

SAAC Singapore
Accountancy And Audit
Convention Series

Practitioners Conference 2020

STRATEGISING FOR A RESILIENT TOMORROW



Raising Audit Quality Through Challenging Times

Ms Kuldip Gill
Divisional Director
Public Accountancy Division
Accounting and Corporate Regulatory Authority

Organised by



In Collaboration With:



Disclaimer

These slides are not to be cited, copied or circulated without express permission from Accounting and Corporate Regulatory Authority (ACRA).

Organised by



In Collaboration With:



Agenda

1. Scope of Practice Monitoring Programme
2. Firm-level Inspection findings
3. Engagement Inspection findings
4. Trends Moving into the New Norm
5. Key Messages

Organised by



In Collaboration With:



Scope of Practice Monitoring Programme

Organised by



In Collaboration With:



Scope of Practice Monitoring Programme

Firm-level Inspections

- Inspect audit firms' quality controls, incorporating thematic reviews
- Applies to firms that audit listed companies
- Assessed based on **Singapore Standard of Quality Control (SSQC) 1**
- **Advisory** basis

Engagement Inspections

- Inspect audit engagements performed by public accountants (PAs)
- Applies to PAs who audit:
 - Listed entities
 - Non-listed entities
- Assessed based on **Singapore Standards of Auditing (SSAs)**
- **Mandatory** under Accountants Act

*Thematic reviews
incorporated –
Consistent high quality
audits*

Organised by

In Collaboration With:

Firm-level Inspection findings

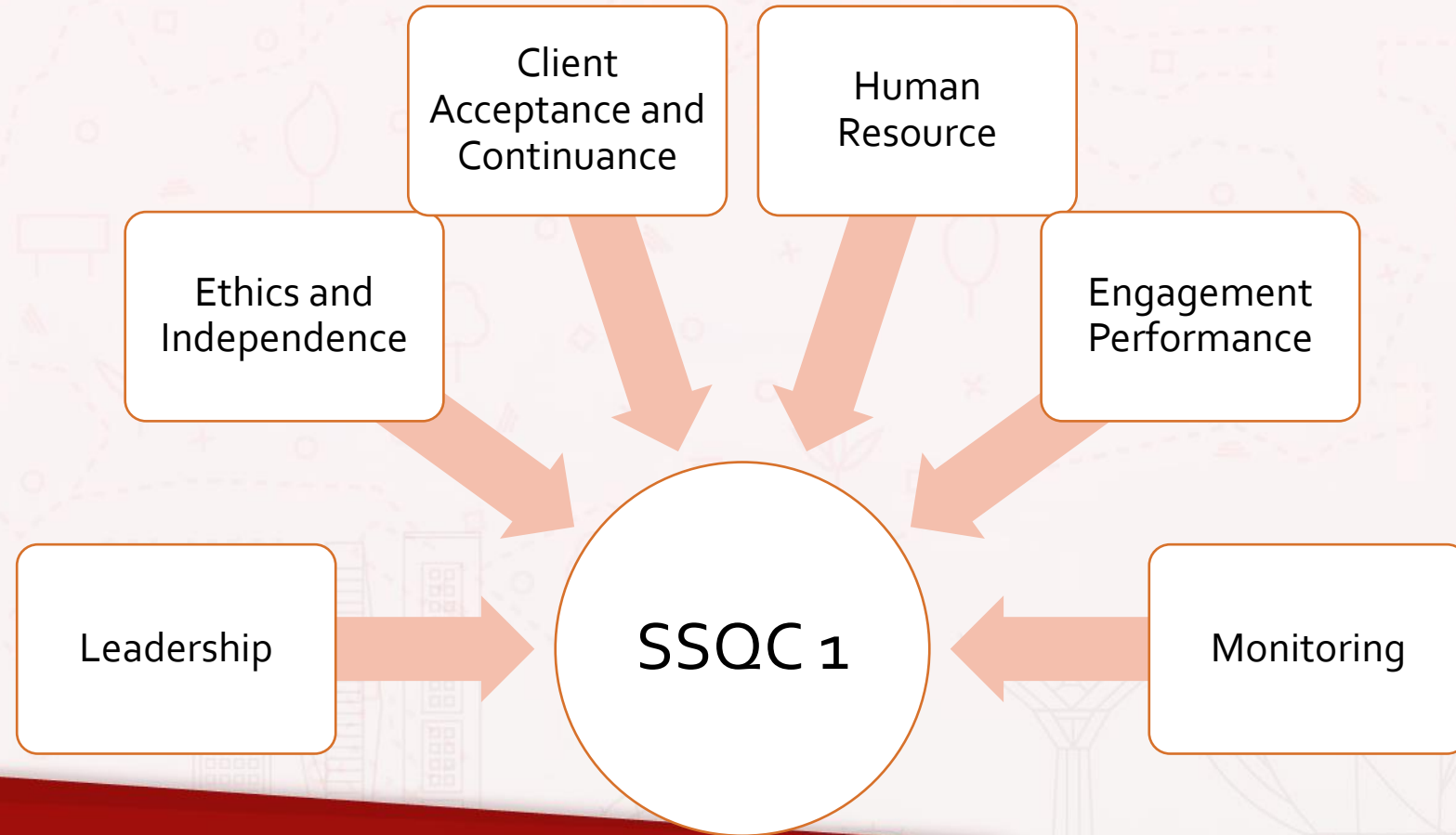
Organised by



In Collaboration With:



Firm's Quality Control - Six elements of SSQC 1



Organised by

In Collaboration With:

Leadership – Tough situations call for tough measures

Need for clear linkage between audit quality and performance evaluation and compensation



Performance evaluation



A set of audit quality drivers in assessment criteria



Performance ratings for individual engagements supported and have clear linkage to overall appraisal



Clear prominent weightage of audit quality drivers on evaluation and compensation

Organised by

In Collaboration With:

Ethics and Independence - Compliance with ethical requirements is non-negotiable

Breaches relating to inaccurate or untimely independence declarations

- Monitor firms' policies and processes on a timely basis
- Effective implementation of policies lies in the behaviour of personnel, especially partners
- Implement severe penalties to deter independence violations

Organised by

In Collaboration With:

Acceptance and Continuance – **Continuous Assessment**

- A robust evaluation process serves as first line of defence
- Client acceptance and continuance process should **not** be treated as merely administrative in nature
- Consider amongst other factors :
 - Engagements beyond auditor's capacity and/or capability
 - Difficulty in fulfilling responsibilities relating to opening balances, as required by *SSA 510 Initial Audit Engagements - Opening Balances*

Organised by



In Collaboration With:



Human Resources – Sufficient professional strength with relevant skills and experience are imperative to deliver quality audits

- Staff turnover beyond normal levels is disruptive:
 - Loss of knowledge and experience
 - Inability to recruit suitably qualified replacements
 - Equipping new staff with necessary skills and knowledge
- Firms to:
 - continue to review human resource management policies to remain relevant, attractive and effective in improving staff retention rates
 - ensure healthy staff leverage ratios

Organised by

In Collaboration With:

Human Resources – Continuing Professional Development

- To cope with the evolving challenges in the environment
 - continuously upskill audit personnel
 - current essential training topics could focus on going concern assessments, audits of accounting estimates, professional scepticism
- On-the-job coaching
 - effective mentoring of staff
 - provide sufficient “touchpoints” and guidance

Organised by



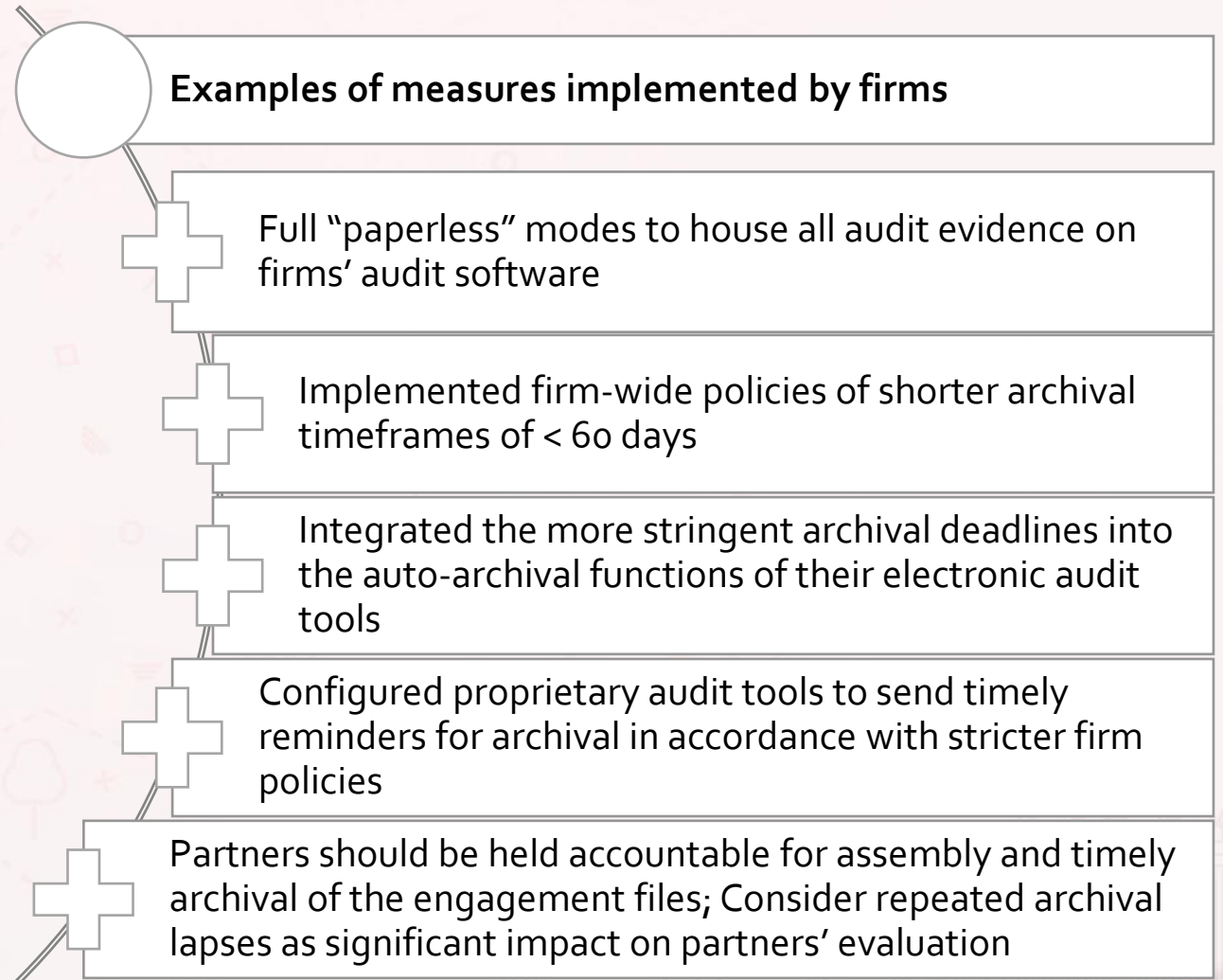
In Collaboration With:



Engagement Performance – **Audit quality is doing the right thing when no one is looking**

Repeated lapses in archival of audit working papers

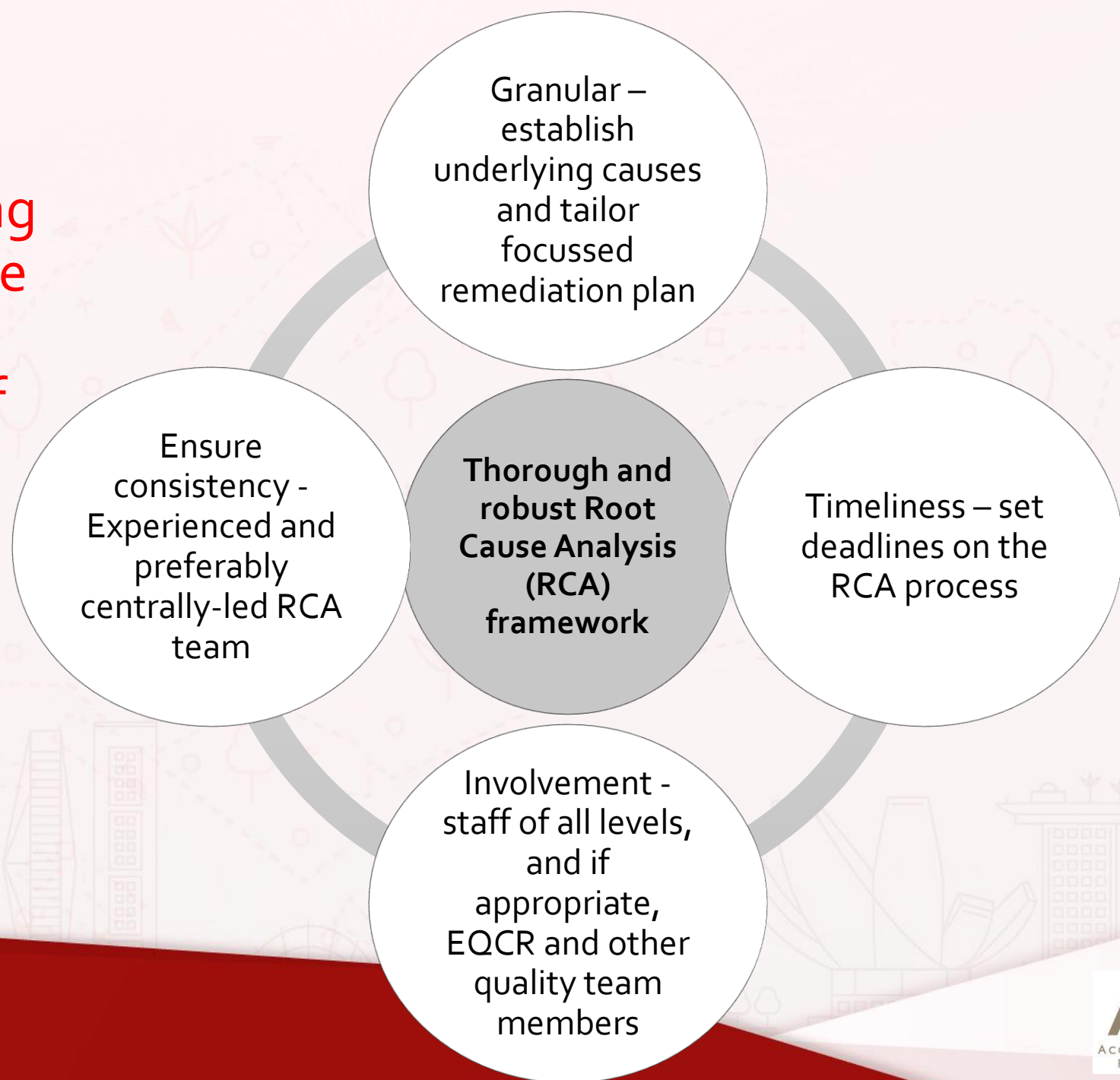
- late archival of audit working papers
- incomplete assembly of audit working papers



Organised by

In Collaboration With:

Monitoring –
A robust monitoring system is one of the cornerstones of an effective system of quality control



Organised by

In Collaboration With:

Audit Quality Indicators (AQIs)

- ACRA's AQI Disclosure Framework – introduced 2015, revised Jan 2020
 - enhance discussions on audit quality matters
 - provides industry average and ranges to facilitate industry comparison
- ACRA encourages:
 - Firms: share AQI data with audit committees to allow for meaningful analysis and discussions
 - Audit committees: request AQI data from audit firms
 - assess the firms' quality
 - facilitate conversations on audit quality matters and monitoring over the auditors' work

Organised by



In Collaboration With:



Engagement Inspection findings

Organised by



In Collaboration With:



Analysis of Engagement Inspection Findings

ACRA's common inspection findings by themes	Top 5 themes of findings from IFIAR's 2019 Survey of Inspection Findings
Accounting estimates, including fair value measurement	√
Revenue recognition	√
Group audits	
Risk assessment and audit evidence	
Audit report	

Recurring findings in the areas noted indicate that the remediation efforts need to be more targeted

Organised by



In Collaboration With:



Accounting estimates, including fair value measurement

- Broad theme affecting various financial statement line items
- Nature of estimates varying widely, often involving management's judgements and significant assumptions/ complex models
- Significant judgments and assumptions made by management – to evaluate of possible management bias
- Revised SSA 540 *Auditing Accounting Estimates and Related Disclosures* - consideration of recent developments in the business environment
- Consider impact of COVID-19 when assessing significant estimates

Organised by



In Collaboration With:



Accounting estimates, including fair value measurement– Possible best practices

- Robust qualitative risk assessment
 - Designed further audit procedures – considered the nature, complexity and subjectivity involved in making those estimates
- Strong challenge on management’s assumptions
 - Led to changes where assumptions were assessed as not reasonable
- Close involvement in work of internal specialists and experts
 - Clarity in extent and scope of work of specialists/experts
 - Close involvement in benchmarking key assumptions
- Defer signing off auditor’s report
 - Ensure key audit evidence obtained and reviewed
 - Ensure robust quality control procedures completed

Organised by



In Collaboration With:



Revenue recognition

- Common/recurring findings:
 - Lack of understanding of terms and conditions of contracts
 - Lack of understanding of arrangements and the impact on the accounting of revenue
 - Inadequate/ineffective cut-off procedures
- Good practice
 - Effective use of analytic techniques in auditing revenue
 - Ensure management performs detailed assessment on impact of implementing FRS 115 for auditor's evaluation

Organised by



In Collaboration With:



Group audits

- Group auditor's summary on the review of the component auditor's work
 - Inadequate details of component auditor's work performed on significant risk areas
- Group auditor placed reliance on the components' audited financial statements and group reporting deliverables

Organised by



In Collaboration With:



Group audits (*cont'd*)

- Good practices observed include:
 - **well-evidenced risk assessment** and **scoping of procedures** at a component level
 - **close involvement of group auditors** in the direction and review of component auditors' work
 - minutes on discussions with component auditors
 - **robust documentation**
 - matters that the group auditor considered in evaluating the adequacy of the component auditors' work
 - how the component auditor's basis for any conclusions made were challenged

For other best practices and further guidance on group audits, refer to:

- PMP Report 2018
- ACRA's APB No. 1 of 2015

Organised by

In Collaboration With:


Auditor's Reports


Omission to opine on the group FS for a consolidated set of accounts

Basis for opinion paragraph unclear -> users of FS may not be able to understand how the auditor's conclusion was reached

Lack of assessment on the type of opinion



 Omissions of certain responsibilities of the auditor in the auditor's report **would not diminish the auditor's fundamental responsibility**

 Critical to take due care and ensure the accuracy and completeness of the auditor's report issued, as this is the **ultimate deliverable "owned" by PAs**

Organised by

In Collaboration With:

Trends Moving into the New Norm

Organised by



In Collaboration With:



Old Wine in New Bottles

- Audit profession is familiar with two fundamental SSAs
 - *SSA 500 Audit Evidence*
 - *SSA 230 Audit Documentation*
- SSAs are principles-based
 - Exercise professional judgement and maintain professional scepticism
- Increasing reliance on technology in conducting audits
 - Auditors need to adapt and move away from traditional methods of auditing

Organised by



In Collaboration With:



Embracing Technology

- Challenges raised by profession in the adoption/use of technological tools in audits
 - View: auditing standards are silent on the acceptance of new techniques as audit evidence
- Regulators encourage transition to technology-based audits and innovation
 - Premise: Auditors to ensure audit quality is not compromised
 - **Replace conventional audit procedures vis-à-vis supplement audit evidence** obtained through traditional means
 - Use of technological tools does not replace the professional evaluation, judgement and scepticism expected of an auditor

Organised by



In Collaboration With:



Embracing Technology (*cont'd*)

- Increasing use of data analytics (DA)
 - procedures and analysis on large or complex datasets
 - allow more informed judgement to be made in risk assessment
 - focus efforts on outliers/exceptions and higher-risk areas
- Audit teams must:
 - be clear on objective of DA tests
 - ensure data accuracy, completeness and relevance
 - understand tools used, including their capabilities and limitations

Organised by



In Collaboration With:



Cybersecurity Risks



- Technology presents both opportunities and cybersecurity threats
- Need for robust understanding of the entity's cyber environment
 - Significant risks requiring special audit consideration, eg. involvement of subject matter experts
- Concerns over data confidentiality and protection against data loss
- Be cognisant that breaches may have occurred but remain undetected
 - Auditors need to be adequately equipped to identify and appropriately deal with cybersecurity issues

Organised by



In Collaboration With:



Going Concern Assessment

- COVID-19 had created significant heightened public interest and scrutiny over the appropriateness of going concern assumption
- Critically challenge management's assumptions about the future
 - exercise due care and heightened professional scepticism, consider both negative and possible factors, seek independent consultations, engage experts (as necessary)
 - events or conditions that trigger the need for management to extend its going concern assessment beyond 12 months
- Review adequacy of financial statements disclosures

Organised by



In Collaboration With:



Fraud and Professional Scepticism

- COVID-19 implications on auditors' work and audit quality
 - volatile market conditions give rise to greater manipulation of financial information
 - greater challenge in assessing whether companies' financial projections are viable or biased
- Auditors should consider all information obtained
 - internally- or externally-sourced, corroborative or contradictory in nature
 - ensure that one is not biased towards one information source over others
 - do not dismiss any contradictory information
 - critically evaluate management bias

Organised by



In Collaboration With:



Expectation gap

- Auditor's role and responsibilities
 - perceived by public vis-à-vis requirements under auditing standards
- IAASB's Discussion Paper "*Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit*" issued in September 2020
 - gather perspectives from stakeholders about the role of the auditor
 - obtain input on matters about the related extant auditing standards

Organised by



In Collaboration With:



Expectation gap (*cont'd*)

- Collective responsibility of all stakeholders in the financial reporting ecosystem
- Timely to clarify individuals' responsibilities
 - Consider threat to auditor's independence, management and preparers need to take greater ownership of their financial reporting and accounting judgements
 - Right balance of responsibilities and reinforce the right perceptions and attitudes
- Collaborative relationship needed between companies and their auditors- build public trust and investor confidence
- All stakeholders to work together to narrow the expectation gap

Organised by



In Collaboration With:



Key Messages

- Embed a **culture of quality**
- **Continuously upskill** to keep up with rapid changes in the environment and confront new challenges
- **Leverage technology** to transform the value of audits
- Uncertainties in the environment calls for **heightened professional scepticism**
- Need to address “**expectation gap**” of auditor’s responsibilities
- **Collective responsibility** - All stakeholders to work together to narrow the expectation gap

Organised by



In Collaboration With:



Thank you

Organised by



In Collaboration With:

