



PRACTICE MONITORING PROGRAMME

FIFTH PUBLIC REPORT

July 2011

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.

Scope/Disclaimer

ACRA's oversight of the profession has been stringent and its inspection methodologies have evolved to be more rigorous but also more targeted and risk based. Therefore the observations in this report, while raising some concerns, reflect a rigorous approach and a high benchmark reflecting the need to maintain a high degree of confidence in the financial information that underpins Singapore's markets.

In presenting the specific findings in this report, efforts have been made to provide as much of the context as possible under which these findings arose in the PMP. The findings should not be read in isolation or regarded as creating mandatory rules in addition to the auditing standards. Public accountants should read and assess 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 individual audit engagements.

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1 EXECUTIVE SUMMARY

High Quality Audit and Delivering Value to Stakeholders

- 1.1 In 2010, the Committee to Develop the Accountancy Sector (CDAS) mapped out the vision to transform Singapore into a leading global accountancy hub for Asia-Pacific by 2020. This exciting transformation will create growth and value for the profession and its stakeholders. For public accountants, this will mean that they have to raise the value of auditing through delivering quality audits. This Fifth PMP Public Report sets out findings from ACRA's independent auditor oversight with this objective in mind.
- 1.2 On 1 December 2008, the 14-member private-sector led CDAS was formed to chart the accountancy sector's future directions. Swift progress has since been made: In April 2010, the CDAS mapped out the 2020 vision anchored on 3 strategic thrusts and 10 key recommendations¹, which have been accepted by the Singapore Government; the subsequently appointed 11-member Pro-Tem Singapore Accountancy Council (SAC) is now in the final stages of setting up the governing framework and implementation roadmap for some of the 10 key CDAS recommendations; and the soon-to-be formed SAC will be implementing the recommendations. The positive pace of developments signals the sector's desire and ability to achieve the 2020 vision.
- 1.3 Public accountants can play a key role in this 2020 vision through the value they deliver to stakeholders on external audits.
- 1.4 At the same time, the profession is aware of the rising expectations of stakeholders about the role of external auditors. Over time, stakeholders have been enlightened on the value of audit and their expectations and needs will

¹ The 10 key recommendations are included in the CDAS Final Report dated 12 April 2010 which can be downloaded at ACRA's website at www.acra.gov.sg

continue to evolve in sophistication. In certain economies, stakeholders are discussing the auditor's role and some have called for an expansion on the scope of the auditor's report to enhance the value of audit. Whilst the binary boilerplate auditor's report remains essential for financial markets stability, discerning stakeholders have asked for more reporting from auditors to make better informed investment decisions. Some stakeholders say they need to hear more from the auditor about the risks he faced in the audit and about the judgments and estimates management used in the financial statements.

- 1.5 Discussions on the importance of maintaining a high quality of audit, continuing to ensure its relevance and communicating its value to stakeholders to enhance its appreciation have similarly taken place in Singapore. Last year, ACRA commissioned the Association of Chartered Certified Accountants (ACCA) to conduct interviews with several Audit Committee Chairpersons and the resulting report affirmed the value that Audit Committee Chairpersons attached to the external audit function. This year, a follow-on survey conducted by ACCA in collaboration with the Securities Investors Association (Singapore) showed that retail investors here similarly affirmed the value that external audit brings value to them.
- 1.6 It is apparent that external audit, in its current form and scope, brings value to various stakeholders. The challenge would be for public accountants to continue to communicate and enhance this value that they bring. Public accountants can do so by proactively engaging their stakeholders to help them understand the key audit risks, the extent of audit work needed to address those risks and the basis of the audit opinion on the financial statements prepared by management.
- 1.7 To achieve such engagement, it is envisaged that in an audit, the public accountant: would establish a system of quality controls in his firm to ensure

consistent delivery of quality service and work; would be substantially involved in the audit; would supervise his team to perform work in accordance with the auditing standards; would engage with component auditors in their work; and would communicate his findings on a timely basis to the Audit Committee and those charged with governance. In ACRA's terminology – perform a quality audit.

- 1.8 It is with this exact objective in mind that ACRA's Practice Monitoring Programme (PMP) was established in 2004 – to help public accountants improve audit quality.

Progress Achieved by the Singapore Profession

- 1.9 ACRA was formed in 2004 through the merger of the former Registry of Companies and Businesses and the Public Accountants Board and became the national regulator of business entities and public accountants in Singapore.
- 1.10 During this short period of time up till today, ACRA has completed at least one cycle of PMP reviews², the scope of which are calibrated to the level of public interest risks posed by a possible audit failure. In tandem with international developments, ACRA's PMP reviews expanded its scope to firm-level reviews of the quality controls of firms that audit public interest entities (PIE firms) in 2007.
- 1.11 ACRA has built up a wealth of knowledge pertaining to audit quality matters over the cycle of PMP reviews as well as through our participation in the International Forum of Independent Audit Regulators (IFIAR). In that respect, ACRA was able to highlight improvements needed by the profession as well as value-add with suggestions on best practices.

² ACRA has completed its first cycle review of 20 PIE firms and has progressed to the third cycle for some of the larger PIE firms. For non-PIE firms, ACRA's PMP focuses on individual engagement reviews and selects public accountants for review on a risk-based approach. Out of the 652 public accountants practicing in non-PIE firms, ACRA has completed its first cycle review on 309 public accountants.

- 1.12 ACRA is heartened that the profession has understood the objective of the PMP and has responded positively by making improvements on ACRA’s PMP review findings and adopting some suggestions on best practices. The PIE firms have improved quality controls including establishing additional internal pre and post-issuance quality reviews. The public accountants of non-PIE firms have remediated instances of non-compliance with auditing standards in revisit reviews; and professional bodies have weighed in to provide technical resources to aid remediation of audit deficiencies.
- 1.13 As much as the profession wishes to deliver value through quality audits, ACRA understands that improvements to audit quality necessarily require time and resources. ACRA also recognises that while the profession makes continuing efforts to improve, it faces the challenges of a tight market for accounting trained professionals in Singapore as well as meeting enhanced requirements of revised auditing standards and the Code of Ethics.
- 1.14 Therefore, it is expected that ACRA will continue to identify and highlight areas where the profession has not yet been able to fully remediate or new areas arising from revised standards to assist the profession to be mindful of what is important for the profession to focus their remediation efforts on key findings highlighted in ACRA’s private reports to firms as well as those highlighted in this public report.
- 1.15 We believe that the profession would also agree that ACRA needs to take regulatory action against public accountants, who despite being given adequate time and tools to remediate, are still found to have severe audit deficiencies in our revisit reviews. Such regulatory actions are necessary to protect public interest as well as preserve the good standing of the profession.

1.16 ACRA is confident that our public accountants will ride on the wave of the accountancy sector's growth and continue to deliver value to stakeholder through quality audits.

PMP Review Findings

1.17 Singapore's financial statement audit market can be divided into two broad segments: audits of listed and other public interest entities³ (PIEs) and audits of non-PIEs. This report deals with each segment separately as both segments face unique challenges.

Firm Level Reviews of PIE Firms

1.18 ACRA has completed its first cycle review of 20 PIE firms and has progressed to the third cycle for some of the larger PIE firms. In this area, ACRA reviews a public accounting firm's quality control systems against the requirements of Singapore Standard on Quality Control (SSQC) 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*. ACRA is pleased to note PIE firms' positive response and improvements to quality controls. To help firms focus their efforts to further enhance the robustness of quality controls, ACRA highlights two areas for further improvements.

1.19 **Acceptance and continuance of client relationships and specific engagements** - From a risk management perspective, it is important for a firm to perform proper due diligence procedures to find out about prospective or existing clients. This enables the firm to identify significant audit matters at an early stage and use such information to plan audit procedures and organise

³ PIEs include companies listed on the Singapore Exchange or are in the process of issuing its debt or equity instruments for trading on Singapore Exchange, entities in regulated financial industries (such as banks, insurance companies, funds, fund managers and securities/brokers/dealers), and other entities which raise funds from the public (such as charities, Institutions of a Public Character and religious organisations).

resources. This is especially important for group audits and for assessing the need for an auditor's expert.

- 1.20 **Human resources** – Audit firms are fully aware that human resources are a critical factor to audit quality and have been striving to maintain sufficient professional staff strength with relevant skills and experience to deliver quality audits even when faced with the ongoing challenge of an increasingly competitive market space for accounting trained professionals. ACRA urges firms to continue to monitor three key drivers of audit quality relating to human resources, namely the sufficiency and competency of audit professionals, the supervision of audit professionals and the linkage of audit quality to the performance evaluation of audit professionals. ACRA recognises the profession's continuing efforts to attract and retain audit professionals, including keeping tabs on the changing needs of the Generation Y workforce. ACRA urges firms to continue to keep a close watch in this area.

Engagement Reviews of PIE Firms

- 1.21 ACRA also performs reviews of a public accountant's audit engagements vis-à-vis the requirements of prescribed auditing standards, methods and procedures⁴ namely the Singapore Standards on Auditing (SSAs). ACRA would like to highlight on two areas of concern noted from such reviews.
- 1.22 **Audit documentation** - Audit documentation that meets the requirements of SSAs provides persuasive evidence that an audit was planned and performed in accordance with SSAs and applicable legal and regulatory requirements. It also provides evidence of the public accountant's basis for the issuance of the audit report. Therefore, audit documentation serves as a risk management tool for public accountants. While it is neither necessary nor practicable for the auditor

⁴ In 2005, ACRA issued Practice Direction No. 2 of 2005 – Practice Monitoring Programme which stipulates the prescribed standards for the PMP and may be accessed at www.acra.gov.sg.

to document every audit matter, it must be adequate to enable another experienced auditor who has no previous connection with the audit to understand the work performed and the basis of the principal decisions taken as required by SSA 230 *Audit Documentation*. It is from this perspective, as an independent reviewer of the audit files during PMP reviews, that ACRA finds areas where audit procedures, even though purported to be performed, was not evident through documentation. Some of these examples are discussed in Section 3.

- 1.23 **Using the work of an expert** - Companies often engage experts to assist them with increasingly complex financial reporting requirements. Before a public accountant relies on an expert's work, he should perform a robust evaluation of the expert and his work. This Report discusses the work required of a public accountant when using the work of an expert and highlights findings related to the lack of assessment of professional competency and objectivity of experts.

Sustaining Audit Quality in Non-PIE Firms

- 1.24 Some firms in the non-PIE segment continue to face systemic issues including operating a high volume/low fee model that may lead to threats to audit quality such as a superficial level of professional supervision by partners as well as a lack of depth in experience of staff in audit teams. Added to these systemic issues, some of these firms do not have robust systems of quality controls. Therefore audit quality, which could be hindered by high staff attrition rates, is often entirely dependent on the individuals performing the audit and varies according to the competence and experience of audit team members. ACRA urges these firms to institute a robust system of quality control that is suitable for the size and operations of the firm to provide a sustainable structure for ensuring consistency in audit quality. Such an internal quality control system will provide the tools for retaining institutional knowledge within the firm.

Engagement Reviews of Non-PIE Firms

- 1.25 For non-PIE firms, ACRA's PMP focuses on individual engagement reviews and selects public accountants for review on a risk-based approach. Out of the 652 public accountants practicing in non-PIE firms, ACRA has completed its first cycle review on 309 public accountants.
- 1.26 Audit quality in the non-PIE segment needs continual monitoring. During ACRA's revisit reviews, while we noted that some public accountants had remediated past findings, we also continue to note recurring findings in certain basic audit areas. Public accountants should note that these recurring findings, if continued and unchecked will affect audit quality. This Report highlights five common and significant findings in the areas of valuation and existence of inventories, circularisation and valuation of accounts receivables, post balance sheet events review, functional currency assessments and profit and loss components. ACRA takes this opportunity to remind public accountants that they need to perform work that is required of the SSAs to support their basis of conclusions in the auditors' reports.

Recent Developments and Future Focus

- 1.27 Based on feedback received from public accountants, the Practice Directions for the Hot Review and Peer Review were revised to provide greater clarity on ACRA's expectations and the requirements of Hot Review and Peer Review orders. This is to ensure that public accountants, who had not passed their PMP reviews and were issued with such orders, would benefit from mentorship of an experienced and qualified accountant. The revisions clarify the roles of the Hot Reviewer and the Peer Reviewer and specify the minimum documentation standards that should be adhered to and the required communications with ACRA upon completion of the hot and peer reviews.

- 1.28 In terms of future focus, ACRA advises public accountants to be mindful of the requirements of revised SSA 600 *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* which are designed to enhance the quality of group audits. ACRA expects a greater level of involvement of the group engagement partner to meet and address such revised requirements from the perspective of the group audit. The group engagement partner will also need to communicate more and on a timely basis with component auditors on the scope and timing of their work, and be more involved in the work performed by the component auditors.
- 1.29 In the light of recent corporate reporting scandals, public accountants must be mindful that related parties and transactions present opportunities for higher risk of fraud. ACRA reminds public accountants that they should not take at face value, lists of related parties identified by management, without ascertaining the completeness of such lists through appropriate audit procedures.

Initiatives Available to Help the Profession

- 1.30 The PMP's ultimate aim is to improve audit quality so that the profession can deliver the value of an audit to its stakeholders. To complement this, ACRA has been proactive in reaching out to stakeholders such as directors, audit committees and management, to help the profession promote the value of high quality audit. ACRA urges the profession to build on these outreach initiatives and actively engage stakeholders in enhancing the appreciation of the value of audit, which will drive up audit quality.
- 1.31 ACRA has regular dialogues with various professional bodies and collaborates on remedial and other initiatives that will help the profession improve audit quality. ACRA also encourages the accountancy professional bodies to assist their practicing members in upholding professional standards. Section 6 provides information about some of these positive initiatives.

2 OVERVIEW OF THE PRACTICE MONITORING PROGRAMME

- 2.1 Through the provision of audit and other assurance services, Singapore's public accountancy profession plays a key role in preserving and strengthening public confidence and trust in Singapore's business and financial markets.
- 2.2 ACRA regulates, and facilitates the development of, the public accountancy profession in Singapore. As an independent auditor regulatory authority, ACRA monitors the audit quality of public accountants through its PMP since April 2005.

Objectives of the Annual PMP Public Report

- 2.3 ACRA publishes this Fifth Annual PMP Public Report to promote an understanding of ACRA's work and the results ACRA is seeking to achieve. This Report communicates regulatory assessments of the Singapore public accountancy profession, with the ultimate objective of helping to ensure that the work of the Singapore profession meets professional standards.

ACRA's PMP

- 2.4 One of ACRA's key regulatory activities is to carry out regular and cyclical reviews of public accounting firms and public accountants registered with ACRA. As at 31 March 2011, there are over 930 public accountants registered with ACRA.
- 2.5 In the short time between ACRA's formation in 2004 up till today, ACRA has completed at least one cycle of PMP reviews, the scope of which are calibrated to the level of public interest risks posed by a possible audit failure. In tandem with international developments, ACRA's PMP reviews expanded its scope to firm-level reviews of the quality controls of PIE firms in 2007.

- 2.6 For the PIE segment, ACRA has completed its first cycle review of 20 PIE firms and has progressed to the third cycle for some of the larger PIE firms. For the non-PIE segment, ACRA focuses on individual engagement reviews and selects public accountants for review on a risk-based approach. Out of the 652 public accountants practicing in non-PIE firms, ACRA has completed its first cycle review on 309 public accountants.
- 2.7 In addition to PMP reviews, ACRA monitors events and trends in the marketplace and carries out other regulatory oversight activities on the work and independence of statutory auditors when required.
- 2.8 The Public Accountants Oversight Committee (PAOC), appointed under the Accountants Act, is the deciding authority on the outcome of PMP reviews on individual engagements. The PAOC is assisted by a Practice Monitoring Sub-Committee (PMSC), comprising of independent practising public accountants and representatives from interested stakeholders to assist in the administration of the PMP. The PMSC assesses findings of appointed PMP reviewers, taking into account the public accountant's written responses, 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. The PAOC requires public accountants who have failed to meet the expected professional standards to take necessary remedial actions.
- 2.9 At the conclusion of the reviews of individual engagements, the PAOC advises and public accountants of areas of short-comings that the PAOC expects to be improved. ACRA also monitors common findings and the overall standard of performance across the profession. This Report discusses some of the important and pervasive issues arising from these reviews.

- 2.10 Whilst the PMP reviews focus primarily on audit process matters, we continue to place emphasis on the quality of audit risk assessments in arriving at judgements made by public accountants.
- 2.11 More details on ACRA's PMP may be found in the first PMP Public Report 2007, which is available together with previous annual reports at www.acra.gov.sg.

Revisit Practice Reviews and Non-compliance with PAOC Orders

- 2.12 When the PAOC determines that a public accountant has failed his practice review, it may issue an order (PAOC Order) under the Accountants Act which is broadly divided into two categories.
- 2.13 The main objective of PAOC Orders in the first category is to ensure that public accountants remediate and improve the quality of his audit work in line with the applicable professional standards. Whilst we believe that public accountants have the desire to improve, PAOC Orders impose a formal requirement for public accountants to take a disciplined and structured approach to remediation. PAOC Orders in the first category enable the PAOC to:
- 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");
 - Require the public accountant to undergo and satisfactorily complete such remedial programmes as may be specified by the PAOC; or

- 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.
- 2.14 PAOC Orders take into account the need to protect public interest and preserve the profession's reputation. In the second category, 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:
- Refuse to renew the registration of the public accountant concerned;
 - Suspend the registration of the public accountant concerned for a period not exceeding 2 years; or
 - Cancel the registration of the public accountant concerned.
- 2.15 ACRA has commenced its revisit practice reviews of public accountants who did not pass their initial practice reviews. During the revisit practice reviews, ACRA also checks for compliance of any PAOC Orders that were imposed during the initial practice reviews.
- 2.16 ACRA would like to emphasise the importance of the public accountant's compliance with PAOC Order. The public accountant is expected to monitor and notify ACRA of any instances of his inability to comply with the PAOC Orders as soon as he is aware.
- 2.17 In the event that ACRA uncovers any non-compliance with PAOC orders by the public accountant, the PAOC will not hesitate to take serious action against the public accountant. These actions include suspension or cancellation of certificates of registration as a public accountant.

2.18 Additionally, arising from the revisit practice reviews, public accountants who continue to fail to meet prescribed auditing standards, methods and procedures, when performing their audit work may face more severe outcomes, including having their certificates of registration suspended or cancelled. This is necessary in order to protect the public interest in being able to reasonably rely on audit opinions provided by public accountants.

International Engagement and Recognition

- 2.19 As a means to ensure ACRA's PMP remains robust and relevant, it is benchmarked to international regulatory practices and standards. ACRA is a founding member of the International Forum of Independent Audit Regulators (IFIAR⁵) established in 2006. Since then, IFIAR has grown to be a member body for 38 independent audit regulators around the world. While ACRA recently stepped down from the IFIAR Advisory Council after having completed a two-year term in office, we continue to take on active roles through membership on three out of six Working Groups of IFIAR.
- 2.20 ACRA joined the Global Public Policy Committee (GPPC) Working Group which is responsible for co-ordinating IFIAR's ongoing dialogue with member firms of the GPPC, comprising the six largest international audit networks (BDO, Deloitte Touche Tohmatsu, Ernst & Young, Grant Thornton, KPMG and PricewaterhouseCoopers). The GPPC Working Group's current focus is on ensuring that the firms are aware of the concerns of regulators in four key areas identified by the IFIAR membership, namely professional scepticism, revenue recognition, group audits and engagement quality control reviews and to track the improvements made with steps taken to address these areas. Additionally, the GPPC Working Group also keeps tabs on emerging issues such as the

⁵ Information about IFIAR may be accessed at www.ifiar.org.

geographical re-organisation of some audit networks and the off-shoring⁶ of audit work. The GPPC Working Group meets with the global Chief Executive Officers of the six firms at least twice a year.

- 2.21 ACRA is also a member of the Standards Co-ordination Working Group and the International Co-operation Working Group. The former is responsible for establishing a forum for IFIAR members to share views and concerns about pronouncements from the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA), with a view to helping IFIAR members consider and incorporate concerns from other members in their submissions to IAASB and IESBA. The latter is responsible for considering the ways in which IFIAR members can co-operate and share information relating to audit firm reviews and audit engagements and identifying areas where IFIAR members can work more efficiently in collaboration.
- 2.22 In response to the geographical restructuring of some audit networks, audit regulators are grouping themselves so that collective efforts can be made to address issues which are more pertinent to a particular region. The final aim of such engagement would be regulatory convergence within meaningful geographical boundaries and reduce regulatory burdens on individual member firms in their home countries. In Europe, colleges of regulators have been formed to engage on audit oversight issues with two Big-Four networks which have amalgamated their European practices. In the same light, ACRA and its fellow audit regulators in the Association of Southeast Asian Nations (ASEAN) region have met to discuss common issues and the way forward.
- 2.23 ACRA has also participated in various IFIAR audit inspection workshops on international best practices in audit inspection methodologies and processes.

⁶ Refers to the outsourcing of certain audit procedures to countries with more favourable cost structures.

This ensures that our inspection methodology and processes remain current and relevant to the changing global economy. ACRA officers have also been invited to contribute to agenda items and make presentations at such workshops attended by more than 100 inspectors from IFIAR members.

- 2.24 ACRA has been conducting joint audit inspections with its US counterpart, the Public Company Accounting Oversight Board (PCAOB), on Singapore audit firms that are registered in both Singapore and the US. ACRA will continue to explore areas of mutual cooperation and auditor oversight with other audit regulators over public accounting firms that have an international presence.
- 2.25 In March 2011, the European Commission adopted a Decision (2011/30/EU), recognising ACRA's auditor oversight system to be equivalent to that of the European Union member states. Singapore is amongst the first batch of ten countries (including Australia, Canada and the US) to gain this recognition. This is a good testament to the robustness of our regulatory framework being recognised by our fellow regulators.

Adopting an Integrated Approach in Regulation

- 2.26 Whilst audit quality is the cornerstone of market confidence in the reliability of the financial information, other key elements such as high quality financial reporting and sound corporate governance practices are integral to this corporate governance eco-system that makes Singapore a trusted business and financial centre.
- 2.27 For the corporate governance eco-system to work well, all relevant parties must play their roles well: shareholders, directors and those charged with governance, management, auditors as well as regulators.

2.28 In this connection, ACRA believes an integrated approach amongst regulators will achieve optimal regulatory effects. ACRA therefore works closely with its fellow regulators to address corporate governance and financial reporting issues, for example with the Monetary Authority of Singapore, the Singapore Exchange (SGX) and the Commercial Affairs Department.

3 AUDITS OF PUBLIC INTEREST ENTITIES (“PIE”)

- 3.1 Singapore’s PIEs are audited by 20⁷ public accounting firms. As at 31 March 2011, there were 286 public accountants practising in these PIE firms. This report covers PIE firms reviewed in the period from 1 April 2010 to 31 March 2011.
- 3.2 ACRA’s PMP reviews of PIE firms comprise the review of firm level systems of quality controls benchmarked against SSQC 1 as well as reviews of individual audit engagements to ensure compliance with prescribed auditing standards, methods and procedures. This inspection methodology is consistent with those of other leading international jurisdictions.

About Firm Level Reviews

- 3.3 SSQC 1 is applicable to all firms and requires that the firms “*establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, and that reports issued by the firm or engagement partners are appropriate in the circumstances*”.
- 3.4 ACRA reiterates that a firm level system of quality control will provide a sustainable structure for ensuring consistency in audit quality without being overly dependent on any single individual to maintain the level of audit quality. Firms that invest in a robust system of quality control will be better positioned to maintain audit quality even when faced with ongoing recruitment and retention challenges.
- 3.5 ACRA expects Singapore public accounting firms performing or seeking to perform audits and reviews of financial statements and other assurance and

⁷ ACRA has identified 20 PIE firms which audit, amongst the entities that fall within the definition of PIEs, listed companies and the larger charities in Singapore.

related services engagements, to ensure that their systems of quality control are in full compliance with the requirements of SSQC 1.

- 3.6 ACRA's PMP reviews seek to identify areas where a firm needs to improve the design and implementation of its system of quality control in each of the six overlapping elements of SSQC1 supporting the internal quality control system and which influence the overall effectiveness of the audit process and the audit quality of the firms. ACRA uses its assessment of the firm's system of quality control to determine the number of engagements to review and the intensity of reviews of individual audit engagements.
- 3.7 At the conclusion of each review, firms are advised of areas of non-compliance with SSQC 1 and receive suggestions on improvements in line with industry best practices. ACRA then requires a response from the firms on their remediation plans to address deficiencies. Currently, outcomes of firm level reviews have a bearing on ACRA's monitoring of the firm. Firms with less robust systems of quality controls may be reviewed more frequently and extensively.

Individual Engagement Reviews

- 3.8 Firms establish a system of quality controls with the objective of gaining reasonable assurance that auditing standards are complied with when public accountants issue audit reports. In this connection, ACRA reviews samples of audit engagements to detect non-compliance with auditing standards which corroborates ACRA's assessment of the robustness of the firm's quality controls.
- 3.9 As provided for in the Accountants Act, non-compliances with auditing standards detected through ACRA's individual engagement reviews are subject

to a number of remedies and sanctions⁸. With the increasing level of public awareness on audit quality, such sanctions bear significance as ACRA understands that public accountants may be asked if they have been subjected to any PMP sanctions when they are being assessed for appointments as auditors or reporting accountants for financial statements included in the prospectuses of initial public offerings.

- 3.10 This Report highlights some of the important and common findings found in the PIE firms at both the firm level and in individual audit engagements.

Key Observations: Firm Level Reviews of the PIE Segment

- 3.11 The quality control systems in the reviewed PIE firms' generally met ACRA's expectations. SSQC 1 came into effect in 2005 and ACRA, has since 2007, completed at least one cycle of firm level reviews. In respect of some larger PIE firms which have been reviewed for the third time, ACRA is pleased to note that they have responded positively and invested time and resources to address matters raised in previous reviews. Two areas of improvements are:

- Refinements made to income distribution models to shift emphasis from partner seniority to achievement of key performance indicators, including audit quality. Firms recognise that linkage of a partner's compensation to achievement of audit quality is important to ensure that partners places priority on audit quality, amongst other considerations, when performing his role; and
- Dedication of resources to conduct internal pre and post-issuance quality reviews, which are in addition to the firms' international quality reviews as firms recognise that timely monitoring of audit quality is essential for risk management.

⁸ For a more detailed description of these remedies and sanctions, please refer to paragraphs 2.14 to 2.22 of ACRA's PMP Public Report 2010, which is available together with previous annual PMP reports at www.acra.gov.sg.

3.12 To help firms focus their efforts to further enhance the robustness of quality controls, the following section highlights two areas that ACRA considers to be particularly important and discusses a number of needed improvements within each area.

Acceptance and Continuance of Client Relationships and Specific Engagements

The objectives of quality controls in this area

3.13 When deciding whether to accept a new client or continue with an existing client, many firms will, to manage their risk, make initial assessments of the audit risks and determine if they have the necessary skills and resources to audit the engagement, and will conduct further assessments of this risk throughout the engagement.

3.14 Good risk management requires public accountants to go beyond a check list approach when making these assessments. Performing proper due diligence procedures during the acceptance and continuance process helps a firm identify and respond on time to significant audit matters, especially in the context of a group audit or when determining the need for an auditor's expert.

3.15 With respect to group audits, the group engagement team should assess the following before deciding if it should accept or continue with a group audit in which he needs to rely on the work of a component auditor:

- Whether a component auditor has adequate resources with the relevant knowledge and disciplines needed to address the component audit risks.
- Whether the group engagement team and a component auditor share a common audit methodology, quality and monitoring control policies and procedures for performing the work; and
- Whether there is a consistency or similarity of laws and regulations, professional oversight, discipline and external quality assurance,

education and training, professional organisation and standards, language and culture.

3.16 Another important area to be assessed, when deciding whether to accept or continue with an engagement, is the impact on the audit of the client's use of experts. In an increasingly complex financial reporting environment, management may engage the services of an expert to assist them in reporting on subject matters in a field other than accounting or auditing. Under such circumstances, the public accountant will often perform a preliminary assessment of whether an auditor's expert is needed to assist him in obtaining sufficient appropriate audit evidence about the work of the management expert.

ACRA's findings in this area

3.17 ACRA's findings during firm level reviews about acceptance and continuance of client relationships and specific engagements in the past year included:

- No explicit consideration of country risks and industry risks which may require the involvement of other professional staff within the firm or the need for an auditor's expert with specialised competencies. Although firms may have considered these matters informally, it is important for firms to make a formal assessment and document the assessment in acceptance and continuance forms. The early identification of risks enables the group engagement team to mobilise relevant expertise (internal or external) and seeks to drive the alignment of team resources to an optimal level commensurate with the audit risk(s) undertaken.
- No periodic review exercises in which engagement partners re-evaluate whether to continue with clients in their portfolio or designate a person to assemble a list of clients with certain risk factors such as low recovery rates or higher fraud risk factors from a risk management perspective. Such reviews facilitate a holistic assessment of a firm's risk, which may

not be so apparent when acceptance and continuance assessments are made on an engagement by engagement basis. Firms could consider carrying out such periodic reviews in tandem with their periodic reviews of allocation of portfolio to engagement partners within the firm.

- For some firms, there was inadequate guidance on how audit teams should assign risk ratings to the firm's clients to ensure that audit teams consistently apply the guidance within the firm. For some firms, the risk rating system is not sufficiently granular to clearly distinct the risk levels of different clients. For example, all listed companies are given the same default risk rating without going into appropriate unique details to identify whether each listed client is of a higher or lower risk when compared to other listed companies within the firm. A meaningful risk rating of clients will allow firms to properly assign the right level of partner and staff resources to engagements that require more attention and resources.

Continual improvements needed in this area

3.18 ACRA urges public accountants to improve on the robustness of the client acceptance and continuance processes and to ensure that they adequately document their assessments to support the client risk ratings and decisions to accept and continue with clients.

3.19 In the context of group audits, firms need to apply this assessment to component auditors as well as meet the requirements of the revised SSA 600, which would have been applicable for 31 December 2010 audits onwards. Central to this assessment is whether the group engagement partner will be able to dedicate necessary timely involvement in the component auditors' work in order to obtain sufficient appropriate audit evidence. Whilst ACRA will only be reporting on findings, if any, relating to audit engagements performed under the

revised SSAs in our next report, through engagement with firms, ACRA noted that firms do proactively make such assessments, especially in the context of audits of significant components in a group including investments in associates and interests in joint ventures.

Human Resources

The objectives of quality controls in this area

- 3.20 The completion of an audit is not only dependent on human resources, but requires such human resources to be professional staff who have the necessary skills and experience to exercise professional scepticism and make professional judgement when executing audit procedures. As such, audit firms are fully aware that human resources are a critical factor to audit quality and have been striving to maintain sufficient professional staff strength with relevant skills and experience to deliver quality audits even when faced with the ongoing challenge of an increasing competitive market space for accounting trained professionals.
- 3.21 ACRA urges firms to continue to monitor three key drivers of audit quality relating to human resources, namely:
- Sufficiency and competency of audit professionals
 - Supervision of audit professionals
 - Linkage of audit quality and audit professionals' performance evaluation
- 3.22 **Sufficiency and competency of audit professionals** - Firms need to ensure the sufficiency and competency of audit professionals so that all necessary audit procedures, which are required to address specific risks of each engagement, can be fully performed to support the public accountant's opinion in the audit reports issued by the firm.

- 3.23 **Supervision of audit professionals** - Firms need to ensure that audit professionals are adequately supervised in their work. Without proper supervision by managers and engagement partners, less experienced members of the team may not identify and understand the significance of issues which impact the audit opinion.
- 3.24 **Linkage of audit quality and audit professionals' performance evaluation** - SSQC 1 provides principles for performance evaluation, compensation and promotion procedures, including principles that require firms to give due recognition and reward to the development and maintenance of competence and commitment to ethical principles. Some firms have less formal methods of evaluating the performance of their personnel. The challenge is for firms to provide sufficient and appropriate incentives to reward individual performance in a way that promotes quality audit work.

ACRA's findings in this area

Sufficiency, competency and supervision of audit professionals

- 3.25 The following statistics of the 8 PIE firms (with the highest number of PIE audits) for the period from 1 October 2009 to 30 September 2010 provide indications on the sufficiency and competency as well as supervision of audit professionals:

	1 Oct 2009 to 30 Sep 2010	1 Oct 2008 to 30 Sep 2009
Staff turnover rate	43%	35%
Mean average years of experience (excluding partners)		
- Range amongst PIE firms	3 to 5	3 to 5
- Statistical mean	3.6	3.7
Partner to staff ratio	12 to 36	11 to 31
Average partner chargeable time (hours)		
- Per annum	946 to 1,320	901 to 1,237
- Per day ⁹	4 to 5	4 to 5

- 3.26 A combination of high staff turnover and low average years of experience gives some indication that certain audits are understaffed and performed by relatively inexperienced professional staff and could therefore affect audit quality unless mitigated by compensating controls. Such compensating controls include establishing robust SSQC 1 quality controls (e.g. audit methodology, training, technical consultations, internal reviews) and more importantly, supervision by partners through their involvement in the audit. Relatively inexperienced staff can still be effective in some audit roles provided they are properly trained, directed and supervised.
- 3.27 However, the levels of partner to staff ratios and partner chargeable time in PIE firms do not give strong indications that firms have effectively mitigated the risks associated with high staff turnover and low average years of experience with the adequate extent and level of supervision. In addition, ACRA also observed low recorded partners' time spent on audit engagements, in some cases, less than 1% of total engagement time.

⁹ Assuming 8 hours in 260 working days per annum.

- 3.28 Some firms have tried to explain that a high partner to staff ratio is due to a strategy of having a large staff base to cater for longer-term succession planning, whereas some firms explained that the low recorded time is merely due to non-charging of time by engagement partners and others have explained that the low engagement partners' time does not necessarily imply the absence of supervision as the firm has a system of quality controls in place.
- 3.29 While these statistics provide a general context and a starting point in assessing human resource levels, ACRA also examines individual engagements to assess whether the engagement partner was in fact adequately involved in an audit. In many cases, audit deficiencies noted from individual engagement reviews can be attributed to the lack of close supervision by experienced team members, including partners.
- 3.30 Firms are also aware that training is an effective tool to improve the competency levels of professional staff and have in place training curriculums that include both technical and audit methodology content. In addressing some of ACRA's concerns related to the adequacy and timeliness of training, some firms have explained that on-the-job coaching would be provided to the staff to facilitate their learning and development. However, the levels of partner to staff ratios and partner chargeable time again do not give strong indications that adequate time can be spent on providing on-the-job coaching, especially in complex areas requiring professional judgement e.g. assessment of the reasonableness of management estimates and assumptions.

Linkage of audit quality and audit professionals' performance evaluation

- 3.31 ACRA's reviews of the link between audit quality and performance evaluation are focused on how a firm's evaluation systems are oriented towards audit quality and how the achievement of audit quality targets are measured against the individual, which in turn could drive the behaviour and culture of the firm.

In some firms, it was unclear if audit quality, including audit competency, was a specific criterion in such performance evaluation.

- 3.32 In the case of partner evaluation, whilst ACRA noted good refinements to income distribution models, the achievement of audit quality was sometimes not directly or clearly linked to findings from internal practice reviews or other quality reviews performed by network firms. If such a link is sufficiently clear to recognise and reward those who ensure audit quality, it will motivate positive behaviour.

Continual improvements needed in this area

- 3.33 The profession is just as concerned as ACRA about the continuing challenge to attract and retain accounting trained talent. ACRA recognised that firms have made continuing efforts to address this challenge. For example, firms have embarked on initiatives including periodic market benchmarking of salaries, accelerated career progressions for high performers and job rotations within the firm or within the firm's network. Firms also recognise that staff turnover may be attributed to longer than normal working hours during the audit peak season and some have tried to alleviate the peak season crunch by performing some audit procedures earlier and mobilising staff from other member firms.
- 3.34 The profession is also keeping tabs on the changing needs of the next generation workforce so that it can react appropriately. A joint research paper by the Association of Chartered Certified Accountants (ACCA) and Mercer published in 2010 entitled "Generation Y: Realising the Potential", was initiated to provide a clear understanding of the Generation Y finance professionals (born between 1980 and 1993), including their traits, what attracts them to a particular employer, as well as their career aspirations and the implications for employers trying to attract, develop and retain them.

3.35 This research survey of 3,200 respondents from 122 countries reveals the following top-five most-important factors that would attract and retain Generation Y finance professionals:

Attraction

- Career development and learning opportunities
- Remuneration package
- Nature of role
- Job security
- Work-life balance

Retention

- Career development and learning opportunities
- Challenging work
- Remuneration package
- Relationship with line manager
- Team morale

3.36 The survey results show that the career proposition is fundamental to attract the Generation Y professional. Therefore, firms need to be very clear on the career path opportunities available and how individuals can develop within the firms, and the associated time frames. For most Singapore firms, this would likely call for increased transparency and clarity on the development path that gives sight to partnership admission.

3.37 In terms of providing challenging work to retain the Generation Y professional, firms may wish to consider re-designing audit procedures so that they appear as meaningful as they are meant to be (as opposed to being wrongly perceived as mundane vouching) and can be performed on technologically advanced platforms. Firms should also be cognisant that a conducive working environment and work-life balance also features more significantly for the Generation Y professional.

3.38 ACRA recognises that firms have made continuing efforts to overcome challenges that impede their ability to build up sufficient experienced staff. ACRA urges firms to continue to keep a close watch in this area.

Key Observations: Engagement Reviews of the PIE Segment

- 3.39 In reviews of the engagement files of individual public accountants, ACRA assesses a public accountant's planning, supervision, performance and completion of audit engagements in accordance with the prescribed auditing standards.
- 3.40 Of the various issues identified by ACRA, we have selected two of the more prevalent and significant areas of concern to elaborate on the deficiencies and how public accountants can avoid these deficiencies by strengthening professional scepticism and audit rigour.

Documentation of Audit Evidence

What is audit evidence and why it should be documented

- 3.41 Audit evidence is defined in SSA 500 *Audit Evidence* as information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information.
- 3.42 Audit documentation is defined in SSA 230 as the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as "working papers" or "work papers" are also sometimes used). Hence, audit documentation provides audit evidence for the auditor's conclusion on which the auditor's opinion is based.
- 3.43 Audit teams gather audit evidence from various sources and assemble it as audit documentation in the audit file. Without audit documentation, the public accountant will not be able to review the work performed and ascertain that the work procedures performed by his team were adequate, and ensure that the audit team has obtained appropriate and sufficient audit evidence. With the high staff

turnover experienced in the audit profession, it is in the interest of the public accountant that audit evidence is adequately and properly documented in the work papers as the audit staff may no longer be around for the public accountant to verify exactly what audit work was performed, should the need to clarify arise later.

- 3.44 In circumstances involving litigation or suspected fraud, a public accountant's work, as represented by the work papers, might be subjected to scrutiny by regulatory authorities or external parties. It is no defence for a public accountant to claim that audit work was performed but not documented, as the basis of the audit opinion must be supported by work papers containing documentation of all the pertinent audit work as well as the public accountant's findings during the audit.
- 3.45 In summary, all the above objectives of having documenting audit evidence implies that audit documentation serves as a risk management tool for public accountants.
- 3.46 In line with the requirements of the SSAs, ACRA takes the stance that the lack of audit documentation is equivalent to no audit work performed which was highlighted in the Practice Direction 2 of 2005, where it was mentioned that public accountants "*should note that in the event the reviewer finds an absence of documentary evidence of audit work performed in the audit working papers during the practice monitoring reviews, it shall be considered that no audit work had been performed by the public accountants concerned*". 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 documentation¹⁰.

¹⁰ Redrafted SSA 230.A5

3.47 However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgment made, in an audit. The “test” of adequacy of audit documentation is a “matter of professional judgement” but public accountants can use as a guide “What would be necessary to provide another experienced auditor who has no previous connection with the audit with an understanding of the work performed and the basis of the principle decisions taken but not the detailed aspects of the audit”. It is from this perspective, as an independent reviewer of the audit files during PMP reviews, that ACRA finds areas where audit procedures, even though purported to be performed, were not evident through documentation.

ACRA’s findings relating to audit documentation

3.48 During ACRA’s practice reviews when findings are raised, public accountants often attributed the noted deficiencies to a lack of documentation rather than a lack of audit work. In such instances, reviewers may take into account oral explanations when they are corroborated with other documented audit evidence.

3.49 This finding has been previously raised in our first and second reports published in 2007 and 2008. We are pleased to note that firms recognise the importance of documenting audit evidence. In more recent reviews, we noted improvements in the extent of documentation (e.g. technical consultations) to address more complex or high risk areas, as compared to our earlier reviews.

3.50 However, we observed that there continues to be a lack of documentation to show that public accountants had adequately challenged management’s estimates or representations to support their basis of conclusions. Some examples are:

- **Impairment assessment of trade receivables** – documentation was often limited to management’s explanations on the continued customer

relationship and past payment history. However, there should have been further evidence that the audit team had independently evaluated the credit worthiness or financial ability of the customer to repay outstanding amounts, especially those which have been long outstanding.

- **Provision for foreseeable losses for project work-in-progress** – documentation was often limited to recordings of assessments that were used in management's estimates of the total costs to be incurred for the project work-in-progress. However, there should have been further evidence that the audit team had amongst other corroborative procedures: enquired with management and project management personnel about the basis for their estimates; assessed the historical accuracy of such estimation processes; and reviewed other supporting documents such as legal correspondences, project status reports and correspondences with customers, subcontractors and/or suppliers.
- **Allowance for inventory obsolescence** – documentation often only made reference to management's allowance policy but the audit team did not document its assessment of the reasonableness of such policy. Further, documentation often only referred to inventory ageing reports and management's representations that there were no slow-moving or obsolete inventories. However, there should have been further evidence of steps taken to test the completeness and accuracy of the ageing reports as well as to assess relevant factors (such as the nature and life cycle of the inventories) to support management's representations.
- **Impairment of investments** - documentation often only referred to the excess in net tangible assets value or value-in-use (derived from management's discounted cash flow analysis) over the carrying value of the investments. However, there should have been further evidence of

steps taken to assess the appropriateness of the use of net tangible assets value and reasonableness of key assumptions and estimates used by management in the discounted cash flow analysis.

3.51 ACRA also noted cases where, while it was apparent some work had been done, the documentation was inadequate:

- **Assessment of the going concern assumption** – while the public accountant had requested for letters of financial support (e.g. from supporting shareholders), the public accountant did not document his assessment on what were the going concern issues and how the letters of financial support ensure that those issues no longer create any material uncertainty as to the client’s ability to continue as a going concern.
- **Assessment of functional currency** – while some public accountants were able to articulate and provide reasonable explanations on why they concurred with management on their choice of the functional currency, it would be important for risk management to have documentation of the assessment covering the required considerations such as the currency exposures and various factors affecting the choice of functional currency which is required by FRS 21 *The Effects of Changes in Foreign Exchange Rates*.
- **Completion of audit checklists** – ACRA identified numerous cases where completion of audit procedures set out in standard checklists were documented only as “Done” or with a simple tickmark without stating the scope, basis or threshold of selection, nature of and findings (if any) and conclusion of the work performed in response to risks specific to a client. Such deficiencies are common for the testing of journal vouchers, search for unrecorded liabilities and post balance sheet events review.

- **Assessment of professional competency of component auditors –** ACRA often observed documentation stating that there was no issue relating to the professional competency of component auditors since they were members of the same network firm and used the same audit methodology and had similar internal quality controls. However, there should have been further documentation of the assessment of professional competence in the light of the specific risk areas of the component audit for example, specialised industry or complex fair valuations.

3.52 The lack of or inadequate audit documentation in the above findings not only means that the public accountant's work is not compliant with the relevant SSAs but he is also left without the documentation needed to support the basis of conclusion with audit evidence.

Using the Work of An Expert

What auditors should do to use the work of an expert

3.53 Experts are persons or firms possessing special skills, knowledge and experience in a particular field. There are many instances a company could engage an expert. Valuation experts are often engaged to appraise values of assets acquired in merger and acquisition activities. Property valuers are engaged to provide fair values of investment properties, especially if companies adopt the fair value model accounting policy under FRS 40 *Investment Property*. The wider use of fair value accounting, resulting from developments in accounting standards, might also require more frequent use of the work of experts.

3.54 If a public accountant intends to use the work of an expert, he should obtain sufficient appropriate audit evidence that such work is adequate for the purposes

of the audit¹¹. SSA 620 *Using the Work of an Expert* requires the public accountant to evaluate the professional competence and objectivity of the expert; obtain sufficient appropriate audit evidence that the scope of the expert's work is adequate for the purposes of the audit; and evaluate the appropriateness of the expert's work as audit evidence regarding the assertion being considered¹². These procedures are a precondition to the public accountant's use of the work of an expert as audit evidence and should not be minimised out of any sense of deference to the expert. The requirements of SSA 620 apply regardless of whether valuations reports provided by experts are desktop or formal valuations.

ACRA's findings in this area

3.55 ACRA's main findings in the area of using the work of an expert in relation to valuations are set out in the following paragraphs.

(a) ***Inadequate evaluation of the professional competency and objectivity of the expert***

3.56 ACRA have noted instances where public accountants failed to perform the necessary procedures to:

- Evaluate the professional qualifications of the expert to determine whether the expert possesses the necessary skill or knowledge in that particular field and supporting such evaluation with evidence of relevant checks such as whether the experts were members of a professional body, conducting internet searches and discussing with management to understand the credentials of the experts.

¹¹ SSA 620.2

¹³ SSA 620.14

- Evaluate the relationship of the expert with the client to ascertain if the expert has other business relationships with the client or if there had been a relationship that would have a bearing on the expert's objectivity.

3.57 Foreign experts are often used to value overseas assets of a group client with global operations. In such circumstances, the group auditor would still be required to perform the same procedures under SSA 620 as long as he intends to use the work of that foreign expert when reporting on the group financial statements. In view of unfamiliarity with foreign experts, the group auditor may communicate and rely on other foreign auditors to perform those procedures. However, we noted some instances where public accountants was unable to show that the foreign auditors had performed all the procedures that they had been instructed to perform on behalf of the group auditor, which would meet the requirements of SSA 620.

(b) *Inadequate evaluation of the appropriateness of the expert's work*

3.58 In some instances, the public accountant had placed complete reliance on the expert valuer's valuation report without any attempt to understand the basis of the valuation or assessed its appropriateness in the context of the financial reporting framework. Frequently, the public accountant did not review or test the expert valuer's source data. In instances where the valuation report used discounted cash flows, the public accountant's testing did not involve an independent assessment of the key assumptions and estimates used in the expert valuer's report, for example, the validation of the discount rate and growth rates used in the discounted cash flow projections.

3.59 The public accountant should obtain an understanding of the expert valuer's assumptions and methods and consider whether they are appropriate and

reasonable, based on the public accountant's knowledge of the business and the results of other audit procedures¹³.

- 3.60 Where appropriate audit evidence is inadequate or are inconsistent with other available audit evidence, SSA 620 requires the public accountant to perform additional audit procedures, including possibly engaging another expert, or modifying the auditor's report.

¹³ SSA 620.14

4 AUDITS OF NON-PUBLIC INTEREST ENTITIES

4.1 Singapore has over 500 small public accounting entities (small practices) in the non-PIE segment. Most of these small practices are sole proprietorships and small partnerships. These small practices audit mostly small and medium private companies (SMEs). As at 31 March 2011, there were 652 public accountants practising in these small firms. This report covers small firms reviewed in the period from 1 April 2010 to 31 March 2011.

Firm Level System of Quality Controls Provides a Sustainable Structure to Maintain Audit Quality

4.2 ACRA would like to emphasise the importance of having a robust system of quality controls, that is suitable for the size and operations of the firm, to provide a sustainable structure to uphold audit quality for firms that operate in this segment. Such a system of quality controls, if properly and efficiently designed, provide a sustainable structure to ensure consistency in audit quality without depending on any single individual to maintain the level of audit quality.

4.3 ACRA reiterates the importance and the need to address the requirements of SSQC 1, which are also applicable to smaller firms, and SSA 220 Quality Control for an Audit of Financial Statements and urges all firms, including individual public accountants, to complete their self-assessments to determine if they have implemented and met such requirements. From a risk management perspective, a robust system of quality controls provides reasonable assurance that the firm and its personnel comply with professional standards and legal requirements and that audit reports are appropriate. Such internal quality controls will also ensure that institutional knowledge is retained within the firm.

Key Observations: Engagement Reviews in the Non-PIE Segment

- 4.4 For non-PIE firms, ACRA's PMP focuses on individual engagement reviews and selects public accountants for review on a risk-based approach. Out of the 652 public accountants practicing in non-PIE firms, ACRA has completed its first cycle review on more than 309 public accountants.
- 4.5 Audit quality in the non-PIE segment needs continual monitoring. During ACRA's revisit reviews, while we noted that some public accountants had remediated past findings, we also continue to note recurring findings in certain basic audit areas. Public accountants should note that these recurring findings, if continued and unchecked will affect audit quality.
- 4.6 This Report highlights five common and significant findings:
- (a) ***Inventories***
- 4.7 Key findings in relation to audit procedures over the valuation and existence of inventories include:
- (i) ***Valuation of inventories***
- No or inadequate work done to test costing of inventories in accordance with the entity's accounting policy;
 - No or inadequate work done to ensure that inventories were stated at the lower of cost and net realisable value; and
 - No or inadequate work done to assess slow moving or obsolete inventories.
- (ii) ***Existence of inventories***
- No attendance of client's physical stock take by the engagement team; and

- No or inadequate work done to roll forward / backward the quantity of inventory test counted during the physical stock take to the financial year end position when the physical stock take were conducted earlier or later.
- 4.8 Public accountants should seek guidance from the Audit Guidance Statement No. 4 *Existence and Valuation of Inventories in the Context of the Historical Cost System* issued by the Institute of Certified Public Accountants of Singapore (ICPAS). This Statement gives guidance on the auditing procedures concerning the existence and valuation of inventories in the context of the historical cost system. It is to be read in conjunction with FRS 2 *Inventories*.
- 4.9 Auditing procedures concerning the existence of inventories are dealt with separately in SSA 501 *Audit Evidence - Specific Considerations for Selected Items*.
- 4.10 In addition, public accountants should also refer to the ICPAS Practical Guidance No. 6 *Valuation of Inventories* and No. 1 *Inventory Obsolescence* for guidance.
- 4.11 Practical Guidance No. 6 focuses on valuation of inventories (excluding construction or project work-in-progress) and is intended to provide some practical guidance to public accountants when performing audit procedures in the following areas:
- Unit cost test under the first-in, first-out (“FIFO”) and weighted average cost formulas;
 - Net realisable value test; and
 - Translation of inventories denominated in foreign currencies.
- 4.12 For a more detailed discussion on the issue of inventory obsolescence, Practical Guidance No. 1 provides some practical considerations to public accountants when assessing the adequacy and reasonableness of inventories write-down and

allowance for inventory obsolescence estimated by management in addressing the valuation assertion.

- 4.13 Having the above mentioned statements and guidance available to assist the public accountant in the audit of inventories; the public accountant should ensure that the work performed is properly documented in accordance with the requirements of SSA 230.

(b) ***Accounts Receivables***

- 4.14 In the audit of accounts receivables, there were inadequate or no alternative procedures performed for non-responses to circularised balances. To ensure that the audit assertions that the confirmation requests were intended to provide have been effectively met, it is crucial that alternative procedures be properly carried out. This is because a non-response to a confirmation request may indicate a previously unidentified risk of material misstatement or a fraud risk factor that requires further follow-up and attention.
- 4.15 In the files selected for review, follow-up procedures were not duly performed to resolve exceptions arising from audit procedures pertaining to circularised balance. Some examples include the lack of work done to reconcile differences and/or to verify reconciling items between the balances in the clients' records and balances confirmed by customers and lack of work done to carry out alternative procedures for all balances not confirmed or for the full amount of such balances. The procedures required to obtain this external evidence are often detailed and time-consuming, but nonetheless important addressing and reducing the risk of material misstatement to an acceptably low level.
- 4.16 ACRA's Audit Practice Bulletin No. 1 of 2010 *External Confirmations* identifies common audit deficiencies in external confirmation work and discusses some practical issues for public accountants to consider. External

confirmations require constant follow-up and the use of robust alternative procedures when confirmations are not received. The need for such actions can pose special challenges to public accountants, especially when there are internal and external pressures to keep audit costs under control and meet tight audit deadlines.

- 4.17 Furthermore, there were many instances where there was inadequate work performed to address the valuation assertion of receivables. For example, cases where it was not evident that the public accountant had considered and tailored audit procedures to address collectability issues that surfaced because of customers defaulted on their payments.
- 4.18 In some instances, public accountants relied on management representations without obtaining further corroborative audit evidence to ascertain the reasonableness of the management's accounting estimates relating to valuations and impairment. Public accountants should note that management representations cannot be a substitute for other audit evidence that the auditor could reasonably expect to be available.
- 4.19 The public accountant should have documented evidence in the audit file about the extent of the audit work to support the appropriateness of the audit judgements relating to valuations and existence of accounts receivables.

(c) *Post-balance sheet events review*

- 4.20 There were instances where no or inadequate work was done to review events that occurred after the date of the financial statements. Subsequent events review is an important audit procedure for public accountants to consider the effect of events and transactions of which he becomes aware and that occurred up to the date when he signs off on the auditors' report.

4.21 Financial statements may be affected by events that occur after the date of the financial statements which are categorised as:

- Those that provide evidence of conditions that existed at the date of the financial statements; and
- Those that provide evidence of conditions that arose after the date of the financial statements.

4.22 The objectives of the public accountant in performing post-balance sheet events review are:

- To obtain sufficient appropriate audit evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework; and
- To respond appropriately to facts that become known to the auditor after the date of the auditor's report, that, had they been known to the auditor at that date, may have caused the auditor to amend the auditor's report.

4.23 Public accountants should refer to the requirements of SSA 560 *Subsequent Events* when auditing subsequent events in an audit of financial statements.

(d) *Functional currency*

4.24 One of the more common findings was that the public accountant did not assess whether the functional currency determined by management was in compliance with FRS 21.

4.25 In today's business environment, it is not unusual for entities to expand their customer base to overseas markets. Such cross border business transactions would increasingly require entities to trade in a variety of currencies and not be

limited to only Singapore dollar (“S\$”) transactions. When a basket of currencies are involved, this often clouds the determination of the functional currency of an entity and poses a practical problem for the management in their assessment of the appropriateness of functional currency. If such assessment is not properly performed by management, this in turn creates an issue for the public accountants when they review management’s functional currency assessment.

- 4.26 More often than not, reviews found that the public accountant had completely relied on management’s representations out of a sense of deference to management’s knowledge of their own business and also because the representations seemed plausible. However, public accountants should still perform audit procedures to assess if they can concur with management’s functional currency assessment, especially in less straight-forward cases where the client’s business involves trading in more than one dominant currency.
- 4.27 And in some instances, the public accountant accepted management’s justification for ease of practice in financial reporting to override the accounting principles set out in FRS 21. For example, management may resist a change in functional currency due to accounting software limitations or involvement of expenses which are perceived to be unduly out of proportion to the value of reporting in the right functional currency. A public accountant, who accepts management’s explanations merely on grounds of impracticality or inconvenience without performing any work to: (i) challenge the appropriateness of management’s choice of functional currency; and/or (ii) independently assess the risk of material misstatement, cannot be considered to have performed adequate work in this area.
- 4.28 Public accountants should refer to ICPAS Practical Guidance No. 4 *Auditor’s Assessment of Functional Currency for a Standalone Singapore Incorporated*

Company which aims to provide some practical considerations in the review of management's assessment of the appropriate functional currency.

4.29 FRS 21.9 states that the primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. For the assessment of the functional currency, an entity should not base its conclusion solely on the above statement but should consider the various factors and provisions as listed in FRS 21.9 to FRS 21.14. The public accountant should critically review and assess the appropriateness of the functional currency determined by management, taking into account the requirements of FRS 21.9 and FRS 21.14.

(e) *Profit and loss*

4.30 Another common finding in the reviews carried out was that there was no or inadequate work performed in profit and loss components such as

- sales and purchases transaction tests
- sales and purchases cut-off tests
- significant operating expenses

4.31 In many instances, the reviewers noted that audit work performed for the sales transaction test was limited to vouching of internally generated documents such as sales invoices without also checking against customer acknowledged delivery orders or equivalent documents. Therefore, there was no independent verification of evidence of acceptance of goods/services by customers to address the occurrence assertion. In addition, there were instances where work performed for purchases transaction test was limited to vouching of suppliers' invoices and payment vouchers. There was no work performed to ensure that cost of sales recognised in the profit and loss account matched with the revenue recognised to address the audit assertions of occurrence and completeness.

- 4.32 There were many instances where the audit team did not perform sales and purchases cut-off tests to ensure proper cut-off at year end. Cut-off errors will usually arise when companies recognise revenue/purchases based on the date on which the sales/purchases invoices were generated/dated rather than the date on which the risks and rewards were transferred. In order to perform robust cut-off tests, public accountants need to understand and consider the specific cut-off error risk of each engagement. Public accountants should plan and select appropriate samples to test during the period where the risk of cut-off is assessed to be high, rather than just taking a fixed number of samples before and after year end. The testing strategy for cut-off procedures needs to be responsive to the underlying risks identified from a good understanding of the client's business and operations.
- 4.33 Public Accountants should refer to ICPAS Practical Guidance No. *Revenue and Purchases Cut-off on Sale of Goods* which provides some practical considerations in this area.
- 4.34 Furthermore, ACRA found audit engagements in which no work was done on significant operating expenses, where a substantive audit approach had been adopted. For example, no work was done to verify staff salaries and bonuses despite staff costs being a significant profit and loss item.
- 4.35 SSA 500.2 requires the public accountant to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion. SSA 230.2 states that the auditor should prepare, on a timely basis, audit documentation that provides:
- A sufficient and appropriate record of the basis for the auditor's report; and
 - Evidence that the audit was performed in accordance with SSAs and applicable legal and regulatory requirements.

4.36 Therefore, public accountants should perform appropriate audit procedures on material expenses (such as payroll) and document the results of work done in the working papers.

5 RECENT DEVELOPMENTS AND FUTURE FOCUS

5.1 In this section, ACRA highlights recent developments in its regulatory oversight that public accountants should be aware of. At the same time, ACRA reminds public accountants to stay vigilant and keep abreast of changes in accounting and auditing standards so that they can remain relevant and continue to deliver quality audits that will bring value to stakeholders.

Recent Developments in ACRA's Regulatory Oversight

Revised Practice Directions for Hot Reviews and Peer Reviews

5.2 During revisit reviews, ACRA checks compliance with Hot Review and Peer Review orders. Arising from this and also taking into account feedback received from public accountants, ACRA issued revised Practice Directions for Hot Reviews and Peer Reviews in late 2010 to provide further directions and clarity on the requirements of Hot Review and Peer Review orders. This is to ensure that the intended benefits that the public accountant should experience under the mentorship of a qualified accountant will be fully realised.

(a) *Hot Review Order¹⁴*

5.3 The purpose of subjecting the work of the public accountant to a hot review is to uphold audit quality by enabling the public accountant to improve his work under the supervision of a suitably qualified public accountant or former public accountant. The hot reviewer serves as a mentor assisting the public accountant (who is subject to the hot review) to review the quality of the audit process undertaken. The focus is on helping the public accountant to improve the quality of his audit process. Notwithstanding the hot review, the responsibility

¹⁴ Please refer to ACRA's website on the revised Practice Direction No. 4 of 2010: Practice Monitoring Programme – “Hot Review” Order and Clarifications to Questions on Hot Review for more information.

of the public accountant, who is under review, in signing off the audit report with respect to the audit judgment and opinion issued remains unchanged.

- 5.4 The hot review process should not be a cursory review and must be of sufficient breadth and depth so that the public accountant can learn and improve from the process. The public accountant should ensure he engages the hot reviewer throughout the audit process in a timely manner.
- 5.5 The first enhancement in the revised practice direction was to clarify the role of the hot reviewer. For example, in the audit of a listed company where there is a mandatory requirement (under the requirements of SSA 220) for an Engagement Quality Control Reviewer (“EQCR”); it was previously not clear whether the EQCR could double-up as a hot reviewer or another third partner would need to be appointed to perform the role of the hot reviewer. The revised practice direction now clarifies that the hot reviewer should be a third partner. The rationale is that the EQCR’s role is primarily to provide an objective evaluation of the significant judgments made and conclusions reached in formulating the audit report. Whereas, it is intended that the hot reviewer plays a mentorship role in guiding the public accountant on the adequacy and appropriateness of audit procedures.
- 5.6 Secondly, when checking on the performance of the hot review, ACRA was often unable to assess the timeliness and effectiveness of the hot review as the documentation of the hot review process was either non-existent or not evident. The revised practice direction stipulates minimum documentation standards with respect to the hot review order which includes areas such as risk areas identified by the public accountant; summary of key issues identified by the public accountant, summary of the discussion between the hot reviewer and the public accountant on key issues and basis of key judgments, number of hours spent on the hot review and dates of commencement and completion of the hot

review. For a complete listing of the minimum documentation standards for hot review, please refer to the practice direction which is available on ACRA's website.

- 5.7 In addition, ACRA would like to highlight that a mere completion and sign-off of a checklist may not provide sufficient evidence of the hot reviewer's involvement.
- 5.8 Another enhancement in the revised practice direction is that upon the expiry and completion of the hot review order, the public accountant under hot review must write in to ACRA to provide a list of the audit files that have been subject to hot review and the names of the hot reviewers. The public accountant must provide this list to ACRA within 2 weeks of the expiry or completion of the hot review order (whichever occurs first).

(b) *Peer Review Order*¹⁵

- 5.9 ACRA has made minor edits to the practice direction and frequently asked questions in relation to the peer review which was originally issued in March 2009. These edits were consequential amendments as a result to the revisions made to the practice direction on hot review.

Step Up of Regulatory Efforts in Financial Statement Reviews and Enforcement

- 5.10 To give stakeholders access to high quality financial statements, both the preparers and auditors must play their roles well in the financial reporting value chain. To this end, ACRA performs an oversight role not only on public accountants (auditors) but also on company directors (preparers) who are required under the Companies Act to provide a set of Singapore Financial

¹⁵ Please refer to ACRA's website on the revised Practice Direction No. 5 of 2010: Peer Review Initiative to Assist Public Accountants to Upkeep the Quality of Professional Work and Clarifications to Questions on Peer Review for more information.

Reporting Standards (SFRS) compliant financial statements to shareholders at annual general meetings.

- 5.11 ACRA monitors compliance with SFRS through its Financial Surveillance Programme. Through such surveillance, ACRA is able to monitor instances of non-compliance with financial reporting standards or financial statement disclosure deficiencies and will not hesitate to take appropriate action against directors for non-compliance.
- 5.12 The Financial Statements Review Committee (FSRC) of ICPAS reviews audited financial statements and provides feedback to public accountants on areas where the presentation or content of the financial statements appear to fall short of compliance with the SFRS. In this connection, ACRA will also leverage on the work of the FSRC by following up with companies who had not complied with SFRS disclosure requirements. This integrated approach will ensure both the company and the public accountant take remedial action on financial statements disclosure deficiencies.

Updating of the Ethics Code and Review of the Accountants Act

- 5.13 The Accountants Act, Cap. 2 was enacted in 2004 when ACRA was formed through the merger of the former Registry of Companies and Business and the Public Accountants Board. ACRA's regulation of public accountancy has developed significantly since then and thus it is timely to update the Accountants Act so that it continues to support ACRA's objectives and approach to regulation of public accountancy. The review will involve targeted consultation and focus group discussions with various stakeholders as well as a general public consultation and will also take into account international developments in auditor oversight regimes.

5.14 The International Ethics Standards Board for Accountants of the International Federation of Accountants has issued a revised Code of Ethics to improve clarity as well as to enhance the auditor independence requirements in certain areas, particularly for public interest entity audits. The Ethics Sub-Committee of the PAOC is now reviewing the appropriateness of these revisions for adoption in Singapore and will be issuing a consultation paper on this in the later part of this year.

Future Focus for the Public Accountancy Profession

5.15 From a client perspective, some audit procedures required under the new and revised SSAs might be unfamiliar and represent an unwanted additional cost if the client does not understand their purpose. Public accountants should help their clients understand the objectives of such procedures and the additional time and resources they might entail. The better a client understands the purpose and importance of an audit procedure, the less a public accountant will need to defend procedures for which they are duty bound to perform. We wish to remind public accountants that they should ensure that sufficient and appropriate audit evidence is obtained in accordance with the requirements of the new and revised SSAs so as to support the issuance of the audit opinion. In the case of group audits, the public accountant should communicate any limitations imposed on the group audit with those charged with governance of the group¹⁶. If appropriate, where limitations are imposed on the public accountant, the public accountant should consider issuing a modified auditor's report, as per SSA 705 *Modifications to the Opinion in the Independent Auditor's Report*.

¹⁶ Revised SSA 600.49(d)

Special Considerations - Audits of Group Financial Statements (including the Work of Component Auditors)

- 5.16 Companies are increasingly expanding their overseas operations in order to gain a foothold in more attractive markets. Singapore's trusted regulatory environment and business regime have also been attracting aspiring overseas companies to tap into Singapore's capital market. With more companies having overseas operations, the revised SSA 600 becomes even more important as public accountants often use the work of auditors in foreign jurisdictions when they act as group engagement partners for these clients with significant foreign subsidiaries/operations.
- 5.17 The basis for the revised SSA 600 was to enhance the quality of group audits. Specifically, to strengthen the group engagement team's procedures, in respect of the group engagement team's direction of the audit and involvement in the work of the component auditors. Due to variances in group audit practices, it was necessary for the standard to be more specific about the group engagement team's responsibilities and the extent of the audit work required. The IAASB has therefore developed requirements and guidance that are capable of consistent application and, as a result, will improve the quality of group audits¹⁷.
- 5.18 The revised SSA 600 sets out the requirements and guidance for group audits, in particular those that involve component auditors¹⁸. The group engagement partner is responsible for the direction, supervision and performance of the group audit engagement in compliance with professional standards and applicable legal and regulatory requirements, and whether the auditor's report that is issued is appropriate in the circumstances¹⁹.

¹⁷ Basis for conclusions: ISA 600 (Revised and redrafted), Special Considerations - Audits of Group Financial Statements (including the work of component auditors), prepared by the Staff of the IAASB

¹⁸ Revised SSA 600.1

¹⁹ Revised SSA 600.11

5.19 ACRA expects that, under the revised SSA 600, the group engagement partner will need to spend reasonably more time on the audit to address the new requirements. In particular, the group engagement partner is expected to adopt a more proactive approach in understanding the group, its components, their environments and the components' auditors. Proper scoping to identify significant components needs to be performed. The group engagement partner will need to communicate more and on a timely basis with the client's component auditors on the scope and timing of their work, and be more involved in the work performed by the component auditors. Furthermore, the group auditors should be mindful and continually reassess their ability to perform the audit throughout the audit engagement, taking into account whether sufficient appropriate audit evidence can reasonably be expected to be obtained in relation to the consolidation process and the financial information of the components on which to base the group audit opinion²⁰.

5.20 The revised SSA 600 may lead to significant changes in audit practices for many audit firms. It is therefore important that public accountants be familiar with the revised SSA 600 requirements in order to obtain sufficient and appropriate audit evidence to justify the basis for the audit opinion. Firms are expected to ensure that their existing internal quality controls (e.g., audit checklists, templates and audit software) are sufficient and updated to meet the requirements of the revised SSA 600²¹.

²⁰ Revised SSA 600.12

²¹ For a more detailed description of the requirements of the revised SSA 600, please refer to ACRA's PMP Public Report 2010, which is available together with previous annual PMP reports at www.acra.gov.sg

Related Parties

- 5.21 The revised SSA 550 sets out the requirements and guidance for the public accountant's responsibilities relating to related party relationships and transactions in an audit of financial statements²². In view of a number of corporate reporting scandals in recent times, the issuance of the revised SSA 550 serves as a timely reminder that related parties present greater opportunities for collusion, concealment and manipulation by management. It also places a greater emphasis on the risk of fraud that could be perpetuated by related parties as compared with the previous standard.
- 5.22 Under the previous standard, there was no guidance provided as to how the specified audit procedures should be modified, extended or supplemented if there were circumstances indicating a higher risk of material misstatement in relation to related parties.
- 5.23 The revised SSA 550 mandates the inspection of certain documents such as banks and legal confirmations and minutes of meetings of shareholders and of those charged with governance, for indications of the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor²³. In addition, the public accountant considers such other records or documents as necessary in the circumstances of the entity. The application guidance to SSA 550 provides a listing of such records and documents.
- 5.24 Where there are significant transactions outside the entity's normal course of business, the public accountant is required to make inquiries of management about the nature of these transactions and whether related parties are involved²⁴.

²² Revised SSA 550.1

²³ Revised SSA 550.15

²⁴ Revised SSA 550.16

- 5.25 The revised SSA 550 also provides specific audit procedures and guidance where the public accountant identifies previously unidentified or undisclosed related parties or significant related party transactions, and when there are significant related party transactions outside the entity's normal course of business, such as performing substantive procedures in relation to the newly identified related parties and related party transactions, and reassign the risk that other unidentified or undisclosed related parties and related party transactions may exist.
- 5.26 ACRA would like to remind the public accountants that they should not take at face value, lists of related parties identified by management, without ascertaining the completeness of such lists through appropriate audit procedures.

6 INITIATIVES AVAILABLE TO HELP THE PROFESSION

6.1 The PMP's ultimate aim is to improve audit quality and must therefore encompass initiatives that are designed to help public accountants make improvements and remedy audit deficiencies identified during inspections. In this respect, ACRA acts as a facilitator of the public accountancy profession's development.

ACRA's Outreach Programme

- 6.2 The financial reporting value chain to deliver high quality financial statements to stakeholders involves both preparers and auditors. In this respect, as the national regulator of both businesses as well as public accountants, ACRA is able to exercise oversight on both preparers and auditors and take an integrated approach in improving the quality of financial reporting and auditing.
- 6.3 In such an integrated approach, ACRA has embarked on an outreach programme to help the profession promote the value of audit to other stakeholders. To that end, ACRA started in 2010 to reach out to Audit Committees²⁵ which would have a strong mutual interest to raise audit quality.
- 6.4 One such initiative in 2010 was the publication of the "ACRA-SGX Guidance to Audit Committees on Evaluation of Quality of Work Performed by External Auditors" which was disseminated to the Audit Committee Chairmen of all SGX listed companies²⁶. This publication serves to promote the communication between Audit Committees and public accountants on the extent of audit work needed to be performed to achieve high quality audits. It also encourages Audit Committees to engage their public accountants on their audit plans to address key audit risk areas.

²⁵ ACRA commissioned ACCA to conduct a survey on "The value of audit: Views from Audit Committee Chairmen" and also published the ACRA- SGX Guidance to Audit Committees on Evaluation of Quality of Work Performed by External Auditors in July 2010.

²⁶ As at 31 March 2011, there were 785 companies listed on SGX.

- 6.5 In continuing our outreach efforts in 2011, ACRA jointly organised three breakfast seminars together with DP information Group on topics pertinent to improving financial reporting quality and audit quality. The audience of such breakfast seminars comprised senior leaders, including CEOs and Chief Financial Officers, of the Singapore 1000 and SME 1000 ranked companies.
- 6.6 The first seminar on 5 April 2011 centered on the topic of “High Quality Financial Reporting”. The profession has provided feedback that more time and resources have to be spent on the audit of a set of poor quality management accounts and audit firms are faced with the pressure of limited resources and escalating staff costs. But if public accountants were provided with a set of good quality management accounts to begin their audits with, the limited resources could be focused on ensuring a high quality audit. As such, ACRA reached out to management and directors of companies to ensure high quality financial reporting.
- 6.7 The second seminar on 3 June 2011 shifted the focus further along the financial reporting value chain to public accountants and ACRA reiterated the importance of high audit quality in delivering the value of audit. Over 250 participants, comprising senior management of the ranked companies, have attended the first two seminars in April and June 2011. The last seminar to be held in September 2011 will focus on the broader framework of corporate governance practices.
- 6.8 Besides such targeted outreach initiatives, ACRA has always been proactively engaging with professional bodies through regular dialogue sessions with ICPAS, Law Society and SAICSA²⁷, just to name a few. Through such engagement, ACRA can collaborate with professional bodies to resolve issues or carry out initiatives to achieve our common objective of making Singapore a responsive and trusted regulatory environment for businesses and public

²⁷ Singapore Association of the Institute of Chartered Secretaries and Administrators

accountants. For example, ACRA has collaborated with ICPAS to establish remedial and other initiatives that will help the profession improve the quality of their audit work including the mandatory regulatory course²⁸, various Audit Practice Guidance, the Public Practice Programme.

- 6.9 Whilst ACRA can help to reach out to stakeholders, the task of promoting the value of audit and upholding the reputation of the accountancy profession must first be undertaken by the profession.

Initiatives by Accountancy Professional Bodies

- 6.10 ACRA urges the accountancy professional bodies to play an active role to assist their practicing members in upholding professional standards and to enable them to meet the changing professional environment.

ICPAS Initiatives

- 6.11 Some of ICPAS' key initiatives to help its practising members include: Continuous Professional Education (CPE); Seminars/Forums; Publications and Communications; Outreach Programme for the Clarified SSAs and Knowledge Centres.

- 6.12 In respect of its Continuous Professional Education initiative, ICPAS has developed CPE programmes aimed at addressing findings noted from the PMP. These include courses on functional currency assessment, planning and risk assessment, valuation of inventories, auditing trade receivables and payables, verification of occurrence of profit and loss account, etc.

- 6.13 In respect of its Seminar/Forum initiative, practitioners should look out for key seminars such as:

²⁸ This refers to the mandatory course to assist public accountants to upkeep the quality of professional work as stipulated in ACRA's Practice Direction No. 3 of 2009

- Forum with the Practitioners: Aimed at understanding issues and concerns that are affecting the profession;
 - Seminar on the Findings from the Financial Statements Review Committee: Aimed at understanding common mistakes in the preparation of the financial statements; and
 - Seminar on FRS Update: Aimed at keeping abreast of development and understanding the implication and application issues.
- 6.14 In respect of its Publications initiative, ICPAS has already published 8 practical guidances to assist public accountants in addressing common audit problems faced. ICPAS plans to issue more practical guidances on the following topics to help the profession: risk assessment; post balance sheet events review; construction contracts; valuation of investment properties; and going concern considerations.
- 6.15 In respect of its Outreach Programme for the Clarified SSAs initiative, ICPAS has rolled out four seminars, four technical discussion groups and several publications, including the Clarity Bulletin and the revised Audit Manual for Small Companies, designed to help public accountants better understand the salient changes in the clarified standards and implications for the profession. ICPAS will be planning more clarity seminars to further deepen the profession's understanding of the new standards and requirements.
- 6.16 In respect of its Knowledge Centres initiative, ICPAS continues to expand the information within the four online knowledge centres launched in 2010, namely the ICPAS Centre for Financial Reporting, ICPAS Research, ICPAS Ethics Centre and ICPAS Country Desk. Public accountants can also access the "Centre for Auditing and Assurance" micro site which establishes a communication platform to provide an update on the on-going development, application and issues of the auditing and assurance standards and practices.

6.17 ICPAS has recently introduced a Structured Audit Core Training (SACT) Programme (comprising of a series of training programmes) to address the learning needs of various experience levels of professional staff of small and medium-sized practices (SMPs) and to equip them with practical audit knowledge and skills.

ACCA Initiatives

6.18 As an initiative to help its practicing members better understand the objectives of the PMP, ACCA invited ACRA to educate its members about the PMP process and also to address concerns practitioners may have about PMP.

6.19 ACCA holds regular “Practitioners’ Clinics” for public accountants. These clinics discuss the latest technical and business issues relevant to SMPs and provides a platform for public accountants to network with their colleagues in the profession and share ideas.

6.20 ACCA also regularly publishes various research reports and ACRA has collaborated with ACCA in some of the research, the latest of which is a survey of SMPs here²⁹ to get a clearer sense of the current state of play of the SMP sector and to assess the challenges and opportunities ahead.

CPA Australia Initiatives

6.21 CPA Australia has launched a voluntary review and mentoring program aimed at building a review and mentoring service for its Singapore members. The program is based on the Quality Assurance Review program which CPA Australia developed and operates for the CPA Australia public practice certificate holders who operate in Australia. A Quality Assurance Review is a peer review, where an experienced practitioner reviews the compliance of other practitioners in accordance with the relevant professional standards and

²⁹ “Small and Medium Sized Public Accounting Practices in Singapore – Bridging the Current to the Future” (July 2011)

legislation. There are two primary objectives of the review - compliance and more importantly educating members on ensuring they comply with all relevant requirements and how they can improve their practice.

- 6.22 The CPA Australia website also offers online tools and resources (such as knowledge portals on auditing and practice management as well as webinars) that provide a wealth of assistance for members in respect of the management of their practices, quality assurance and risk management. A review has been undertaken to customise the contents to meet Singapore auditing standards.



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