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**2021**

# Practitioners Conference

Quality Management in the New Norm

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# Agenda

1. Scope of ACRA's Audit Regulatory Work
2. Firm-level Inspection
3. Engagement inspection
4. Navigating the New Norm
5. Upcoming Developments and Future Focus
6. Key Messages

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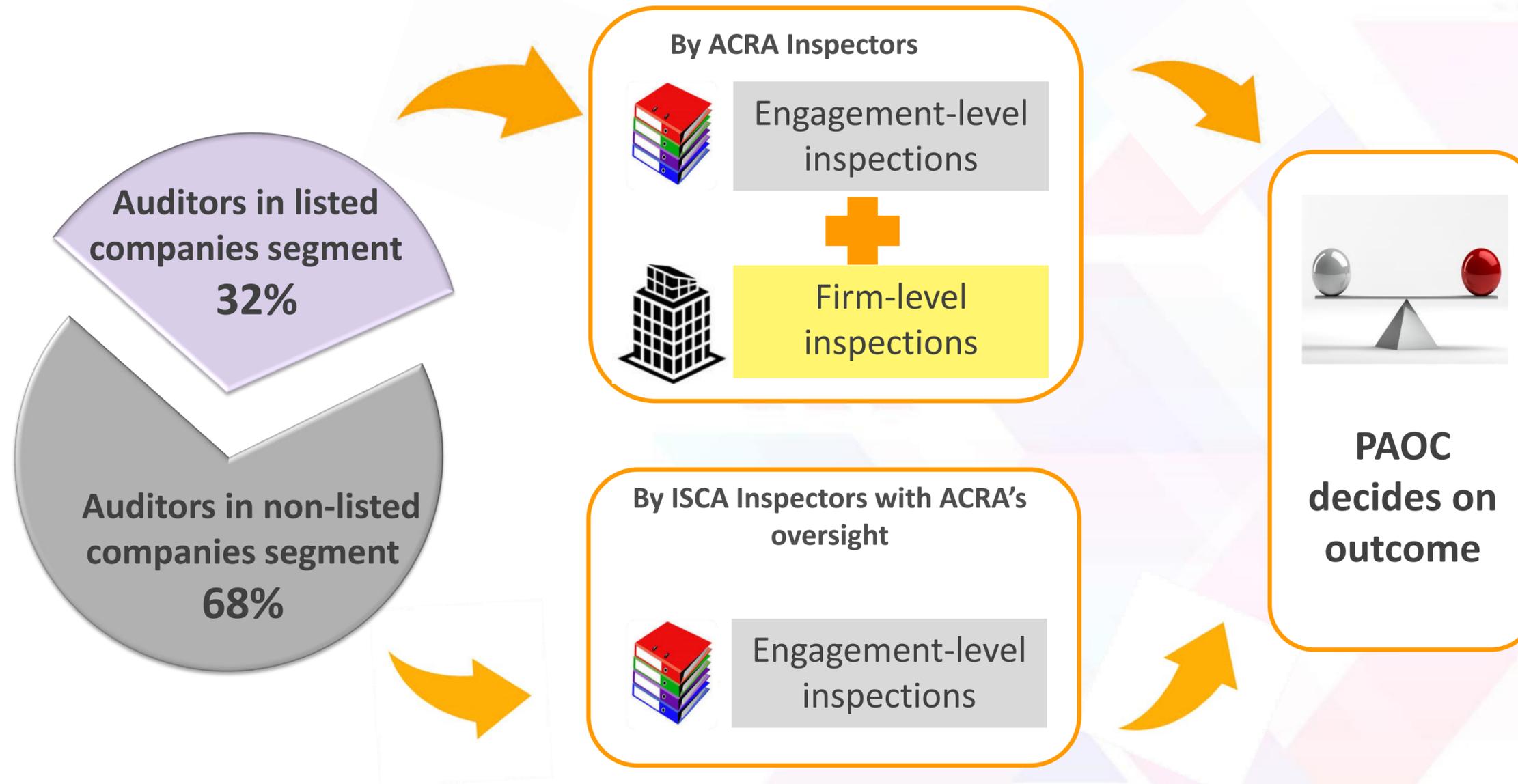
# Scope of ACRA's Audit Regulatory Work

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# Overview of Practice Monitoring Programme



# ACRA's Inspection Activities



## Engagement Inspection

- Inspection against **auditing standards**
- **Statutory** inspection programme on **public accountants**
- **Root causes analysis** to be performed to remediate the audit deficiencies identified



## Firm-level Inspection

- Evaluation against **quality control standards (SSQC 1)**
- **Advisory** basis on **audit firms** in the **listed** companies' segment
- Evaluation of the effectiveness of **remediation actions** to the firm-level findings identified

## Upcoming developments

**SSQM 1 and 2**  
w.e.f. 15 Dec 2022

- **Statutory** firm-level inspection under the proposed amendments to the Accountants Act
- **Extend** firm-level inspections to **audit firms** in the **non-listed** companies' segment

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# Firm-level Inspection

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# Leadership

## Common Firm-level Finding



Linkages between **audit quality and partners' performance evaluation and compensation** could be further strengthened

## Key Reminders

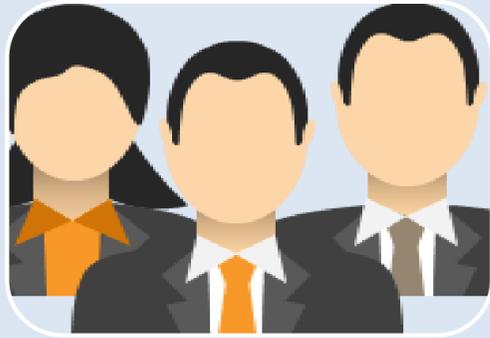
Establish policies that links the quality rating and compensation framework with **clear prominent weightages to quality**, to demonstrate firm's overriding commitment to quality

Incorporate **audit quality related factors** into partners' performance evaluation



# Independence

## Common Firm-level Finding



Violation of independence requirements

Robustness of audit firm's independence testing

## Key Reminders

Breach of independence requirements under ACRA Code could be subjected to **disciplinary proceedings**

Examples of initiatives to improve firm's independence:

Tailor **independence guide** & extend personal independence **consultation helpdesk** to spouse/ immediate family

Increase coverage for **independence testing**

Conduct mandatory **independence refresher training**

Implement **stricter sanctions**, including financial penalties

Encourage **self-reporting** of independence violations

# Acceptance and Continuance (A&C)

## Common Firm-level Finding



Execution lapses in the firm's A&C procedures, as well as EP200 requirements

## Key Reminders

Assess impact of COVID-19 on clients' business and re-evaluate client engagement risk classifications

Assess the associated risks related to digital assets and whether the audit firm possesses the specialised knowledge and professional competence to undertake those engagements during the A&C process



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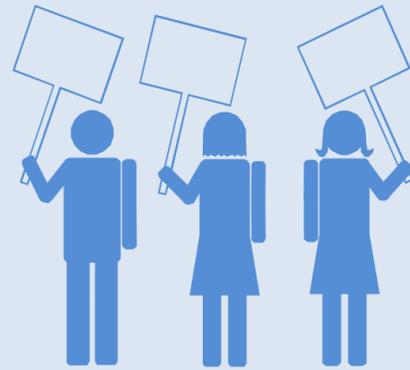
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# Human Resources

## Common Firm-level Finding



**High staff attrition** would result in loss of knowledge and experience necessary to execute quality audits

## Key Reminders

Implement effective **staff retention initiatives** to maintain healthy retention rates, especially for the high performing staff

Instil a **coaching culture** within audit firms as on-the-job coaching by senior audit personnel greatly enhances staff's learning curve and deepens their job satisfaction

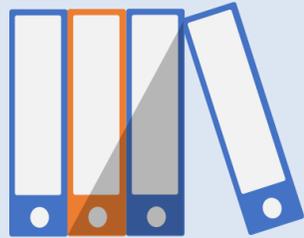


To put in place processes to ensure proper handover of audit engagements when there are changes in engagement team members, to **minimise the negative impact on audit quality** from staff attrition



# Engagement Performance

## Common Firm-level Finding



Lapses in final assembly of audit files:

- Incomplete or missing workpapers
- Omissions in audit firm's monitoring of archival due dates
- Non-timely archival

## Key Reminders

ACRA observed that certain audit firms achieved **zero archival lapses**

Implement effective initiatives such as:

- Full paperless electronic audit files
- Shorter archival timeframe < 60 days
- Email reminders for impending archival due dates
- Set a strong tone at the top on archival deficiencies in performance evaluation



# Monitoring

## Common Firm-level Finding



**Ineffective monitoring controls** in place to identify lapses

**Ineffective root cause analysis** ("RCA") and remediation actions

## Key Reminders

Revisit the **firm-wide quality controls** areas which had significant impact from COVID-19 (e.g. client portfolio risk review)

Strengthen the effectiveness of RCA process to improve on the identification of the **underlying root causes**



**Continuously monitor the effectiveness of remedial actions** undertaken and refine their policies and procedures to achieve continuous improvement



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# Engagement inspection

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# Common Inspection Findings in 2021

## Audit firms in **listed companies'** segment

## Audit firms in **non-listed companies'** segment

Consistent with 2020 IFIAR Inspection Finding Survey results on the theme with the highest frequency of inspection findings

**Accounting estimates, including fair value measurement**

**Accounting estimates, including fair value measurement**

Going concern

Audit report

Use of experts / specialists

Group audits

Group audits

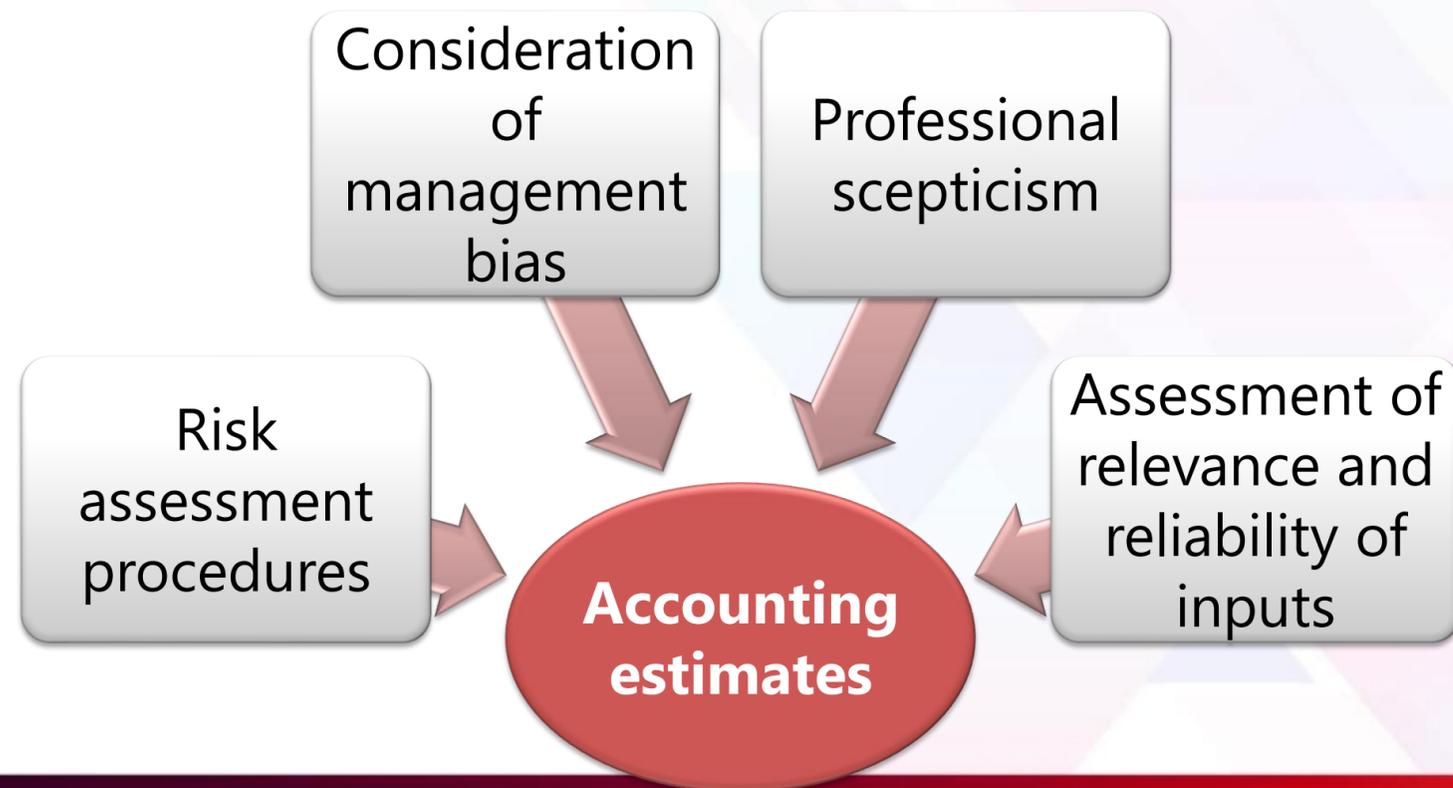
Inventory procedures

Risk assessment & audit evidence

Revenue recognition

# Accounting estimates, including fair value measurement

- Accounting estimates vary widely in nature and often involve extensive management's judgements and significant assumptions, which may encompass complex models and calculation methods
- General COVID-19 provisions based on holding company's provisioning policy:
  - Consider whether impact from COVID-19 varies significantly across different geographies and were appropriate and reasonable in Singapore context



# Accounting estimates, including fair value measurement

## Inventories

- Lack of robust challenge on the reasonableness of **allowance for inventory obsolescence**

## Receivables

- Lack of sufficient appropriate audit evidence on the **recoverability of receivables**, including reasonableness of **ECL**

## Construction contracts

- Lack of sufficient evaluation over: (a) the **stage of completion of contracts**; (b) total **budgeted costs** and estimated costs-to-complete; (c) **provisions** for foreseeable losses and liquidated damages

## PPE, goodwill & other intangibles assets

- Lack of adequate assessment on the **reasonableness of inputs, variables and assumptions** used in DCF
- Lack of sufficient appropriate audit evidence obtained to support the range of changes in assumptions used in **sensitivity analysis**
- Lack of evaluation on how management addressed **estimation uncertainty**

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# Case study: Holding Company's Provisioning Policy

## Other Considerations in addition to the Auditor's Evaluation in the Case Study

### Holding Company's provisioning policy

Any independent assessment to ascertain that the overseas Holding Company's provisioning policy was **appropriate for the Singapore Company**?

- E.g. whether there were any quantitative and qualitative analysis of inventory profile and sales trends based on historical and forecasted demand, gross profit margins during normal and clearance sales, retrospective review of prior period provisions, etc.

Was it appropriate to apply **different percentages of inventory provision to the same product item** in different age buckets due to difference in purchase timings?

Considering that the **impact from COVID-19 varies significantly across different geographies**, any assessment whether the 15% COVID-19 provision applied by the overseas Holding Company were appropriate and reasonable in the Singapore context?

# Common Findings on Going Concern Assessments

## Common Findings



Evaluate appropriateness of **management's going concern assumptions**

For example,

- Sources of financial support
- Outcome of future event

## Key Reminders

### **Financial support from other party**

Evaluate the **financial ability** and also the **intent** of other party (e.g. holding company) to continue to provide the financial support

### **Unutilised credit facilities**

Evaluate whether there would be continued support from the bank/lender throughout the period of assessment, including the ability of the entity to comply with the **financial covenants**, if any

### **Material Uncertainty Related to Going Concern**

Assess and conclude that management's use of going concern basis of accounting remain appropriate to support the **unmodified audit opinion**

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# Common Findings on Going Concern Assessments

## Common Findings



Assess **cash flow projections** used in evaluation of going concern assumption

For example,

- Reliability of underlying data
- Contradictory evidence
- Reasonableness of assumptions used in forecasts

## Key Reminders

### Cash flow projection period

Whether the impact from COVID-19 could result in events or conditions that might trigger the need to extend the going concern assessment beyond **12 months from the date of the financial statements**

### Contradictory data

Be alert to changes in conditions or contrary internal or external data **up to audit report date** that could have an impact to the cash flow projections and the ability of the company to continue to operate

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# Case study: Going Concern Assessment

## Other Considerations in addition to the Auditor's Evaluation in the Case Study

### Going Concern basis in the Material Uncertainty Related to Going Concern ("MURGC")

Any assessment to evaluate the **financial ability and intent** of the Holding Company to provide the financial support, given that the Auditor highlighted this as the going concern basis in the MURGC?

Any disclosures relating to the negative impact of COVID-19 on the supporting party and consider their implications?

- Such assessment is especially important under the current COVID-19 environment as the supporting party's business plans and/or financial strength may be adversely impacted

### Outcome of future event

Any assessment to evaluate the degree of **uncertainty associated with the realisation of deferred revenue** in the future?

- Given the uncertainties arising from COVID-19, auditors could consider requesting management to perform stress tests or scenario analysis and consider the need for going concern evaluation by management beyond twelve months from the end of the reporting period

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# Common Findings relating to Auditors' Reports

## Common Findings



**Omission of audit opinion** to certain statements in the consolidated financial statements

For example,

- Consolidated statement of financial position of the Group

## Key Reminders

### Non-compliance with auditing standards

Omission of audit opinion is a **severe non-compliance** with the requirements of the auditing standards and may result in not passing the PMP practice review

### Auditor's report

Not to omit indicating "**Group**" and "**consolidated**" under the relevant paragraphs in the auditor's reports issued on consolidated financial statements

### Illustrative auditor's reports

Refer to **SSA 700** *Forming an Opinion and Reporting on Financial Statements* and **AGS 1** *Sample Independent Auditor's Reports* for illustrative examples of commonly used audit reports

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# Common Findings relating to Auditors' Reports

## Common Findings



### audit opinion

Lack of **auditor's assessment on modified audit opinion**

For example,

- **"Except for"** opinion was issued where the impact to the financial statements could be **material and pervasive**

## Key Reminders

### Auditor's opinion

Assess whether any modification to the auditor's opinion is required based on the **audit evidence** obtained during the audit

### Non-consolidation of significant components

In situations where an entity does not meet the exemption criteria for non-consolidation under FRS 110 *Consolidated Financial Statements*, public accountants should assess whether the misstatements are both **material and pervasive** to the group financial statements and may have to consider issuing a modified opinion, other than an "except for" opinion

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# Case study: Audit Opinion

## Other Considerations in addition to the Auditor's Evaluation in the Case Study

- Does the description and quantification of the financial effects in the "*Basis for Qualified Opinion*" provide a proper **basis and justification for the qualified opinion**?
- Would the potential impact of **undetected misstatements** on the group's financial statements be potentially **pervasive**?
- Any **additional procedures** to be performed by the **Group Auditor** on the financial information of the component?

There could be a **risk of inappropriate audit opinion** expressed when:

- Sufficient appropriate audit evidence had **not** been obtained to assess and conclude that the effect of the potential undetected misstatements could be **material but not pervasive** to support an "**except for**" qualified opinion

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# Navigating the New Norm

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# Audit firm's initiatives in response to COVID-19

## Consultations

- Expand consultation requirements to include uncertainties resulting from COVID-19
- Set up COVID-19 review committees, support groups & assign valuation specialists

## Electronic Audit Evidence

- Develop guidance on evaluating reliability (including completeness, validity and authenticity) of electronic audit evidence

## Internal Controls

- Increase partner and manager involvement when setting audit strategy for TOCs

## Guidance and Trainings

- Set up centralised COVID-19 resource centre
- Conduct trainings on COVID-19 audit issues and FAQs on remote audits
- Enhance audit guidance, work programs and templates, incorporating COVID-19 impact

## EQCR

- Increase scope and number of engagement quality control reviews, targeted at audit focus areas and industries impacted by COVID-19

## Internal Monitoring

- Conduct remote overseas reviews
- Develop review programs to address areas impacted by COVID-19

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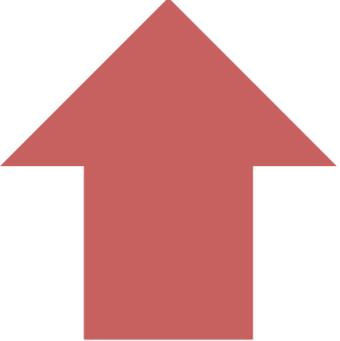
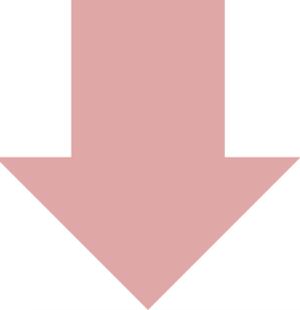
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# Investments in Technological Resources to Enhance Audit Quality

Benefits from leveraging on technology to innovate their audit practices and transforming into a data-driven audit

- 
- **Gain deeper insights** and identify unusual trends, leading to a more targeted risk assessment
  - **Enhance the auditor's ability to exercise professional scepticism** on accounting records that are inconsistent with external sources of information (e.g. pricing data, industry data, macro-economic data)
  - **Improve efficiency on audit process** by reducing administrative burden and automating mundane/routine tasks
  - **Improve communication and collaboration** within audit teams and connectivity with clients, facilitate project management and facilitate remote inspection
- 
- **Reduce detection risk** where automated tools and techniques are used to analyse large data sets
  - **Eliminate hardcopy files and storage space** for paperless audit files

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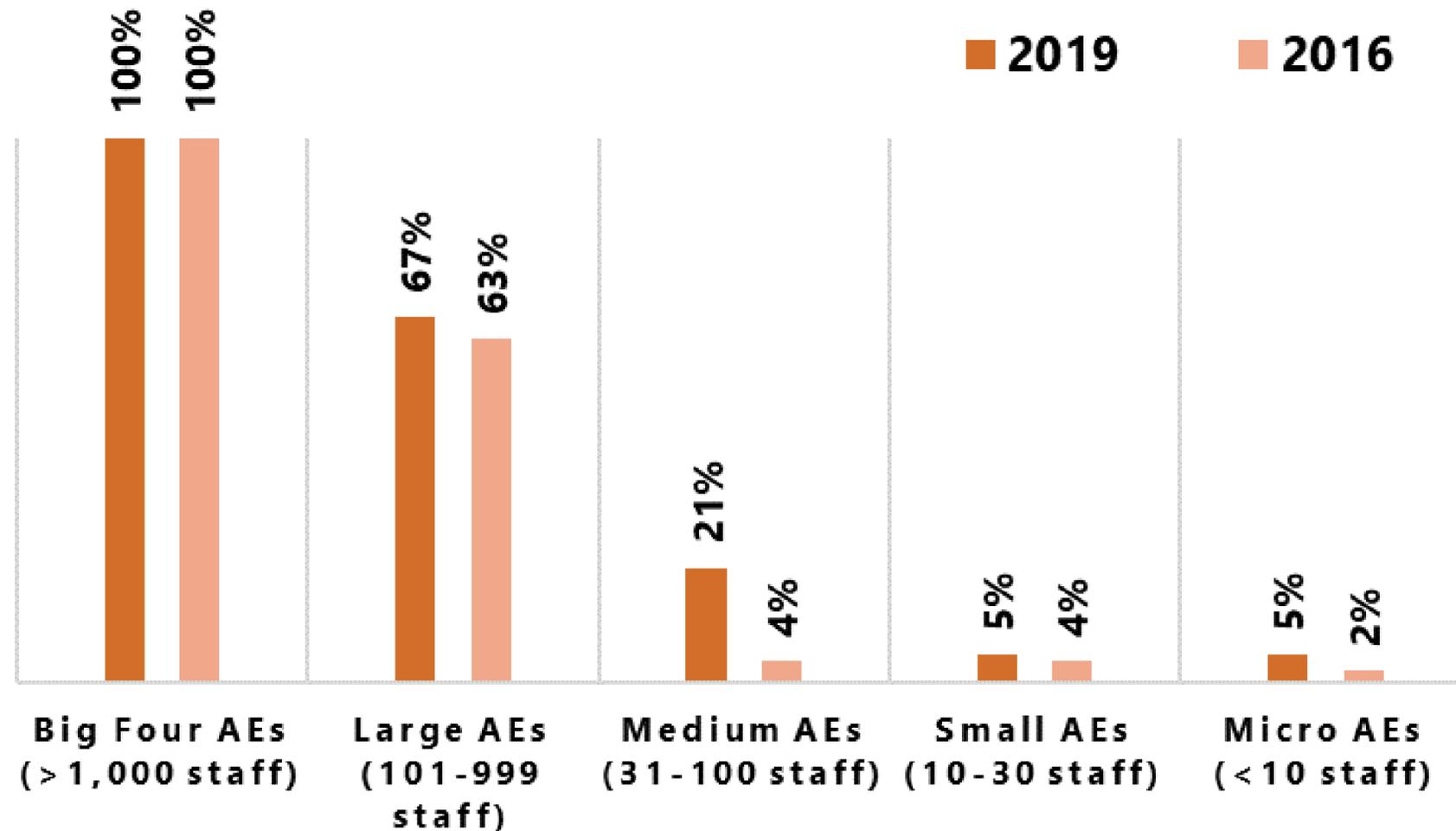
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# Adoption of Data Analytics for Audits

The adoption rate for data analytics has been growing steadily in the Big-Four and large accounting entities

## Adoption Level for Data Analytics for Audit by Accounting Entity ("AE")



To provide guidance on how auditing standards can be satisfied and complied with, ISCA, in collaboration with ACRA, issued **AGS 13 Data Analytics in a Financial Statements Audit** in August 2021

Source: Singapore Accountancy Commission Accounting Entity Survey, AEcensus 2020

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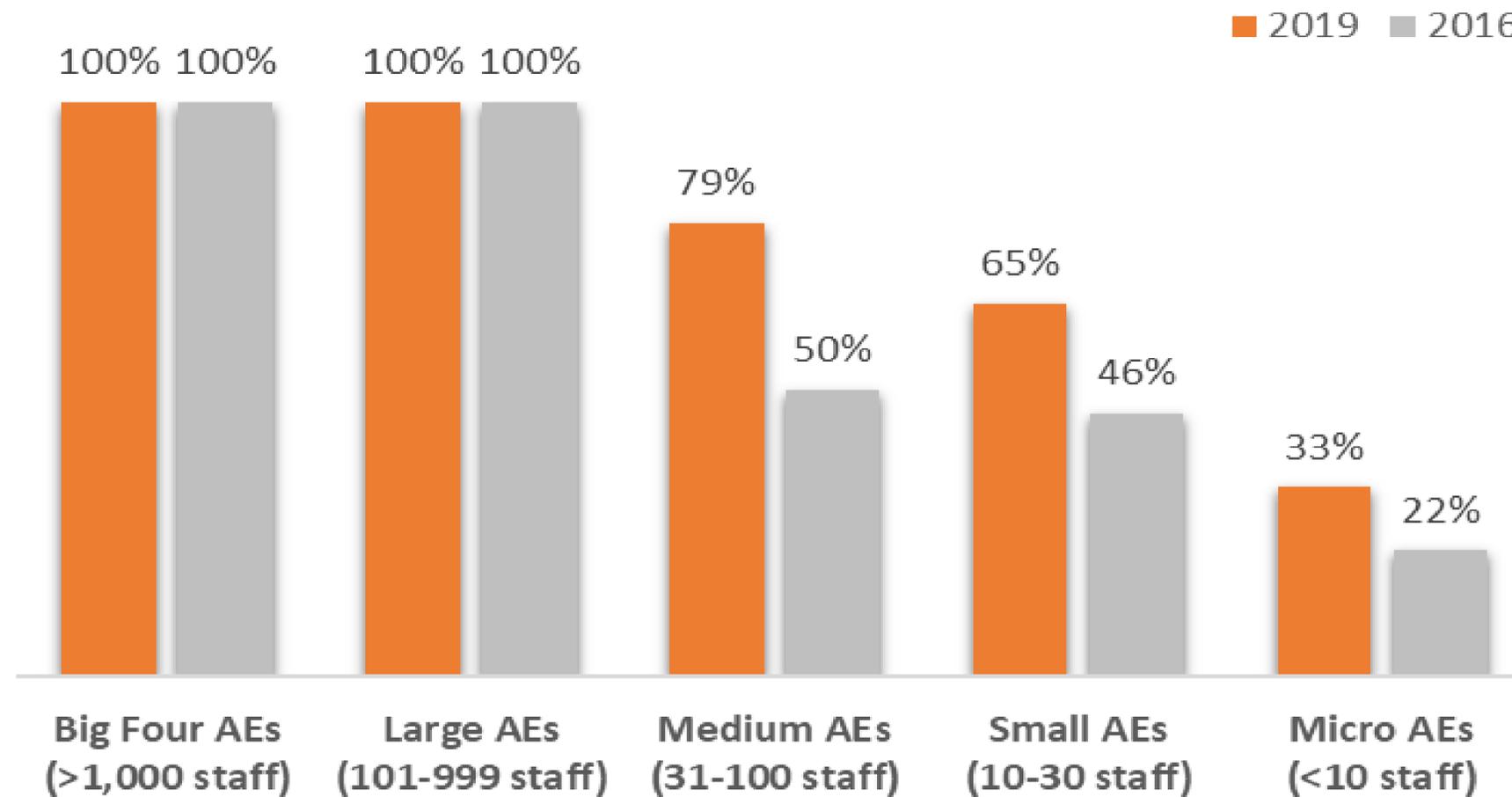
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# Digital Transformation for SMPs

Many SMPs still maintain their audit documentation in physical hard copy files **without utilising audit software**

## Adoption Level for Audit Software and Tools by Accounting Entity ("AE") Size



Source: Singapore Accountancy Commission Accounting Entity Survey, AEcensus 2020

# Benefits on use of audit software on audit engagements



**Hardcopy paper files**



**Electronic audit software**



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# Impending Changes to Continuing Professional Education (CPE) requirements for Public Accountants

In light of the increasing use of technology in audits, ACRA carried out a review of the current CPE syllabus to expand the current Core Expertise Areas to include Information Technology (IT)

Classifying IT as a core expertise area is expected to benefit the audit profession in equipping them with IT skills which are important with the increasing use of technology in auditing and the push for digitalisation



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## Upcoming Developments and Future Focus

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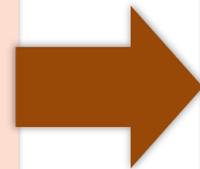
# From Quality Control to Quality Management

## Existing **Quality Control** Standards

**SSQC 1** *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

[Requirements for engagement quality reviews currently in extant **SSQC 1** and **SSA 220**]

**SSA 220** *Quality Control for an Audit of Financial Statements*



## New **Quality Management** Standards

**SSQM 1** *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

**SSQM 2** *Engagement Quality Reviews*

**SSA 220 (Revised)** *Quality Management for an Audit of Financial Statements*

December 2022						
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4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

Take **immediate steps** to implement the standards that will be effective on **15 Dec 2022**

Requires significant commitment from the **firms' leadership** and **substantial investments** to drive towards sustainable audit quality

# Public Consultation on Proposed Amendments to the Accountants Act

The proposed amendments were launched for **public consultation** from 14 Oct to 13 Nov 2021 and are targeted to be legislated in 2022

The key amendments are:

- i) Introduce **statutory firm-level inspection** on audit firms
- (ii) Specify ACRA's powers to conduct **AML/CFT inspections** on audit firms and public accountants ("PAs")
- (iii) Allow ACRA to mandate **remediation of lapses and impose sanctions** on firms and/or PAs for lapses discovered during firm-level and AML/CFT inspections
- (iv) Replace the current "pass" / "fail" grading system for PMP with a new 3-tier assessment framework (i.e. "**Satisfactory**", "**Needs Improvement**", and "**Not Satisfactory**"), which will apply to both engagement and firm-level inspections
- (v) Allow ACRA to require PAs to **disclose their inspection findings & outcome to their audited entities** in which they have obtained a "**Not Satisfactory**" grading for
- (vi) Empower the PAOC to prescribe **professional standards and the Code of Professional Conduct and Ethics** to be applied by audit firms and PAs

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# Upcoming development on ACRA's Firm-level Inspection



With the enactment of the proposed amendments to the Accountants Act, ACRA will

- conduct **statutory firm-level inspections** based on the relevant Quality Control Standards (i.e. SSQC 1 or SSQM 1 & 2), and
- obtain legal powers to **impose orders on audit firms for firm-level deficiencies** and issue remedial orders to remediate the deficiencies noted



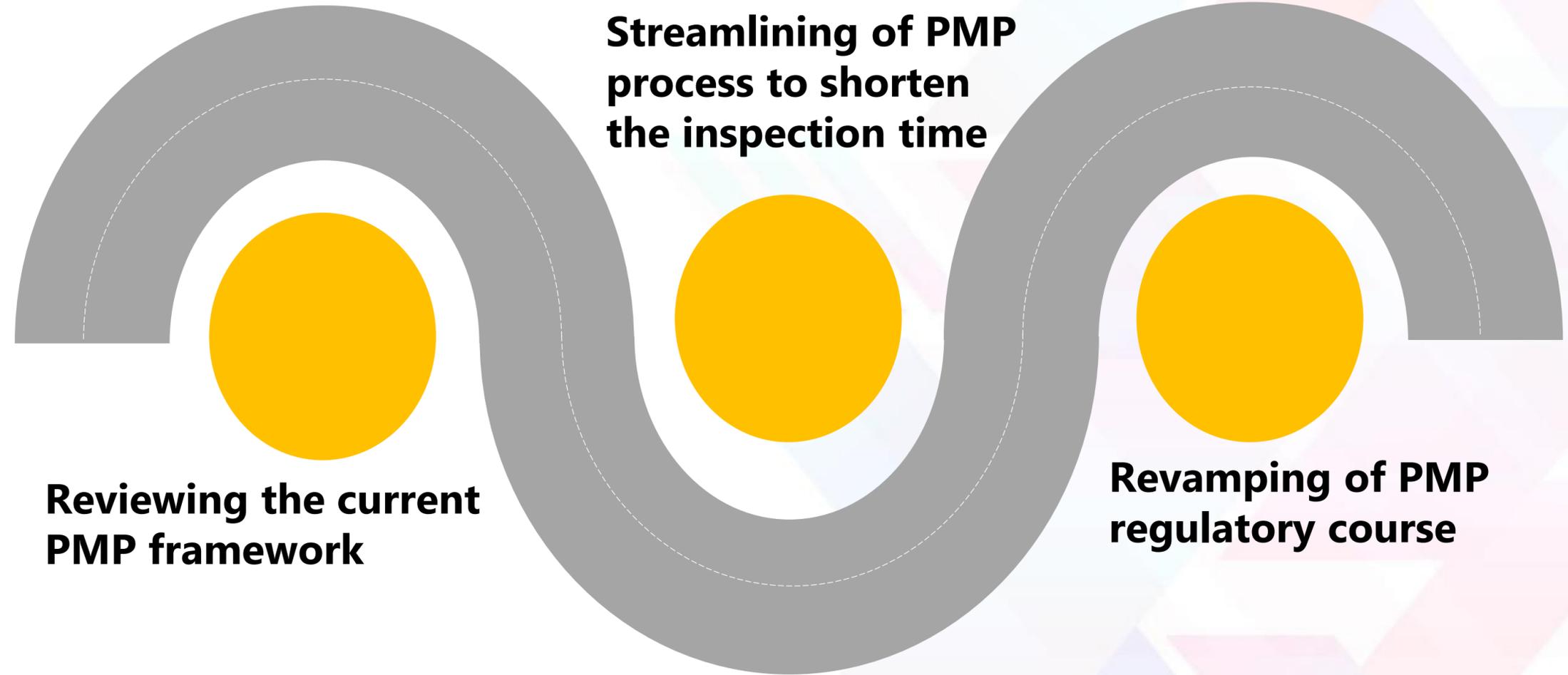
## Firm-level Inspection

- Evaluation against quality control standards (SSQC 1) **or SSQM 1 and 2**
- **Statutory** basis on audit firms

**SSQM 1 and 2**  
w.e.f. 15 Dec 2022

**Extend** firm-level inspections to **audit firms** in the **non-listed** companies' segment

# Enhancements to PMP inspection framework



# Merger of ACRA, Singapore Accountancy Commission (SAC) and Accounting Standards Council (ASC) Secretariat



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## Key Messages – Preparing for the future

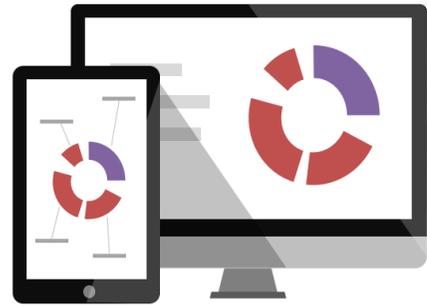
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# Key Messages – Preparing for the future



## Invest in technology

- Firms should invest in technology to deal with manpower challenges as high attrition rates and difficulty in attracting talent continues to be a key challenge for the profession
- Auditors are to stay ahead of the curve and understand how clients use technology in their operations
- Upskill and reskill to build capability and capacity so as to acquire the necessary knowledge and skill sets for digital audits



## Value of Audit

- Investments in technology ought to be reflected in the value of auditor's work (e.g. value added business insights, areas of improvement that could be gleaned from the use of data analytics)

# Key Messages – Preparing for the future



## Building skillsets and competencies

- Given the rising business complexities,
  - auditors should broaden understanding of business practices in specialised industries (e.g. digital assets) in order to identify red flags and irregularities
  - require auditors with multi-disciplinary skills versus multi-disciplinary teams
- Technological innovations keep the younger next-gen auditors engaged in the profession and make this profession more attractive for future aspiring auditors

## Sustainability Reporting

- Seize the opportunities to stand out from competition (i.e. to broaden skill sets and expertise in the area of sustainability reporting)
- Auditors could help clients to:
  - see relevance of Environmental, Social and Governance (ESG) considerations to financial reporting; and
  - ensure that their sustainability reporting has robust processes and controls with supporting audit trail (similar to what exists for financial reporting)



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