

AUDIT REGULATORY REPORT 2024

Delivering Positive Impact through Quality Management



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Glossary of Terms

ACRA	Accounting and Corporate Regulatory Authority
ACRA Code	Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities
AB	Audit Bulletin
AE	Accounting Entity
AQI	Audit Quality Indicator
CPE	Continuing Professional Education
FRS	Financial Reporting Standard
IESSA	International Ethics Standards for Sustainability Assurance
ISCA	Institute of Singapore Chartered Accountants
ISSA	International Standard on Sustainability Assurance
ISSB	International Sustainability Standards Board
PA	Public Accountant
PAOC	Public Accountants Oversight Committee
PIE	Public Interest Entity
PMP	Practice Monitoring Programme
PMSC	Practice Monitoring Sub-Committee
RPA	Robotic Process Automation
SGX	Singapore Exchange
SMP	Small and Medium-sized Practice
SoQM	System of Quality Management
SSA	Singapore Standard on Auditing
SSQM	Singapore Standard on Quality Management

Section 1: Executive Summary

Delivering Positive Impact through Quality Management

- 1.1 Accounting and Corporate Regulatory Authority (ACRA) is responsible for ascertaining the compliance of Accounting Entities' (AEs') and Public Accountants' (PAs') with the prescribed professional standards and requirements. This helps to drive ACRA's strategic objective of raising audit quality and upholding public confidence in the integrity of financial reporting. In that regard, ACRA would conduct inspections on AEs and PAs and take enforcement actions against those who fail to meet the standards and requirements, as well as drive initiatives to support professionalism in the sector.
- 1.2 This report gives an overview of recent developments in the regulatory regimes (Section 2), as well as an analysis of key Quality Control (QC) and engagement inspection findings (Sections 3 and 4).
- 1.3 ACRA has noted improvements and positive outcomes resulting from remedial actions implemented by certain AEs in the course of ACRA's QC inspections. This report highlights some of these good practices that will be helpful guidance on ways to strengthen the System of Quality Management (SoQM) and to address complexities in audits.
- 1.4 The recurring themes in ACRA's findings on audit quality have been that of accounting estimates, auditor's report and group audits. However, there are two emerging themes, namely fraud risk assessment and business combinations. It is crucial for auditors to adapt to the new challenges presented by today's digital age and evolving business landscape. By staying abreast, the profession can better fulfil its duties in executing high quality audits and deliver high quality services to their clients.
- 1.5 Looking ahead, the demand for sustainability reporting and assurance is expected to increase significantly. Section 5 of this publication draws attention to the upcoming developments in the sustainability reporting and assurance landscape and regulatory environment. The profession is encouraged to equip themselves with the necessary resources, knowledge and skill sets to stay relevant in this emerging field.
- 1.6 ACRA encourages the audit profession to draw lessons from the inspection findings and leverage on emerging opportunities to deliver a positive impact through effective quality management.
- 1.7 To support the audit profession and promote a culture of continuous improvement, ACRA collaborates with industry stakeholders in availing to the audit profession guidance materials, certification programmes and technological grants to facilitate the AEs in developing the right capabilities and capacities. Further details on these initiatives are set out in Section 6.

Section 2: Scope of ACRA's Audit Regulatory Work

ACRA's Inspection Activities and Approach

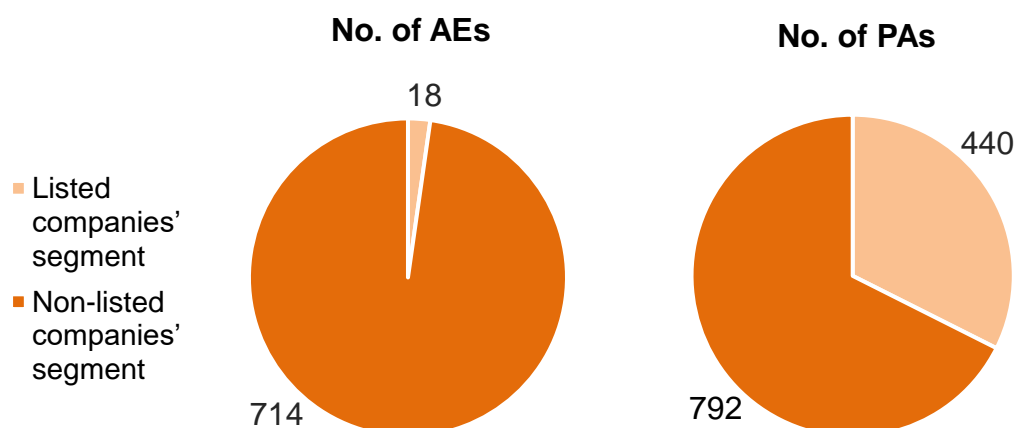
- 2.1 ACRA's inspection programmes play a crucial role in raising audit quality, advancing high standards in the audit profession and fostering greater confidence in the financial reporting ecosystem.
- 2.2 ACRA's inspection programmes comprise the following key building blocks:
- (i) A **QC inspection** involves a review of design, implementation and operating effectiveness of the SoQM established by an AE in compliance with Singapore Standards on Quality Management (SSQMs).
 - (ii) An **engagement inspection** conducted under the Practice Monitoring Programme (PMP) entails a review of audit engagement(s) performed by a PA in compliance with professional standards.
- 2.3 A risk-based inspection approach continues to be the cornerstone of ACRA's regulatory regime. PAs and audit engagements are selected based on a data driven risk profiling model, which considers a range of factors, such as capacities and capabilities of the PAs, complexities of the engagements and the level of public interest involved.
- 2.4 A robust SoQM provides a supportive environment for engagement teams, thus laying the foundation for consistent execution of high quality audits. Given the interplay between the SOQM and the audit engagements, the outcome of QC inspections will be considered in determining the intensity of the engagement inspections.

The Public Accountancy Landscape in Singapore

- 2.5 ACRA regulates 732 (2023: 720) AEs and 1,232 (2023: 1,210) PAs as of 31 March 2024.
- 2.6 ACRA's inspection programmes on AEs and PAs can be seen in terms of two segments:
- (i) **Listed companies' segment** includes PAs practising in audit firms that perform audits of listed entities.
 - (ii) **Non-listed companies' segment** includes PAs practising in audit firms that perform audits of non-listed entities only.

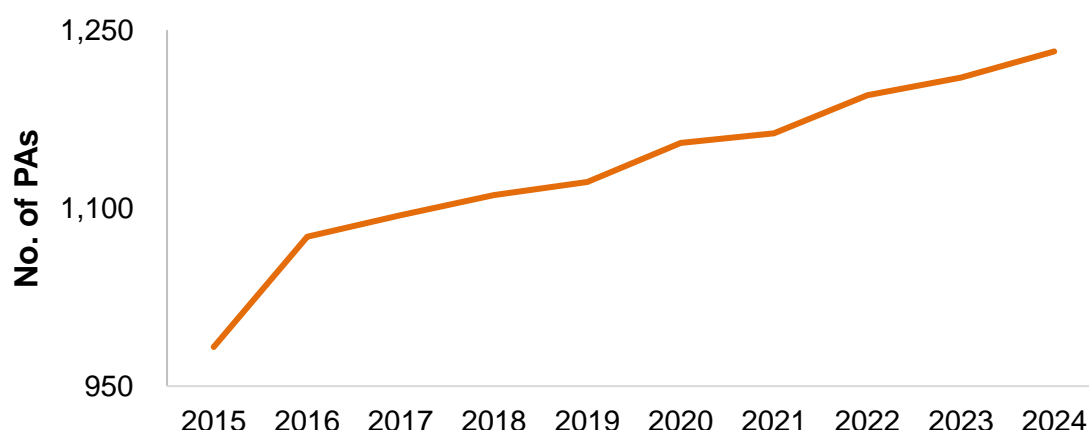
- 2.7 The distribution of AEs and PAs between the listed and non-listed companies' segments are detailed in Figure 1.

Figure 1: Number of AEs and PAs undertaking audits in the listed and non-listed companies' segments as of 31 March 2024



- 2.8 From 2015 to 2024, there has been a notable increase in the number of PAs by about 25% as illustrated in Figure 2.

Figure 2: Number of PAs from 2015 to 2024

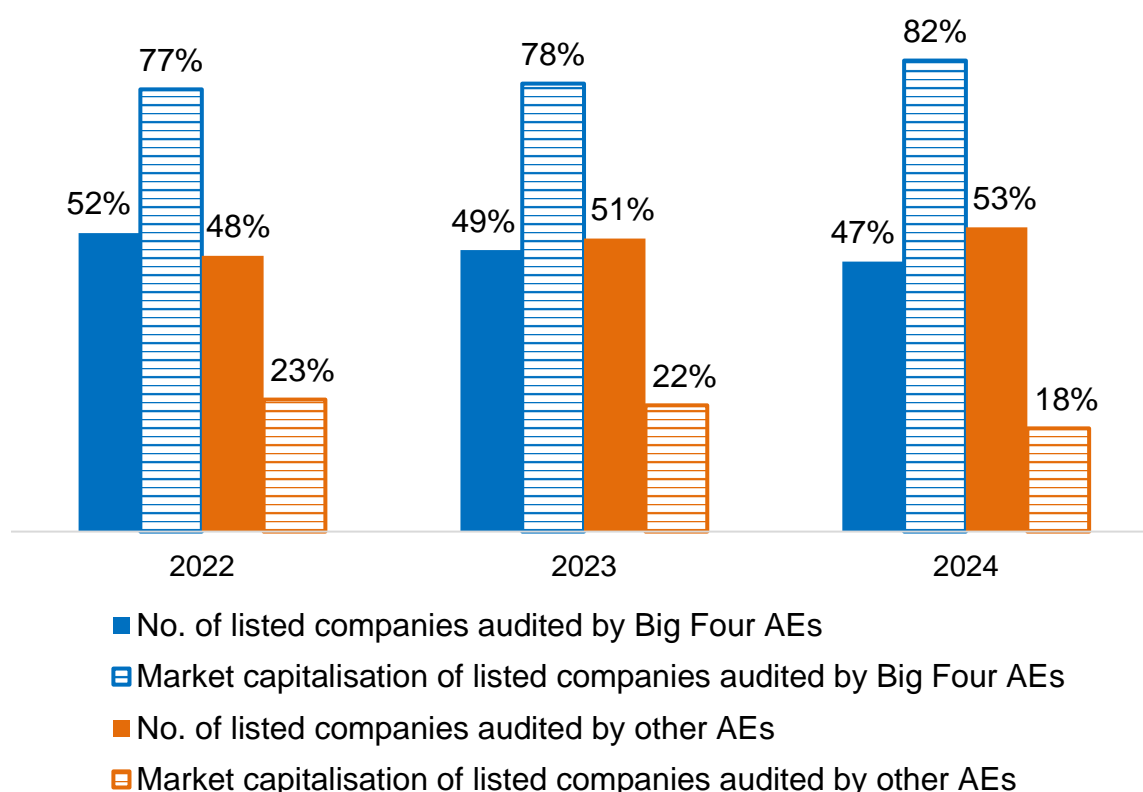


- 2.9 The demand for audit and assurance services is expected to grow further, given that the profession will have a greater role to play in sustainability reporting and assurance services. This underscores the necessity to strengthen the audit profession with a good pipeline of talent and enhanced capabilities in the future. It is all the more important for AEs to undertake the necessary strategies sooner rather than later with the developments in sustainability reporting and assurance landscape as explained in Section 5. To facilitate and support the audit profession on this journey, Section 6 outlines various capacity building initiatives.

Listed Companies' Segment

2.10 Figure 3 illustrates the trends of companies listed on Singapore Exchange (SGX) and their market capitalisation as audited by Big Four versus the other AEs. The number of SGX-listed companies audited by other AEs has increased from 48% to 53% over the past 3 years, surpassing that of the Big Four AEs since 2023. Conversely, the total market capitalisation of the listed companies audited by other AEs has decreased from 23% to 18% over the same period, suggesting an increasing shift of smaller listed companies towards other AEs.

Figure 3: SGX-listed companies (by number and market capitalisation) audited by Big Four and other AEs from 2022 to 2024



2.11 Within the segment of other AEs, there is a wide spectrum of the audit firms' exposure to listed companies, ranging from the audit of only 1 SGX-listed company to more than 40 SGX-listed companies.

2.12 With the increasing shift in audits of listed companies with smaller market capitalisation from Big Four AEs to other AEs, both outgoing and incoming auditors are reminded of their responsibilities in the acceptance and continuance process discussed in Sections 3.21 to 3.25.

2.13 Since 2007, ACRA has conducted firm-level reviews on AEs in the listed companies' segment on an advisory basis. However, ACRA's QC inspections are now statutory in nature, as effective 1 July 2023, the Accountants Act has been amended to give such powers to ACRA.

2.14 Apart from QC inspections, ACRA engages AEs that audit the listed companies' segment through our biannual offsite monitoring submissions and meetings with the leadership teams. These regular touchpoints with AEs serve as a platform for ACRA to share insights on the Audit Quality Indicators (AQIs) in the listed companies' segment, as well as for AEs to update on the latest developments, covering emerging risk areas, key priorities, and any updates affecting audit quality. The submissions on audit quality related information also form part of our ongoing offsite monitoring activities and provide inputs to ACRA's risk profiling mechanism to support our QC inspections.

Non-Listed Companies' Segment

2.15 There were at least 100 AEs in this segment performing audits of Public Interest Entities (PIEs) other than those listed on SGX, such as regulated financial institutions and institutions of public character, as of 31 March 2023 and 2024.

2.16 AEs performing audits of private companies also play a crucial role as gatekeepers in protecting the interests of stakeholders, such as shareholders, creditors, suppliers, customers and employees, helping to foster a trusted business environment. Consequently, all PAs are expected to demonstrate compliance with relevant professional standards for all audit engagements.

2.17 Inspections in the non-listed companies' segment are generally carried out by Institute of Singapore Chartered Accountants (ISCA), Singapore's national accountancy body, under ACRA's oversight. In this respect, ACRA's oversight includes determining the PAs and selection criteria for audit engagements to be reviewed, assessing and calibrating the severity of inspection findings, as well as ensuring the rigour and quality of the inspection process. With the introduction of voluntary compliance programme discussed in Section 6, certifications issued will be considered in the risk profiling of AEs for QC inspections.

2.18 To ensure consistency in regulatory outcomes across inspections in both listed and non-listed companies' segments, all engagement inspection findings are submitted to the Practice Monitoring Sub-Committee (PMSC)¹. After careful consideration of the inspection findings, the PMSC submits its recommendations to the Public Accountants Oversight Committee (PAOC)² for its decision on the outcomes and orders, if any. Similarly, all QC inspection findings will be submitted first to Registrar of Public Accountants and then to the PAOC (Firm Level)³ for its deliberation.

¹ PMSC comprises of independent practising PAs and representatives from interested stakeholders to assist the PAOC in the administration of the PMP.

² PAOC is a committee responsible for discharging ACRA's functions over the registration and regulation of AEs and PAs in Singapore.

³ PAOC (Firm Level) refers to the PAOC without any of its members who are PAs.

2.19 ACRA undertakes stakeholder engagement activities to support audit quality in the non-listed companies segment:

- (i) Outreach sessions on the enhanced PMP framework and the new regulatory QC inspection programme.
- (ii) Collaboration and discussions with ISCA Committees on issues faced by the audit profession, such as guidance materials and other initiatives to support the audit profession. Further details on implementation guidances and audit bulletins are discussed in Sections 3 and 4 respectively.
- (iii) Initiatives and grants listed in Section 6 to aid in digital transformation and practice management.

Raising the Bar for Audit Quality

2.20 Depending on the severity of non-compliance with the professional standards, the PAOC (Firm Level) and PAOC may order AEs and PAs to undertake remedial actions and/or impose other orders. The range of possible [QC Review Orders](#) and [PMP Orders](#) can be found on ACRA's website.

Updates to Remedial Action Plan

- 2.21 AEs and PAs who received Partially Satisfactory or Not Satisfactory outcomes under QC inspections and PMPs must submit their root cause analyses and remedial action plans within 1 month from the notification of the inspection outcome, as opposed to the previous 2-week timeline. This extended timeline is intended to facilitate AEs and PAs in performing thorough root cause analyses and developing effective remedial action plans.
- 2.22 ACRA will assess the robustness of root cause analyses and remedial action plans submitted by AEs and PAs. If there appears to be no direct linkage to remediate the inspection findings, AEs and PAs will be required to reassess and revise their submissions, where necessary.
- 2.23 Additional reminders and good practices are discussed in Sections 3.49 to 3.54 to guide AEs and PAs in enhancing their monitoring and remediation process.

Updates to Publication Policy

2.24 Following the amendments to the Accountants Act, ACRA issued [Practice Direction No. 1 of 2024](#) to set out the policy on publishing inspection outcomes and/or orders in the following categories of situations:

- (i) **Quality control standards review on AEs:** Cases concluded to be Not Satisfactory⁴ under the new statutory QC inspections.
- (ii) **Practice review on PAs:** Cases concluded to be Not Satisfactory under the enhanced PMP framework⁵.
- (iii) **Non-compliance with orders:** AEs and PAs who are found to be non-compliant with the orders issued by PAOC (Firm Level) and PAOC respectively.

2.25 The policy of publishing inspection outcomes and/or orders aims to protect public interest by informing stakeholders of the severity of inspection findings and to motivate improvement in audit quality.

2.26 ACRA maintains a stringent stance on non-compliance with orders. Failure to comply with orders may lead to non-renewal, suspension or cancellation of licence.

Clarification on Hot Review Order

2.27 The objective of a hot review order is to allow the PA to improve his/her audit work under the supervision of a suitably qualified and independent public accountant or former public accountant, commonly referred to as the “hot reviewer”.

2.28 The hot reviewer acts as a mentor, guiding the PA in addressing key audit issues in each engagement and thereby uplifting the overall audit quality. Furthermore, the hot reviewer is responsible for verifying the implementation of remedial actions drawn up by the PA, where applicable.

2.29 Recognising the crucial role of a hot reviewer, ACRA hosted a workshop in June 2024 to highlight the roles and responsibilities of hot reviewers, share ways to enhance the effectiveness and efficiencies of the hot review process, as well as to address challenges faced by hot reviewers.

⁴ A Not Satisfactory outcome is issued when there are extensive number and/or significant/severe and/or repeated non-compliances with relevant professional standards/pronouncements identified.

⁵ For engagement inspections commencing on or after 1 July 2023, the enhanced PMP framework introduces a 3-tier inspection outcome (i.e. Satisfactory, Partially Satisfactory and Not Satisfactory). For engagements inspections that commenced prior to 1 July 2023, the inspection outcome was binary (i.e. Pass or Fail).

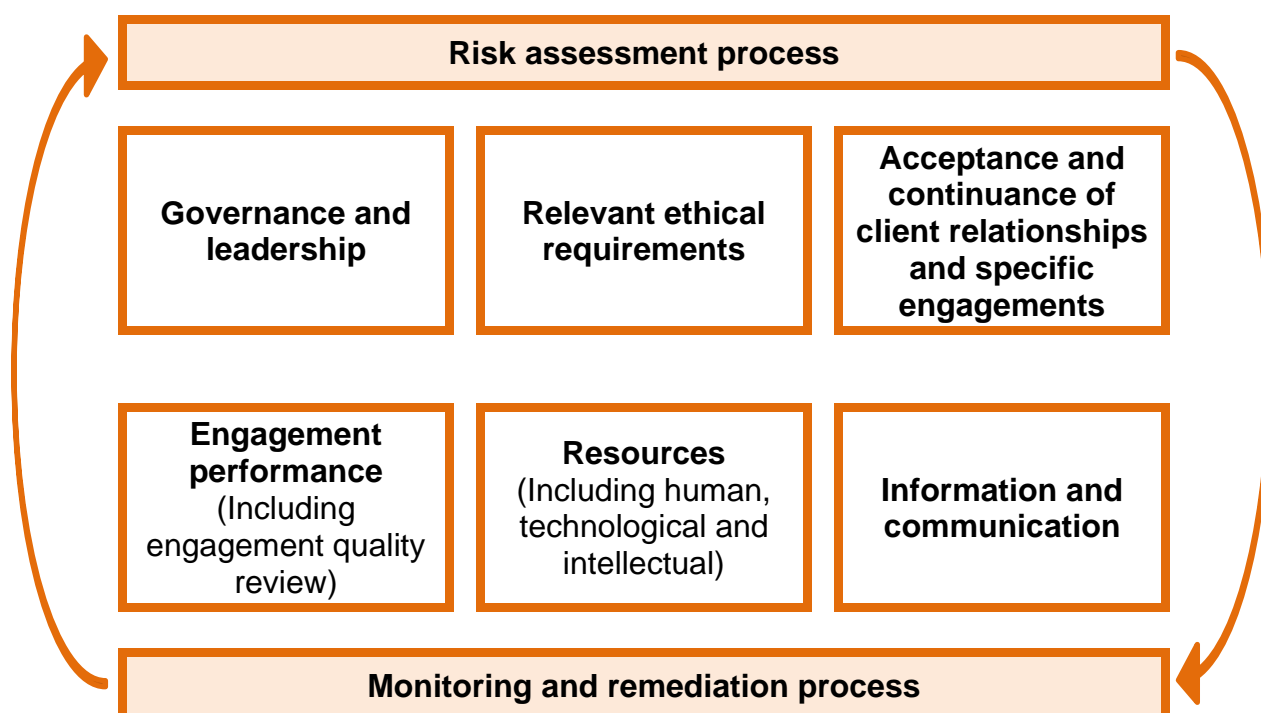
- 2.30 Notwithstanding the above, the PA remains solely responsible for the audit engagement, particularly in the application of professional judgement and the issuance of the audit opinion.
- 2.31 [Practice Direction No. 2 of 2024](#) provides further details of the scope of a hot review process, appointment of a hot reviewer and key features of a hot review report.

Section 3: Quality Control Inspections

Introduction

- 3.1 As part of the new statutory QC inspections, ACRA conducts interviews to understand the AE's SoQM framework, quality objectives established, quality risks identified, as well as responses designed to mitigate those quality risks. In addition, walkthroughs, reperformances and independent testing are performed to evaluate the operating effectiveness of the AE's policies and procedures and the appropriateness of the SoQM conclusion reached.
- 3.2 This section outlines key QC inspection findings and areas of concern for the SSQM components listed in Figure 4. ACRA strongly urges AEs to establish a robust SoQM by drawing lessons from these QC inspections findings.

Figure 4: Components prescribed in SSQM 1 *Quality Management for AEs that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*



Risk Assessment Process

- 3.3 The SSQM emphasises a risk-based approach in designing, implementing and operating a SoQM, which is tailored to the AE and its engagements. The SoQM can be appropriately deployed across AEs of varying sizes and complexities.
- 3.4 Despite varying degrees of network requirements on the quality management framework, each AE remains responsible for its SoQM and must adhere to the key expectations outlined in Sections 4.24 to 4.27 of the [Audit Regulatory Report 2023](#).

Observations

3.5 This table sets out key observations from ACRA's completed QC inspections.

Quality objectives were not established in the SoQM

In carrying out the risk assessment process, AEs are responsible for ensuring their SoQM is complete, meeting the minimum requirements specified in paragraphs 28 to 34 of SSQM 1.

Quality risk ratings were inconsistent with the AE's risk assessment framework

Certain AEs have developed quality risk ratings to assess the degree to which a quality risk may adversely affect the achievement of a quality objective.⁶ Common considerations include the likelihood of occurrence and the significance of impact. It is important to ensure consistent application of the risk factors and/or risk matrices in determining the quality risk ratings, which have a bearing on the nature, timing and extent of (i) responses and (ii) monitoring activities required.

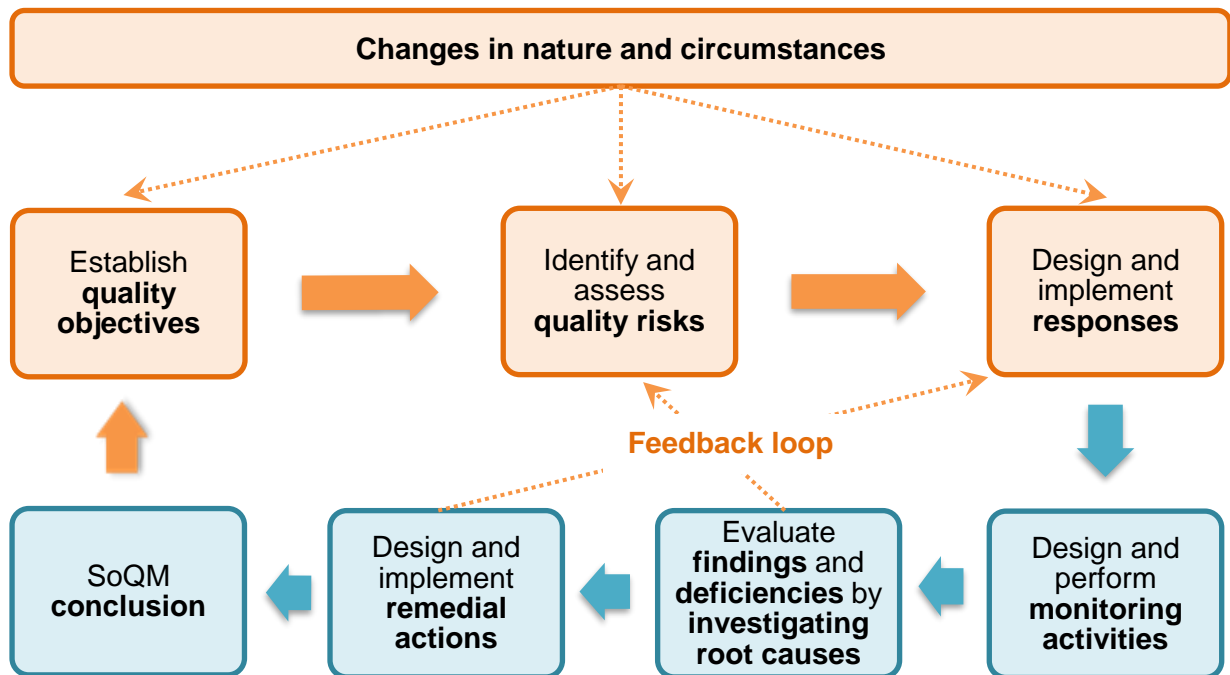
Reminders on Iterative Nature of the AE's Risk Assessment Process

- 3.6 The AE's **risk assessment process** entails gathering and reviewing information on the AE, its engagements and the external environment. This includes analysing trends in AQIs and performance metrics, changes in network requirements and resources, changes in professional standards, as well as changes in laws and regulations. These changes may indicate the need for additional or modified quality objectives, quality risks and responses in the SoQM.
- 3.7 As illustrated in Figure 4 (Section 3.2), the AE's risk assessment is an iterative process throughout the SoQM cycle. A periodic risk assessment, using both top-down and bottom-up approaches, ensures that the SoQM is comprehensive, relevant and responsive to changing circumstances.
- 3.8 As part of the AE's **monitoring and remediation process**, recurring findings and/or deficiencies identified from the monitoring activities undertaken by the AE and its network, as well as results from external inspections, may indicate a higher likelihood of occurrence and potentially a higher risk rating in the SoQM. Remedial actions designed by the AE to address these deficiencies should be included as new or modified responses in the SoQM.

⁶ Paragraph A48 of SSQM 1.

3.9 These changes in the risk assessment have consequential impact on the subsequent monitoring activities and testing plan as illustrated in Figure 5.

Figure 5: A SoQM operates in a continual and iterative manner



Legend

Key activities in **Risk assessment process**

Key activities in **Monitoring and remediation process**

Governance and Leadership

3.10 Leadership plays a vital role in setting priorities, making strategic decisions and reinforcing the significance of audit quality through the SoQM.

Observations

3.11 This table sets out key observations from ACRA's completed QC inspections.

Tone at the top did not demonstrate a commitment to quality

The tone at the top reinforces the importance of each quality objective within the SoQM. Leadership should demonstrate a commitment to quality through their actions, behaviours and communications within the AE, which would collectively contribute to a strong culture and environment.⁷

ACRA noted that personal independence breaches and archival lapses are consistently top non-compliances within the AE. It was observed that certain AEs neither considered all possible negative quality events, nor addressed recurring non-compliances by repeat offenders, in the performance evaluation and disciplinary frameworks. These frameworks proved ineffective in serving as credible deterrents to drive behavioural changes.

A culture of commitment to quality is cultivated only when leadership actively translates words into actions. The disciplinary frameworks can demonstrate this culture only if personnel are held accountable for negative actions or behaviours, such as non-compliance with the AE's policies.

Monitoring and Remediation Leader was assigned with multiple roles in the SoQM

Roles and responsibilities within the SoQM are assigned based on the organisational structure, size and complexity of the AEs. While individuals may be responsible for or assigned to multiple aspects of the SoQM in smaller and less complex AEs, it is important that these individuals have sufficient time and appropriate experience to fulfil their assigned responsibilities.⁸

Should the Monitoring and Remediation Leader also undertake responsibilities for other SSQM components, safeguards ought to be implemented to:

- (i) Address self-review threat when testing the operating effectiveness of responses in those SSQM components.
- (ii) Ensure objectivity when evaluating findings, deficiencies, root causes and remedial actions in relation to those SSQM components.

Reminders on Delivering Positive Impacts through Quality Management

3.12 ACRA urges the individual(s) assigned with ultimate responsibility to view the annual evaluation exercise as an opportunity to reflect and strengthen the SoQM. As the SoQM operates in an iterative manner and evolves over time, leadership needs to foster a mindset and culture of continuous improvement.

⁷ Paragraphs 28(a) and (c) of SSQM 1.

⁸ Paragraph A38 of SSQM 1.

3.13 It is crucial to set immediate priorities and take actions to remediate deficiencies in a timely manner. At the same time, leadership needs to drive initiatives to navigate the unique challenges in this shifting macro environment, thereby creating a lasting impact on the AE, employees, and clients.

Relevant Ethical Requirements

3.14 Beyond a compliance exercise, AEs should uphold the spirit of relevant ethical requirements and their fundamental principles. Auditor's independence must not be compromised, as it drives professional behaviour and forms the foundation for high quality audits.

Observations

3.15 This table sets out key observations from ACRA's completed QC inspections.



High percentage of personal independence breaches

The quality objective and responses are designed to ensure AEs and personnel fulfil their responsibilities in relation to the relevant ethical requirements.⁹ However, ACRA continues to note high percentage of non-compliance with the AE's policies on personal independence requirements.

Beyond regular trainings, annual independence confirmations and personal independence compliance tests, AEs should adopt a combination of preventive and detective measures to eliminate personal independence breaches. Examples include:

- (i) A resource handbook complete with checklists or questionnaires to guide employees in identifying permissible investments. These materials should incorporate findings and case studies to help employees grasp the issues related to different types of investments (e.g. investment linked products, robo-advisors).
- (ii) Tailored training programmes for new hires and employees from other service lines to address the common challenges faced by each of these groups.
- (iii) Helpdesks or consultations to encourage clarifications on independence matters or circumstances.
- (iv) Risk-based personal independence compliance tests by selecting samples on a risk-based approach (e.g. new hires, repeat offenders, nil declaration) or by varying the testing period to incorporate an element of unpredictability.
- (v) Frequent communications and reminders to all personnel as they may have entered into additional financial interests during the year.

⁹ Paragraph 29(a) of SSQM 1.

Inadequate monitoring over responses relating to independence matters

While AEs have established policies or guidelines relating to independence matters, these are often not identified as key responses that require ongoing or periodic monitoring. The lack of monitoring activities may result in actual or perceived threats not being identified, evaluated and addressed in a timely manner.¹⁰

Examples of such policies include approvals for provision of non-assurance services, relative fee size, concentration of client fees, overdue fees, business relationship, acceptance of gift and hospitality, as well as rotation of engagement partner and engagement quality reviewer.

AEs should critically assess whether familiarity and self-interest threats could continue to exist even if the minimum cooling off period has been met, in upholding the spirit of ethical requirements and their fundamental principles.

Where concerns over threats to independence arise, AEs should:

- (i) Assess the relevant facts and circumstances.
- (ii) Evaluate whether the objectivity and professional judgement of engagement team could be impaired.
- (iii) Determine the appropriate safeguards and actions to be taken.
- (iv) Report to the monitoring team and the individual(s) assigned with ultimate responsibility of the SoQM.
- (v) Communicate with those charged with governance of the audit client.
- (vi) Document their assessment and resolution of the independence matters.

Reminders on Revisions to the Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code)

3.16 The [ACRA Code](#) sets out the ethical and independence requirements for AEs and PAs. A breach of the ACRA Code constitutes grounds for disciplinary proceedings under Part VI of the Accountants Act. Each regulatory breach is taken seriously and included in the QC inspection reports submitted to the PAOC (Firm Level).

3.17 Sections 400 and 405 of the ACRA Code have been updated to align with Singapore Standard on Auditing (SSA) 600 (Revised) *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* for audits of group financial statements for financial periods beginning on or after 15 December 2023. Effective and clear communication between the group and component auditors is essential, given that the independence provisions relevant to a group audit (where the group audit client is a PIE) will also apply to a component auditor outside the group auditor's network (where the component audit client is not a PIE).

¹⁰ Paragraph 34(a) of SSQM 1.

3.18 With effect from 15 December 2024, the ACRA Code will be revised to adopt two final pronouncements issued by the International Ethics Standards Board for Accountants. Key revisions in the ACRA Code include:

(i) Revisions to definitions of listed entity and PIE:

- Expanded definition of PIE to include entities whose main functions are to take deposits from the public and provide insurance to the public, and a new term “publicly traded entity” to replace the term “listed entity”. Hence, the Singapore definition of PIE in the ACRA Code will be revised to include listed business trust and listed real estate investment trust. ISCA Ethics Committee will be revising EP 100 Implementation Guidance 4 to provide additional guidance and clarification on the entities that would fall within the expanded definition.
- A new transparency requirement for AEs to publicly disclose the application of independence requirements in performing PIE audits. To operationalise these revisions to the ACRA Code, amendments will be made to SSA 700 (Revised) *Forming an Opinion and Reporting on Financial Statements*, requiring AEs to publicly disclose in the auditor's report when they have applied these independence requirements.

(ii) Technology-related revisions:

- To provide guidance fit for the digital age in relation to the fundamental principles of professional competence, due care and confidentiality requirements. These revisions seek to guide the ethical mindset and behaviour of PAs as they take advantage of the opportunities created by technology.
- To address circumstances in which AEs and their respective network firms may or may not provide technology-related non-assurance services to an audit or assurance client.

Acceptance and Continuance of Client Relationships and Specific Engagements

3.19 A risk-based acceptance and continuance process forms the basis for decisions made in other aspects of the SoQM. For example, a client and/or engagement with higher risk classification may entail additional policies and procedures to address pertinent ethical, resource and communication requirements.

Observations

3.20 This table sets out key observations from ACRA's completed QC inspections.



Information on corporate family tree was incomplete and outdated

Understanding the nature and circumstances of clients and engagements is essential in making informed acceptance and continuance decisions.¹¹ Some of the key responses include conducting background and conflict checks, which are commonly performed by a central team within the AE or across network firms.

In one instance, an incomplete and outdated corporate family tree, which was used in the acceptance and continuance evaluation process, had resulted in a breach of the ACRA Code relating to the provision of non-assurance services to a group of entities. AEs should thoroughly evaluate the reliability, completeness and accuracy of information obtained, as well as the judgements supporting the acceptance and continuance decisions.



Approvals were not obtained in accordance with the AE's policy

When evaluating the risk classifications of clients and/or engagements, AEs should critically assess and document the associated risks and areas of concerns. This serves as the first line of defence against accepting clients and engagements with potential independence concerns, management integrity issues, or additional scope of work that is beyond the AEs' resource capacities and capabilities. In addition, a robust evaluation serves as useful inputs in the engagement team's risk assessment and formulation of audit plan.¹²

For clients and/or engagements with higher risk classification, AEs should seek the necessary consultations or approvals from authorised individuals other than the engagement partners (e.g. risk management function or equivalent) on a timely basis.

¹¹ Paragraph 30(a) of SSQM 1.

¹² Paragraph A70 of SSQM 1.

Reminders on Acceptance and Continuance Considerations for New Clients and Engagements

3.21 The shift in the audits of SGX-listed companies with smaller market capitalisation from Big Four AEs to other AEs illustrated in Figure 3 (Section 2.10) is primarily due to:

- (i) **Audit fee considerations:** While AEs seek to increase audit fees that are commensurate with the value of audit and the level of professional services provided, it is observed that many issuers have been adopting cost cutting measures by switching to other AEs that offer lower audit fees. This poses concerns over the engagement economics and the ability to perform high quality audits at the reduced audit fees.
- (ii) **Risk management decisions of the AEs:** It is also observed that larger AEs are mitigating reputational, compliance and operational risks by reassessing existing portfolios and exiting high risk or complex audits. However, this raises concerns as smaller AEs may not have the appropriate capabilities to cope with the demands of challenging audits.

3.22 **Prior to accepting a client or engagement,** AEs need to evaluate the availability of individuals with the appropriate competence, technical expertise and sufficient capacity to perform the engagements.¹³ AEs should also assess the availability of technological resources to support the audits involving large datasets.

3.23 Singapore Exchange Regulation, in consultation with ACRA, issued the [Guidance Note on Change of Auditors](#) to guide issuers and audit committees in evaluating the incoming auditors of listed companies. The checklist comprises both quantitative and qualitative measures, such as AQIs, staff strength and experience, as well as inspection outcomes of the AE, engagement partner and engagement quality reviewer.

3.24 **Subsequent to accepting a client or engagement,** AEs are required to establish policies addressing circumstances when the AEs become aware of information after the acceptance or continuance process that would have led the AEs to decline the client or engagement.¹⁴ If an AE decides on premature resignation as the auditor of a PIE, the AE must seek [ACRA's Consent to Resign as Auditor](#) to safeguard the public interest.

3.25 The aforementioned policies and procedures relating to client or engagement acceptance are applicable to all entities. Particular due care is required for clients or engagements with higher risk classifications, such as PIEs, or entities in complex and specialised industries.

¹³ Paragraph A72 of SSQM 1.

¹⁴ Paragraph 34(d) of SSQM 1.

Resources

3.26 This SSQM component encompasses human, technological and intellectual resources, which may be present in different forms, such as:

- (i) Local employees;
- (ii) Offshore centres set up by the AEs;
- (iii) Network resources (e.g. shared service centres, automated tools);
- (iv) Internally developed software;
- (v) Purchased software; and
- (vi) Other resources from service providers.

3.27 The nature of resources has implications on the assessment of quality risks and design of responses (i.e. risk assessment process), as well as the design of monitoring activities undertaken by the AEs and their respective network firms (i.e. monitoring and remediation process). AEs are reminded of the key expectations relating to the use of offshore centres and network resources outlined in Section 4.20 of the [Audit Regulatory Report 2023](#).

Observations

3.28 This table sets out key observations from ACRA's completed QC inspections.

Training programmes were not adequately designed and implemented

One of the quality objectives seeks to nurture personnel with the necessary competence and capabilities to perform high quality engagements.¹⁵ It is crucial to develop talent and ensure that engagement teams possess professional knowledge and relevant skill sets, staying abreast of emerging risks and upholding the highest standards.

Given the hybrid work arrangement and use of offshore staff, many AEs have employed a combination of in-person workshops, hybrid trainings, webinars and e-learning. Regardless of the approach, the following are ways to enhance the effectiveness of the training programmes:

- (i) Implement interactive knowledge checks or topical tests to assess employees' understanding of the concepts.
- (ii) Facilitate small group discussions to encourage the application of technical knowledge, exercise of professional judgement and exchange of views through practical examples.
- (iii) Incorporate hands-on exercises to simulate the use of automated tools and other audit applications.
- (iv) Organise the e-learning curriculum into manageable segments, each with a designated and protected time slot. This approach ensures that employees are allocated sufficient time to complete their training and prevents potential misconduct of sharing answers due to time pressures.
- (v) Provide back-up sessions or alternative modes of training for absentees.
- (vi) Gather feedback from participants on the effectiveness of training materials and trainers in meeting the course objectives.

¹⁵ Paragraph 32(a)(i) of SSQM 1.

New technological resources were not adequately tested

Prior to the implementation of new technological resources, AEs need to verify that these resources have been adequately tested to achieve the desired outcomes in the SoQM. This involves conducting user acceptance tests and validating the outputs generated to ensure the technological resources are operating as intended. Further considerations can be found in paragraph A100 of SSQM 1.

Technological resources should be deployed in a way that maximises the positive impact on audit quality while minimises the quality risks to an acceptably low level. AEs should design and implement responses to manage the rollout of technological resources during:

- (i) Pre-deployment and planning phase;
- (ii) Deployment and implementation phase; and
- (iii) Post-deployment and maintenance phase.

Reminders on the Use of Technological Resources in Practice Management

- 3.29 Arising from last year's thematic review on the use of technological tools in financial audits, the types of automated tools and techniques, audit methodologies, opportunities and challenges were shared in Sections 4.38 to 4.64 of the [Audit Regulatory Report 2023](#).
- 3.30 ACRA observed that several AEs have tapped on a variety of technological tools to support the SoQM. The broader adoption of technology and commitment to keep pace with technological advancements are encouraging developments to maximise growth opportunities.
- 3.31 For the monitoring and remediation process, standardised electronic workflows ensure consistency in the nature, timing and extent of procedures performed by the monitoring team. AEs can explore leveraging on their existing audit platforms as a cost-effective method to document the monitoring activities performed.

3.32 There is a variety of technological resources that allow AEs to perform real-time monitoring, which facilitates prompt responses to potential findings and/or deficiencies. Moreover, certain technological resources offer the opportunity to analyse the entire population of occurrences rather than a sampled population.

- (i) Cloud-based systems provide real-time data through a shared platform, facilitating the tracking of usage of automated tools and techniques, as well as status of submissions and approval. In addition, a consolidated consultation log with an audit trail eliminates the need to search for email approvals from multiple personnel. This ensures that the monitoring team has access to the entire population of occurrences and a complete set of documents for monitoring activities.
- (ii) Robotic Process Automation (RPA) technologies enhance the productivity and accuracy by automating manual and repetitive tasks. Examples include generating timesheet and utilisation reports for each engagement, validation checks on each audit report date, as well as compilation of training attendance and hours for each session. This provides the monitoring team with a complete set of data for monitoring activities.
- (iii) Data analytics and visualisation tools on AQIs and performance metrics provide insights on red flags and risk areas across the different SSQM components. On the other hand, a positive trend may indicate effective remedial actions taken. This information serves as important inputs in the iterative risk assessment process discussed in Section 3.6.

Engagement Performance

3.33 Engagement-level findings may be raised during external inspections and/or internal quality reviews undertaken by the AE and its network. Recurring themes in these engagement-level findings may indicate a systemic issue at the firm-level (i.e. deficiency in the SoQM). IAEs should take immediate steps to prevent similar audit lapses in other engagements.

Observations

3.34 This table sets out key observations from ACRA's completed QC inspections.

Engagement files were not assembled on a timely basis

A fundamental objective within the SoQM pertains to the timely assembly and proper retention of engagement files.¹⁶ However, archival lapses continue to be a prevalent finding, as highlighted in Section 3.11.

AEs are encouraged to implement some of these good practices to mitigate this recurring finding:

- (i) Shortening the 60-day¹⁷ archival timeline encourages timely assembly of working papers before the engagement teams move on to their next engagement.
- (ii) Timely reminders on impending archival dates amplify the urgency and prevent possible oversight by engagement teams. Certain AEs have leveraged on RPA technologies to enhance the efficiency of sending reminders to engagement teams.
- (iii) Automatic lockdown on archival due dates to eliminate archival lapses.
- (iv) Validation checks on audit report dates are key to ensure that the automated controls are operating as intended (i.e. reminders and lockdowns are triggered based on the correct audit report dates).

Engagement quality review process was not robust

Engagement quality review is identified as a specific response¹⁸ to achieve the overarching goal of a SoQM. When applying a risk-based approach, AEs need to determine the engagements that are subjected to engagement quality reviews, such as PIEs, entities in emerging industries, or other engagements involving significant complexity and judgement. Due to the nature and inherent risks involved, the engagement quality reviewer plays a crucial role in ensuring that pertinent quality risks are addressed to deliver high quality audits.

However, some of the inspection findings raised during engagement inspections in fact relate to key audit areas subjected to engagement quality reviews. AEs should revisit the robustness of the engagement quality review process, which includes the assignment of engagement quality reviewers and their responsibilities for the performance and documentation of the engagement quality reviews.

¹⁶ Paragraph 31(f) of SSQM 1.

¹⁷ Paragraph A83 of SSQM 1 and Paragraph A21 of SSA 230 *Audit Documentation*.

¹⁸ Paragraph 34(f) of SSQM 1.

Reminders on Engagement Quality Review

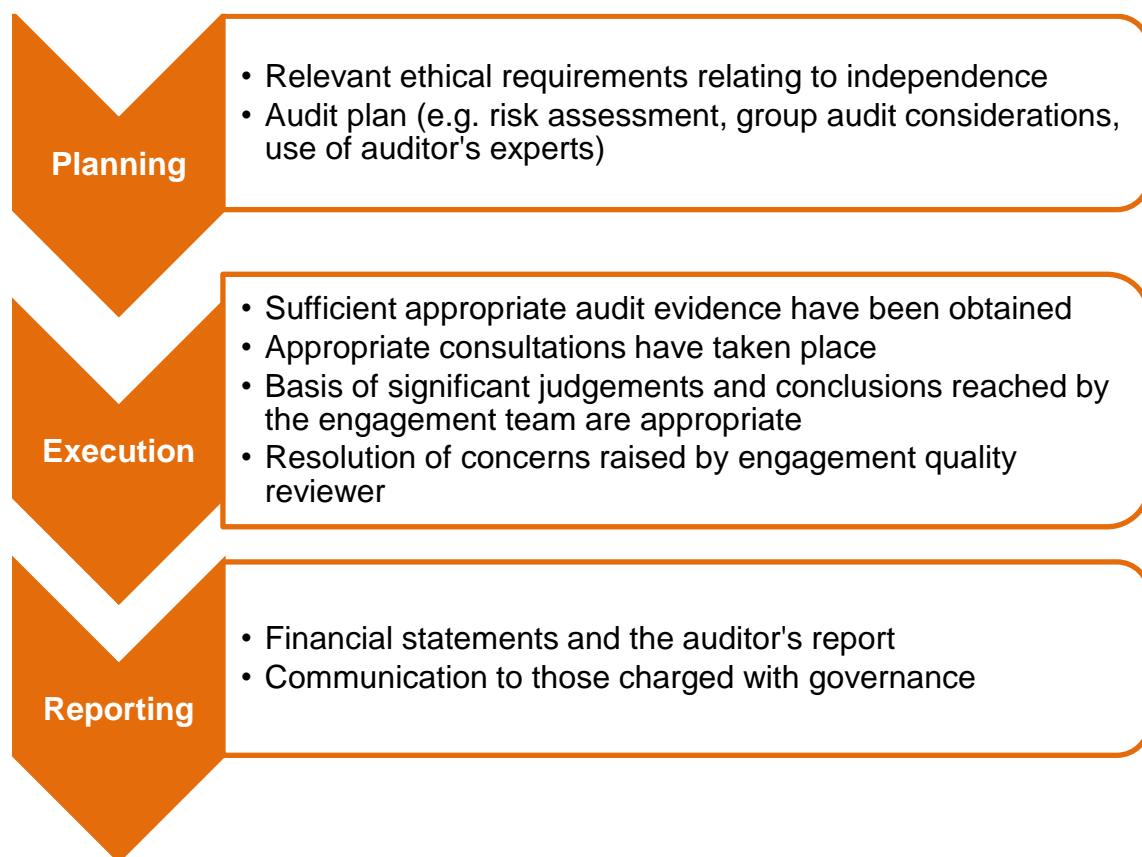
3.35 SSQM 2 *Engagement Quality Reviews* requires AEs to establish policies for the appointment and eligibility of the engagement quality reviewer, performance of the engagement quality review, as well as documentation requirements. The objective of an engagement quality review is to evaluate the basis of significant judgements made by the engagement team and the conclusions reached.

3.36 When **assigning the engagement quality reviewer**, AEs should consider the following:

- (i) The competence and capabilities of the engagement quality reviewer, including the relevant industry experience or technical knowledge (e.g. financial services, charity organisations, digital business models, digital assets).
- (ii) The capacity and workload of the engagement quality reviewer to ensure sufficient time to fulfil the engagement quality reviewer responsibilities.
- (iii) The independence of the engagement quality reviewer, including whether the minimum cooling off period has been met to safeguard against self-review threats.
- (iv) The authority and experience of the engagement quality reviewer vis-à-vis the engagement partner, including their leadership positions and/or reporting lines. This ensures that the objectivity of the engagement quality reviewer will not be compromised when challenging the significant judgements made by the engagement team.

3.37 The engagement team and engagement quality reviewer are reminded that **an engagement quality review should be performed throughout the audit** as illustrated in Figure 6.

Figure 6: Example of an engagement quality review throughout the engagement



3.38 Many large AEs have implemented engagement milestone programmes, which monitors the involvement and time spent by the engagement partner and engagement quality reviewer at different stages of the audit. This promotes regular touchpoints between the engagement team and the engagement quality reviewer, hence facilitating timely review of significant areas and prompt resolution of potential issues.

3.39 The engagement quality reviewer should ensure that **documentation of the engagement quality review** includes the scope of review, nature, timing and extent of procedures performed.

3.40 The engagement quality review process may be evidenced through engagement quality review memorandum and minutes of engagement team discussions. The documentation should be sufficiently detailed to demonstrate if the engagement quality reviewer has discharged his/her responsibilities over the engagement.

Information and Communication

3.41 This SSQM component comprises communication (i) within the AE; (ii) with network firms; (iii) with those charged with governance of audited entities; and (iv) with external parties.

Observations

3.42 This table sets out key observations from ACRA's completed QC inspections.



Direct lines of communication were not operating effectively

Having direct lines of communication¹⁹ between individuals who are assigned with operational responsibility and ultimate responsibility for the SoQM is essential to highlight significant matters that require immediate attention.

However, there have been instances when independence breaches were not reported to the monitoring team and/or the individual(s) assigned with ultimate responsibility for the SoQM. Consequently, appropriate actions were neither carried out nor factored into the SoQM evaluation and conclusion.

A reliable and transparent communication channel within the AE is crucial to cultivate a self-reporting and self-regulating environment. This provides important and timely information for the individual(s) assigned with ultimate responsibility to form the basis of the SoQM conclusion.

Reminders on Communication with Those Charged with Governance

3.43 As part of communication to those charged with governance, AEs are required to communicate information about how the SoQM supports consistent quality audit engagements, as well as how the AE is addressing identified deficiencies that are relevant to the audited entity.

3.44 For PAs with a Not Satisfactory outcome under PMP, the PAOC may order the PA to disclose the inspection finding(s) to those charged with governance of the inspected engagement if it pertains to a PIE audit. This reinforces a shared responsibility amongst participants in the financial reporting ecosystem in addressing the underlying root causes, as well as facilitates the discussions between the audited entity and the PA on measures to remediate the inspection findings, which may have an impact on the financial statements.

¹⁹ Paragraph 22 of SSQM 1.

3.45 The AQI disclosure framework provides audit committees of listed companies with a common yardstick for industry comparison across various indicators, such as years of experience, staff oversight ratio and attrition rate. The correlation of AQIs with audit quality facilitates meaningful conversations between the audit committees and the PAs. This supports the audit committees in making informed decisions, such as the appointment or re-appointment of auditors for listed companies as mentioned in Section 3.23. The industry average and range of certain AQIs for AEs in the listed entity segment are published on [ACRA's AQI webpage](#).

Monitoring and Remediation Process

3.46 A robust and comprehensive monitoring mechanism aims to provide relevant, reliable and timely information about the design, implementation and operation of each SSQM component, thereby supporting the SoQM as a whole.

3.47 Sections 4.13 to 4.15 of the [Audit Regulatory Report 2023](#) shared key expectations on formulating a robust testing plan and developing a competent testing team. When certain monitoring activities are undertaken by the network, AEs are reminded to obtain and evaluate the results of these network monitoring activities as AEs remain responsible for the use of network resources in their SoQMs.

Observations

3.48 This table sets out key observations from ACRA's completed QC inspections.



Monitoring activities were not adequately designed and implemented

The comprehensiveness of a testing plan hinges on the nature, timing and extent of planned procedures.²⁰ Observations included:

- (i) The scope of testing plan did not cover certain key responses.
- (ii) The extent of testing was not in accordance with the AE's policies or sampling methodology, which were a function of quality risk ratings and the number of occurrences.

In addition, it appears that testing teams lacked the competence and capabilities to execute the monitoring activities effectively.²¹ For example:

- (i) Testing team had placed reliance on staff representations (e.g. independence declarations) without obtaining supporting documents to corroborate the representations.
- (ii) Testing team was not adequately trained to inspect and identify red flags or exceptions in the documents provided.
- (iii) Testing team neither performed additional procedures to investigate exceptions noted in the samples selected, nor evaluated whether similar exceptions or findings could exist in the remaining population.

²⁰ Paragraph 37 of SSQM 1.

²¹ Paragraph 39 of SSQM 1.



Monitoring activities do not provide relevant information about the operating effectiveness of responses

Certain AEs have performed monitoring activities by tracking trends in firm-level metrics, such as staff attrition rates, leverage ratios and experience levels. Although these metrics provide insights on the resources component, they may not necessarily reflect the operating effectiveness of specific responses within the SoQM.

For example, firm-level leverage ratios do not provide sufficient information on responses relating to direction and supervision by engagement partners on each engagement. Similarly, the firm-level data sets in relation to the average years of experience for staff and manager groups do not provide sufficiently granular information on the responses relating to assignment of engagement team members with the appropriate competence, industry knowledge or specialised skill sets to perform each engagement.

Reminders on Root Cause Analysis and Remedial Action Plan

- 3.49 As illustrated in Figure 5 (Section 3.9), root cause analyses and remedial actions are key aspects of an iterative risk assessment process and the monitoring and remediation process.
- 3.50 A **root cause analysis** is a process to understand and identify underlying factors that contributed to a negative quality event (or a positive outcome). ACRA observed that AEs commonly attribute inspection findings to lack of supervision by engagement partners or insufficient documentation by engagement teams. However, these are symptoms rather than root causes. For example, the primary reasons could stem from a heavy portfolio or workload, which led to insufficient supervision and time to complete the audit.
- 3.51 The objective of root cause analysis is to challenge presumptive answers and to deep dive into the underlying causes. In doing so, AEs may consider the following:
- (i) Interviewing engagement team members or organising focus group sessions with relevant personnel to analyse the issue from different perspectives.
 - (ii) Reviewing relevant records (e.g. engagement documentation, engagement hours, training records) to gather facts and information. AEs can consider deploying technological resources to analyse voluminous documents or data.
 - (iii) Comparing against positive examples to analyse what went wrong or what more could be done.

3.52 A **remedial action plan** is most effective when it is relevant and responsive to the root causes. However, ACRA observed that AEs often respond to inspection findings with similar remedial actions, such as increasing training requirements or increasing frequency of monitoring activities. These quick solutions may not effectively resolve the underlying issue and prevent recurrence of findings and/or deficiencies.

3.53 When designing the remedial actions, AEs should:

- (i) Categorise the root causes and assess whether a suite of actions may be required to address different factors.
- (ii) Identify the steps to be taken, responsible parties and completion timeline.
- (iii) Consider implementing interim measures for remedial actions that require a longer implementation period. For instance, manual checks could be conducted while the AE completes user acceptance testing for the implementation of a new system.
- (iv) Monitor the progress of these remedial actions (including regular reporting to the AE's leadership team) and perform post-implementation evaluations on the effectiveness of such remedial actions. This enables necessary revisions or adjustments to be taken in a timely manner.

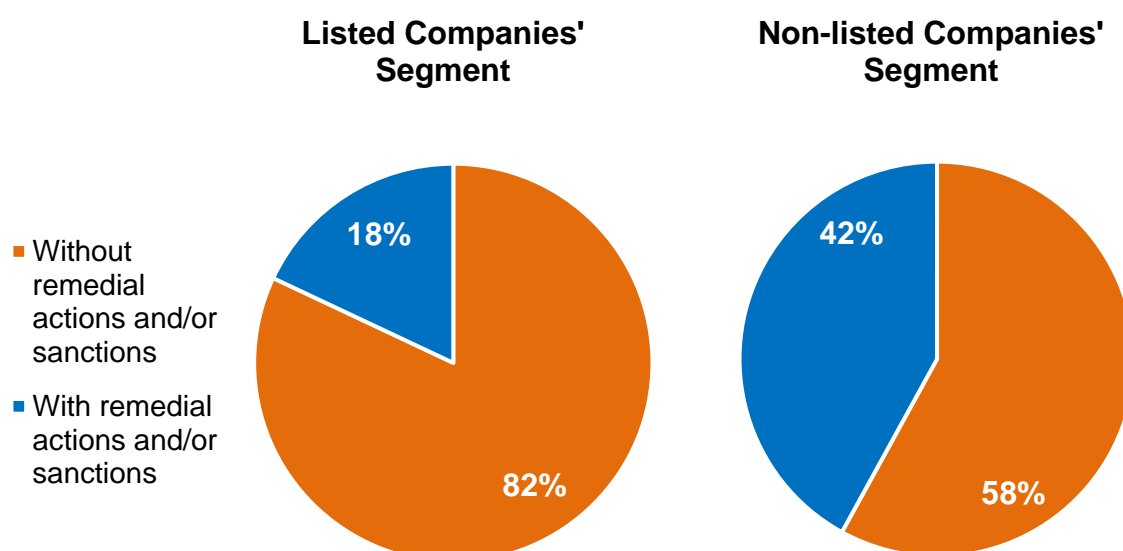
3.54 ACRA will be issuing an Audit Practice Bulletin to guide the audit profession in performing root cause analysis and formulating an effective remediation plan.

Section 4: Engagement Inspections

Introduction

- 4.1 Since the inception of PMP established under the Accountants Act 2004, the distribution of inspection results from 1 April 2004 to 31 March 2024 is illustrated in Figure 7.

Figure 7: Inspection results from 1 April 2004 to 31 March 2024



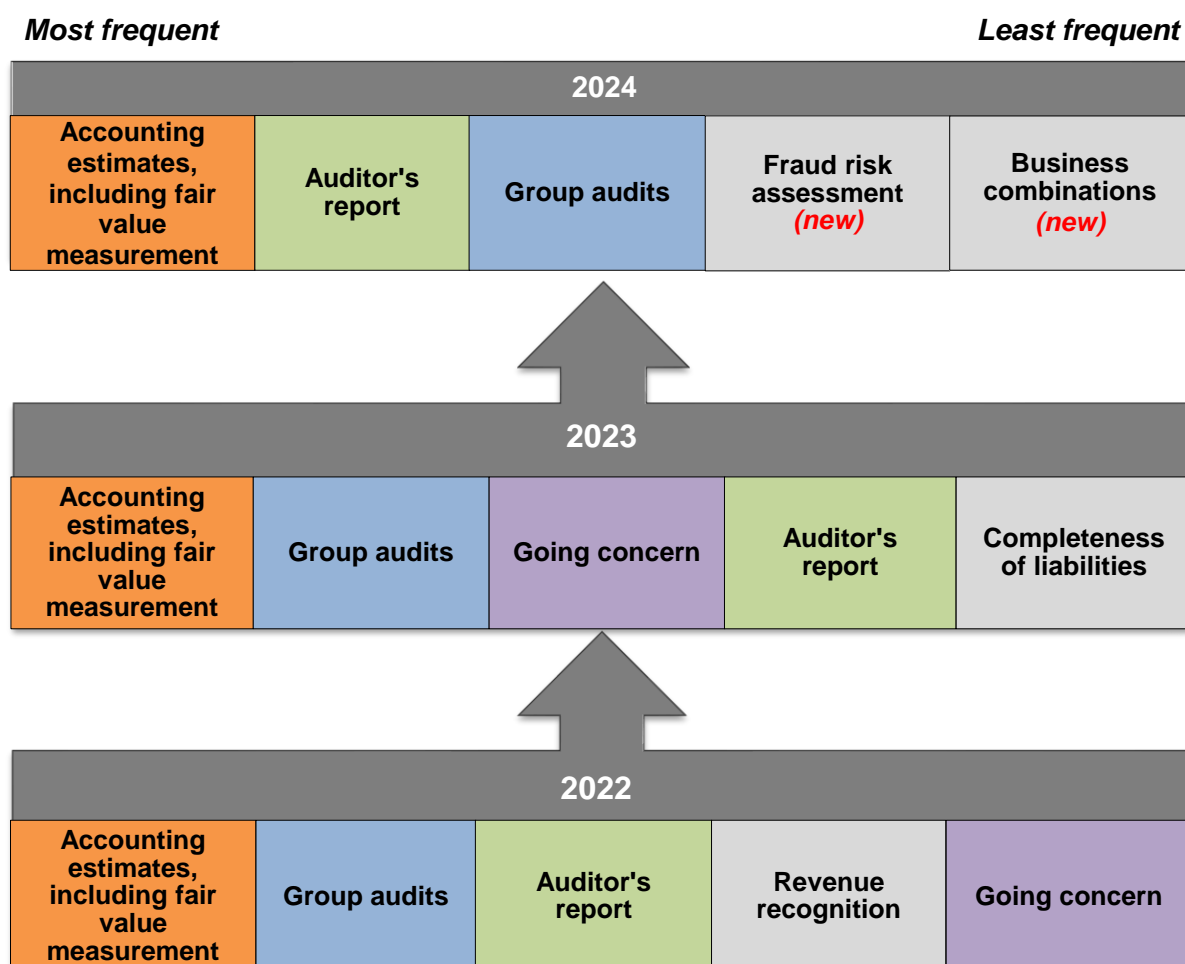
- 4.2 The disparity in inspection results between listed and non-listed companies' segment highlights varying levels of audit quality within the profession. PAs ought to concentrate on analysing the root causes and devising an effective remedial action plan to prevent recurrence of engagement findings and improve the overall audit quality.
- 4.3 An engagement inspection finding is raised when there is a deficiency in an audit procedure²² or insufficient work performed to support the professional judgement²³ applied and the conclusions reached. However, an engagement inspection finding does not necessarily mean that the financial statements have been misstated or that a wrong audit opinion was issued.

²² Deficiency may stem from inadequate work done or non-performance of audit procedures necessary to obtain sufficient appropriate audit evidence to support the audit opinion.

²³ Obvious to an experienced auditor that the PA's application of professional judgment is fundamentally flawed. Evaluation of the PA's professional judgment is based on whether the judgement reached reflects a competent application of auditing and accounting principles and is appropriate in the light of, and consistent with, the facts and circumstances that were known to the PA up to the date of the auditor's report.

- 4.4 Figure 8 illustrates the audit quality themes with the highest frequency of engagement findings over the past 3 years.²⁴

Figure 8: Top engagement inspection findings by audit quality themes from 2022 to 2024



- 4.5 The top inspection findings consistently indicate recurring audit quality issues on accounting estimates, auditor's report and group audits. In addition, there are two emerging audit quality themes, namely fraud risk assessment and business combinations. ACRA encourages PAs to draw lessons from these engagement findings and ensure that they remain relevant in the rapidly evolving business environment.

²⁴ Based on engagement inspections completed for the 12 months ended 2022, 2023 and 2024.

Accounting Estimates, including Fair Value Measurement

- 4.6 The audit quality theme on accounting estimates has consistently topped the list of engagement inspection findings amongst many jurisdictions as noted with the [International Forum of Independent Audit Regulators \(IFIAR\) Annual Inspection Findings Survey](#).
- 4.7 Accounting estimates involves management's assumptions and judgements that are susceptible to a high degree of subjectivity and complexity. The ever-changing market conditions against the backdrop of economic uncertainties inherently increase the challenge to audit key accounting estimates in the financial statements. Therefore, it is important that PAs demonstrate how they have gathered sufficient appropriate audit evidence and exercised professional judgement in arriving at their conclusion within the audit file.
- 4.8 The following table sets out common deficiencies when auditing accounting estimates.

Assessment on key assumptions made by management

The PA did not:

- (i) Obtain an adequate understanding of the entity and its environment, such as management's intent and ability to carry out their business plans.
- (ii) Obtain sufficient corroborative audit evidence to assess the reasonableness of key assumptions.
- (iii) Consider contradictory audit evidence obtained (where relevant).
- (iv) Consider indicators of possible management bias, such as changes in accounting policies, valuation methods and/or assumptions from prior periods.

Assessment on the inputs and data used by management

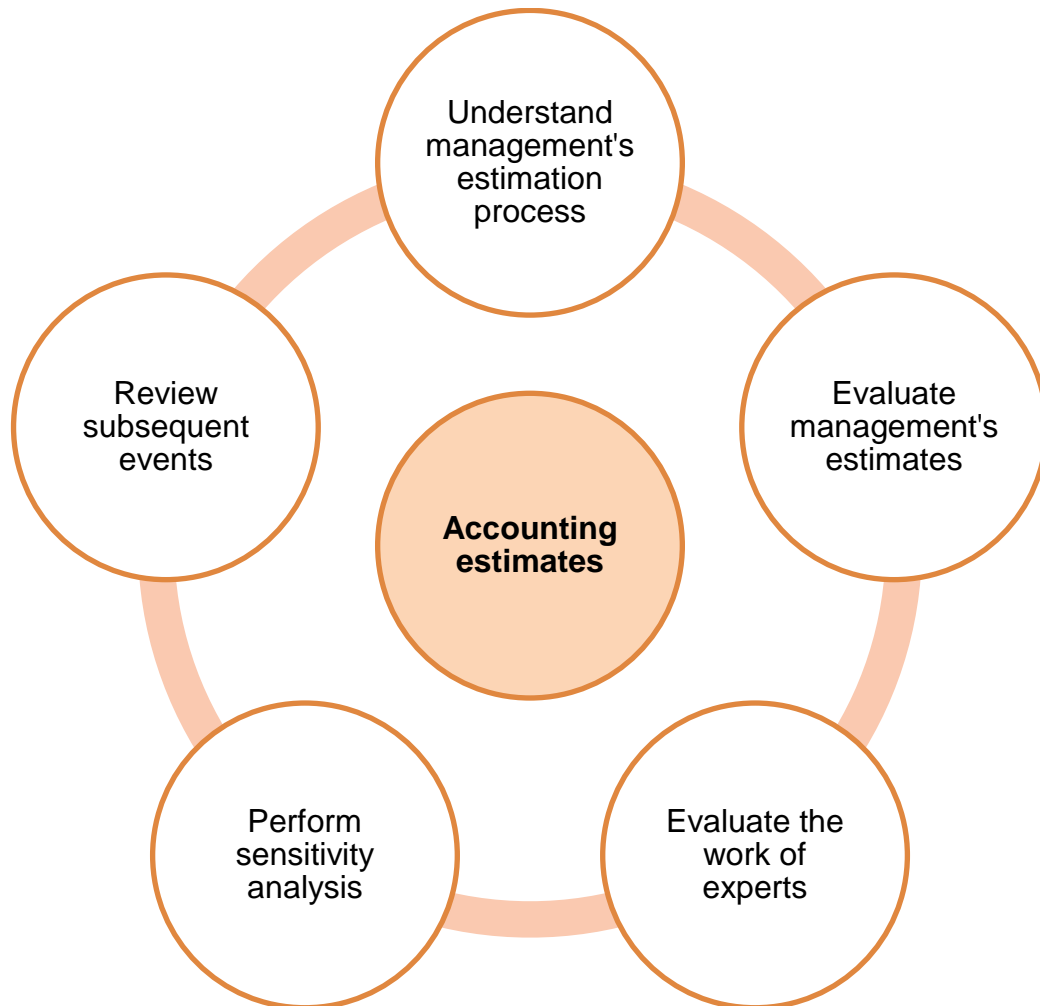
The PA did not:

- (i) Evaluate the relevance and reliability of information provided by management.
- (ii) Evaluate both historical data and forward-looking information.

- 4.9 Accounting estimates, including fair value measurement, is a broad topic that could impact multiple account captions, such as:
- (i) Valuation of investments that are measured at fair value (e.g. unquoted investments, investment properties).
 - (ii) Impairment in non-financial assets (e.g. goodwill, other intangible assets, property, plant and equipment).
 - (iii) Impairment in financial instruments (e.g. receivables).
 - (iv) Revenue, budgeted costs and foreseeable losses in construction contracts where revenue is recognised over time.

4.10 While SSA 540 (Revised) *Auditing Accounting Estimates and Related Disclosures* remains a challenging standard, Figure 9 depicts some of the key reminders and procedures when auditing accounting estimates.

Figure 9: Key reminders on accounting estimates



4.11 **Understand management's estimation process:** On top of discussions with management, PAs should perform a retrospective review to assess the effectiveness of management's estimation process.

4.12 **Evaluate management's estimates:** Corroborate management's representations and critically challenge the reasonableness of key assumptions and inputs. For example:

- (i) Review supporting information provided by management.
- (ii) Examine historical data.
- (iii) Review current market conditions (e.g. news, media).
- (iv) Evaluate forward-looking information (e.g. business plans approved by board of directors).
- (v) Compare against industry benchmarks and practices.

- 4.13 More persuasive audit evidence from independent sources may be required to address risks of material misstatement that are assessed as higher risks.²⁵ If the PA intends to place reliance on external confirmations from custodians, fund managers or brokers for the valuation of unquoted investments, PAs should evaluate the objectivity, competency and valuation methodology provided by these counterparties. In cases where information on their valuation methodologies, key assumptions and inputs are not readily accessible, PAs may perform the following:
- (i) Evaluate the accuracy of previous valuations provided by the counterparty by comparing against actual transactions.
 - (ii) Review the audited financial information of the unquoted investments. Considerations will need to be made on whether the entity and the fund have differing period ends, and whether there are differences in accounting policies applied by the fund.
- 4.14 ISCA Auditing and Assurance Standards Committee will be issuing an Audit Bulletin (AB) on key considerations when designing and performing external confirmation procedures.
- 4.15 **Evaluate the work of experts:** For complex areas requiring specialised skills or technical knowledge, management and PAs may consider involving management's experts and auditor's experts respectively. Where applicable, PAs should evaluate the appropriateness and adequacy of work performed by management's experts²⁶ and auditor's experts²⁷.
- (i) Assess the objectivity and competency of the experts.
 - (ii) Obtain an understanding of the scope and nature of work performed by the experts.
 - (iii) Review the relevance and reasonableness of methodologies and key assumptions used by the experts in arriving at the valuation.
 - (iv) Review the relevance and reliability of source data used by the experts.
- 4.16 **Perform sensitivity analysis:** Understand the degree to which changes in one or more assumptions may affect the estimates. This procedure can help to identify areas that are at risks of potential management bias as any reasonable change in the key assumption(s) may result in a material difference to the estimated amount.
- 4.17 **Review subsequent events:** Consider events occurring after the reporting period that may require adjustments to the key assumptions and inputs.

²⁵ Paragraph 7(b) of SSA 330 *The Auditor's Responses to Assessed Risks*.

²⁶ Paragraph 30 of SSA 540 (Revised) and paragraph 8 of SSA 500 *Audit Evidence*.

²⁷ Paragraphs 9 to 12 of SSA 620 *Using the Work of an Auditor's Expert*.

Auditor's Report

4.18 PAs ought to exercise due care when signing the auditor's report, as it is the key deliverable communicating the audit opinion and conclusions drawn from the audit process.

4.19 An analysis of the engagement findings highlighted recurring issues in the auditor's report, which are summarised in the table below.



Omissions in the auditor's report that are required by the Singapore Standards on Auditing and the Companies Act

The PA omitted:

- (i) References to the consolidated financial statements of the group or the separate financial statements of the company in the opinion paragraph.
- (ii) Key paragraphs in the auditor's responsibilities for the audit of the financial statements.
- (iii) Key paragraphs in the responsibilities of management and directors for the financial reporting process.
- (iv) Reporting on other legal and regulatory requirements in relation to the subsidiaries, which are audited by the PA, in the consolidated financial statements.



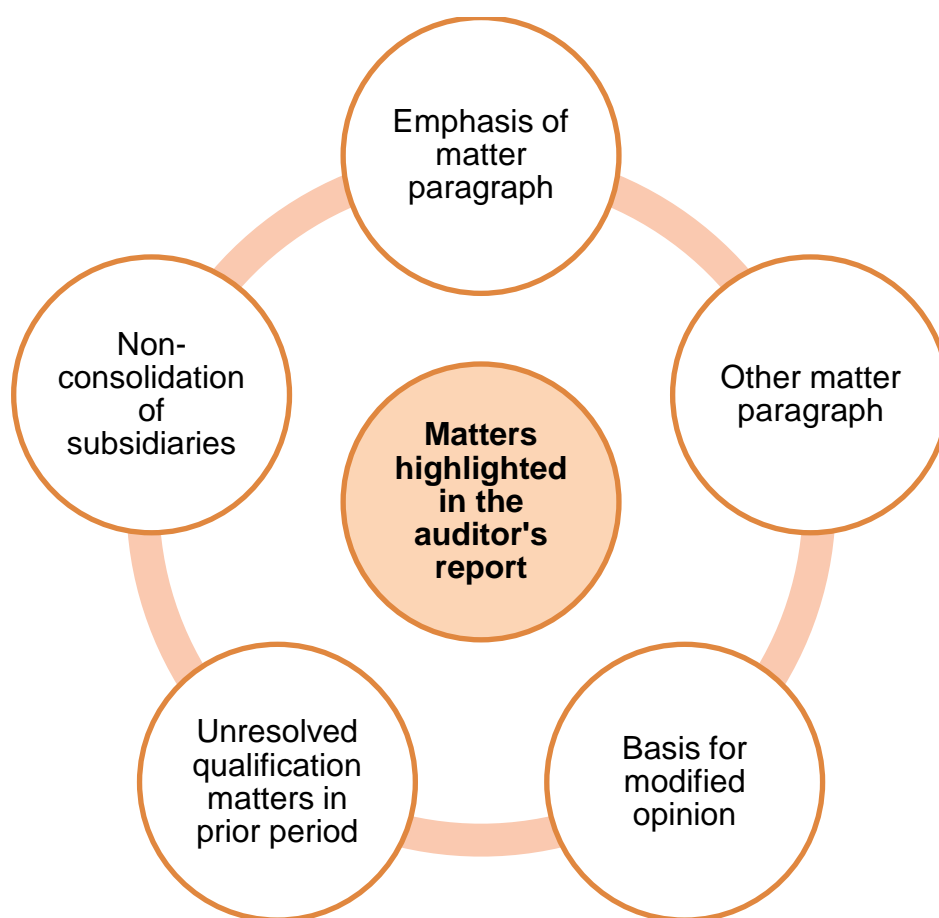
Assessment on the type of audit opinion issued

- (i) There was inadequate assessment to support the type of audit opinion issued.
- (ii) Lack of clarity in description of matters and bases for modified opinion in the auditor's report.

4.20 SSAs 700 to 720, Audit Guidance Statement 1 *Sample Independent Auditor's Reports* and AB 4 *Non-Consolidation of Subsidiaries – Considerations for the Auditor's Report* provide illustrations on the form and content of the auditor's report under different scenarios. As facts and circumstances differ from case to case, PAs ought to exercise professional judgement when forming the audit opinion.

4.21 Figure 10 outlines the key reminders on common issues highlighted in the auditor's report.

Figure 10: Key reminders on matters highlighted in the auditor's report



4.22 **Emphasis of matter paragraph:** An emphasis of matter paragraph draws attention to significant matters that are disclosed in the financial statements. This does not affect the audit opinion, nor does it substitute a modified opinion or a material uncertainty related to going concern.

4.23 **Other matter paragraph:** An other matter paragraph provides additional context or important information that should be highlighted to users of the financial statements.

4.24 **Basis for modified opinion:** The description of matters giving rise to the modified opinion should detail the nature and extent of misstatements, as well as their impact on the financial statements.

4.25 **Unresolved qualification matters in prior period:** For unresolved qualification matters that resulted in qualified opinion issued by the predecessor auditor, PAs should refer to the prior period's figures in the description of the matter giving rise to the qualified opinion when the effects on the current period's figures are material and/or pervasive in the financial statements. Additionally, PAs should draw users' attention to the comparability of the current period's figures and the corresponding figures in accordance with SSA 710 *Comparative Information – Corresponding Figures and Comparative Financial Statements*.

- 4.26 **Non-consolidation of subsidiaries:** When an audited parent entity does not present consolidated financial statements, PAs should assess whether the misstatements (including omissions) are material and/or pervasive to the financial statements. Certain qualitative disclosures may be important to users' understanding of the financial statements and may influence the economic decisions of these users.
- 4.27 [AB 4 Non-Consolidation of Subsidiaries – Considerations for the Auditor's Report](#) provides guidance on the key considerations when assessing the effects of non-consolidation of subsidiaries on the auditor's report, including examples on the types of audit opinions that may be issued.

Group Audits

- 4.28 The overall objective of the group auditor is to ensure sufficient appropriate audit evidence obtained by both the group and component auditors to support the group audit opinion. Therefore, the group auditor's responsibilities in directing and supervising component auditors, as well as reviewing their work, are paramount to the overall quality of the group audit.
- 4.29 The following table outlines common gaps observed in a group audit.

Overall group audit strategy and group audit plan

The PA did not:

- (i) Obtain an adequate understanding of the group, its components and their environments, and the component auditors when identifying the risks of material misstatement for purposes of designing the group audit plan.
- (ii) Determine the group and/or component materiality.
- (iii) Communicate clearly in the group auditor's instructions to the component auditors, such as the scope of work and audit procedures to address the identified risks of material misstatement.

Review of work performed by component auditors

The PA did not:

- (i) Evaluate whether sufficient appropriate audit evidence has been obtained by the component auditors and retained in the group audit file (e.g. reporting deliverables, meeting minutes, file review memorandums). The group auditor may determine that further procedures are necessary, which could be performed either by the component auditors or independently by the group engagement team.
- (ii) Evaluate whether financial information of the components has been appropriately adjusted in the group financial statements. Such adjustments may relate to differences in the applicable financial reporting frameworks, accounting policies and financial periods.

- 4.30 SSA 600 (Revised) is applicable to audits of group financial statements for financial periods beginning on or after 15 December 2023. Group financial statements include the financial information of entities and business units, such as branches, divisions and shared service centres.

- 4.31 The revised SSA removes the concept of significant components and introduces a risk-based approach in the assessment of risks of material misstatement at the assertion level that is associated with the components. Furthermore, the revised SSA clarifies how aggregation risk affects the setting of component performance materiality. These revisions reinforce the importance of a robust risk assessment and scoping process to formulate the overall group audit strategy and group audit plan.
- 4.32 The group auditor plays an active role in determining the nature, timing and extent of audit procedures to be performed centrally by the group auditor, or separately by the component auditors. The group auditor also takes responsibility for the direction and supervision of component auditors, as well as the review of their work.
- 4.33 This necessitates two-way communication between group auditor and component auditors at key stages of the audit. Certain AEs have leveraged on secure communication platform tools to facilitate efficient sharing of group auditor's instructions and receipt of component auditors' deliverables. Enhanced features allow group auditors to keep track of the reporting instructions and reporting timeline, which are particularly helpful when the group audit involves multiple component auditors.
- 4.34 The revised SSA also provides clarifications on restricted access to information or people within the group. Section 207(6)²⁸ of the Companies Act further provides group auditors of Singapore-incorporated companies a right to access records of subsidiary corporations for the purposes of group audits, on the condition that the parent company bears the expenses required for the component auditors to provide the accounting records to the group auditor. These provisions help PAs to overcome the common challenges faced in relation to restricted access to the component auditors' working papers.
- 4.35 ISCA Auditing and Assurance Standards Committee has released [AB 6 Key Revisions to Group Audits - SSA 600 \(Revised\)](#) highlighting the significant changes, practical guidance and illustrative examples to address implementation challenges faced by the audit profession.
- 4.36 In view of the new expanded definition of PIE under the ACRA Code discussed in Section 3.18, group auditors are reminded to communicate and ensure compliance with the relevant ethical requirements by the component auditors.

²⁸ Section 207(6) of the Companies Act provides that "An auditor of a parent company for which consolidated financial statements are required has a right of access at all times to the accounting and other records, including registers, of any subsidiary corporation, and is entitled to require from any officer or auditor of any subsidiary corporation, at the expense of the parent company, such information and explanations in relation to the affairs of the subsidiary corporation as the auditor requires for the purpose of reporting on the consolidated financial statements."

Fraud Risk Assessment

- 4.37 The evolving business landscape and the rise of digital business models have heightened audit risks and changed the way audits are traditionally conducted.
- 4.38 PAs ought to approach each audit engagement with an attitude of professional scepticism and design audit procedures that are responsive to possible fraud risk factors.
- 4.39 Common observations relating to the work performed to address fraud risk factors in accordance with SSA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* are set out below.



Significant transactions that are outside the normal course of business

The PA did not:

- (i) Obtain an adequate understanding of transactions that appear to be unusual in the context of the entity and its environment.
- (ii) Evaluate whether the business rationale (or lack thereof) suggests that the entity may have engaged in fraudulent financial reporting. In some cases, there appears to be a lack of commercial or economic reasons for the entities to enter into transactions, loans or other arrangements with:
 - Previously unidentified related parties or third parties;
 - Contractual terms that deviate from normal industry practices; and
 - Unfavourable conditions imposed on either party.

4.40 Figure 11 outlines some of the key reminders and procedures to address fraud risk factors relating to significant transactions that are outside the normal course of business.

Figure 11: Key reminders on fraud risk assessment



4.41 **Risk assessment procedures:** The engagement findings underscore the importance for engagement teams to be well-equipped with industry knowledge and expertise relevant to the audit engagement. This facilitates a deeper understanding of the entity and its environment, which sets the foundation for an effective audit.

4.42 PAs are also encouraged to leverage on data analytics to identify unusual transactions or unexpected fluctuations in large datasets as these may indicate risks of material misstatement due to fraud or error.

4.43 **Incorporate an element of unpredictability:** This could be achieved by varying the nature, timing and extent of audit procedures performed.

- 4.44 **Evaluate the business rationale (or the lack thereof):** When there are significant transactions outside the normal course of business, PAs should critically evaluate the representations and information given by management. Such activities are often red flags for potential misstatements due to fraud or error.
- 4.45 **Professional scepticism:** SSA 240 necessitates that the engagement team maintains a questioning mindset throughout all phases of the audit. In particular, the level of rigour and professional scepticism needs to be elevated in areas that are susceptible to management's bias or manipulation. Therefore, more experienced audit personnel should be assigned to areas involving significant risk areas, accounting estimates and complex transactions.
- 4.46 PAs are responsible for the direction, supervision and review of the work performed by the engagement team. Active involvement is key to early identification and timely resolution of issues requiring audit attention. If there are new or differing information that deviates from the original assessment, PAs should revisit the assessed risks and modify the planned procedures, where necessary.

Business Combinations

- 4.47 The unique characteristics and complexities of the contractual arrangements pose accounting and auditing challenges to both the management and engagement teams.
- 4.48 The following table sets out common pitfalls in audit work relating to a business combination transaction.

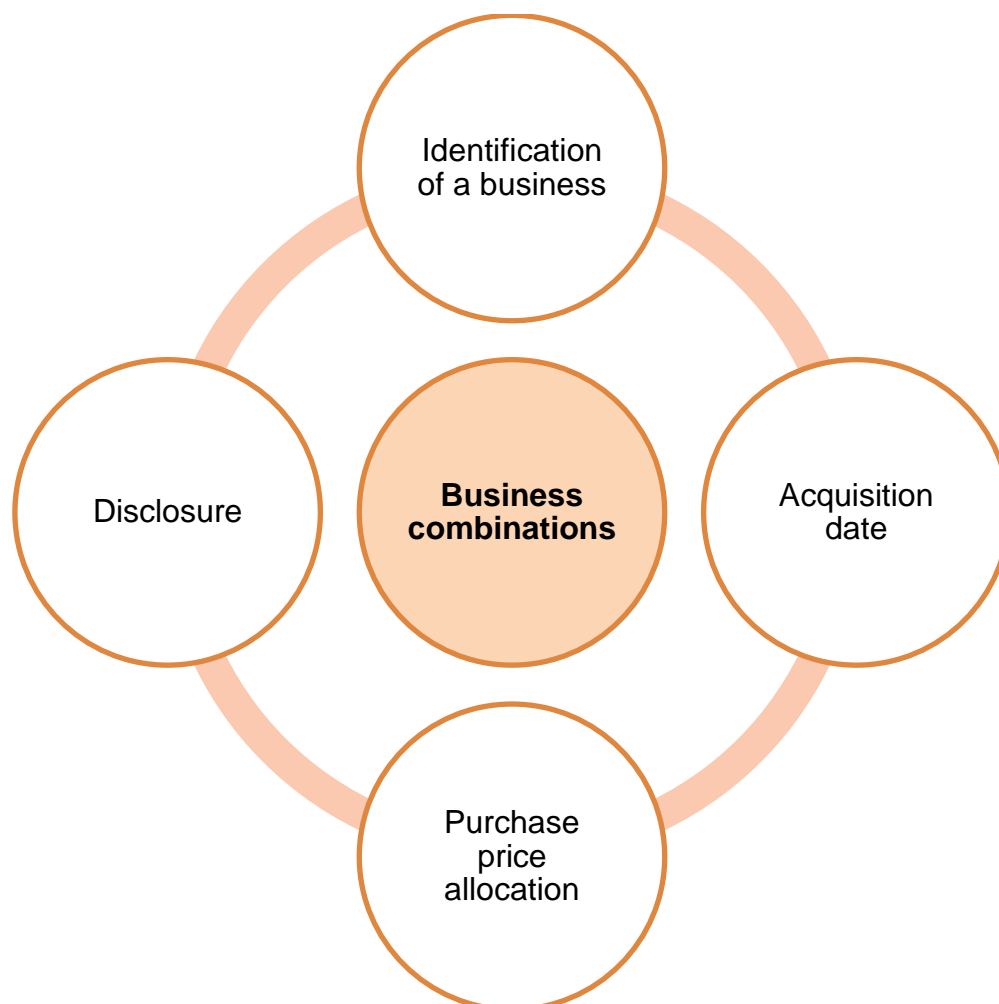
Recognition and measurement of goodwill or gain from bargain purchase

The PA did not:

- (i) Evaluate whether the transaction qualifies as a business acquisition under Financial Reporting Standard (FRS) 103 *Business Combination* or an asset acquisition under other applicable financial reporting standards.
- (ii) Obtain an adequate understanding of the sale and purchase agreement in relation to the acquisition date, consideration transferred and other contingent considerations.
- (iii) Obtain sufficient appropriate audit evidence on the identifiable intangible assets acquired, such as customer relationship and brand name, which were not previously recognised in the acquiree's financial statements.
- (iv) Obtain sufficient appropriate audit evidence on the material assets acquired and liabilities assumed to ascertain the fair value of identifiable net assets of the acquiree. In many instances, management had assumed the carrying amounts of assets and liabilities recorded in the acquiree's financial statements as proxies of the fair values at the acquisition date.

4.49 As each business combination is unique, PAs should engage with management and seek clarity on the facts and circumstances of the arrangement. Figure 12 highlights some of the key reminders and procedures when auditing a business combination.

Figure 12: Key reminders on business combinations



4.50 **Identification of a business:** A business typically comprises three elements.

- (i) Inputs or economic resources in the form of property, plant and equipment, intangible assets, inventories, access to employees, etc.
- (ii) Processes and/or organised workforce that are capable of applying the inputs to create outputs.
- (iii) Outputs such as goods, services and income generated.

4.51 **Acquisition date:** This is the date on which the acquirer obtains control of the acquiree, which may not necessarily align with the signing date or closing date stated in the agreement. Control involves not just the legal ownership in the acquiree, but also the power and ability to direct relevant activities in the acquiree.

- 4.52 **Purchase price allocation:** This is an area requiring significant accounting estimates and often involves the use of experts in determining the fair values. PAs should robustly challenge the key assumptions and inputs used by management and/or experts, as these have consequential impact on the goodwill or gain from bargain purchase recognised in the financial statements.
- 4.53 Appendix B of FRS 103 provides further guidance on the recognition and measurement principles in determining fair values of the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree.
- 4.54 **Disclosures:** Paragraphs B64 to B67 of FRS 103 sets out the disclosure requirements to enable users of the financial statements to understand the nature and evaluate the financial effect of the business combination. This includes, but is not limited to, the primary reasons for the business combination, a description of how the acquirer obtained control, as well as a description of the goodwill recognised (e.g. expected synergies arising from the acquisition).

Section 5: Other Reminders and Upcoming Developments

Registration as PAs

- 5.1 With effect from 8 March 2024, the Accountants (Public Accountants) Rules have been amended to recognise the Certified Practising Accountant (CPA) Program of CPA Australia as one of the accountancy qualifications that meet the professional examination requirement for registration as a PA. The amendment allows individuals who have passed the CPA Program on or after 1 January 2019 to apply for registration as a PA.

Continuing Professional Education (CPE) Requirements for PAs

- 5.2 PAs are required to undertake CPE in accordance with the [Revised CPE Syllabus](#) approved by the PAOC to renew their certificate of registration. This is following a review of the CPE syllabus, Information Technology was introduced as a new core expertise area in recognition of the growing use of technology in audit work. This is also intended to promote technology adoption amongst audit professionals.
- 5.3 For the 2025 renewal of certificate of registration, PAs must complete a minimum of 9 hours of training in the area of Information Technology (Category 5) over the rolling 3-year CPE period from 1 January 2022 to 31 December 2024.
- 5.4 ACRA reminds PAs to ensure compliance with the revised CPE syllabus for renewal. Enforcement action will be taken against PAs who are found to be non-compliant during ACRA's compliance check.

Navigating the Rapidly Evolving Sustainability Reporting and Assurance Landscape

- 5.5 In February 2024, Singapore announced the introduction of mandatory climate-related disclosures for listed issuers and large non-listed companies²⁹ in a phased approach. This is part of the Government's efforts to help companies strengthen their capabilities in sustainability reporting and ride the green transition. Listed issuers will be required to report International Sustainability Standards Board (ISSB) aligned climate-related disclosures from FY2025 and have their Scope 1 and 2 greenhouse gas emissions assured³⁰ two years later. As for large non-listed companies, the same will apply from FY2027.

²⁹ Non-listed companies with annual revenue ≥S\$1 billion and total assets ≥S\$0.5 billion.

³⁰ Assurance is to be conducted using either a Singapore standard equivalent to ISSA 5000 or SS ISO 14064-3.

- 5.6 The requirements seek to catalyse change by targeting economically significant companies capable of driving improvements across their value chains. The mandatory requirements for assurance of climate-related disclosures of these companies create demand for specialised skill sets, prompting the audit profession to enhance its climate-related capabilities. This comprehensive approach not only enhances corporate climate accountability but also reinforces Singapore's position as a leading business hub, ready to thrive in an increasingly climate-conscious global economy.
- 5.7 Globally, the regulatory landscape continues to evolve, with a clear trend of jurisdictions moving towards mandating sustainability reporting and assurance requirements. More than 20 jurisdictions, collectively accounting for nearly 55% of global gross domestic product, are incorporating the ISSB Standards in their regulatory frameworks.³¹ This global momentum suggests that sustainability-related disclosures may soon become an integral part of corporate reporting, alongside financial disclosures.
- 5.8 Standard setters are also accelerating their efforts to keep pace with these developments:
- (i) **International Auditing and Assurance Standards Board** has approved International Standard on Sustainability Assurance (ISSA) 5000 *General Requirements for Sustainability Assurance Engagements*, effective for assurance engagements on sustainability information reported for periods beginning on or after 15 December 2026. Early application is permitted. The ISSA 5000 aims to establish a global baseline for assurance on sustainability reporting and provide a framework for high quality, consistent assurance engagements on sustainability information.
 - (ii) **International Ethics Standards Board for Accountants** has published a full analysis of respondents' comments on the proposed International Ethics Standards for Sustainability Assurance (IESSA) (including International Independence Standards) in September 2024, with a proposed effective date aligned with that of ISSA 5000. This framework sets behavioural and ethical standards for sustainability assurance practitioners and professional accountants involved in sustainability reporting, aiming to foster public trust in the profession.
- 5.9 As the regulatory and standard-setting landscape evolves, audit professionals must equip themselves to navigate and adapt to these changes. This is particularly important given that the proposed ISSA 5000 and IESSA are designed to be profession-agnostic, allowing their use by both professional accountants and non-accountant assurance practitioners. With a broader talent pool of assurance providers emerging, audit professionals face increasing pressure to demonstrate their unique value.

³¹ ISSB: [Jurisdictions representing over half the global economy by GDP take steps towards ISSB Standards](#), May 2024.

- 5.10 It is crucial for the audit profession to gear up, invest, and build capacity to meet the expected increase in demand for sustainability assurance services. To achieve this, the profession must commit to skills diversification, ongoing education and interdisciplinary collaboration. Several initiatives are already underway to support this goal.
- 5.11 The coming years will be transformative for the audit profession as it seeks to upskill and stay abreast of the rapidly evolving sustainability reporting and assurance landscape globally. The profession's preparatory steps, including cross-sector collaborations, aim to ensure that audit professionals stand ready to deliver high quality sustainability assurance services. This transformation underscores the importance of robust quality management systems within AEs, as they navigate new frontiers. ACRA's commitment to developing the profession's sustainability assurance capabilities will enhance the credibility of sustainability reporting, and ultimately contribute to Singapore's transition to a low-carbon economy.

Section 6: Initiatives to Support the Sector and Raise Audit Quality

Attract, Develop and Retain Talent

- 6.1 The Accountancy Workforce Review Committee was established, with the support of ACRA and Ministry of Finance, to address manpower challenges faced by the accountancy sector. Valuable insights were gathered from 48 focus group discussions and engagement sessions involving over 300 participants. The [Report of the Accountancy Workforce Review Committee](#), which was unveiled by Second Minister for Finance, Ms Indranee Rajah, focused on 3 key areas:
- (i) Ensuring good career prospects by enhancing the attractiveness of the accountancy profession.
 - (ii) Creating quality pathways by increasing the accessibility of the accountancy profession to a diverse pipeline of talent.
 - (iii) Strengthening professional capabilities by developing and retaining talent equipped to navigate changes and seize opportunities.
- 6.2 An Implementation Committee for Accountancy Workforce Development, comprising representatives from AEs, professional bodies and institutes of higher learning, has been formed to implement the recommendations across these three pillars. A collective effort from all stakeholders is essential to address the concerns relating to attractiveness of the profession.
- 6.3 Similar challenges are being faced elsewhere, for example, the Association of Chartered Certified Accountants, along with Chartered Accountants Australia and New Zealand, conducted a global survey on challenges faced by AEs amidst a declining number of entrants. The [Joint Report on Insights and Recommendations for Audit Talent Success](#) discussed 5 themes - work-life balance, remuneration, career ladder and variety of work, sustainability reporting and assurance, as well as technology.
- 6.4 Last but not least, the [Small and Medium-sized Practice \(SMP\) Talent Management Toolkit](#) published by the Association of Chartered Certified Accountants offers recommendations and resources that are tailored to support SMPs in attracting, developing and retaining talent.

Digital Transformation

- 6.5 Various initiatives and grants are available to support AEs in accelerating their digital transformation journeys amidst the rapidly evolving business landscape.
- 6.6 In collaboration with Workforce Singapore and the Singapore National Employers Federation, the [Accountancy Job Redesign Initiative](#) offers funding support for AEs to engage consultants in streamlining processes and implementing technology solutions to enhance productivity and job value.

- 6.7 ACRA's [RPA Adoption Support Scheme](#) offers funding for the adoption of baseline RPA technologies. Local polytechnic lecturers and students would be assigned to SMPs to assist with the design and implementation of RPA scripts, as well as provide training and maintenance support.
- 6.8 The [Enterprise Development Grant](#) introduced by Enterprise Singapore supports qualifying projects in the areas of innovation and productivity. In addition, the [Productivity Solutions Grant](#) provides funding for SMPs to adopt baseline digital solutions used in audit engagements and practice management.
- 6.9 The [Chief Technology Officer-as-a-Service](#) led by Infocomm Media Development Authority enables first-timer SMPs to engage digital transformation consultants for advisory services from appointed operators at no cost. AEs would also receive recommendations of digital solutions based on their business needs and profiles.

Sustainability Assurance Services

- 6.10 As this is an emerging field, efforts are ongoing to expand capacity building initiatives to help the profession remain at the forefront of sustainability assurance practices.
- 6.11 A dedicated work group under the Green Skills Committee, led by ACRA and Enterprise Singapore, is developing a comprehensive skills plan for sustainability reporting and assurance.³² This involves collaborating with professional bodies and industry stakeholders to build capacity and equip professionals with the requisite sustainability reporting and assurance skill sets.
- 6.12 ISCA has introduced two Sustainability-Related Certification Programmes – the ISCA Sustainability Professional Certification and the ISCA Sustainability Assurance Professional Certification. These programmes address the immediate need for skilled practitioners by providing insights on sustainability trends, key concepts and practice applications in sustainability reporting and assurance. ACRA has co-funded the development of the ISCA Sustainability Professional Certification Programme.
- 6.13 ACRA also supports the Sustainability Apex Programme launched by ISCA and Law Society. This programme brings together accounting and law firms to foster knowledge exchange, stay informed and develop capabilities to provide sustainability-related services.

SMP Centre of Excellence

- 6.14 The [SMP Centre of Excellence](#) is a one-stop portal for AEs looking to improve their audit quality, build digital capabilities and enhance overall business practices. ACRA actively provides inputs to ISCA, where applicable, including vetting of frameworks and workplans, to ensure the rigour of initiatives, guidance and training provided to SMPs in various aspects of their practice.

³² Ministry of Trade and Industry: [New Green Skills Committee to Support Skills Development for Green Jobs](#), November 2023.

- 6.15 The Voluntary Compliance Programme aims to promote audit quality by encouraging certification of compliance with SSQM requirements. AEs which are certified under this programme can increase their competitive advantage and build trust with clients and stakeholders. The certifications issued will be considered in ACRA's risk profiling of AEs for QC inspections.
- 6.16 In partnership with a local digital solution provider, the Digital Quality Management Dashboard aims to encourage AEs to adopt cost-effective technological solutions in the SoQM. The dashboard is developed to support AEs in digitalising the documentation and improving the design and implementation of the SoQM.