **Sample Presentation Format:** To provide a sample format on how each AQI is disclosed.
- (iii) **Relevance:** To highlight the relevance of each AQI to audit quality.

Audit firms may supplement the AQI data with accompanying narratives that provide context or additional explanations to the AQI data presented.

Note: To guide audit firms to prepare AQI data consistently, ACRA has developed a Guidance to Audit Firms¹ on ACRA's AQI Disclosure Framework. The aim is to ensure the comparability of the AQI data provided by audit firms, which will then allow for meaningful analysis and comparison of the AQI data by audit committees. Through its Practice Monitoring Programme, ACRA will perform sample checks to ensure that the AQI data provided by audit firms are prepared in accordance with the basis set out in that guidance.

¹ https://www.acra.gov.sg/Publications/Guides/Guidance_to_Firms_on_AQI_Framework/

AUDIT HOURS

Time Spent by Senior Audit Team Members

GRANULARITY: 

Definition

This AQI highlights the number of hours spent by senior audit team members, comprising the lead audit partner, concurring partner, other partner(s) and audit manager(s) in the audit engagement. This comprises hours incurred by the Singapore audit team and those of member firms of the same network. This AQI is presented in absolute and relative (as a % of total audit hours) terms.

Sample Presentation Format

| Audit Hours of Senior Audit Team Members | FY 20X5 | | FY 20X4 | |
|---|----------------|--------------|----------------|--------------|
| Lead Audit Partner ² Hours | [70] | | [56] | |
| Concurring Partner ³ Hours | [18] | | [16] | |
| | Singapore Firm | Member Firms | Singapore Firm | Member Firms |
| Other Partner(s) ⁴ Hours | [0] | [120] | [0] | [150] |
| Audit Manager(s) ⁵ Hours | [170] | [300] | [160] | [290] |
| Total Audit Hours | [1,402] | [3,052] | [1,201] | [2,804] |
| Total Partner(s) and Audit Manager(s) Hours as a % of Total Audit Hours | | | | |
| - Singapore Firm only | [18%] | | [19%] | |
| - Member Firms of the Same Network | [14%] | | [16%] | |

[Firms can include relevant narratives/commentaries (e.g. analysis of significant variances)]

Note:

- i) For audit tenders, budgeted hours of the proposed audit team for the first year audit will be provided.
- ii) At the end of the first year audit, a comparison of actual hours against budgeted hours will be provided.
- iii) At the end of the second and subsequent year audit, actual hours for the past two years will be provided.

Relevance

This AQI indicates the extent of involvement of senior audit team members in an audit.

Audit quality is likely to increase with higher levels of involvement by senior audit team members as they have the requisite knowledge and experience to identify and resolve audit issues. A higher level of involvement would also imply more supervision and review of the work performed by junior or less experienced audit team members.

² Lead audit partner refers to the partner in charge of the overall audit engagement.

³ Concurring partner refers to the quality control review partner who objectively evaluates the significant judgments the audit team makes and the conclusions the audit team reaches in formulating the audit opinion.

⁴ Other partner(s) refer to partners in charge of the audits of other group entities (e.g. subsidiaries, joint ventures or associates) and partners providing specialists support such as technical consultations, information technology, taxation and valuation whom the lead audit partner relied to support the overall audit opinion.

⁵ Audit manager(s) refers to auditors performing managerial duties under the direct supervision of the audit partners. This would exclude auditors designated as assistant managers and below.

EXPERIENCE

Years of Audit Experience and Industry Specialisation

GRANULARITY: 

Definition

This AQI highlights the years of audit experience of audit team members involved in an audit engagement by the following categories:

- i) Lead Audit Partner;
- ii) Concurring Partner;
- iii) Audit Manager(s); and
- iv) Audit Professional Staff (auditors below managerial level).

This AQI also includes a description of industry specific experience of senior audit team members (i.e. the lead audit partner, the concurring partner and the audit manager(s)) involved in the audit engagement.

Sample Presentation Format

| Years of Audit Experience | FY 20X5 | FY 20X4 |
|---------------------------|---------|---------|
| Lead Audit Partner | [20] | [19] |
| Concurring Partner | [25] | [24] |
| Audit Manager(s) | [10] | [8] |
| Audit Professional Staff | [3.4] | [3.0] |

[Firms can include relevant narratives/commentaries (e.g. analysis of significant variances)]

Note:

- i) For audit tenders, estimated years of experience of the proposed audit team for the first year audit will be provided.
- ii) At the end of the first year audit, a comparison of actual years of experience against budgeted figures will be provided.
- iii) At the end of the second and subsequent year audit, actual years of experience for the past two years will be provided.

Industry Specific Experience of Senior Audit Team Members

[E.g. Mr X has been an audit partner in Firm ABC since 1990. He has approximately 30 years of experience in the audits of financial institutions. He specialises in the audits of retail and commercial banks, and sits on the audit firm's technical consultation panel on financial institution audits. Mr X is also the Chairman of the Institute of Singapore Chartered Accountants' Banking and Finance Committee. He was previously the audit partner for (name of past clients in similar industry).]

Relevance

This AQI indicates the audit firm's ability to deploy experienced resources to each audit engagement based on its risk and complexity.

Audit quality is likely to increase with higher years of experience of the audit team as they will likely have greater knowledge and competence to perform the audit effectively. A more experienced audit team, particularly with relevant experience in a particular industry, would be able to better understand and deal with industry specific issues by drawing on their experiences with similar issues in the past.

In evaluating industry specific experience, audit committees may want to place emphasis on whether the relevant experience obtained by the senior audit team members was recent.

TRAINING

Average Training Hours and Industry Specific Training

GRANULARITY:  & 

Definition

This AQI highlights the average structured training hours received by the auditors in the past year.

At the audit firm-level, this AQI is presented by the following categories:

- i) Audit Partner;
- ii) Audit Manager(s); and
- iii) Audit Professional Staff (auditors below managerial level).

At the audit engagement-level, this AQI includes a description of industry specific training for senior audit team members (i.e. the lead audit partner, the concurring partner and the audit manager(s)) involved in the audit engagement.

Sample Presentation Format

Firm-Level (Average Training Hours)

| Training Hours | 12 months ended 30 Sep 20X5 | 12 months ended 30 Sep 20X4 |
|--------------------------|--------------------------------|--------------------------------|
| Audit Partners | [50] | [40] |
| Audit Managers | [60] | [56] |
| Audit Professional Staff | [80] | [84] |

[Firms can include relevant narratives/commentaries (e.g. training hours committed by the firm for each staff grade if they are significantly different to actual training hours)]

Relevance

This AQI indicates the hours invested in the firm's auditors to equip them with the required knowledge and skills to perform quality audits.

Audit quality is likely to increase with higher average training hours as this would imply that auditors are spending more time to upgrade their capability to perform effective audits, as well as to keep abreast of the changes in accounting and auditing standards. To assess the quality of training, audit committees are encouraged to discuss with auditors on the nature, type and effectiveness of the training curriculum.

Sample Presentation Format

Engagement-Level (Industry Specific Training of Senior Audit Team Members)

| Industry Specific Training Hours | 12 months ended 30 Sep 20X5 | 12 months ended 30 Sep 20X4 |
|----------------------------------|--------------------------------|--------------------------------|
| Lead Audit Partner | [15] | [14] |
| Concurring Partner | [25] | [25] |
| Audit Manager(s) | [8] | [8] |

[Firms can include relevant narratives/commentaries (e.g. description of courses or topics covered)]

Relevance

Audit quality is likely to increase with higher level of industry specific training relevant to the audit engagement provided to the senior audit team members. This would increase their familiarity and ability to identify, understand and resolve specific accounting and audit issues confronting the industry.

INSPECTIONS

Results of External and Internal Inspections

GRANULARITY:  & 

Definition

This AQI highlights the outcome of audit quality inspections carried out on audit engagements:

- i) by an external audit regulator (external inspections)⁶;
 - ii) within the audit firm (internal inspections)⁷; and
- the action taken to remediate the findings from these inspections.

Sample Presentation Format

Firm-Level (Inspection Results)

| Type of Inspection: External Inspections by ACRA | | |
|--|------------------|-----------|
| Inspection Year | [20X4] | [20X2] |
| No. of Audit Partners Inspected | [10] | [10] |
| Inspection Results | [9 Pass, 1 Fail] | [10 Pass] |

[Firms can include relevant narratives/commentaries (e.g. nature of findings, whether systemic or one-off issue and remedial actions)]

| Type of Inspection: Internal Inspections | | |
|--|--------------------------|--------------------------|
| Inspection Year | [20X4] | [20X3] |
| No. of Audit Partners Inspected | [13] | [14] |
| Inspection Results by Audit Partner* | [11 Satisfactory] | [11 Satisfactory] |
| * Inspection results should be presented by audit engagement in instances where more than one audit engagement is inspected per partner. | [2 Improvement Required] | [2 Improvement Required] |
| | | [1 Not Satisfactory] |

[Firms can include relevant narratives/commentaries (e.g. scope and rating of inspection programme, as well as the remedial actions)]

Relevance

This AQI indicates the audit firm's ability to consistently executing quality audits.

Inspection results are a direct measure of audit quality. The aim of inspections is to independently check if the auditor had performed audit procedures in compliance with the auditing standards and/or applicable quality control policies. Hence, audit quality is likely to increase with a higher rate of compliance with these standards and policies. However, a higher volume of unfavourable inspection results (e.g. improvement required / not satisfactory ratings) is not conclusive of an audit firm's ability to delivering quality audits.

⁶ External inspections refer to inspections carried out by audit regulators such as the Public Company Accounting Oversight Board (PCAOB) and ACRA. Please refer to link (https://www.acra.gov.sg/Publications/Reports/Practice_Monitoring_Programme_Public_Reports) for the latest inspection report by ACRA.

⁷ Internal inspections are conducted by the audit firm, either by a local or international quality review team as part of its quality monitoring programme.

It is important to note that a poor inspection result does not:

- i) necessarily indicate that there had been an audit failure, i.e. the audit report is wrong or cannot be relied upon. Instead, the results serve to highlight areas that must be remediated in order to meet standards and policies; or
- ii) imply that the financial statements prepared by management are not true and fair. Instead, the results provide an indication that more work ought to have been performed by the auditor to support the opinion.

It is common for partners with poor inspection results to be regularly re-inspected. The inspection results that are repeatedly poor should be a point of concern.

Audit committees should not dismiss an audit firm simply based on poor inspection results. Instead, audit committees should strive to understand the root causes of the findings, and evaluate the effectiveness of the audit firm's actions to remedy, which will better reflect the audit firm's commitment and ability to delivering quality audits in a longer run. Audit committees should also examine whether the findings on the inspected engagements are applicable to the audits of their companies and discuss with the audit teams on the potential implications and audit approach.

Sample Presentation Format

Engagement-Level (Inspection Results of Lead Audit Partner and Concurring Partner)

| | External Inspections | | Internal Inspections | |
|--------------------|----------------------|-----------------|----------------------|----------------|
| | Year last inspected | Results | Year last inspected | Results |
| Lead Audit Partner | [20X4] | [Fail] | [20X3] | [Satisfactory] |
| Concurring Partner | [Not Inspected] | [Not Inspected] | [20X4] | [Satisfactory] |

Inspection findings for: [Lead Audit Partner] / [Concurring Partner] Type of Inspection: [External / Internal] Inspections

| | |
|--|--|
| [Details of findings] [E.g. Inadequate work was performed to ascertain whether the client's revenue recognition policy was appropriate] | [Details of remediation actions taken by the audit team / firm] [E.g. Remediation actions taken include: - Mandatory refresher training on revenue by the audit team; - Subsequent consultation and collaboration with the firm's technical department to address the finding; - Assignment of a more experienced concurring partner on the audit; and - Communication of the finding as a case study during firm's training] |
|--|--|

[Firms can include relevant narratives/commentaries (e.g. root causes of finding and applicability to the audit engagement)]

Relevance

This AQI indicates the lead audit partner and concurring partner's ability to consistently executing quality audits.

The inspection results and findings provide insights on the quality of other audits led by the lead audit partner and concurring partner. This is relevant in assessing their technical competency, workloads and ability to maintain audit quality consistently.

INDEPENDENCE

Compliance with Independence Requirements

GRANULARITY:  & 

Definition

This AQI highlights independence breaches under ACRA's Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities identified by the audit firms. It also describes independence breaches involving team members in the audit engagement (if any).

Audit firms carry out independence compliance tests to uphold the firm's independence and objectivity that supports trust in the audit opinion. An audit firm's independence compliance programme typically includes testing in the following areas:

- i) Partner, Manager and Professional Staff independence: To ascertain whether the auditor holds any financial interest in the firm's audit clients.
- ii) Client independence: To ascertain whether the audit firm's provision of non-audit services, its business relationships and audit / non-audit fee arrangements with the audit client are in line with the audit firm's independence requirements.

Sample Presentation Format

Firm-Level (Independence Compliance Testing Results / Description of Breaches)

i) Independence Compliance Testing Results

| Area and description of independence testing | Scope | 12 months ended 30 Sep 20X5 | | 12 months ended 30 Sep 20X4 | |
|---|--|-----------------------------|---|-----------------------------|-----------------|
| | | No. of Samples tested | No. of Breaches | No. of Samples tested | No. of Breaches |
| [E.g. Partner, Manager and Professional Staff Independence] | [E.g. To ascertain whether the partner, manager and professional staff (including their immediate family members) held shares in any of the firm's audit clients.] | [28] | [1] (Breach described in the next table) | [30] | [0] |

ii) Description of Breaches⁸

| Detected via: | Description of breach, including follow-up actions |
|---|--|
| [E.g. Partner, Manager and Professional Staff Independence testing] | [E.g. An audit assistant held shares in an audit client he audited. The shares were disposed upon discovery of the breach. The audit firm had assessed that audit work of the audit assistant had not been compromised as it was adequately reviewed by the audit manager. The audit work also did not involve any areas of significant risk and judgement. The audit firm had issued a stern notification letter to the audit assistant, which was reflected in his annual performance review.] |
| [E.g. Self-Reported] | [E.g. An audit manager went for an interview with an audit client for the position of a finance manager before the audit report was finalised. The audit firm had removed the audit manager from the audit team and subjected his work performed to an additional layer of review by the audit firm's quality assurance team prior to sign-off. The audit firm had ascertained that the audit work had not been compromised. The audit firm had also issued a stern notification letter to the audit manager.] |

[Firms can include relevant narratives/commentaries (e.g. scope of independence compliance testing)]

Engagement-Level (Compliance by Audit Team Members)

[E.g. One audit manager and two professional staff of the audit team were subjected to the audit firm's staff independence testing in 20X5. No breaches were detected.]

[Firms can include relevant narratives/commentaries]

Relevance

This AQI indicates the audit firm's commitment to maintaining auditor independence.

Auditor independence is a pre-requisite for audit quality. Failure to comply with independence requirements could compromise audit quality as it may give rise to conflict of interests, rendering the auditor's judgements and the audit opinion issued to be unreliable. In this regard, audit committees should not tolerate independence breaches committed by the audit team members.

⁸ Includes breaches arising from the independence compliance tests or other sources (e.g. self-reported).

QUALITY CONTROL

Headcount in Quality Control Functions

GRANULARITY: 

Definition

This AQI highlights partner and manager resources in the Quality Control Functions (QCF) of the audit firm necessary to equip audit teams with tools, knowledge and resources to consistently deliver quality audits.

This AQI is presented by the following functions, where applicable:

| Quality Control Function | Roles and responsibilities |
|--|--|
| Risk Management, Independence and Ethics | To monitor compliance with the relevant independence requirements. |
| Training, Learning and Development | To organise and conduct training to upkeep auditors' skills and knowledge. |
| Quality Assurance | To conduct internal inspections and monitor quality in the audits performed. |
| Technical Enquiries | To provide audit and accounting technical consultations to audit teams. |

This AQI is presented in absolute and relative (as a % of total audit resources) terms.

Sample Presentation Format

| Quality Control Functions (QCF) | 12 months ended 30 Sep 20X5 | | 12 months ended 30 Sep 20X4 | |
|---------------------------------|-----------------------------|----------|-----------------------------|----------|
| | Partners | Managers | Partners | Managers |
| Risk Management | [0.6] | [3.3] | [0.5] | [3.0] |
| Training | [0.5] | [6.0] | [0.2] | [7.1] |
| Quality Assurance | [0.7] | [5.6] | [0.7] | [6.1] |
| Technical | [0.5] | [7.5] | [0.4] | [7.4] |
| Total Headcount | [2.3] | [22.4] | [1.9] | [23.6] |

| Ratio of: | 12 months ended 30 Sep 20X5 | 12 months ended 30 Sep 20X4 |
|--|-----------------------------|-----------------------------|
| QCF Partners to Total Audit Partners | [1 : 12] | [1 : 11] |
| QCF Partners and Managers to Total Audit Partners and Audit Managers | [1 : 27] | [1 : 26] |

[Firms can include relevant narratives/commentaries (e.g. overview of quality control set-up)]

Relevance

This AQI indicates the audit firm's commitment to provide central resources to support the execution of quality audits.

Audit quality is likely to increase with more QCF resources dedicated to support the audit teams. QCF can enhance the capabilities of audit teams through their specialist knowledge, particularly in resolving complex, unusual and/or judgmental aspects of an audit. Via its monitoring functions, QCF also helps to ensure compliance with the audit firm's audit process and guidelines, and maintain audit quality across different audit engagements.

STAFF OVERSIGHT

Staff per Partner / Manager Ratio

GRANULARITY: 

Definition

This AQI highlights the average number of auditors managed by each audit partner and audit manager in the audit firm.

Sample Presentation Format

| Ratio of: | 12 months ended 30 Sep 20X5 | 12 months ended 30 Sep 20X4 |
|--|--------------------------------|--------------------------------|
| Partners to manager and audit professional staff | [1 : 23] | [1 : 31] |
| Managers to audit professional staff | [1 : 5.0] | [1 : 4.8] |

[Firms can include relevant narratives/commentaries (e.g. comparison vis-à-vis the audit team assigned to the audit engagement)]

Relevance

This AQI indicates the capacity of senior audit members (i.e. partners and managers) to supervise junior audit team members in the audit firm.

Audit quality is likely to increase with lower staff per partner / manager ratios. Higher staff per partner / manager heightens the risk that partners and managers have wider scope of supervision and review responsibilities, which may distract them from giving adequate and focused attention to a particular audit engagement.

ATTRITION RATE

Degree of Personnel Losses

GRANULARITY: 

Definition

This AQI highlights the percentage of auditors that left the audit firm in the past years.

Sample Presentation Format

| | 12 months ended 30 Sep 20X5 | 12 months ended 30 Sep 20X4 |
|----------------|--------------------------------|--------------------------------|
| Attrition rate | [30%] | [32%] |

[Firms can include relevant narratives/commentaries (e.g. the retention rate of key audit engagement team members or attrition rates of high potential professional staff in the audit firm)]

Relevance

This AQI indicates the audit firm's ability to retain knowledge and experience.

Whilst some attrition is expected, audit quality is likely to be significantly affected by excessively high attrition rates in an audit firm. Besides the loss of knowledge and experience, the audit firm may face difficulties in re-hiring auditors with similar levels of experience and competency. In the longer run, this inhibits the audit firm's readiness and capability to identify and resolve audit and accounting issues effectively.

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