



# **PRACTICE MONITORING PROGRAMME**

## **SIXTH PUBLIC REPORT**

**August 2012**

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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## TABLE OF CONTENTS

<b>One</b>	<b>Executive Summary</b>	<b>1</b>
<hr/>		
<b>Two</b>	<b>Overview of the Practice Monitoring Programme</b>	<b>9</b>
	▪ Objectives of the Annual PMP Public Report	9
	▪ Scope of the PMP Inspection	10
	▪ Summary of the PMP Activities	10
	▪ International Engagement and Recognition	14
<hr/>		
<b>Three</b>	<b>Audits of Public Interest Entities</b>	<b>18</b>
	<b>Key Observations: Firm-Level Inspections</b>	<b>18</b>
	▪ Engagement Supervision and Review	19
	▪ Staff Training	23
	▪ Quality Review Programmes to Monitor Audit Quality	26
	▪ Getting It Right From the Start	29
	<b>Key Observations: Engagement Inspections</b>	<b>30</b>
	▪ Audit of Accounting Estimates	31
	▪ Group Audit Considerations – Audits of Significant Components with Foreign Operations	36
<hr/>		
<b>Four</b>	<b>Audits of Non-Public Interest Entities</b>	<b>41</b>
	<b>Key Observations: Engagement Inspections</b>	<b>41</b>
	▪ Findings Relating to Audits of Construction Contracts	43
<hr/>		
<b>Five</b>	<b>Recent and Upcoming Developments</b>	<b>47</b>
	<b>Recent and Upcoming Developments in Singapore</b>	<b>47</b>
	▪ Review of the Accountants Act	47
	▪ The Singapore Qualification Programme Framework	49
	▪ Regulatory and Enforcement Efforts in Registration Renewal Applications by Public Accountants	50
	▪ Regulatory Efforts in Financial Statement Reviews and Enforcement	51
	▪ Updating of the Code of Professional Conduct and Ethics	53
	<b>International Audit Policy Developments</b>	<b>54</b>
<hr/>		
<b>Six</b>	<b>Initiatives Available to Help the Profession</b>	<b>55</b>
	▪ ICPAS	55
	▪ CPA Australia	57
	▪ ACCA	58

# 1 EXECUTIVE SUMMARY

## Quality Audits Mean Getting It Right from the Start

- 1.1 With the benefit of observations made in our Practice Monitoring Programme, ACRA saw that a key root cause to poor quality audits is a lack of emphasis in **Getting It Right from the Start**.
- 1.2 In our inspections of audit engagements, we noted audit deficiencies that would have been prevented had there been (i) more timely partner involvement upfront in engagement supervision and review; (ii) appropriate training provided to staff prior to their deployment on engagements; and (iii) effective internal quality reviews that serves its purpose as a check on audit quality. Thus, Getting It Right from the Start is important to upholding audit quality.
- 1.3 With the ongoing talent crunch and the need to deliver better value to clients, firms would agree that Getting It Right from the Start is also essential to preventing unnecessary last minute rework and achieving greater time and resource savings in the long run.
- 1.4 The call to Getting It Right from the Start also augurs well with the Singapore Government's call to boost productivity in the accountancy sector. In January 2012, when Deputy Prime Minister Tharman Shanmugaratnam announced the inclusion of accountancy sector as one of the 16 priority sectors in the productivity drive spearheaded by the National Productivity and Continuing Education Council (NPCEC), it was suggested that productivity in the accountancy sector would have a key multiplier effect on other sectors which it serves.
- 1.5 In the same way, firms will find that if proper time and resources are accorded to getting an audit right from the start, audit quality will permeate throughout

the process and this will have a multiplier effect on client satisfaction, staff engagement, cost management, etc.

- 1.6 With this in mind, ACRA continues to promote the need to have effective firm-level quality controls not only because it provides a sustainable structure to uphold audit quality but because they can also act as a catalyst towards achieving productivity gains in the performance of audits. Greater and more timely partner involvement in engagement supervision and review, developing comprehensive training programmes, and effective internal quality review programmes are some of the work practices that progressive public accounting firms have implemented to uphold audit quality and improve audit efficiencies.

### **Key Observations Arising from ACRA’s Practice Monitoring Programme (PMP)**

- 1.7 Singapore’s financial statement audit market can be divided broadly into two segments: audits of public interest entities<sup>1</sup> (PIEs) and audits of non-PIEs. This report deals with the findings noted in each segment separately as both segments face unique challenges.

#### ***Firm-level Inspections in the PIE Segment***

##### *Progress in Implementation of SSQC1*

- 1.8 For public accounting firms operating in the PIE segment, ACRA assesses a public accounting firm’s system of quality controls (firm-level inspections) against the requirements of the Singapore Standards on Quality Control 1<sup>2</sup>

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<sup>1</sup> The current definition of PIEs include companies listed on the Singapore Exchange or are in the process of issuing debt or equity instruments for trading on the 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). A public consultation paper on the Accountants Act review issued in May 2012 seek, amongst other proposed amendments, to refine the definition of PIE. The public consultation paper can be accessed at [www.acra.gov.sg](http://www.acra.gov.sg).

<sup>2</sup> The SSQC 1 is based on the equivalent of the International Standard on Quality Control 1 issued by the International Federation of Accountants.

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

- 1.9 Since SSQC 1 came into effect in 2005, many public accounting firms in the PIE segment have made continuous improvements to enhance their systems of quality control. We are also encouraged by the proactive approach taken by these firms to identify and address areas of concern raised by ACRA in previous inspections.
- 1.10 Early feedback obtained from key stakeholders consulted on the Accountants Act review (prior to the public consultation) suggests support on the proposal for firms to have in place quality controls which comply with SSQC 1 as a condition to perform audits or reviews of PIEs. The on-going initiatives undertaken by firms in enhancing their systems of quality control place them in a well poised position to take on higher level of responsibility for PIE engagements when the proposed revisions to the Accountants Act become enacted.
- 1.11 ACRA believes a robust system of quality control will not only provide a sustainable structure for ensuring consistency in audit quality but will act as a catalyst to further drive productivity improvements in the way audits are conducted.

*Areas for Improvement in the Implementation of SSQC 1*

- 1.12 In this Report, ACRA highlights areas of quality control that audit firms should improve to raise audit quality:
- Improving the level and timeliness of engagement partner supervision and review, including that of the engagement quality control review (EQCR) reviewer to ensure sufficiency and appropriateness of the audit evidence

gathered and at the same time to reduce the likelihood of ‘over-auditing’ and performance of ineffective audit procedures;

- Enhancing the quality and relevance of training programmes and the process to ensure staff obtain sufficient levels of appropriate training in order to be equipped with the necessary understanding, skills and knowledge to do the right things from the start; and
- Increasing the effectiveness and timeliness of quality review programmes carried out either by the firm or its international network and incorporating audit efficiency improvement elements into the scope of quality reviews to allow for early identification and elimination of audit inefficiencies.

These matters are discussed in further detail in **Section 3**.

### ***Engagement Inspections***

1.13 ACRA also inspects a public accountant’s audit engagements to assess compliance with the Singapore Standards on Auditing<sup>3</sup> (SSAs).

1.14 ACRA is also pleased to note that public accountants are recognising the importance of not only performing the audit but also documenting the work performed. We have observed improvements in the level of audit documentation as compared to earlier inspections.

### ***Findings of Engagement Inspections in the PIE segment***

1.15 In respect of the PIE segment, we have identified two important audit risk areas which are set out below and further discussed in **Section 3**.

- *Audit of accounting estimates*

Deficiencies in this audit risk area generally arose in instances where the auditor did not sufficiently test or challenge management’s forecasts, views

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<sup>3</sup> The SSAs are based on the equivalent International Standards on Auditing issued by the International Federation of Accountants, with necessary modifications for local statutory reporting requirements.

or representations and estimates in financial statement items such as impairment assessments of financial and non-financial assets including inventory obsolescence, and provisions and accruals. Often, this resulted from a lack of professional scepticism on the part of auditors; a concern similarly shared and monitored by other audit regulators globally<sup>4</sup>.

- *Group audit considerations*

In this audit risk area, ACRA found recurring instances where the group auditor's procedures were insufficient to evaluate:

- the component auditor's competence and objectivity; and
- whether the component auditor's work was sufficient and appropriate for the purpose of group reporting.

ACRA would also like to emphasise that Singapore engagement teams performing audits of significant components in foreign jurisdictions should obtain a proper understanding of foreign laws and regulations sufficient for their audit purposes.

### ***Findings of Engagement Inspections in the Non-PIE Segment***

1.16 Due to the size and operations of public accounting firms in the non-PIE segment, a detailed inspection of public accountants' individual files is viewed as a more practical method of monitoring audit quality in this segment. Having undergone the first cycle of inspections, public accountants in the non-PIE segment understand that good quality audits are essential to managing risk and developing sustainable practices. ACRA is pleased to note that most of them have made efforts to improve with some passing their revisits (having failed the last time) without any main inspection findings identified.

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<sup>4</sup> As reported in the International Forum of Independent Audit Regulators (IFIAR) Activity Report 2011, professional scepticism is a common area of inspection finding noted among IFIAR members. On-going dialogues between IFIAR and the six largest international audit network firms also focus on professional scepticism as one of the four audit quality issues that are being closely monitored by IFIAR. The IFIAR Activity Report 2011 may be accessed at [www.ifiar.org](http://www.ifiar.org).

- 1.17 Whilst noting improvements, ACRA continues to emphasise the need to address deficiencies in the following areas which are applicable to most financial statement audits:
- the valuation and existence of inventories;
  - the existence and recoverability of trade receivables; and
  - the existence and accuracy of revenue and other significant profit and loss items.
- 1.18 In addition, an increasingly common area of deficiency identified in the PMP, which the public accountancy profession should address, is the audits of construction companies, particularly with regard to the application of the requirements in FRS 11 *Construction Contracts* to determine the stage of completion, contract revenue and costs, and provision for foreseeable losses.
- 1.19 ACRA has communicated this concern to the accountancy professional bodies and encourages public accountants with construction company clients to take advantage of seminars and workshops offered by the accountancy professional bodies.
- 1.20 The findings for the non-PIE segment are discussed in further detail under **Section 4**.

## **Recent and Upcoming Developments**

- 1.21 Recent and upcoming developments set to impact the accountancy profession, which are elaborated in greater detail under **Section 5** include the review of the Accountants Act, the Singapore Qualification Programme (SQP) framework and the adoption of the revised Code of Professional Conduct and Ethics in Singapore. An overview of regulatory efforts in areas of public accountants' registration renewal applications and financial statement reviews and enforcement are also shared in this section of the report.

1.22 These developments should lead to improved structures that will help public accountants raise audit quality and improve productivity, by helping with challenges such as talent and risk management. For example:

- Further emphasis on SSQC 1 implementation including the proposal on the need to have implemented quality controls in line with the expectations of SSQC 1 as a condition of auditing PIEs; and
- Initiatives that will add more structure to the development of senior audit staff, such as the proposed revised practical experience requirements for registration as a public accountant which will focus on audit management skills, and the availability of the SQP to develop junior accountancy staff.

Initiatives are also continuously being rolled out by the accountancy professional bodies in Singapore to assist their members in public practice.

1.23 Internationally, regulators and the profession are focused on improving auditor communication, auditor independence and the public's perception on the role of an audit. ACRA is closely monitoring such international developments and will consider the need to take up international initiatives where it might benefit audit quality and stakeholders in Singapore. ACRA will also seek views on such matters at the appropriate juncture.

### **Initiatives Available to Help the Profession**

1.24 In **Section 6** of this report, public accountants are directed to initiatives available to assist in their professional development. Whilst the PMP aims to improve audit quality, the accountancy professional bodies must remain responsible for helping their members and the accountancy profession uphold professional standards in the conduct of audits. As such, ACRA urges the accountancy professional bodies to continue playing an active role in raising awareness of audit quality issues and helping public accountants make

improvements and remedy audit deficiencies identified from the PMP inspections.

1.25 On the productivity front, CPA Australia has published a book on productivity to help people understand how accounting can make their businesses more productive and where to seek help in doing so. Professional bodies are reminded that initiatives in helping its members improve productivity should be carried out without compromising their primary role to uphold professional standards.

## **2 OVERVIEW OF THE PRACTICE MONITORING PROGRAMME**

- 2.1 Through the provision of audit services, Singapore's public accountancy profession plays a key function in preserving and strengthening public confidence and trust in Singapore's business and financial markets. The performance of high quality audits is a vital element to achieving this given the valuable role it plays in safeguarding the integrity of financial reports within the financial reporting value chain.
- 2.2 As an independent auditor regulatory authority, ACRA regulates and facilitates the development of the public accountancy profession in Singapore. Through the PMP, ACRA conducts inspections on the audit work performed by public accountants with the aim of promoting high quality audits.

### **Objectives of the Annual PMP Public Report**

- 2.3 ACRA publishes the 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.
- 2.4 This public report, the sixth since the inaugural edition published by ACRA in July 2007, reports on the key findings gathered from the PMP inspections during the period from 1 April 2011 to 31 March 2012.
- 2.5 This report does not constitute a comprehensive list of all the findings identified during the PMP. Instead, this report attempts to summarise the pertinent and common findings that ACRA views as requiring particular attention from the profession.

## Scope of the PMP Inspections

2.6 Singapore's financial statement audit market can be divided into two broad segments: audits of PIEs and audits of non-PIEs. The PMP covers all public accountants that provide public accountancy services in Singapore. As at 31 March 2012, the breakdown of public accountant firms and public accountants practising in the PIE and non-PIE segment are as follows:

<b>As at 31 March 2012</b>	<b>PIE segment</b>	<b>Non-PIE segment</b>	<b>Total</b>
Number of public accounting entities	19	605	624
Number of public accountants registered with ACRA	298	651	949

2.7 The scope of ACRA's inspections on firms that audit PIEs generally cover a review of the firm's quality control policies and procedures and detailed inspections of selected audit engagements. Inspections on firms that audit non-PIEs are carried out with the assistance of the Institute of Certified Public Accountants of Singapore (ICPAS) under the direct oversight of ACRA. Due to the size and operations of firms in the non-PIE segment, the scope of inspection on these firms focuses only on individual engagement inspections as it is viewed as a more practical method of monitoring audit quality.

## Summary of the PMP activities

### *Firm-level Inspections*

2.8 For public accounting firms operating in the PIE segment, ACRA inspects a public accounting firm's system of quality controls (firm-level inspections) to

ensure that they are in compliance with the requirements of the SSQC 1. In this regard, ACRA's firm-level inspections are directed towards:

- understanding the design of the firms' quality controls in each of the six overlapping SSQC 1 elements<sup>5</sup>;
- assessing the continuing effectiveness of compliance with and/or implementation of such controls; and
- evaluating the remediation efforts carried out by firms in respect of previous inspection findings raised.

2.9 At the conclusion of each inspection, ACRA advises the firms and public accountants in this segment of areas of non-compliance with standards as well as areas that require improvement in line with best practices. ACRA then requires a response from the firms on their remediation plans to address areas of deficiencies. Status updates on the remediation efforts are also obtained every six months to monitor the firms' progress towards addressing these deficiencies.

2.10 ACRA uses the assessment of a firm's system of quality controls to determine:

- the number of engagements selected and the intensity of inspection of individual audit engagements; and
- the frequency and intensity of ACRA's future inspections of the firm.

In facilitating this assessment, the firm's practices in each of the SSQC 1 quality control elements will also be benchmarked and peer-rated against those in their peer groups for comparison.

2.11 During the period encompassed in this report, ACRA has completed firm-level inspections on six firms<sup>6</sup> in the PIE segment.

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<sup>5</sup> The six quality control elements set out in SSQC 1 are leadership responsibilities for quality within the firm, ethical requirements, acceptance and continuance of client relationships and specific engagements, human resources, engagement performance and monitoring.

<sup>6</sup> The firms inspected were Baker Tilly TFW LLP, Foo Kon Tan Grant Thornton LLP, BDO LLP, Paul Wan & Co, PricewaterhouseCoopers LLP and KPMG LLP.

## *Individual Engagement Inspections*

2.12 Firms establish systems of quality controls with the objective of gaining reasonable assurance that auditing standards are complied with when public accountants issue audit reports. To monitor audit quality, ACRA inspects samples of audit engagements to detect non-compliance with auditing standards. The frequency and nature of audit deficiencies impact ACRA's assessment of the robustness of the firm's system of quality controls over audits performed by public accountants.

2.13 ACRA's approach in performing inspections of individual engagements comprise:

- Detailed engagement inspections of public accountants to assess whether the public accountants' work have been conducted in compliance with the relevant auditing standards. The Public Accountants Oversight Committee (PAOC), appointed under the Accountants Act, is the deciding authority on the outcome of these inspections. Non-compliance with auditing standards detected through detailed engagement inspections are subject to a number of remedies and sanctions<sup>7</sup>.
- Conducting engagement inspections in the course of firm-level inspections to assess the firm's compliance with the requirements of the SSQC 1 in the area of 'engagement performance'. Such inspections, which are performed using an attributes testing approach, are conducted in addition to the detailed engagement inspections for firms in the PIE segment which are subject to firm-level inspections<sup>8</sup>.

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<sup>7</sup> For a more detailed description of these remedies and sanctions, please refer to paragraphs 2.14 to 2.22 of ACRA's 2010 Annual PMP Public Report, which is available together with previous annual PMP reports at [www.acra.gov.sg](http://www.acra.gov.sg)

<sup>8</sup> The number of engagements inspected under this approach comprise the following:

1 April 2011 - 31 March 2012 : 97

1 April 2010 - 31 March 2011 : 53

2.14 The following table below sets out an analysis of the number of public accountants inspected under detailed engagement inspections for the PIE and non-PIE segments respectively:

<b>No. of public accountants inspected under detailed engagement inspections</b>	<b>1 Apr 2011 to 31 Mar 2012</b>	<b>1 Apr 2010 to 31 Mar 2011</b>
PIE-segment	26	14
Non PIE-segment	159	124

2.15 For individual engagement inspections conducted during the period covered in this report, emphasis was placed on assessing how firms and individual audit engagement teams have applied the revised requirements of the Clarified Singapore Standard on Auditing (Clarified SSAs). In particular, we evaluated the firm's implementation of the application requirements of the revised SSA 600 *Special Considerations – Audits of Group Financial Statements (Including Work of Component Auditors)* in view of the importance and complexity of group audits and ACRA's concern over the quality and consistency of audit practices in this audit risk area.

2.16 Key findings arising from engagement inspections of the PIE segment can be found in paragraphs 3.33 to 3.65 of this Report. For the non-PIE segment, the key findings are outlined in paragraphs 4.4 to 4.20 of this Report.

## **International Engagement and Recognition**

### ***International Forum of Independent Audit Regulators (IFIAR)<sup>9</sup>***

2.17 ACRA is a founding member of the IFIAR which was established in 2006. Currently comprising 43 independent audit regulators around the world, IFIAR's primary aim is to enable its members to share information regarding the audit market environment and practical experiences of audit inspection regulatory activities. It also seeks to promote effective independent audit oversight globally, thereby contributing to members' overriding objective of serving the public interest and enhancing investor protection by improving audit quality.

2.18 IFIAR currently has the following Working Groups:

- Global Public Policy Committee (GPPC) Working Group;
- Inspection Workshop Working Group;
- International Cooperation Working Group;
- Investor Working Group; and
- Standards Coordination Working Group

ACRA is currently a member in 3 of the 5 working groups, namely the GPPC Working Group, the International Cooperation Working Group and the Standards Coordination Working Group. The objectives of the 3 Working Groups are described in further details below. Additionally, ACRA has also contributed to the initiatives of the other Working Groups within IFIAR.

2.19 The GPPC Working Group is responsible for coordinating IFIAR's ongoing dialogue with member firms of the GPPC, comprising the 6 largest international audit networks (BDO, Deloitte Touche Tohmatsu, Ernst & Young, Grant Thornton, KPMG and PricewaterhouseCoopers). Besides engaging these network firms on specific audit quality issues, the GPPC Working Group also

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<sup>9</sup> Information about IFIAR may be accessed at [www.ifiar.org](http://www.ifiar.org)

discusses global policy developments related to audit quality that affect these networks firms and IFIAR members.

- 2.20 The International Cooperation Working Group is responsible for considering 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.
- 2.21 Lastly, the Standards Coordination Working Group of which ACRA is also a member of 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.
- 2.22 In addition to participation as members of the 3 Working Groups above, ACRA has participated in various IFIAR audit inspection workshops to gain knowledge of international best practices in audit inspection methodologies and processes. ACRA has also been invited to contribute workshop materials and present at these workshops.
- 2.23 During the most recent IFIAR plenary held in Busan, Korea in April 2012, ACRA had also assisted the Investor Working Group in organising and facilitating a panel session aimed to provide the IFIAR members present at the meeting a profile of Asian investors and their perspectives on audit quality and independent audit regulation in Asia.

### ***ASEAN Audit Regulators Group***

- 2.24 The promotion and further development of independent auditor oversight in Asia and increasing IFIAR membership of fellow Asian countries is important.

Our economies are interconnected globally and regionally and the integrity and quality of financial reporting of companies and businesses across foreign jurisdictions have now become important priorities for many foreign regulators. Further development of independent audit oversight in the region is expected to increase foreign investor confidence and benefit the home country regulator in many ways.

- 2.25 With this objective in mind, Singapore, together with Malaysia and Thailand, have formed an informal cooperation group known as the ASEAN Audit Regulators Group (AARG) in 2011 to foster closer collaboration among audit regulators in the ASEAN region, in order to enable sharing and better cooperation to support audit quality in the region. The AARG also aims to assist other developing economies in the region who are looking to institute independent audit regulation.
- 2.26 The AARG started to reach out to the other ASEAN countries at its first plenary meeting held in Bangkok, Thailand in September 2011. During the meeting, we also took the opportunity to engage with the regional leaderships of the Big-4 audit firms to discuss specific regional issues that affect audit quality in ASEAN.
- 2.27 This was followed by an inaugural inspection workshop held in Singapore in January 2012 which was attended by 20 participants from six ASEAN countries, as well as Japan. The aim of the workshop is to share work experiences and best practices related to the regulation of auditors and the promotion of audit quality.
- 2.28 In March 2012, the AARG also met up with the ASEAN securities regulators in Singapore to raise their awareness of independent audit regulation and how it can contribute to the development of trusted capital markets across the region.

2.29 In the most recent meeting held in Kuala Lumpur, Malaysia in May 2012, the AARG engaged the regional leaderships of the Big-4 audit firms on the results of their latest internal reviews and discussed specific audit quality issues in the area of professional scepticism, group audits, revenue recognition and EQCR. The AARG looks forward to continued periodical dialogue with the firms in working together towards addressing the common audit quality challenges faced in the region.

### 3 AUDITS OF PUBLIC INTEREST ENTITIES

#### **Key Observations: Firm-level Inspections in the PIE Segment**

- 3.1 Since SSQC 1 came into effect in 2005, we have noted major improvements and positive measures that many firms in this segment have implemented to enhance their systems of quality controls. The Big-4 firms tend to have robust and integrated quality controls covering a wider range of all the elements set out in SSQC 1. Over the years, the remaining firms in the PIE segment have also shown commendable progress in developing and adopting policies and controls that are appropriate for their size and operations.
- 3.2 We appreciate the level of cooperation extended to ACRA throughout the inspection process. Firms generally have been receptive to our findings and suggestions for improvement. We are also encouraged by the proactive approach taken by firms in improving and addressing important areas of concern highlighted by ACRA from previous inspections, an example being the setting up and dedication of adequate and relevant resources towards quality control functions across firms in this segment. Such efforts are a testament to both the positive impact of our inspection programme and the firms' commitment towards high quality audits.
- 3.3 This year's report highlights three areas of importance and concern arising from our inspections and discusses the needed improvements within each area. We believe a good system of quality controls will not only provide a sustainable structure for audit quality but will act as a catalyst towards achieving productivity gains in the performance of audits. The importance of these aspects in contributing towards audit quality and productivity will be explored in our findings below.

## Engagement Supervision and Review

3.4 In our view, engagement supervision and review is a major driver of audit quality. In order to be an effective driver, ACRA believes these key elements are essential:

- *Competency of audit professionals carrying out the reviews*

For supervision and reviews to be effective, they need to be carried out by senior personnel (i.e. the engagement partner and the EQCR reviewer) who are more experienced in such audits. The benefit of experience puts them in a better position to identify potential audit issues and to apply professional scepticism, especially in risky and judgmental areas in assessing the adequacy and persuasiveness of the audit evidence obtained.

- *Timeliness and adequacy of reviews*

Engagement supervision and review should be performed throughout the entire audit process to allow for early identification and resolution of issues. Involvement by the engagement partner and EQCR reviewer should be sufficient and timely to permit proper planning, review of audit work and assessment of the appropriateness of key judgments made, and whether the documentation reviewed and the discussions held support the audit conclusions reached.

3.5 The significance of engagement supervision and review in alleviating productivity woes cannot be over-emphasised. The benefit of adequate and early interaction with senior engagement personnel (such as the engagement partner, EQCR reviewer and the engagement manager) is to provide clarity to the team, direct audit efforts towards high risk areas and reduce the likelihood of ‘over-auditing’ and the unnecessary performance of ineffective audit procedures.

3.6 Through interviews conducted with audit professionals as part of ACRA’s inspection, managerial staff often provide feedback that they are spending a significant amount of their time performing administrative duties that could have been spent on supervision of team members. Whilst ACRA recognises the necessity and practicality of such practices, especially for smaller-sized firms, striking a balance between the two is vital to ensure that senior engagement personnel are not overly distracted by these administrative responsibilities and that such responsibilities do not affect the level of supervision provided to their subordinates.

3.7 Amongst other indicators of partner involvement, ACRA looks at the time recorded on engagements. The tables below shows the time recorded on sample engagement inspections for firms in the PIE segment:

	<b>1 Apr 2011 to 31 Mar 2012</b>	<b>1 Apr 2010 to 31 Mar 2011</b>
Number of engagements <sup>10</sup> with % of engagement partner time <sup>11</sup> falling into the following ranges:		
- Less than 1%	9 (9%)	2 (3%)
- 1% to less than 5%	62 (64%)	37 (70%)
- 5% to less than 10%	21 (22%)	10 (19%)
- Above 10%	5 (5%)	4 (8%)
	<u>97 (100%)</u>	<u>53 (100%)</u>
	<u><u>97 (100%)</u></u>	<u><u>53 (100%)</u></u>

<sup>10</sup> Based on engagements inspected as part of firm-level inspections

<sup>11</sup> As a percentage of total hours for each engagement inspected

	<b>1 Apr 2011 to 31 Mar 2012</b>	<b>1 Apr 2010 to 31 Mar 2011</b>
Number of engagements <sup>12</sup> with EQCR time falling into the following ranges:		
- Less than 5 hours	19 (32%)	16 (37%)
- 5 hours to less than 10 hours	13 (22%)	12 (28%)
- 10 hours to less than 15 hours	12 (20%)	6 (14%)
- Above 15 hours	15 (26%)	9 (21%)
	<u>59 (100%)</u>	<u>43 (100%)</u>
Number of engagements <sup>12</sup> with % of EQCR time <sup>11</sup> falling into the following ranges:		
- Less than 0.5%	36 (61%)	23 (54%)
- 0.5% to less than 1%	11 (19%)	10 (23%)
- Above 1%	12 (20%)	10 (23%)
	<u>59 (100%)</u>	<u>43 (100%)</u>

### ***Engagement Partner Involvement***

3.8 Supported by the data above, it is observed that the level of engagement partner involvement in audits (using recorded time involvement as an indicator) continue to be low. In many instances, we also noted that there was no evidence of timely review of key audit documents such as the planning and completion memorandums by the engagement partner.

3.9 ACRA has not attempted to set a minimum standard for an acceptable level of engagement partner involvement as we recognise that the extent of involvement

<sup>11</sup> As a percentage of total hours for each engagement inspected

<sup>12</sup> Based on engagements inspected as part of firm-level inspections which are subject to EQCR

should be material and vary according to the complexity and risk of the engagement. However, as a starting point, ACRA regard 5% of total engagement time for a low risk engagement as a reasonable target and up to 10% of total engagement time for higher risk engagement. With reference to the table above, the concentration of engagements at the lower % bands (below 5%) suggests that the engagement partner time involvement could be improved to ensure effective supervision and review, particularly for audits of PIEs which represent a higher level of concern.

### ***EQCR Reviewer Involvement***

- 3.10 Similar to engagement partner involvement, ACRA has also found the level of EQCR reviewer involvement to be less than satisfactory. In looking at the procedures that an EQCR reviewer would have to carry out on a listed entity audit and the estimated time expected to be spent in performing such procedures, it would be difficult to conclude that time spent of a few hours would have been sufficient.
- 3.11 ACRA has in, September 2011 issued an Audit Practice Bulletin: *Engagement Quality Control Review*<sup>13</sup> which contains ACRA's observations in this area as well as an illustration of the estimated amount of time expected to be spent by an EQCR reviewer in fulfilling his/her EQCR responsibilities effectively. This bulletin was developed in recognition of the importance of the EQCR process in a firm's system of quality controls for its audits. In looking at the procedures that an EQCR would have to carry out on a listed entity audit, ACRA estimates that an EQCR reviewer should be spending at least 13 to 24 hours. Similarly, with reference to the table above, the concentration of engagements at the lower % bands (below 10 hours) suggests that EQCR involvement could be improved.

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<sup>13</sup> The Audit Practice Bulletin may be accessed at [www.acra.gov.sg](http://www.acra.gov.sg)

- 3.12 Timely involvement of the EQCR reviewer is also important to allow for significant matters to be promptly resolved. In many instances, ACRA noted a lack of timely involvement by the EQCR reviewer throughout the audit process, especially at the planning stage.
- 3.13 Firms have often explained that in circumstances where partner involvement is low, senior engagement managers and experienced staff are often assigned to such audits. However, given the high staff turnover and low average years of experience of professional staff in the industry, the engagement partner and EQCR reviewer are still the most suited persons to provide the right and sufficient level of supervision and review in an audit.
- 3.14 Firms also often counter that low partner hours, both in absolute and % terms do not provide a true reflection of the engagement partner and EQCR reviewer involvement due to incomplete recording of actual time spent by partners. Recorded time involvement is an internationally accepted measure of partner involvement in engagement supervision and review for many foreign audit regulators and is often corroborated with the nature and frequency of findings arising from audit engagements selected for inspections. Based on the audit deficiencies noted from engagement inspections, ACRA believes that many of the significant audit deficiencies would not have occurred had an effective review been carried out by both the engagement partner and the EQCR reviewer.

### **Staff Training**

- 3.15 An important contributor to audit quality is the breadth and relevance of the firm's training programmes as well as the extent of participation of partners and staff in these programmes. To a significant extent, the professional development of audit professionals are dependent on obtaining sufficient levels of relevant training so that they are able to stay current and relevant with the increasing complexities of financial reporting and auditing standards.

- 3.16 Larger firms in the PIE segment typically have dedicated training resources and departments. Firms would generally tap on their internal resources by using a combination of in-house trainers, where available, and/or leverage on staff from the audit or technical department who are sufficiently knowledgeable or specialised in certain areas to conduct training. Firms which are part of a wider network may also, in certain instances, collaborate with other member firms or obtain from their network's global training arm, training materials for updates on audit methodologies and auditing/accounting standards.
- 3.17 Equipping staff with the necessary skills and knowledge on a timely manner would avoid any wastage of time spent in re-performing or re-documenting audit work due to unfamiliarity with the client's industry, the audit procedures required and / or the firm's audit methodology. This creates a win-win situation where firms stand to benefit from productivity improvements as a result of equipping and empowering staff with the necessary understanding, skills and knowledge to do the right things from the start.
- 3.18 Feedback, both solicited and unsolicited, from the firms' staff strongly indicates that professional staff place high importance in the firm's training framework for their professional development. ACRA also recognises the commitment and continued investments that firms have made in the area of staff training and development over the years. Nonetheless, we believe further improvements can be made in the following areas:

### ***Enhancing the Quality and Relevance of Training Programmes***

- 3.19 For professional staff who are involved in audits of foreign entities, it is essential that they are equipped with not only the necessary audit skills and knowledge, but also possess knowledge of the effectiveness of certain audit procedures or complexities and peculiarities of business practices in foreign jurisdictions. Whilst such training sessions are available, they could be further

enhanced by including updates and current developments on accounting and tax matters relevant to the audits of the firm's foreign entity clients and by making such training available to all staff designated to conduct such audits.

3.20 Public accounting firms who provide good training support for professional staff have often developed comprehensive case studies for internal discussion to better illustrate the practical issues and applications associated with the training topics. This is further supplemented by on-the-job coaching provided to the relevant staff to ensure that the knowledge obtained from training is appropriately applied in practice.

### ***Ensuring Staff Obtain Sufficient Levels of Appropriate Training***

3.21 A robust training framework should ensure that each level of staff attend the appropriate training relevant to their work on a timely basis. Public accounting firms operating in the PIE segment often have a process for monitoring compliance with its training requirements. Whilst firms maintain attendance records for all training courses, ACRA has noted instances where the firms' process in following up on absentees could be improved. In the absence of any make-up training or attendance at separate training runs, training materials should have been provided to the absentees and subsequent monitoring and assessment should be performed to ensure that the staff have read and understood the training materials provided.

3.22 In some public accounting firms, the process for monitoring and ensuring staff compliance with the firm's training requirements on a timely basis could be tightened. ACRA has seen instances where new joiners were immediately deployed to audit assignments prior to receiving adequate training on the firm's audit manual and methodology. In such situations, this may lead to inefficient or ineffective work performed and result in rework which becomes unproductive.

## **Quality Review Programmes to Monitor Audit Quality**

- 3.23 In the area of monitoring of audit quality, ACRA noted that most of the PIE firms inspected have a formal monitoring process to monitor the quality of the audit engagements as well as their overall systems of quality controls. This could be in the form of international network firm reviews, internal pre-issuance and/or post-issuance reviews, or other forms of internal monitoring.
- 3.24 Besides identifying inadequacies in audit work, firms are also encouraged to incorporate audit efficiency improvement elements into the scope of quality reviews on audit engagements. We have seen these elements being integrated into the quality review programmes for some firms, though to varying degrees and extent. We urge that firms continue to seek enhancements to their quality review programmes in this area. The use of monitoring mechanisms to help with the tracking of audit efficiency matters is a development in the right direction as early identification and elimination such inefficiencies would result in greater time and resource savings, without compromising audit quality.
- 3.25 Based on our inspections in this area, we note that further improvements can be made in two broad aspects, namely, the timeliness and effectiveness of reviews. They are elaborated further below:

### ***Timeliness of Reviews***

- 3.26 ACRA observed that some firms rely solely on their international network to conduct quality control reviews. For these firms, it is important that such reviews be carried out periodically as planned. There were instances where the international firm network reviews have not been performed frequently or as required in accordance with the network firm's global monitoring policy. Without any monitoring controls, firms may fail to detect non-compliances with SSQC 1 and to a more serious extent, risks associated with audit failures. In the

absence of any other internal reviews, firms would also have no means to relate the quality of audit engagements to partners' performance and compensation.

3.27 Whilst reliance may be placed on the international network for a quality assurance review, firms should evaluate whether the frequency and scope of such reviews are appropriate and sufficient for the purposes of providing reasonable assurance that the policies and procedures related to the system of quality controls are relevant, adequate and operating effectively in the areas reviewed. For areas which have not been subjected to a quality assurance review over a stipulated inspection cycle, firms could consider forming an internal team to conduct systematic periodic checks in those areas. We take this opportunity to remind public accountants that ACRA's PMP inspection is not and should not be considered a substitute for the firms' own monitoring programme<sup>14</sup> for audit quality.

3.28 In other instances, ACRA noted that post-issuance reviews were not completed on a timely basis. Ideally, such reviews should be completed and any improvement areas should be communicated, before commencement of the planning for the subsequent year's audit. Firms are also reminded to adhere to the requirements of SSA 230 *Audit Documentation* in relation to making any modifications to existing audit documentation as a result of quality reviews which occur subsequent to the complete assembly and archival of audit files.

### ***Effectiveness of Reviews***

3.29 In order to act as an effective tool to monitor and improve audit quality, it is essential that the quality review programmes incorporate the following elements:

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<sup>14</sup> SSQC 1.A67

- *Robust and relevant review scope, including file selection;*

ACRA has encountered instances where the firm’s quality review merely focused on less critical aspects of an audit such as the quality of documentation and compliance with checklists and templates. This is far from ideal as emphasis should be appropriately placed in reviewing the adequacy of audit work and sufficiency of audit evidence gathered given that identification and rectification of these deficiencies are essential to the monitoring process.
- *Competent and adequate resources*

Appropriate assignment of competent and sufficient resources is critical to upholding the rigorousness and robustness of the review process, especially in the review of areas that involve significant judgement and accounting estimates, which are increasingly prevalent in financial statements.
- *Clear distinction of results reflecting the quality of files reviewed*

In addition, ACRA has noted instances where the quality of the individual engagement files were inadequately assessed due to the quality rating system of firms not being granular enough to differentiate between the varying severity of audit deficiencies noted in the various engagements inspected. Providing clearer distinctions of the review results via the use of a sufficiently granular rating system and criteria would allow for a more effective assessment of the quality of the audit work performed for the individual engagements reviewed. The firm can then use these results to prioritise on and communicate the risk areas it wishes the audit engagement teams to improve on.
- *Open and timely communication of review findings*

It is also important that all staff are informed on the relevant findings arising from the reviews on a timely manner so as to minimise the occurrence of

repeated findings in future engagements. This could be done via training sessions or in the form of written communications. In some firms inspected, we note that communication of review findings was only restricted to the partners and engagement teams subject to the review and not shared with the rest of the audit staff to increase awareness of audit deficiencies.

- *Clear linkage between results of quality reviews and the audit professional's performance evaluation and compensation*

We found instances where there was no linkage between the results of quality reviews and their impact on the performance evaluation and compensation of the engagement team being reviewed. In order to inculcate a right behavior towards upholding audit quality, the impact of the quality review results should be taken into account in the performance appraisals of the engagement partner and senior team members. Ideally, elements of this evaluation should also be extended to the EQCR reviewer in order to promote accountability given that the EQCR reviewer plays an equally important role in safeguarding the quality of an audit engagement. All things being equal, there should be some differentiation in the remuneration of someone who has done well for a quality review versus another who has not.

### **Getting It Right From the Start**

3.30 For many public accounting firms particularly those who experience high staff turnover and have low average years of experience for their professional staff, introducing productivity measures can help the audit engagement teams focus their efforts on significant audit risk areas earlier during the audit process and in getting it right from the start. This would reduce the need for any unnecessary rework prior to the completion of audits. In driving productivity improvements, it is important that audit professionals in the firm are empowered, with the

relevant knowledge, resources and tools to plan and perform their audits efficiently and effectively.

- 3.31 Effective firm-level quality controls can act as a catalyst towards achieving productivity gains in the performance of audits. Greater and more timely partner involvement in engagement supervision and review, developing comprehensive training programmes and incorporating elements of audit efficiency into internal quality review programmes are some of the work practices that progressive public accounting firms have implemented to raise audit efficiency and effectiveness in their audits.
- 3.32 The concept of productivity is sometimes misunderstood to mean the cutting of costs to improve profits. More importantly, it involves initiatives to optimise and promote the efficient use of existing resources, systems and processes. As an advocate of audit quality, ACRA cautions that productivity gains must not be achieved at the expense of audit quality.

<b>Key Observations: Engagement Inspections in the PIE Segment</b>
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- 3.33 Based on inspections performed on engagements in both the PIE and non-PIE segment, ACRA is pleased to note that increasingly, public accountants are recognising the importance of not only performing the audit but also documenting the work performed. We have observed improvements to the level of audit documentation as compared to earlier inspections.
- 3.34 Of the various issues identified by ACRA in the course of the engagement inspections of public accountants in the PIE segment, we have selected two of the more prevalent and significant areas of concern to elaborate on the deficiencies observed and how public accountants can avoid these deficiencies by strengthening professional scepticism and audit rigour.

## **Audit of Accounting Estimates**

### ***The Requirements of SSA 540 Audit of Accounting Estimates, including Fair Value Accounting Estimates, and Related Disclosures***

- 3.35 Accounting estimates involve judgement, and the use of assumptions on matters that are uncertain at the time of estimation make auditing such estimates one of the most challenging areas for a public accountant.
- 3.36 Whilst there are different accounting standards that prescribe the accounting treatment for the various financial statement captions which are subject to accounting estimates, the requirements relating to the audit of these estimates are principally set out in one SSA; *SSA 540 Audit of Accounting Estimates, including Fair Value Accounting Estimates, and Related Disclosures*. Under SSA 540.6, the objective of the auditor is to obtain sufficient appropriate audit evidence as to whether the accounting estimates, including the fair value accounting estimates, in the financial statements, whether recognised or disclosed, are reasonable.
- 3.37 In responding to the risk of material misstatement arising from estimation uncertainty, SSA 540.13 requires the auditor to undertake one or more of the following:
- Determine whether events occurring up to the date of the auditor's report provide audit evidence regarding the accounting estimate;
  - Test how management made the accounting estimate and the data on which it is based. In doing so, the auditor shall evaluate whether:
    - (i) The method of measurement used is appropriate in the circumstances; and
    - (ii) The assumptions used by management are reasonable in light of the measurement objectives of the applicable financial reporting framework.

- Test the operating effectiveness of the controls over how management made the accounting estimate, together with appropriate substantive procedures;
- Develop a point estimate or a range to evaluate management's point estimate.

3.38 ACRA's main findings on the audit of accounting estimates are set out in the following paragraphs.

### ***Findings on Audits of Accounting Estimates***

3.39 ACRA's findings in this area have not changed substantially over the last few years. The findings typically relate to instances in which the auditor did not sufficiently test or challenge management's forecasts, views or representations and estimates in financial statement items such as impairment assessments of financial and non-financial assets including inventory obsolescence, and provisions and accruals.

3.40 These findings often resulted from a lack of professional scepticism on the part of auditors; a concern similarly shared and monitored by other audit regulators globally. Inadequate involvement by senior personnel coupled with lack of proper training leading to inexperienced staff tasked to perform audits of such complex areas are often seen as root causes to the lack of professional skepticism exhibited by the engagement team when auditing accounting estimates.

3.41 Whilst we observed a general increase in the level of awareness, guidance and training put in place by firms with respect of the audit procedures required to be performed on accounting estimates, the execution of these procedures by the audit engagement team have not been consistently applied in practice and still require improvement. These are further elaborated below.

(a) *Impairment of Financial Assets*

3.42 On the impairment of financial assets, such as trade receivables and amounts owing from subsidiaries, the audit deficiencies generally relate to the lack of an independent evaluation to corroborate management's representations on the recoverability of outstanding receivables.

3.43 In instances where such shortcomings were noted, the audit work was often limited to performing a high-level review and discussion with management on the long outstanding balances in the receivables ageing listing, after which the public accountant readily accepted management's explanations of good standing relationships with the debtor and past payment history as basis for concluding that there were no recoverability issues.

3.44 Instead of relying on these representations, the audit team should independently evaluate the credit-worthiness or financial ability of the debtor to repay the outstanding amounts, especially if they have been long outstanding. Such methods typically include reviewing subsequent receipts and correspondences with the debtor, independently examining past payment patterns, and/or reviewing management's assessment of the debtor/subsidiary's financial position to better gauge its ability to repay the amounts owed.

(b) *Impairment of Non-Financial Assets*

3.45 In ACRA's 2010 Annual PMP Public Report, we have reported on findings in the area of impairment testing of non-financial assets such as goodwill and investment in subsidiaries. The shortcomings highlighted in our previous report which continue to be found in our recent inspections include the following:

- Failure to consider impairment of underlying assets prior to using the net tangible assets value of subsidiaries to assess for indications of impairment of investment in subsidiaries;

- Insufficient testing of or challenges to the cash flow projections prepared by management;
- Inadequate assessment of the reasonableness of discount rates used; and
- No assessment of reversal of impairment loss previously recognised

3.46 In particular, many of the audit deficiencies pertain to the assessment of management's discounted cash flow and value-in-use analysis in relation to the impairment of investment in subsidiaries and goodwill. There continues to be a lack of challenge by the public accountant of the management's assumptions of growth rates, use of discount rates, and terminal value. We also noted instances in which the public accountant did not:

- test the source of the data used in the computation;
- review and consider the changes made to prior year's assumptions; or
- test the sensitivity of the discounted cash flow analysis.

3.47 The work performed by the public accountant should not be limited to merely enquiring management on the method and assumptions used. Instead, the audit procedures should also be focused towards assessing and considering whether these methods and assumptions used are appropriate or reasonable.

3.48 ACRA is of the view that the assessment and evaluation of the reasonableness of accounting estimates relating to cash flow forecasts and value-in-use analysis should be carried out and documented by the senior members of the audit team, as junior members may lack the necessary experience to perform a rigorous review and the clout to challenge management's assumptions. In instances where the subject estimation matter requires specialised skill or knowledge, the public accountant should also, as prescribed under SSA 540.14, consider the need for use of an expert in assessing such estimates.

(c) *Inventory obsolescence*

3.49 For inventory obsolescence, shortcomings arise mainly due to the public accountant readily accepting management's representation of the extent of the allowance required without truly understanding the nature of the inventories and/or the business. Instead of placing undue reliance on management's representations, the public accountant should perform its own corroborative work and assessment such as considering the life-cycle of inventory or the past history of inventory obsolescence before concluding that the basis for the allowance for inventory obsolescence is reasonable.

(d) *Provisions and accruals*

3.50 The nature and extent of accounting estimates in this area vary. In the same manner, the necessity and adequacy of some provisions and accruals may be easier to assess and evaluate as compared to others. Hence, it is not unexpected that our findings in this area typically relate to inadequate work performed in provisions and accruals which involve a greater level of judgment such as warranty obligations, staff benefits and customers' rebates.

3.51 The type of findings which are commonly found include:

- no or inadequate work done to test the completeness and accuracy of the underlying source data for provision and/or accruals; and
- no or inadequate assessment of the relevant factors to support management's estimates of provisions and accruals; for example, in reviewing historical data of payment or settlement.

3.52 In performing corroborative audit procedures for provisions and accruals, the public accountant should understand management's basis for such estimates and test the reasonableness of these estimates by assessing their historical accuracy and/ or reviewing available supporting documents. In performing such

assessments, past history usually serve as a useful indicator of present obligations and provide an avenue for questioning management's current estimates, for example, as to why unpaid prior year's accruals continue to be required to be provided for in the current year.

### **Group Audit Considerations – Audits of Significant Components with Foreign Operations**

3.53 The revised SSA 600, which sets out the requirements and guidance for group audits, in particular those that involve component auditors, came into effect for audits of financial statements for financial periods beginning on or after 15 December 2009. The basis of the revised SSA 600 was to strengthen the quality and uniformity of the audit procedures performed for group audits, some of which were already in practice. Specifically, the revised SSA 600 called for more emphasis on the timely communication between the group engagement team and the component auditors, and also greater timely involvement in the work and risk assessment process in the audit of significant components by the group auditor.

3.54 For group audits, complexities often arise when a company has a multitude of operations, assets and liabilities distributed in various jurisdictions throughout the world. This is further complicated by external factors such as local customs and regulations, business practices, economic and socio-political influences which inadvertently have an impact on the company's foreign operations. Therefore it is important for the group auditor to perform advanced planning to obtain a thorough understanding of the audit risks of the group and business structure. This will enable the group auditor to customise and issue clear group audit instructions and establish timely communications with the component auditors. This would also reduce the risk of unplanned rework by the

component auditor which could be detrimental to audit quality due to tight reporting timelines.

3.55 ACRA continues to identify consistent findings in group audits with those previously highlighted in our 2010 Annual PMP Public Report<sup>15</sup>. This indicates that further improvements are still necessary in this area of concern. Given its nature and importance, the conduct of group audits will continue to be a key focus of ACRA's inspection.

3.56 ACRA's main findings relating to such group audit engagements were that improvements could be made in the following areas:

(a) *Understanding the laws and regulations of foreign jurisdictions*

3.57 Public accountants are required by professional standards to gain an understanding of the entity and its environment. This is particularly critical when auditing an entity with operations in foreign jurisdictions. However, there are often practical difficulties in gaining an understanding of the relevant business customs and practices. This is because the barriers to effective communication extend beyond language to business etiquette and social expectations. Other differences can stem from the fact that contracts in certain jurisdictions could be less formal, with reliance of more verbal rather than written agreements.

3.58 We note that some Singapore public accounting firms deploy their own teams to audit the foreign operations for group consolidation purposes, rather than relying on the audit work of the member firm or foreign auditor in the foreign country. Whilst we do not have any objections to such arrangements, in some instances, this has resulted in the Singapore audit engagement team experiencing difficulties in obtaining an understanding of foreign laws and

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<sup>15</sup> Please refer to Section 3.64 to 3.73 of ACRA's 2010 Annual PMP Public Report

regulations, especially in areas such as tax, social security and staff welfare schemes for audit purposes.

3.59 Thus, firms should consider the involvement of experts, its member network firms, or other suitable component auditors in the audits of such cross-border engagements, particularly in areas where it may not have the local expertise and current knowledge or experience to perform a review or an audit. In arriving at the appropriate audit strategy, the firms should bear in mind the following:

- Consideration of the skills and competencies of Singapore audit teams in terms of understanding foreign rules and regulations (not restricted to auditing and accounting standards) and in particular, the implications of tax structures in foreign jurisdictions, in order to effectively evaluate the risk of material misstatements; and
- Consideration of the competency and independence of local expertise or specialists and to consider the quality of the procedures performed and the audit evidence obtained to support the representations made by management.

*(b) Assessing the professional competence and objectivity of the component auditors*

3.60 Previously highlighted in our 2010 Annual PMP Public Report, ACRA continues to observe a lack of assessment on the professional competency and objectivity of the component auditors by the group auditor.

3.61 In this respect, it must be stressed that the group auditor should assess the professional competency of the component auditors whose work is intended to be relied upon, even if the component auditor is part of the same international network of firms. Such assessment should be reviewed throughout the audit process and re-evaluated for each recurring engagement. The competence, objectivity and audit quality of a network member firm cannot be a presumption simply based on the component auditors' network membership.

(c) *Evaluation of the appropriateness of audit procedures performed and the sufficiency of audit evidence gathered by component auditors*

3.62 ACRA has noted instances where improvements could be made by the public accountant in evaluating the appropriateness and sufficiency of the audit evidence gathered by the component auditor; a requirement under SSA 600.44.

3.63 Weaknesses were specifically noted in the group auditor's evaluation of procedures performed by the component auditor to support the foreign entity's compliance with tax and business regulations applicable in the relevant jurisdiction. The evaluation of the component auditor's work, including obtaining an understanding and assessment of the procedures performed and issues discussed during conference calls and the group auditor's review of the component auditor's reporting deliverables should be sufficiently documented.

3.64 In other instances, ACRA noted that there was no evidence of work performed to obtain updated subsequent events clearance from the component auditor prior to or at the date of the audit report.

(d) *Reconciliations of differences between foreign GAAP and accounting policies used by other entities within the group*

3.65 If the financial information of a component has not been prepared in accordance with the same accounting policies applied to the group financial statements, the group auditor is required to evaluate whether the financial information of that component has been appropriately adjusted for purposes of preparing and presenting the group financial statements by comparing the impact of such differences. ACRA has noted instances where there was no evidence of the group auditor's assessment of differences between the foreign entity's local accounting standards and the Singapore FRSs or local versus group accounting

policies such as inventories costing and property, plant and equipment depreciation policies.

## 4 AUDITS OF NON-PUBLIC INTEREST ENTITIES

- 4.1 Singapore has over 600 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.
- 4.2 For firms in the non-PIE segment, ACRA's PMP is currently limited to individual detailed engagement inspections and public accountants are selected for inspections on a risk-based approach.
- 4.3 Notwithstanding our inspection methodology for the non-PIE segment, ACRA still sees it as important for firms in this segment to institutionalise a robust system of quality control, catered according to its size and complexity of its operations, in order to provide a sustainable structure to ensure consistency in audit quality without depending on any single individual to maintain the level of audit quality. This is also in line with the requirements of the SSQC 1, which are applicable to all firms, regardless of size, and the SSA 220 *Quality Control for an Audit of Financial Statements* which are applicable to all individual audit engagements.

### **Key Observations: Engagement Inspections in the Non-PIE Segment**

- 4.4 Having undergone the first cycle of inspections, public accountants in the non-PIE segment understand the need to conduct good quality audits. From a risk management perspective, a well planned and performed audit has enabled the public accountant to identify and respond accordingly to significant audit matters. ACRA is pleased to note that most public accountants have made efforts to improve based on findings in their last inspections. As a result, ACRA has observed a higher number of pass cases for public accountants in

this segment in the last year. Some have also passed their revisits (having failed the last time) without any main inspection findings identified.

4.5 Whilst noting improvements, ACRA continues to emphasise the need to address deficiencies in the following areas which are applicable to most financial statement audits:

- Valuation and existence of inventories
- Existence and recoverability of trade receivables
- Existence and accuracy of revenue and other significant profit and loss items

4.6 Details on the nature and description of these findings, including ACRA's expectations and the practical guidances available have previously been elaborated extensively in Section 4 of our 2010 and 2011 Annual PMP Public Report, and as such, they will not be repeated in this year's report. ACRA's PMP inspections will continue to pay particular attention to the areas noted above.

4.7 In many instances of the deficiencies noted, our inspections indicate inadequate or poorly executed audit procedures that fail to address the relevant audit objectives. From our observation, we believe these could have been mitigated through more timely and effective supervision and review by experienced members of the audit engagement team, namely the audit engagement partners. The benefits of experience are two-fold; First, it acts as an enabler for more effective audits as interactions with senior practitioners allow engagement teams to develop a better understanding in focusing their efforts on performing appropriate and sufficient audit procedures. Secondly, this would also lead to work efficiency gains as unnecessary audit procedures are eliminated.

4.8 In supporting the adequacy and timeliness of supervision and review by senior practitioners, the performance of proper audit planning and risk assessment also plays an important role in the execution of the audit process. We have observed

instances where lack of proper planning at the onset of the audit has led to failures in properly identifying key risks and in performing fundamental audit procedures. ACRA continues to advocate the need for proper audit planning and risk assessment to ensure that appropriate attention is devoted to important areas of audit and for potential problems to be identified and resolved on a timely basis.

### **Findings Relating to Audits of Construction Contracts**

4.9 In addition, one of the areas that ACRA has found an increased number of findings is in the audits of construction companies, particularly with respect to the application of the requirements in FRS 11 *Construction Contracts*.

4.10 The following paragraphs below elaborate on the findings and set out ACRA's expectations in respect of these findings.

(a) *Ascertaining the Stage of Completion for Construction Contracts*

4.11 FRS 11.30 allows the stage of completion to be determined in several ways, but the more common methods adopted by the industry are the "costs-on-costs" method or recognition of contract revenue and costs based on surveys of work performed and certified by in-house or third party engineers.

4.12 Recognising that there are various methods that can be used to determine the stage of completion of a contract, the public accountant should fully understand the method adopted by management when designing and performing the audit procedures. With this understanding, the public accountant should perform an independent assessment on whether the method adopted by management is reflective of the nature of the contracts entered into by management and whether it is a reliable measurement of the actual work performed. In this respect, it is noted that progress payments made and advances received from customers which are not associated with completion of the physical proportion of the

contract work performed should not be used as basis to determine the stage of completion for construction contracts.

4.13 From the relevant engagements inspected, several instances were noted where the assessment of the stage of completion of construction contracts was not sufficiently or independently verified. This shortcoming often arose due to inadequate work performed on the revenue and/or costs components for revenue recognition of construction contracts, as described further below.

*(b) Ascertaining the Total Contract Sum for Revenue Recognition*

4.14 There were several instances where no work was performed to ascertain the completeness and accuracy of the total contract revenue sum which serves as a component for revenue recognition of construction contracts. In other instances, the public accountant recognised contract revenue based on progress billings raised without performing other audit procedures to determine if such revenue recognition was appropriate under FRS 11.

4.15 In ascertaining the completeness and accuracy of contract revenue, it is crucial that the public accountant perform a review of all significant contracts entered into on a contract-by-contract basis. As part of this review, the public accountant should ascertain that the total contract revenue accurately captures not only the initial contract sum signed but also any subsequent variation orders or relevant correspondences arising from changes in the scope of construction work. For the variation orders noted, the public accountant should also demonstrate a healthy level of professional scepticism by inquiring and obtaining an understanding of the nature of the variation works entered into and their potential corresponding impact or revisions to the total estimated contracts costs.

(c) *Ascertaining the Total Estimated Contract Costs and Contract Costs Incurred To-Date*

4.16 Several instances were noted where no or inadequate work was performed to address the relevant existence, accuracy and/or cut-off audit assertions pertaining to total estimated contract costs and contract costs incurred to-date. The findings described above often arose from public accountants who place undue reliance on management representations during the audit.

4.17 The public accountant should perform independent verification procedures to ascertain the reasonableness of the estimated total contract costs and the existence and occurrence (cut-off) of costs incurred to date. For estimated total contract costs, this should include verification of significant components in such contract costs to quotations obtained, contractual agreements signed or assessing the basis used to determine overhead estimates such as labour costs. In respect of costs incurred to date, the public accountant should obtain a breakdown of individual costs and verify the costs incurred to source documents such as suppliers' invoices with delivery orders and assess the reasonableness and appropriateness of the allocation basis for allocated costs.

(d) *Assessment of the provision for foreseeable losses*

4.18 Numerous instances were noted where the public accountant did not perform adequate work to assess the provision for foreseeable losses. The work performed was often limited to enquiries and merely recording how management have derived the estimates of the total contracts costs incurred in comparison to contract revenue.

4.19 Public accountants should always be on the lookout for indicators of foreseeable losses in construction contracts. Such indicators typically include contract-specific factors such as the specific project's attributable profit in comparison to

similar projects' attributable profits and stage of completion, major construction delays, cost overruns, termination of contracts resulting in lawsuits or activation of penalty and compensation clauses to macro-economic factors such as interest rate hikes or prolonged and significant economic downturns.

4.20 In instances where foreseeable losses has been determined by management, the public accountant should perform corroborative procedures to assess the reasonableness of these estimates such as performing corroborative enquiries with the project management personnel about the basis of the estimates and the estimation process, assessing the historical accuracy of such estimates, and reviewing other supporting documents such as legal correspondences, project status reports and correspondences with customers, subcontractors and/or suppliers.

## 5 RECENT AND UPCOMING DEVELOPMENTS

5.1 In this section, ACRA highlights recent and upcoming developments set to impact the accountancy profession in Singapore, as well as other international audit policy developments.

### Recent and Upcoming Developments in Singapore

#### Review of the Accountants Act

5.2 An update of ACRA's governing legislation, the Accountants Act (the Act), is underway. The Act establishes the framework for the registration and oversight of public accountants. Its last significant amendment, in 2004, transferred the Public Accountants Board's functions to ACRA as part of the establishment of the new independent auditor oversight regime. The proposed amendments aim to update the Act, in line with local and international developments in audit regulation and improve ACRA's effectiveness in promoting audit quality and protecting public interest.

5.3 As the review covers a wide area, ACRA consulted the key stakeholders in two phases during 2011, and having considered the feedback obtained, issued a general public consultation paper<sup>16</sup> in May 2012. The main proposals in the consultation paper are:

- *Ensuring good quality control frameworks for the audit and review of entities that have a significant public interest*

It is proposed that audit firms that plan to audit or review entities with significant public interest, must first meet certain pre-conditions, such as having in place a quality control framework in line with the expectations of SSQC 1, which is equivalent to the international standard.

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<sup>16</sup> The Public Consultation Paper may be accessed at [www.acra.gov.sg](http://www.acra.gov.sg)

- *Enhancing ACRA's ability to inspect audit quality controls and policies of audit firms and require audit firms to improve, where necessary*

It is proposed that statutory powers will be introduced to enhance ACRA's inspections of audit firms' quality controls and policies, so as to ensure that audit firms undertake appropriate remedial actions when weaknesses are identified. This will bolster ACRA's existing firm inspection programme in particular by introducing remedial requirements and possible sanctions if remedial steps are not sufficient. This is in addition to ACRA's existing statutory inspections of the work of individual public accountants.

- *Making practical experience in key audit functions a core requirement for registration as a public accountant*

This involves proposals to simplify the practical experience requirements for purposes of registration with ACRA and focus them on a public accountant's core responsibilities.

- *Clarification of the scope of ACRA's regulation*

ACRA's scope will be clarified so that is clear that it includes voluntary audits of financial statements, i.e. not just audits required by law; and will be extended to include reviews of financial statements/ information.

- *Enhancing ACRA's ability to respond swiftly to protect public interest and uphold public confidence, through the establishment of a Special Investigation process*

This involves proposals to have a special investigation process to improve ACRA's ability to deal with public interest cases of potential non-compliance with requirements such as the auditing standards that may harm investors' interest or damage confidence in public accountants. A specific special investigation process will enable ACRA to investigate swiftly, more consistently and effectively.

The amended Act will likely be enacted in 2013.

## **The Singapore Qualification Programme (SQP) Framework**

5.4 The SQP framework, which sets out the pathway to becoming a Singapore professional accountant, is currently being developed by the Pro-Tem Singapore Accountancy Council as Singapore seeks to position itself as a global centre for professional accountancy development. The SQP framework aims to:

- provide a pathway for professional accountancy qualification and recognition for individuals who aspire to be business professionals in leading the shaping and performance of organisations;
- expand the talent base for the accountancy sector through attracting graduates with accountancy degrees and other disciplines as well as graduates from the region; and
- augment the rich diversity of leading international professional accountancy qualifications being offered in Singapore, which is recognised as an important element in the attraction and professional development of talent in the sector.

The SQP is expected to be launched in June 2013. A discussion paper seeking public feedback on the SQP was issued in May 2012.

5.5 In developing quality and well-skilled professionals, under the proposed practical experience component of the SQP framework, a minimum professional practice experience of 3 years would have to be obtained via employment-cum-training contracts with an Accredited Training Organisation<sup>17</sup> (ATO).

5.6 Given the series of upcoming developments such as the Accountants Act review and the SQP that help with challenges such as talent and risk management, the accountancy profession can look forward to changes that will instil a more

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<sup>17</sup> These are employers of SQP candidates, accredited by Pro-Tem SAC to offer the practical experience component of the SQP.

structured approach towards the regulation and development of audit professionals and public accounting firms. These developments are set to shape the future course and direction of the profession in contributing towards promoting audit quality, enhancing audit productivity and ultimately improving market confidence in audits.

### **Regulatory and Enforcement Efforts in Registration Renewal Applications by Public Accountants**

- 5.7 Public accountants are expected to exercise due care when completing the registration renewal forms and ensure the accuracy of the information declared. ACRA would not hesitate to take stern enforcement actions against those found to have made false or fraudulent declarations in connection with the registration renewal applications.
- 5.8 In the past, ACRA has performed various verification checks on different aspects of information submitted as part of the registration renewal process. For example, for 2011 registration renewals, ACRA performed a test check on the number of listed corporations audited by the public accounting entity in which the public accountant is practising as declared by public accountants in their registration renewal forms. This number determines the variable component of the fee for renewal of the certificate of registration payable by a public accountant.
- 5.9 Through this exercise, ACRA has found a number of instances of inaccurate declarations made by public accountants. Whilst most of these inaccuracies did not result in a renewal fee change due to the tiered fee structure adopted, there was an instance that resulted in underpayment of fee by a public accountant and ACRA has since recovered the shortfall in payment. ACRA would not hesitate to take stern action against public accountants should such errors continue to occur in their future declarations.

5.10 For 2012, ACRA will be checking on the compliance with section 56(1)<sup>18</sup> of the Accountants Act, particularly for public accountants whose registration have been suspended or cancelled. A public accountant who is suspended from practice is deemed not to be registered as a public accountant under the Act. As such, a public accountant whose registration has been suspended or cancelled is not allowed to practise as a public accountant or hold himself out to be a public accountant or convey the impression that he is a public accountant during the period of his suspension or after his registration as a public accountant has been cancelled. ACRA will take appropriate enforcement actions against those who are found to be in breach of section 56 of the Act. In addition, firms seeking to employ a public accountant whose registration has been suspended or cancelled would also need to seek permission from ACRA in doing so.

### **Regulatory Efforts in Financial Statement Reviews and Enforcement**

5.11 ACRA recognises that both the preparers and auditors play an important role in upholding the integrity and quality of financial reports. To this end, preparers of financial statements, i.e. the company directors are also subject to ACRA's regulatory oversight to provide a set of Singapore FRSs compliant financial statements to be presented to shareholders at the annual general meeting.

5.12 Through ACRA's Financial Reporting Surveillance Programme (FRSP), financial statements filed with ACRA are proactively monitored for non-compliances with FRSs. In this regard, ACRA values a public accountant's work in reporting non-compliance and the FRSP has focused on modified audit reports of listed companies and charities. ACRA urges public accountants to

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<sup>18</sup> Section 56(1) of the Accountants Act states that "a person who is not registered as a public accountant under this Act shall not (a) practise as a public accountant; (b) hold himself out to be a public accountant; (c) use in connection with his name or otherwise assume, use or advertise any title or description tending to convey the impression that he is a public accountant registered under this Act, or that he is otherwise authorise to provide public accountancy services in Singapore. "

remain impartial in doing what is right and not yield to inappropriate client pressures or demands in the reporting of these matters.

- 5.13 Since the FRSP commenced in July 2011, there were 126 sets of financial statements reviewed and clarification letters were sent to directors of these entities. In a few instances, ACRA has issued warning letters to directors found negligent in ensuring that financial statements filed with ACRA are compliant with FRSs as well as required the companies to restate their financial statements.
- 5.14 Provisions in the Companies Act also allows for prosecution action to be taken against the directors in instances of non-compliance. In the same regard, action can also be taken against the public accountant for giving an improper audit opinion to the financial statements.
- 5.15 One particular common area of non-compliance detected from the FRSP pertains to FRS 105 *Non-current Assets Held for Sale and Discontinued Operations* whereby companies either wrongly classify portion of their business operations as held for sale, or failed to present the comparatives for discontinued operations. A wrong classification will lead to misstatements of the performance and financial position of a company, whereas failure to present the comparatives for discontinued operations will prevent the reader from understanding the full impact of the discontinued operations (i.e. no comparison over time).
- 5.16 As part of initiatives carried out to educate preparers of financial statements on the common types of disclosure deficiencies, ACRA will in the later part of this year, be publishing a report on key disclosure deficiency observations arising from PMP inspections conducted on engagements in the non-PIE segment. A copy of the publication will be made available on ACRA's website.

5.17 In addition, ACRA has also started publishing Financial Reporting Practice Guidances (FRPGs). The FRPG serves as a learning tool in highlighting key points in selected FRSs which directors should take note of during their review of the financial statements. For example, the inaugural Financial Reporting Practice Guidance No. 1 of 2012: *Accounting Considerations in an Uncertain Economic Environment*<sup>19</sup> focuses on some of the pertinent considerations in FRSs which directors should pay particular attention to during periods of uncertain economic environment. Through the FRPGs, ACRA seeks to generate further awareness by directors on the requirements of FRSs and in the process, aim to ensure that these requirements are complied with in the preparation of financial statements.

### **Updating of the Code of Professional Conduct and Ethics**

5.18 In 2009, the IESBA of the International Federation of Accountants (IFAC) issued a revised version of the Code of Ethics (the Revised IFAC Code). In Singapore, ACRA is currently adopting the Code of Ethics and Professional Conduct (the Singapore Code) which is based on the earlier Code of Ethics originally issued in 2006 by IFAC. ACRA has noted that some public accounting firms in Singapore have already ensured that their procedures comply with the Revised IFAC Code as part of their own internal controls.

5.19 ACRA is now considering adopting the amendments from the Revised IFAC Code into the statutory Singapore Code. This consideration has been assisted by the Ethics Sub-Committee (EC) of the PAOC comprising senior members of the profession and stakeholder representatives. A consultation paper by the EC on this is due to be issued in the second half of 2012. The resulting amendments will likely come into force in 2013.

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<sup>19</sup> The Practical Guidance may be accessed at [www.acra.gov.sg](http://www.acra.gov.sg)

## **International Audit Policy Developments**

- 5.20 Internationally, foreign regulators and policy makers have been reviewing policies and considering reforms with the aim to improve the auditor reporting model and transparency of audits, enhance auditor independence and address market concentration issues.
- 5.21 For example, the European Commission is considering reforms to strengthen the audit market in the European Union through proposals to address perceived threats to audit quality arising from independence and market concentration issues. In addition, both the IAASB and the Public Company Accounting Oversight Board (PCAOB) in the United States are engaged in projects and proposals relating to improving the auditor reporting model.
- 5.22 In Singapore, ACRA has the same concerns about maintaining audit independence and improving auditor reporting. Therefore, ACRA will be closely monitoring such international developments and consider the need to adopt where it might benefit audit quality and stakeholders in Singapore. ACRA may also seek views on such matters at the appropriate juncture.

## 6 INITIATIVES AVAILABLE TO HELP THE PROFESSION

- 6.1 Whilst the aim of the PMP is to improve audit quality, ACRA recognises that the accountancy professional bodies are essentially responsible for helping their members and the accountancy profession to uphold professional standards. As a facilitator of the public accountancy profession's development, ACRA collaborates with the various accountancy professional bodies in Singapore to identify initiatives that can be carried out to raise awareness of audit quality issues and provide avenues for learning.
- 6.2 These initiatives are designed to help public accountants make improvements and remedy audit deficiencies identified from the PMP inspections. Some of these initiatives also contribute towards helping its members identify potential areas for productivity improvements. In this report, we share some of their initiatives with you.

### ICPAS Initiatives

#### *Launch of Quality Assurance (QA) Framework*

- 6.3 In March 2012, ICPAS launched the QA Framework concept aimed at enhancing the audit quality of small and medium-sized public accounting firms in Singapore. Embedded in the QA Framework are five key thrusts to achieve its goal: Technical Advisory, Quality Assurance Review, Technical Clinics, Training and Implementation of SSQC 1.
- **Technical Advisory** (on-going) includes the launch of an online technical forum, leveraging on technology to deliver to its members a dedicated platform for them to share their technical enquiries, experiences and views with one another to promote learning within the profession. This technical forum is scheduled to commence in September 2012;

- **Quality Assurance Review** (scheduled to commence in September 2012) includes the detailed review of engagement files to highlight strengths and identify areas of inadequacies in relation to relevant accounting and auditing standards, and to provide advice on areas of improvement with regards to the issues identified. It also aims to share best practices with its members and assist them in managing their practice risk;
- **Technical Clinics** (on-going) are topical-based small group discussions led by a senior facilitator, and aim at helping public accountants share various perspectives relating to auditing and accounting issues with one another;
- On **Training** (on-going), ICPAS has launched The ICPAS Professional Certificate in Audit Skills which serves to equip audit professionals with practical audit knowledge and skills. This training serves as a useful refresher for those who wish to update their audit knowledge and competence and keep abreast with the latest developments in the SSAs; and
- For **Implementation of SSQC 1** (on-going), ICPAS has, in March 2012 collaborated with the Institute of Chartered Accountants in England and Wales (ICAEW) to conduct a workshop “Quality Controls for Auditors: Raising the Bar”. This workshop was aimed at helping public accountants understand the requirements of the SSQC 1 and the support and resources available to help address implementation issues. Going forward, ICPAS also plans to develop useful help guides for the profession in this aspect.

### *Seminars/Technical Discussion Groups*

6.4 ICPAS had in 2011, rolled out two seminars and two technical discussion groups as an extension of its outreach efforts on Clarified SSAs. Public accountants are encouraged to look out for the annual Seminar on Observations by the Financial Statements Review Committee aimed at sharing with the profession common weaknesses and mistakes noted in the presentation and disclosure of financial statements.

## ***Publications***

6.5 In respect of its publications initiative, ICPAS has issued the Clarity Bulletin 2: *A Practical Approach to Clarified SSAs*, which was developed to provide practical guidance to public accountants when applying and implementing selected Clarified SSAs. The Clarity Bulletin serves to highlight some of the challenges faced by public accountants in the application of new or revised requirements in the Clarified SSAs and provides suggestions on how public accountants may deal with them. Over the years, ICPAS has also published several practical guidances to assist public accountants in addressing common audit issues faced.

## ***Knowledge Centres***

6.6 Leveraging on the Knowledge Centres initiative, ICPAS plans to enhance the contents of its three key technical online knowledge centres, namely the ICPAS Centre for Auditing and Assurance, the ICPAS Centre for Financial Reporting and the ICPAS Ethics Centre. In particular, audit practitioners can look forward to enhancements in the ‘Frequently Asked Questions’ section which will have more relevant questions and mini-case studies.

## **CPA Australia Initiatives**

### ***Continuing Professional Development***

6.7 In helping public accountants keep abreast with the latest developments in the industry and equipping them with the necessary skills, CPA Australia holds a monthly workshop on ‘Public Practice Development Program’. The sessions in the programme focus on current challenges and emerging trends in public practice in the areas of tax, practice management, audits and business refining strategies.

### ***Knowledge Portals and Publications***

- 6.8 The CPA Australia website has nine topical knowledge portals aimed at providing its members easy access to resources and technical guides. In addition, the ‘Practice Management’ knowledge portal has a comprehensive toolkit for members on topics such as the management of practices, quality assurance and risk management.
- 6.9 ‘InPractice’ is a publication for CPA Australia’s public practitioners. The publication features technical updates and views on issues such as clean energy, staff recruitment and ethical challenges.
- 6.10 On the productivity front, CPA Australia has also published a book on productivity to help people understand how accounting can make their businesses more productive and where to seek help in doing so.

### ***Quality Assurance Review Mentor Program***

- 6.11 CPA Australia has a mentoring programme where review and mentoring services are available for its Singapore members in the public accountancy profession. Through the conduct of reviews on the practitioners’ audit work, the programme aims to assist audit practitioners in complying with the relevant professional standards in their course of work. Through this review process, they will also be informed of areas requiring improvements. This service, which is provided by experienced practitioners, is modelled after the Quality Assurance Review Program in Australia.

### ***ACCA Initiatives***

- 6.12 ACCA holds regular “Practitioners’ Clinics” for public accountants. These clinics discuss the latest technical and business issues relevant to small and medium-sized audit practices (SMPs), including the latest PMP findings and

Audit Practice Bulletins or Practice Directions issued by ACRA. This provides a platform for public accountants to network and share auditing practices with others in the profession.

- 6.13 During the year, ACCA has also partnered with a Big-Four public accounting firm, to conduct an outreach programme, targeted mainly at CEOs and CFOs, to inculcate an appreciation for financial reporting among directors. The event's objective was to engage senior management in the financial reporting process to raise the quality of financial statements and consequently, the quality of corresponding audits.
- 6.14 ACCA also regularly conducts and publishes various research reports. ACRA has collaborated with ACCA in some of its research; the latest two of which were: first, a survey which focused on talent attraction and retention within the profession and second, a survey which collated and analysed the views of directors on the value of audit.
- 6.15 In 2011, ACCA launched a Global Forum for Audit and Assurance. This Forum serves to provide input into audit standards setting and aims to help identify, evaluate and champion new and alternative forms of assurance, which bring value to investors, businesses and the public.
- 6.16 Other ACCA initiatives include conducting regular seminars, workshops and conferences which cover technical, business, leadership and management topics relevant to public accountants and SMPs.



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