ACRA
ACCOUNTING AND CORPORATE REGULATORY AUTHORITY

16TH PUBLIC REPORT | OCTOBER 2022

Practice Monitoring Programme

DRIVING SUSTAINABLE AUDIT QUALITY

Contents

Glossary of Terms

ACRA	Accounting and Corporate Regulatory Authority
AARG	ASEAN Audit Regulators Group
AGS	Audit Guidance Statement
APB	Audit Practice Bulletin
AQIs	Audit Quality Indicators
COVID-19	Coronavirus Disease 2019
CPE	Continuing Professional Education
EP	Ethics Pronouncement
EQCR	Engagement Quality Control Reviewer
ESG	Environmental, Social and Governance
FRS	Financial Reporting Standard in Singapore
GAQWG	IFIAR’s Global Audit Quality Working Group
GPPC	Global Public Policy Committee
IAASB	International Auditing and Assurance Standards Board
IESBA	International Ethics Standards Board for Accountants
IFIAR	International Forum of Independent Audit Regulators
ISA	International Standard on Auditing
ISCA	Institute of Singapore Chartered Accountants
ISQM	International Standard on Quality Management
ISSB	International Sustainability Standards Board
IT	Information Technology
MAS	Monetary Authority of Singapore
NAS	Non-Assurance Services
PAOC	Public Accountants Oversight Committee

Glossary of Terms (continued)

PIE	Public Interest Entity
PMP	Practice Monitoring Programme
PMSC	Practice Monitoring Sub-Committee
RCA	Root Cause Analysis
SGX	Singapore Exchange
SMP	Small and Medium-sized Practice
SSA	Singapore Standard on Auditing
SSQC	Singapore Standard on Quality Control
SSQM	Singapore Standard on Quality Management
TCWG	Those Charged With Governance
TTF	IFIAR's Technology Task Force

Section 1: Executive Summary

Driving Sustainable Audit Quality

1.1 Accounting and Corporate Regulatory Authority's (ACRA's) Practice Monitoring Programme (PMP) is a key instrument of ACRA's regulatory oversight on the quality of the work of public accountants, which serves to protect public interest and foster greater confidence in financial reports.

1.2 This 16th PMP Public Report sets out certain common findings and observations arising from ACRA's inspections carried out during the period 1 April 2021 to 31 March 2022, for both firm and engagement levels.

1.3 ACRA urges public accountants to pay particular attention to the recurring themes of inspection findings at the engagement level. The theme of "accounting estimates, including fair value measurement" continues to top the list in both the listed and non-listed companies' segment. Findings of recurring themes (a) accounting estimates; (b) revenue recognition; and (c) auditor's reports, are discussed in Section 4.

1.4 Our inspections have also seen certain emerging areas of concern with respect to (a) materiality in planning and performing an audit; (b) audit sampling; and (c) external confirmations which may have consequences on the quality of the audit, are also discussed in Section 4.

1.5 The firm-level inspections were in respect to each of the six Singapore Standard on Quality Control 1 (SSQC 1) *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* elements, and highlights some good practices.

1.6 With the worst of the Coronavirus Disease 2019 (COVID-19) pandemic and the resultant movement restrictions seemingly behind us, the world has entered into a new normal way of work, in which hybrid work arrangements are here to stay. The acceleration therefore, of audit firms digitalising and leveraging on technology, should continue to enhance both the effectiveness and efficiency of audits.

1.7 Singapore Standard on Auditing (SSA) 315 (Revised 2021) *Identifying and Assessing the Risks of Material Misstatement* is effective for audits of financial statements for periods beginning on or after 15 December 2021. Whilst the overall objective of the auditor when performing procedures to identify and assess risks of material misstatement remains unchanged, the revised SSA introduces new concepts, and requirements, amongst other changes. ACRA urges public accountants to engage your clients earlier and prepare a robust risk assessment, which forms the basis for designing and implementing audit responses.

1.8 The Singapore Standard of Quality Management (SSQM) 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* and SSQM 2 *Engagement Quality Reviews* will be effective from 15 December 2022. ACRA urges firms to look beyond the implementation as a compliance exercise, and to fully embrace the new suite of standards and take the opportunity to elevate the consistency and quality of your public accounting practices. Indeed, there are benefits to be derived by the firms from the implementation of SSQMs, as discussed in Section 3.

1.9 Amendments to the Accountants Act have been passed in parliament in October 2022 and are expected to take effect in 2023. The key amendments are on the introduction of (a) inspections on public accounting entities for compliance with quality control standards (i.e. firm-level inspections); and (b) a tiered assessment framework for both firm-level and engagement-level inspections are discussed in Section 6.

1.10 Revisions will be made to the ACRA Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (the Revised ACRA Code) to adopt the Final Pronouncements on Revisions to Non-Assurance Services (NAS) and Fee-related Provisions of the Code issued by the International Ethics Standards Board for Accountants (IESBA) with the objectives to (a) strengthen independence requirements, particularly for audit clients which are public interest entities (PIEs) when audit firms provide NAS to their audit clients; and (b) enhance engagement with Those Charged With Governance (TCWG) and transparency of fee-related information to TCWG and stakeholders. The Revised ACRA Code is expected to be effective from 15 December 2022. The key changes are set out in Section 6.

1.11 Looking forward, demand for sustainability reporting and assurance on these reports is expected to increase. The profession should take this as an opportunity and build capacity and capability in this space, given that assurance on sustainability reporting requires the effort of strong multi-disciplinary teams. To take advantage of the emerging opportunities, the profession must stand ready to upskill and adapt, and stay engaged with your clients on this journey in sustainability reporting.

Section 2: Scope of ACRA's Audit Regulatory Work

The Public Accountancy Landscape in Singapore

2.1 ACRA regulates 709 (2021: 708) public accounting entities and 1,195 (2021: 1,163) public accountants providing public accountancy services in Singapore as of 31 March 2022.

2.2 Audits of listed entities are concentrated in 17 audit firms, comprising the Big Four and 13 medium-sized firms. The other firms (mainly comprising smaller partnerships and sole proprietorships) audit the non-listed entities.

ACRA's Inspection Activities under the PMP

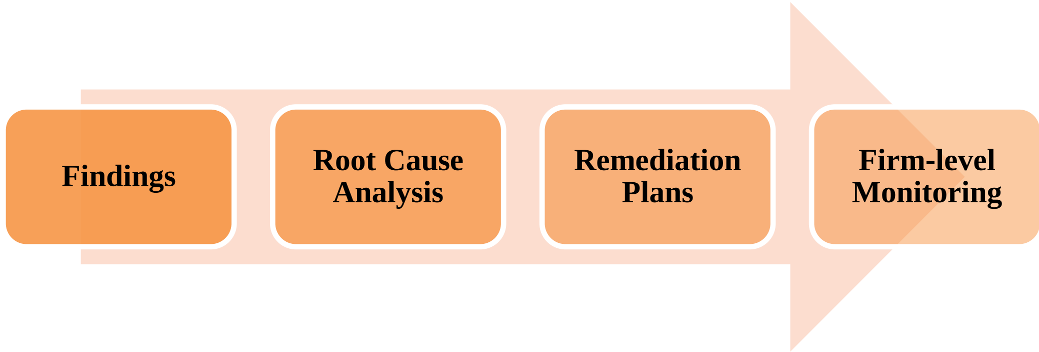
2.3 The key audit inspection activities within the scope of the PMP are as follows:

(i) **Engagement Inspection**

An engagement inspection is a review of an audit engagement performed by a public accountant as set out in the Accountants Act. The inspection assesses whether the work performed by the public accountant complies with the SSAs.

To develop, implement and execute effective remedial actions to address audit deficiencies and to prevent the recurrence of these deficiencies, public accountants will need to take steps to gain a better understanding of the underlying causes of these deficiencies by performing a Root Cause Analysis (RCA)[1]. ACRA will obtain an understanding of the RCA and will require public accountants to submit the remediation plans and the timeline for effecting the remedial actions. This is a continuous improvement model as shown below where public accountants are to continuously monitor and evaluate the effectiveness of the remedial actions.

[1] RCA is a systematic process for identifying "root causes", i.e. the fundamental cause, basis, or essence of the findings, or the source from which the findings are derived, and an approach for responding to the root causes.



In ACRA's review of the RCA and remediation plans, ACRA has noted that certain RCAs have pointed to firm-level policies and procedures which have to be remediated from a firm-level perspective. Such examples include the lack of specialised training for staff; or inadequate client acceptance and/or continuance assessment which leads to the firm continuing to take on audits for which the firm may not have the competencies, capabilities, or resources to undertake.

(ii) **Firm-level Inspection**

A firm-level inspection is a review of the effectiveness of the system of quality control, including policies and procedures, established by an audit firm. Presently, firm-level inspections are performed based on SSQC 1 and conducted on an advisory basis on audit firms that undertake audits of listed companies. As part of the ongoing inspections, ACRA reviews and evaluates the effectiveness of the remediation actions carried out by firms in respect of the findings and observations raised in preceding firm-level inspections and currently ACRA is engaging with the firms to seek an understanding of the firms' journey to adopt SSQM 1 and 2.

ACRA's Inspection Approach – Calibrated to be Risk-focused

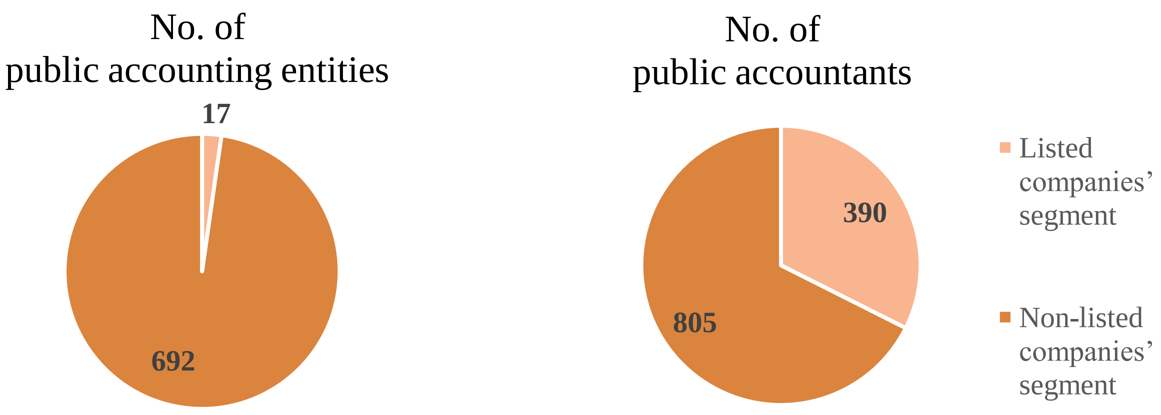
2.4 ACRA adopts a risk-based inspection approach that is calibrated to the complexity of the audits and level of public interest involved. Accordingly, ACRA's inspection approach is differentiated between the following two segments:

(i) Listed companies' segment - those practising in audit firms that perform audits of listed entities; and

(ii) Non-listed companies' segment - those practising in audit firms that perform audits of only non-listed entities.

2.5 As of 31 March 2022, the number of public accounting entities and public accountants in the two segments is as shown in Figure 1 below.

Figure 1: Number of public accounting entities and public accountants in the listed and non-listed companies' segments



2.6 As of 31 March 2022, the Big Four audit firms in Singapore collectively audit about 52% (2021: 54%) of the number of companies listed on the Singapore Exchange (representing about 77% (2021: 70%) of the total market capitalisation), and the remaining listed companies are audited by the other audit firms.

2.7 ACRA inspectors review the audits of the listed companies' segment and carry out both engagement and firm-level inspections in this segment.

2.8 The Singapore national accountancy body, Institute of Singapore Chartered Accountants (ISCA), carries out the review of the audits in the non-listed companies' segment under ACRA's oversight. In this respect, ACRA's oversight includes, amongst others, the determination of the public accountants to be reviewed, assessment of the severity of the findings, and the rigour and quality of the inspection process. This collaboration has led to an effective risk-focused regulatory regime.

2.9 Findings from the engagement inspections of both the listed and non-listed companies' segments are submitted to the Practice Monitoring Sub-Committee (PMSC)[2]. The PMSC

[2] PMSC comprises of independent practising public accountants and representatives from interested stakeholders to assist the PAOC in the administration of the PMP.

assesses the findings, taking into account the public accountant's written responses, and submits a report and recommendation to the Public Accountants Oversight Committee (PAOC)[3] for its decision on the inspection outcomes and sanctions (if any). This ensures that there is consistency in regulatory outcomes across all inspections. The PAOC is the deciding authority on the outcome of these inspections.

Coordinated Regulatory Approach

2.10 The landscape of Singapore's regulatory framework for ensuring that issuers listed on the SGX-ST provide full, accurate and timely disclosures of material information to investors include:

(a) Securities and Futures Act, administered by the Monetary Authority of Singapore (MAS);

(b) Listing rules administered by the SGX, with supervision from MAS; and

(c) Companies Act and Accountants Act, both administered by ACRA, regulate the financial statements of Singapore-incorporated companies (under the Financial Reporting Surveillance Programme) and the public accountants (under the PMP) auditing the listed issuers, respectively.

2.11 ACRA and MAS established a Joint Monitoring and Surveillance Committee in 2020, for cases identified to be of concern to:

(a) Facilitate a coordinated review of the audited financial statements and the corresponding audits, including related disclosures; and

(b) Identify and coordinate the follow-up on any potential breaches of the laws administered by ACRA and MAS, with a view for timely regulatory action and/or the expeditious commencement of any investigation.

2.12 High quality financial reporting is a shared responsibility of all stakeholders in the financial reporting ecosystem. Each of the stakeholders including the independent auditors, preparers, management, board of directors, audit committee members and shareholders have their respective important roles to play in the ecosystem. Notwithstanding the distinct responsibilities of the preparers and auditors, the relationship between companies and their

[3] PAOC is a committee comprising ACRA board members and is responsible for discharging ACRA's functions over the registration and regulation of public accountants in Singapore.

auditors should be collaborative in order to collectively contribute towards strengthening the quality of financial reporting, a cornerstone to high quality audits which in turn builds public trust and confidence in audited financial statements.

Contributing towards Global and Regional Audit Regulatory Initiatives

2.13 ACRA has been an active contributor towards international and regional developments in audit oversight and regulatory activities through its participation in the International Forum of Independent Audit Regulators (IFIAR) and the ASEAN Audit Regulators Group (AARG). These international and regional platforms allow ACRA to work with other audit regulators to share best practices and stay abreast of global audit trends and developments in supporting international and regional efforts in raising audit quality.

International Forum of Independent Audit Regulators

2.14 ACRA is a founding member of IFIAR, a global forum for audit regulators with a membership of approximately 54 jurisdictions from across the globe. IFIAR promotes global collaboration and sharing of experiences among the audit regulators through initiatives such as inspection and enforcement workshops, annual surveys and publications on regulatory trends and developments. Through this participation in IFIAR, ACRA benchmarks its audit regulatory regime against other leading audit regulators to ensure that Singapore's audit regulatory regime remains robust and relevant.

2.15 ACRA continues to serve on the Board of IFIAR, which is supported by two Committees, namely the Audit and Finance Committee and Human Resources and Governance Committee (HRGC). Ms Kuldip Gill, ACRA's Assistant Chief Executive (Accounting and Compliance Group) chairs the HRGC, which assists the IFIAR Board in overseeing matters relating to human resources and general governance.

2.16 Besides serving on the IFIAR Board, ACRA is also a member of the:

(a) IFIAR Global Audit Quality Working Group (GAQWG) since 2011. The GAQWG engages in ongoing dialogues with the leadership of the six largest international networks of audit firm (known as Global Public Policy Committee (GPPC)[4] networks) on initiatives to improve audit quality globally; and

(b) IFIAR Technology Task Force (TTF) which was set up in June 2020. The TTF's objective is to focus on the impact to audit quality of technology audit tools used widely by the GPPC networks. The TTF achieves this objective primarily through regular engagement with each of the GPPC networks' global leaders and working within IFIAR's other task forces and working groups to understand common inspection findings related to technological resources[5] used by the GPPC networks.

2.17 Amongst IFIAR's key initiatives is the annual survey of inspection findings that highlights common findings raised globally by audit regulators. IFIAR released the results of its tenth annual survey of inspection findings from its member (including ACRA) regulators' individual inspections of audit firms affiliated with the six GPPC networks on 25 March 2022[6], focusing on inspection reports issued during the year ended 30 June 2021. From the survey, the theme for the most common inspection findings (i.e. accounting estimates, including fair value measurement) for listed PIE audits is consistent with ACRA's engagement inspections in the listed and non-listed companies' segment, as discussed in Section 4 of this report.

ASEAN Audit Regulators Group

2.18 The formation of the AARG[7] is aimed at fostering closer collaboration, promoting audit quality and achieving greater alignment in audit regulatory practices amongst audit regulators in the ASEAN region. The AARG's activities complement IFIAR's efforts in upholding the standards of audit quality by focusing on common issues relating to audit regulation specific to the ASEAN region.

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4 The six audit firms in the GPPC networks are BDO, Deloitte, EY, Grant Thornton, KPMG and PwC. In Singapore, as of 31 March 2022, Grant Thornton does not perform audits of listed entities.

5 Further requirements on the use of technological resources can be found in SSA 220 (Revised) (paragraphs A63 to A67) and SSQM 1 (paragraph 32(f)) issued in October 2021.

6 https://www.ifiar.org/activities/annual-inspection-findings-survey/

7 The AARG comprises ACRA, Indonesia's Finance Professional Supervisory Center (also known as Pusat Pembinaan Profesi Keuangan (PPPK)), Malaysia's Audit Oversight Board (AOB), Thailand's Securities and Exchange Commission (Thailand SEC) and The Philippines' Securities Exchange Commission (Philippines SEC).

2.19 One of the AARG's key activities is the annual inspection workshops where delegates discuss topics covering regulatory developments, common inspection findings, common or emerging themes identified, and sharing on inspection methodologies.

2.20 The 9th AARG inspection workshop held between 18 and 20 July 2022 was hosted virtually by PPPK Indonesia and saw more than 140 participants from 14 countries. As part of the inspection workshop, representatives from the International Sustainability Standards Board (ISSB) shared on the various challenges and opportunities with respect to the exposure draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*. To provide more insights on valuations under an uncertain business climate, the workshop had also invited representatives from the International Valuation Standards Council and the valuers' community to discuss how valuers conduct valuations of assets under volatile circumstances.

2.21 Another AARG's key activity is to engage with the regional leadership of the GPPC networks, to discuss current and emerging topics affecting audit quality in the region. This year, the topics discussed included updates on implementation of International Standard on Quality Management (ISQM) 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* and ISQM 2 *Engagement Quality Reviews*, emerging challenges that have a bearing on audit quality and audit implications arising from the Russia-Ukraine conflict. Such periodic dialogues mirror the IFIAR GAQWG meetings and are beneficial in achieving a collaborative approach towards addressing common audit quality challenges in this region.

Section 3: Firm-level Inspections and Audit Quality Indicators

Introduction

3.1 An effective system of quality control forms the bedrock of consistent delivery of quality audits. ACRA, as stated earlier, has been carrying out firm-level inspections based on SSQC 1 on an advisory basis on firms that audit listed companies.

3.2 In addition to SSQC 1, SSA 220 *Quality Control for an Audit of Financial Statements* deals with specific responsibilities of the auditor regarding quality control procedures at the engagement level and addresses the responsibilities of the engagement quality control reviewer (EQCR).

3.3 ACRA also monitors Audit Quality Indicators (AQIs) to complement its firm-level inspections via offsite monitoring submissions by the relevant audit firms. Since 2020, ACRA has been publishing information on industry average and range of certain AQIs, categorised by Big Four and non-Big Four firms in the listed companies' segment. This industry comparison helps facilitate meaningful analysis and audit committees' discussion with the auditors on matters that could have a bearing on audit quality. The industry information is updated twice a year (for the six months ended 31 March and twelve months ended 30 September) and is published on ACRA's website[8].

Common Firm-level Inspection Observations, Key Reminders and Good Practices

3.4 The common observations from past firm-level inspections continue to recur in the recent 2021/2022 firm-level inspections and they are discussed in the table below, along with certain key reminders and/or good practices. Audit firms are reminded to ensure that relevant policies and procedures are put in place to maintain an effective system of quality control.

[8] https://www.acra.gov.sg/public-accountants/audit-quality-indicators-disclosure-framework

	Common Firm-level Observations	Key Reminders/ Good Practices
Leadership	**Linkage between audit quality and partners' performance evaluation and compensation** ACRA noted that the linkages between audit quality and partners' performance evaluation and compensation could be further strengthened to drive the right behaviour and promote an internal culture based on quality.	Audit firms should establish policies that clearly link the quality rating and compensation framework with prominent weightages to quality, to demonstrate the firm's overriding commitment to quality. Audit firms should consider incorporating certain audit quality related factors into partners' performance evaluation such as: • Internal and external review results; • Independence breaches; • Lapses on assembly of audit workpapers; • Financial statement restatements; • Effectiveness of partner acting as EQCR; • Accountability of partner with quality control functional leadership roles; and • Any other non-compliance with firm's quality control policies and procedures. On the other hand, audit firms should also consider providing an incentive for positive quality events.
Independence	**Violation of independence requirements** ACRA continues to note breaches of the firms' independence policies and of the ACRA Code.	Auditor's independence cannot be compromised as it is the foundation for high quality audits. Public accountants and accounting entities could be subjected to disciplinary proceedings under Part VI of the Accountants Act for breach of independence requirements under the ACRA Code.

	Common Firm-level Observations	Key Reminders/ Good Practices
Independence	**Independence testing for staff** The robustness of audit firm's independence testing should be further enhanced, by performing further corroboration of employees' declarations, including nil responses, of the employees and their spouse and/or immediate family members.	Audit firms should continue their efforts to eradicate independence violations and improve the robustness of the firm's monitoring and independence testing by considering initiatives such as, but not limited to: • Performing comprehensive RCA on violations, in order to devise appropriate remediation plans; • Increasing coverage for independence testing, on a risk-focused basis; • Ensuring that the period covered is adequately extensive or varying the periods during which the tests are carried out, to incorporate an element of "unpredictability" in the tests; and • Implementing stricter sanctions for breaches, including financial penalties. As for the long association provisions in the ACRA Code which deal with familiarity and self-interest threats, audit firms are also reminded to be mindful of the spirit, not simply the letter, of the ACRA Code. In other words, a critical assessment ought to be performed to conclude if there are familiarity and self-interest threats, even if the stipulated cooling-off requirements have been met.

	Common Firm-level Observations	Key Reminders/ Good Practices
A&C	**Execution lapses in acceptance and continuance ("A&C") process** ACRA continues to note various execution lapses in the firm's A&C procedures, as well as the requirements of EP 200 *Anti-Money Laundering and Countering the Financing of Terrorism – Requirements and Guidelines for Professional Accountants in Singapore*.	In evaluating the client engagement risk classifications during the A&C phase, audit firms should assess, amongst other factors, the impact of COVID-19 and the conflict between Russia and Ukraine, including the consequential impact caused (such as supply chain disruptions, cost inflation, rising interest rate, etc), on the clients or prospective clients. For clients in specialised industries (e.g. involving digital assets), firms should assess the associated risks and critically assess whether they possess the necessary knowledge, professional competence and capacity to undertake those engagements during the A&C process. Further, in assessing the acceptance or continuance of a group audit engagement, firms are reminded to consider the following: • The cooperativeness and competency of component auditors; and • The ability to obtain a good understanding of the group, its environment and businesses to enable an effective audit.

	Common Firm-level Observations	Key Reminders/ Good Practices
Human Resources	**High/increased staff attrition** Staff attrition is a perennial issue of the audit profession. As audit firms continue to face high staff turnover, this would result in loss of knowledge and experience necessary to execute quality audits.	As seen from the general increase in the average staff attrition rates since March 2020 in Figures 4a and 4b, audit firms should consider implementing effective staff retention initiatives to maintain healthy retention rates, especially for the high performing staff. In order to aid in devising effective retention initiatives, audit firms should conduct periodic pulse surveys and maintain open avenues for staff feedback (such as 360 degree/upward feedback). To minimise the negative impact on audit quality from staff attrition, firms are reminded to put in place processes to ensure proper handover of audit engagements when there are changes in engagement team members. A good practice observed is that of monitoring the workload of individual staff, such as periodic status update of assigned tasks from individual staff, in order to identify staff who may require assistance on a timely basis. Whilst there are indications of firms increasingly (or contemplating) offshoring or outsourcing certain tasks, it is critical that the firms put in place robust policies and processes to ensure that such tasks are completed with high quality, and that the other related risks (including independence, confidentiality and data security) are mitigated.

	Common Firm-level Observations	Key Reminders/ Good Practices
Engagement Performance	**Final assembly of audit files** Whilst ACRA has seen continuous efforts by audit firms to improve on the number of lapses, ACRA still notes lapses in the final assembly of audit files.	It is possible to achieve zero lapses, as certain audit firms have achieved this. This is commendable and is a result of great discipline and commitment. Certain effective initiatives and practices observed are as follows: • Institute full paperless electronic audit files to eradicate late assembly of hardcopy workpapers; and utilise auto-archival function of audit software to lock down audit evidence within the assembly period; • Implement a stricter policy by way of a shorter assembly timeframe than the requirements in SSQC 1 and SSA 230 *Audit Documentation* (i.e. less than 60 days); • Automate reminder emails for impending due date with increasing frequency nearer to the deadline; and • Set a strong tone at the top by incorporating assembly deficiencies in partners' and staff's performance appraisals, differentiating for repeat offenders.

	Common Firm-level Observations	Key Reminders/ Good Practices
Monitoring	**Ineffective monitoring controls in place to identify lapses** ACRA noted firm-level and engagement review findings which were not identified through the audit firms' monitoring programmes. This raised questions over the operating effectiveness of the firm's monitoring controls.	Monitoring is an important element that cuts across all areas of the audit firm's system of quality control. Firms should revisit the design and effectiveness of their internal monitoring or testing on firm-wide quality control areas to ensure that monitoring activities are robust and timely. Firms may also consider digitalising or automating certain monitoring activities where feasible. An example could be that of monitoring the various sub-activities of client acceptance and continuance, to ensure that the firm's policies and procedures were adhered to. A robust RCA should be undertaken to identify the root causes of the findings, in order to develop the appropriate remediation action plan. Additionally, firms should also include identifying positive root causes, such as good practices observed. Findings/observations from the firms' monitoring activities should also be communicated to partners and staff on a timely basis, to minimise recurrence.

3.5 Given that the quality management standards, namely SSQM 1, SSQM 2 and SSA 220 (Revised) *Quality Management for an Audit of Financial Statements* will be effective on 15 December 2022, the profession ought to ensure compliance to these standards by the effective date.

3.6 A robust system of quality controls establishes the foundation, and the infrastructure for firms in the consistent execution of high quality and efficient audits and helps the firms in being risk-focused.

3.7 ACRA would like the profession to look beyond the implementation as solely a matter of compliance with professional standards. Instead, the profession should fully embrace the new suite of standards and take the opportunity to elevate the consistency and quality of your public accounting practices.

3.8 It is to be expected that there are numerous benefits to be derived from the implementation of these standards, including amongst others: (a) aligned goals throughout the firm, from the leadership down to the process owners, where leaders set specific and measurable goals for everyone; (b) processes are understood, streamlined and optimised, particularly when there are open discussions amongst everyone involved in the respective processes; and (c) new insights with reliable data to make well-informed decisions, when certain quality metrics (e.g. workload, leverage ratios and other AQIs) to measure and improve audit quality, are available.

3.9 Small and Medium-sized Practices (SMPs) benefit from the implementation of this risk-based standards as these standards allow the firms to focus on specific relevant risks, and to formulate and streamline processes, leading to greater consistency.

3.10 It is also worth highlighting that ACRA understands from firms that have begun implementing the quality management standards, that the policies and procedures implemented under the extant quality control standards remain relevant, with revisions and enhancements as necessary as the firms transition to the quality management standards.

3.11 Section 7 of this report includes certain implementation support activities available to the profession.

Trend Analysis of AQIs of Audit Firms that Perform Audits of Listed Entities

3.12 ACRA first introduced its AQIs Disclosure Framework in 2015, with the aim of equipping audit committees to better evaluate and select the right auditor, based on quality. The AQIs enhance discussions between audit committees and audit firms on audit quality matters, particularly during the appointment and re-appointment of auditors.

3.13 Following ACRA's revisions to the AQIs Disclosure Framework in 2020[8], ACRA has been publishing relevant information on industry average and ranges for the audit firms in the listed companies' segment, on a semi-annual basis and categorised by Big Four and non-Big

Four firms, to better facilitate industry comparison. The industry information provided focuses on:

I) Staff oversight:

  (i) Partners to managers and audit professional staff ratio (Figures 2a and 2b); and

  (ii) Managers to audit professional staff ratio (Figures 3a and 3b).

II) Average years of experience by staff grade.

III) Overall staff attrition rate (Figures 4a and 4b).

3.14 The charts in Figures 2a to 4b illustrate the respective average AQIs in the Big Four and non-Big Four firms, as well as the highest and lowest AQIs of the audit firms for the respective reporting periods from 2019 to 2022.

Staff Oversight

3.15 The average partners to managers and audit professional staff ratios have been on a declining trend for both the Big Four and non-Big Four segments, since 30 September 2020 (Figure 2a) and 31 March 2020 (Figure 2b) respectively.

3.16 As shown in Figure 3a, the average managers to audit professional staff of the Big Four firms have been relatively consistent and the range has broadened for 31 March 2022. The same ratio for the non-Big Four firms in Figure 3b indicates that there has been a general decrease in this ratio over the years.

3.17 Though lower leverage ratios generally indicate a higher capacity for review and supervision by the managers and partners (as the case may be), these ratios, similar to the other AQIs, should not be read and interpreted in isolation. For example, a lower leverage ratio, coupled with an increase in staff's workload (possible proxies being revenue and/or revenue per headcount and hours charged per staff, etc) may indicate a resourcing shortfall, which may have a bearing on audit quality.

Figure 2a: Staff oversight – Partners to managers and audit professional staff ratio of Big Four firms

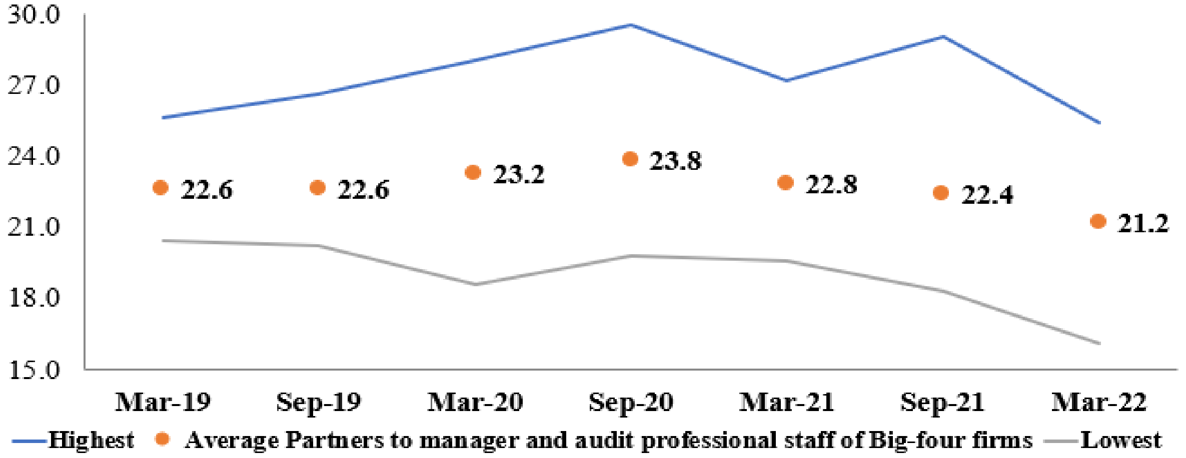


Figure 2b: Staff oversight – Partners to managers and audit professional staff ratio of non-Big Four firms

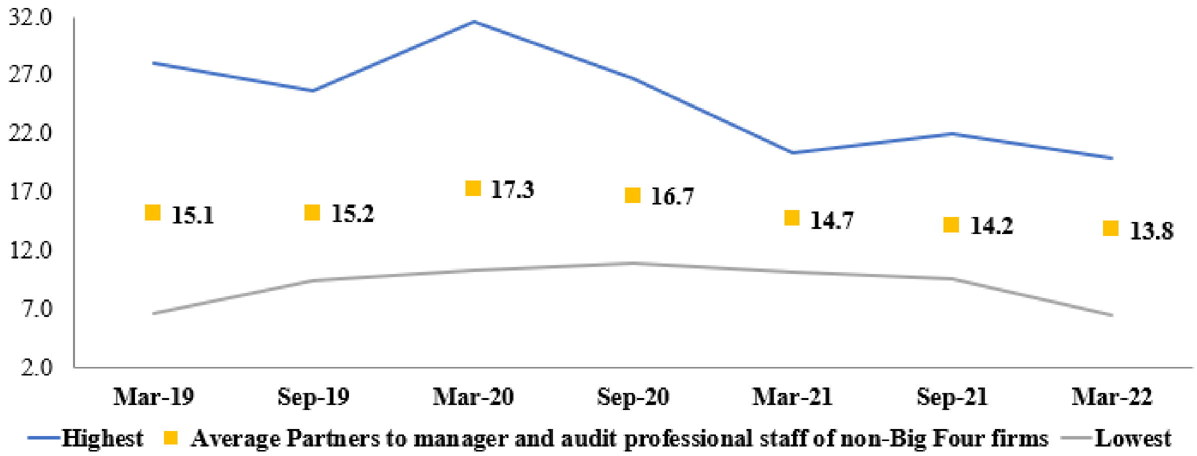


Figure 3a: Staff oversight – Managers to audit professional staff ratio of Big Four firms

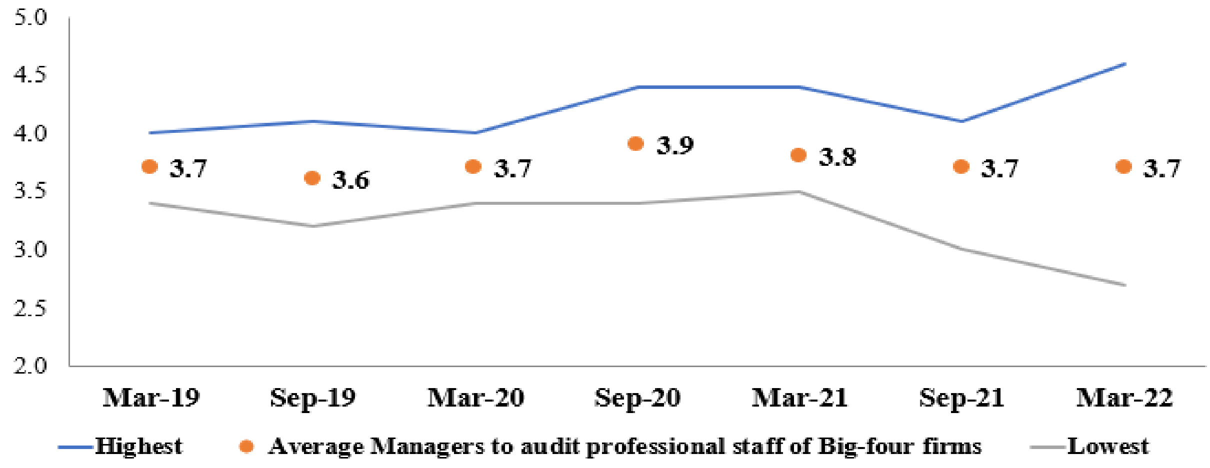
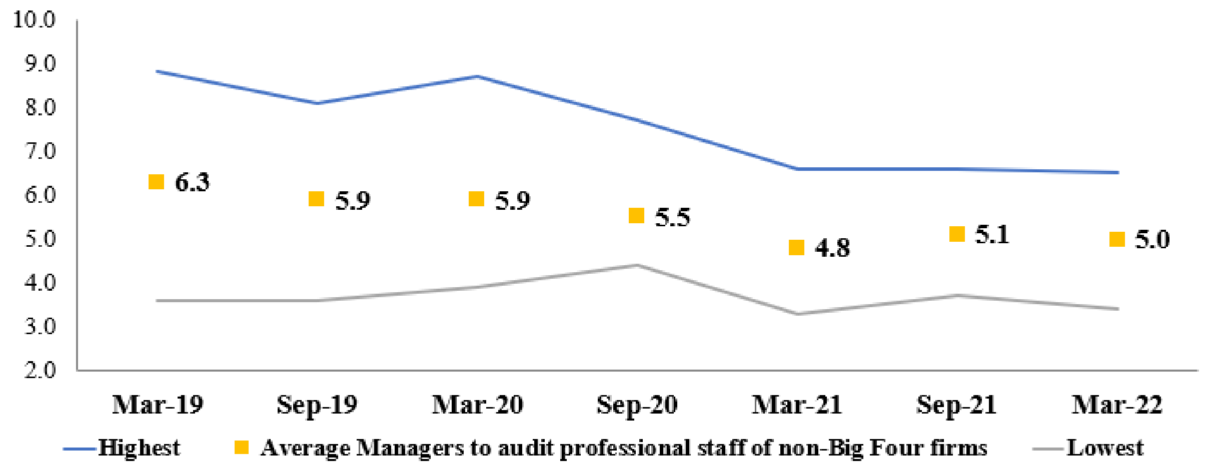


Figure 3b: Staff oversight – Managers to audit professional staff ratio of non-Big Four firms



Staff Attrition Rate

3.18 As shown in Figures 4a and 4b, the overall staff attrition rates saw a significant increase for the six months ended 31 March 2021 and for the twelve months ended 30 September 2021. Whilst there has been a slight improvement subsequent to 30 September 2021 for the non-Big Four firms (Figure 4b), the overall attrition rate for the Big Four firms (Figure 4a) continued to increase for the six months ended 31 March 2022.

3.19 Much of the increased attrition since the six months ended 31 March 2021 has been attributed by the firms to the following:

(a) "Great Resignation", a global phenomenon since late 2020; and

(b) Accountancy profession having lost its attractiveness amongst the workforce.

Whilst some level of attrition is expected, audit quality is likely to be affected by high attrition rates. Beside the loss of knowledge and experience that comes with attrition, audit firms may face difficulties in recruiting auditors with similar levels of experience and competency, which may impede the audit firm's readiness and capability to identify and resolve audit and/or accounting issues effectively on a timely basis. Therefore, every staff retained adds on to the firm's knowledge and experience base necessary to execute high quality audits. There are certain good practices highlighted within "Human Resources" in Section 3.4 above.

Figure 4a: Overall staff attrition rate of Big Four firms

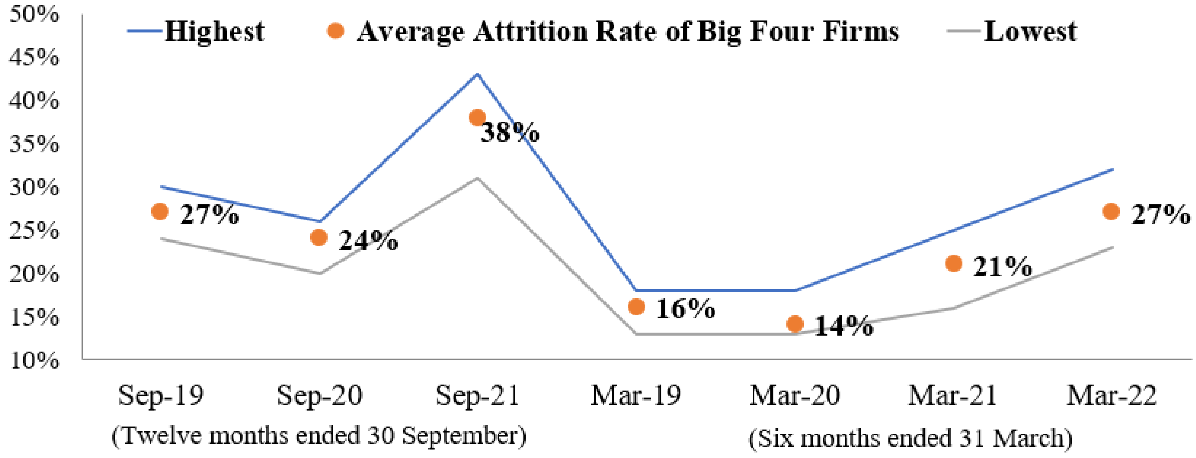
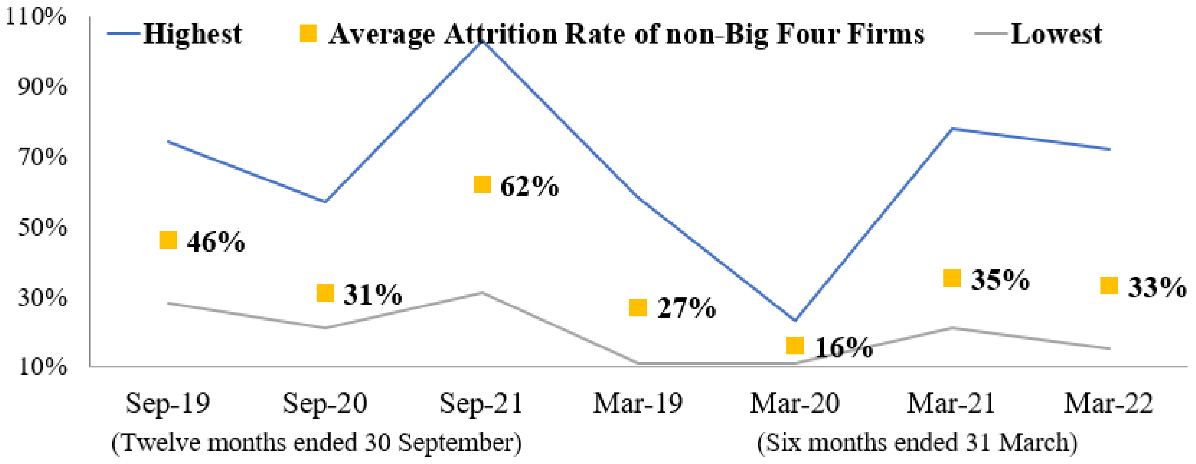


Figure 4b: Overall staff attrition rate of non-Big Four firms



3.20 To facilitate the comparability of AQIs across audit firms, ACRA developed a Guidance to Audit Firms on ACRA's Audit Quality Indicators Disclosure Framework (2020 Revised)[9]. On a periodic basis, ACRA also performs sample checks to ensure that the AQI data provided by firms are prepared in accordance with the basis set out in the guidance.

3.21 Audit firms are encouraged to share AQI data with audit committees, with comparison within the industry and with prior periods, to allow for more meaningful analysis and robust discussions.

3.22 Audit committees, on the other hand, should also endeavour to request AQI data from, and have in-depth discussions with, the firms as a means to assess the firms' quality.

[9] https://www.acra.gov.sg/docs/default-source/default-document-library/public-accountants/audit-quality-indicators-disclosure-framework/guidance-to-audit-firms-on-acra's-revised-aqi-disclosure-framework.pdf

Section 4: Engagement Inspection Findings

Introduction

4.1 All public accountants in Singapore are statutorily subjected to practice reviews under ACRA's PMP under the Accountants Act. The PMP assesses whether a public accountant has *complied with the prescribed standards, methods, procedures and other requirements when providing public accountancy services*.

4.2 A PMP inspection reviews the audit procedures performed by the public accountant to support its audit opinion. An inspection finding is raised when there has been non-compliance with the prescribed standards. Such non-compliance can either be a deficiency in audit procedure[10] or insufficient work performed to support the professional judgement[11] applied by the public accountant. However, an inspection finding does not necessarily mean that the financial statements were misstated or that an audit failure (e.g. wrong audit opinion issued) has occurred.

4.3 In this section, ACRA will share some of the common findings arising from PMP inspections, discuss a couple of case studies, and reiterate certain key reminders with the profession around materiality setting, audit sampling and external confirmations.

Analysis of Engagement Inspection Findings

4.4 The areas with the highest frequency of findings observed from ACRA's engagement inspections over the past three years period are illustrated in Figures 5a and 5b for listed and non-listed companies' segments, respectively. ACRA encourages audit firms to continue making efforts to drive sustained improvement in audit quality and pay particular attention on the audit quality themes noted below.

4.5 Accounting estimates, including fair value measurements has consistently topped the list of common findings in ACRA's engagement inspections. This observation is consistent with

[10] 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.

[11] Obvious to an experienced auditor that the public accountant's application of professional judgment is fundamentally flawed. Evaluation of the public accountant'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 public accountant up to the date of the auditor's report.

the IFIAR Annual Inspection Findings Survey results, which showed that accounting estimates, including fair value measurement had the highest frequency of inspection findings amongst inspections of listed public interest entities' audits performed by the GPPC network firms.

Figure 5a: Common inspection findings by themes in the listed companies' segment

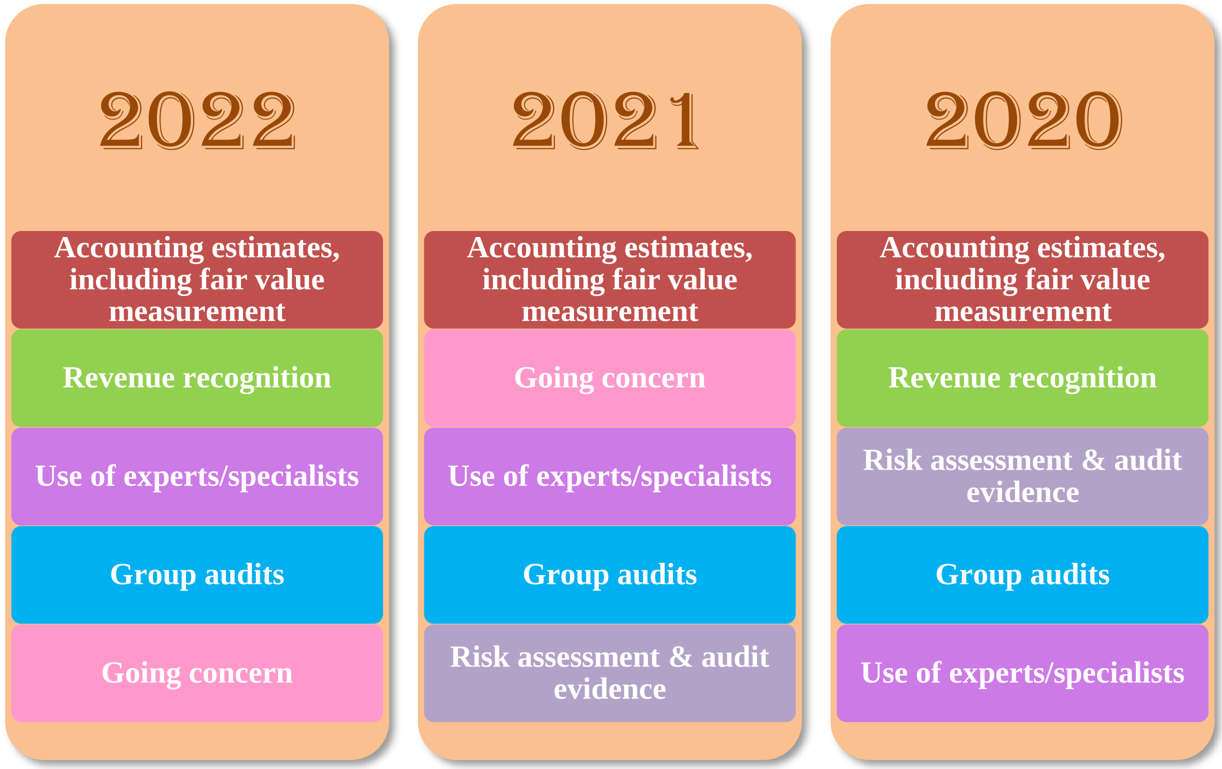
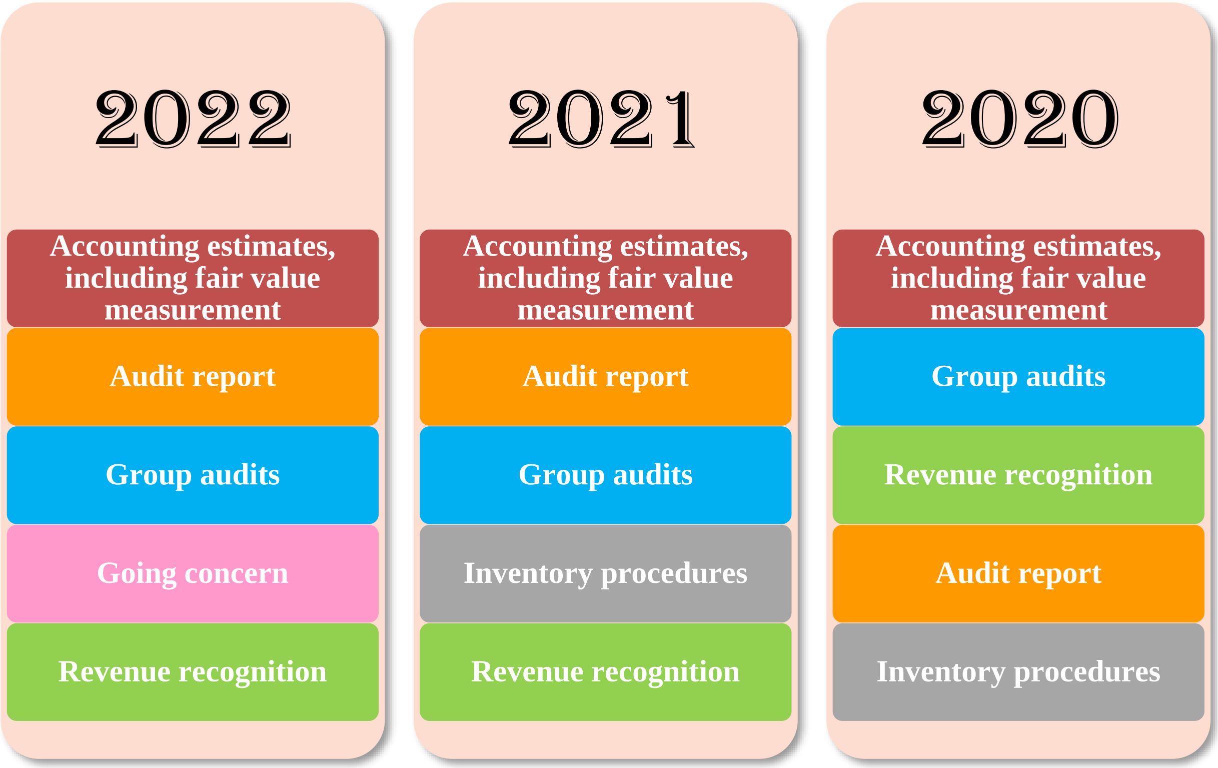


Figure 5b: Common inspection findings by themes in the non-listed companies' segment



Accounting Estimates, including Fair Value Measurement

4.6 Accounting estimates often involve management's judgements and significant assumptions. Therefore, by their very nature, they often pose challenges for auditors and are not easy to audit. Auditors face challenges when evaluating significant judgments and assumptions that are susceptible to management's manipulation or bias, whether intentional or otherwise.

4.7 The theme on accounting estimates, including fair value measurement, is broad, as evidenced by the number of different areas that involve accounting estimates. The audit deficiencies in this area resulted from the lack of sufficient and appropriate:

(a) Assessment of the reasonableness of assumptions made, including consideration of contrary or inconsistent evidence (where applicable);

(b) Work performed to assess whether the inputs and data used were relevant and reliable; and

(c) Consideration of management bias, including changes in management's accounting estimates and/or methods from prior periods.

ACRA emphasises that auditors should not be merely:

- Arriving at an estimate independently, without understanding how management had arrived at their own estimate;
- Assessing qualitatively to challenge and accept management's estimates. Auditors should also critically assess the need for a quantitative assessment; and
- Looking out for corroborative evidence and disregarding contradictory or inconsistent evidence.

4.8 An analysis of the findings revealed the following financial statement line items and the audit deficiencies categorised under this theme:

Receivables

- Lack of sufficient appropriate audit evidence on the recoverability of receivables, including reasonableness of provision of expected credit losses ("ECL").

  For ECL estimation based on the entity's overseas holding company's/head office's data/models, ACRA observed that certain public accountants had not considered how the data/models adopted by the holding company/head office would be similar, and therefore applicable, in the context of the auditee, including whether the economic conditions, risk profile of debtors, etc, are similar.

Construction contracts

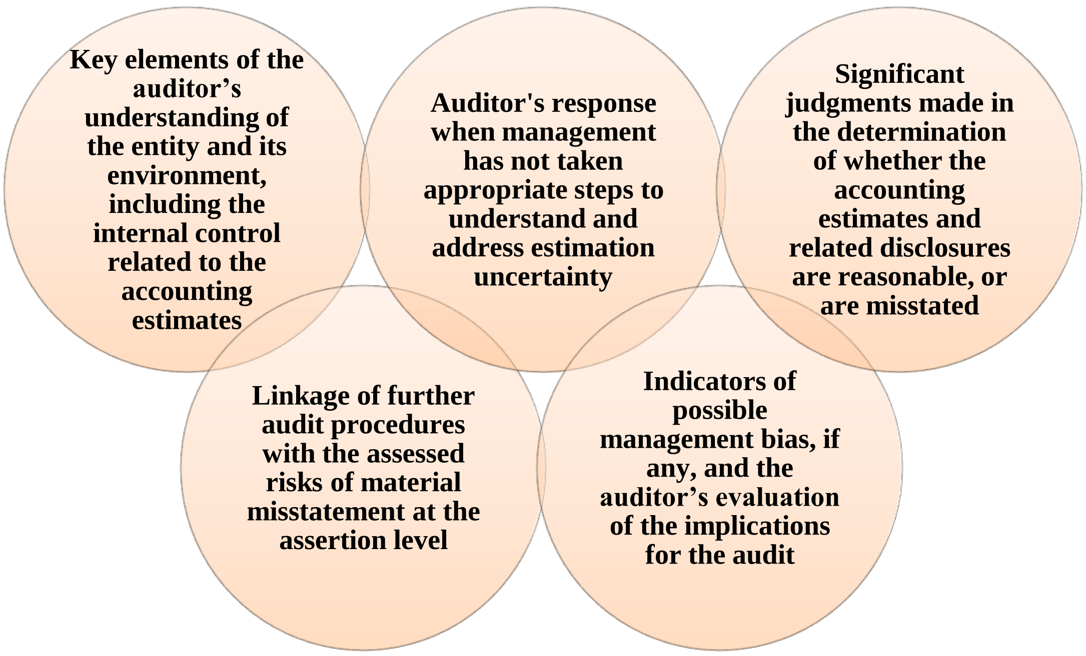
- Lack of sufficient evaluation on the reasonableness of management's estimates over:
  (a) Total budgeted costs and estimated costs-to-complete;
  (b) Provision of foreseeable losses; and
  (c) Provision of liquidated damages.

Goodwill and other intangible assets
Property, plant and equipment

- Lack of adequate assessment on the reasonableness of inputs, variables and assumptions used by management in arriving at the recoverable amount of, and/or the impairment charge recorded on, the assets.
- Lack of evaluation on how management addressed estimation uncertainty (e.g. auditee's intent and ability to carry out specific course of action).

4.9 SSA 540 (Revised) *Auditing Accounting Estimates and Related Disclosures* requires auditors to obtain sufficient appropriate audit evidence about whether accounting estimates and related disclosures in the financial statements are reasonable. It is also important that the audit documentation demonstrates how auditors have exercised their professional scepticism to arrive at their conclusion, including the challenges and judgement they have made throughout the audit. Specifically, SSA 540 (Revised) includes the audit documentation requirements of the auditors as shown in Figure 6.

Figure 6: Audit documentation requirements under SSA 540 (Revised)



4.10 Exercising professional scepticism is a key element in auditing accounting estimates. SSA 540 (Revised) requires auditors to design and perform further audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. Further, auditors are also required to "stand-back" and evaluate the audit evidence obtained regarding the accounting estimates, including both corroborative and contradictory audit evidence.

4.11 ACRA urges all public accountants to engage their clients early, to prepare a robust risk assessment of accounting estimates during the planning phase with the involvement of senior audit personnel. Public accountants should also heighten their professional scepticism when assessing whether management's accounting estimates, and the related disclosures, are reasonable in the context of the continually changing and uncertain economic environment.

Revenue Recognition

4.12 Revenue recognition is another area of common inspection findings across both the listed and non-listed companies' segments. Findings under this theme include the failure to obtain sufficient appropriate evidence to address the appropriateness of (a) recognising revenue at a point in time (as opposed to over time); and (b) the manner in which the progress towards complete satisfaction of a performance obligation was measured.

4.13 Financial Reporting Standard in Singapore (FRS) 115 *Revenue from Contracts with Customers* outlines a single comprehensive framework in accounting for revenue arising from contracts with customers. The core principle of FRS 115 is that an entity will recognise revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Where assessments had been made in a prior audit, public accountants are reminded to "carry forward" the assessment and update for any changes (e.g. business model, contractual terms, etc) in the current year's audit workpapers.

4.14 When the asset being created by the company has no alternative use to the company and the company has an enforceable right to payment for performance completed to date, revenue is recognised over time. In ascertaining if the company has an enforceable right to payment for performance completed to date, an entity shall consider the terms of the contract, as well as any legislation or legal precedents that apply to the contract. Therefore, public accountants ought to consider, based on assessed risk, if there is a need to seek legal input independently.

4.15 For each performance obligation satisfied over time, the company shall recognise revenue over time by measuring the progress towards complete satisfaction of that performance obligation. Accordingly, if the company recognises revenue based on certain milestones, public accountants ought to critically assess if those milestones represent the faithful depiction of the company's performance towards complete satisfaction of the performance obligation.

Common Findings relating to Auditor's Reports and Key Reminders

4.16 This is a recurring area of findings for the non-listed companies' segment. The auditor's report is the final product of the audit process, which includes the audit opinion of the public accountant on the financial statements. Therefore, due care ought to be taken when preparing the report. ACRA takes a serious view on such deficiencies and a finding in this area may result as a severe finding which will reflect on the outcome of the practice review.

4.17 The observed errors and omissions in the auditor's report were generally (a) due to failure to include information required by the auditing standards or the Companies Act; (b) inadequate assessment and/or audit documentation supporting the type of audit opinion issued; and (c) lack of clarity as to how the auditor had concluded that a disclaimer of opinion was appropriate in the circumstances.

4.18 ACRA would like to remind public accountants that various illustrative auditor's reports are available under SSA 700 to SSA 810 and AGS 1 as guidance and public accountants ought to take into consideration the specific facts and circumstances of the audit engagement when preparing the auditor's report.

4.19 Highlighted below are some of the common deficiencies related to auditor's reports and key reminders for the public accountants to ensure that the audit reports meet the requirements set out in the auditing standards.

Common Audit Report Findings	Key Reminders
Omission in audit opinion on consolidated financial statements A typical set of consolidated financial statements comprise the following: • <u>Consolidated</u> statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows; and • Statement of financial position of the company. ACRA noted that public accountants <u>**had not identified certain related statements listed above in the audit opinion paragraph**</u>, which resulted in omission to provide an opinion to those statements omitted.	Such omission of audit opinion is a severe non-compliance with the requirements of the auditing standards and may result in public accountants not passing the PMP practice review. The illustrative auditor's report on group audits is available under SSA 700 *Forming an Opinion and Reporting on Financial Statements*. Public accountants could also refer to Audit Guidance Statement (AGS) 1 *Sample Independent Auditor's Reports* for illustrative examples of commonly used audit reports.

Common Audit Report Findings	Key Reminders
Other omissions in auditor's report There were instances of the following omissions in auditor's report on consolidated financial statements: • Description of the auditor's responsibilities in a group audit engagement within the section "Auditor's Responsibilities for the Audit of the Financial Statements"; • Stating whether the accounting and other records to be kept by the subsidiaries audited by the public accountant have been properly kept in accordance with the Companies Act within the section "Report on Other Legal and Regulatory Requirements"; and • Responsibilities of the management and directors for the oversight of the financial reporting process.	Public accountants are reminded to take due care and ensure that information set out in the auditor's report is complete.
Modifications to auditor's report ACRA noted that there was a lack of assessment and/or audit documentation on the type of audit opinion to be issued. An example is that of not performing adequate audit work on to support the basis for the modified opinion.	Public accountants should assess whether any modification to the auditor's opinion is required based on the audit evidence obtained during the audit. Public accountants are reminded to document clearly the basis and judgements made in arriving at the audit opinion.

Common Audit Report Findings	Key Reminders
Basis for modified audit opinion ACRA noted instances where the users of the financial statements would likely not understand how the auditor's conclusion was reached. For example, there was lack of clarity as to how certain matters described had resulted in a disclaimer of opinion, given that they did not appear to be material and pervasive in nature.	Public accountants are reminded to adhere to the requirements of SSA 705 (Revised) *Modifications to the Opinion in the Independent Auditor's Report*, including the requirements on presentation and content, such as including a proper basis and justification to the modification. The audit procedures performed to arrive at the conclusion should also be appropriately documented in the audit working papers.

4.20 Significant improvement is needed for the public accountants in the non-listed companies' segment when preparing the final deliverable, particularly on group audit engagements.

Case Studies

4.21 With there being recurring findings on (a) group audits; (b) going concern; and (c) use of experts/specialists, the following case studies illustrate some **non-exhaustive** considerations that may impact the auditor's judgement and the nature, timing and extent of audit procedures performed by the auditor.

Case Study 1: Group Audit

Background Information

The Company is an investment holding company and has 2 overseas subsidiaries ("Sub A" and "Sub B") being involved in construction of steel structures. The Group recognises revenue over time, based on the input (cost over cost) method. Projects typically span 2-4 years, depending on the complexity and scale of the projects.

Given the heightened level of estimates and judgement involved in deriving total cost, revenue recognition was identified as one of the significant risks by the group auditor.

Both subsidiaries were identified as significant components by the group auditor.

Auditor's Evaluation

	Work performed by group auditor for purposes of the group audit	**Audited by**
Sub A	• Sent group reporting instructions. • Reporting deliverables received from component auditor, as well as the memo done by the group auditor after having reviewed the working papers of the component auditor, were brief and largely contained a listing of procedures and concluding statements. There were no details as to the nature, timing and extent of work performed, audit evidence obtained and significant matters that arose, conclusions reached thereon, and significant professional judgements made in reaching those conclusions.	A medium-sized firm in Malaysia.
Sub B	• Solely relied on the audited financial statements of Sub B, *given that it was audited by a Big Four firm*.	A Big Four firm in Indonesia.

The group audit opinion was unmodified.

Case Study 1: Group Audit

Other Considerations

- Given that revenue recognition was identified as a significant risk by the group auditor due to the heightened level of estimates and judgement involved in ascertaining the total cost of the projects, how was the group auditor satisfied, and demonstrated, that sufficient appropriate audit evidence had been obtained by the component auditors?
- For Sub A, merely receiving group reporting deliverables and/or documenting a SSA 600 *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)* memo which do not contain sufficient details would not suffice.
- For Sub B, that the subsidiary was audited by a Big Four firm, by itself, does not relieve the group auditor of the requirement to comply with SSA 600.
- Some of the considerations include: What were the components of total estimated cost? How has management estimated these costs? Were management's past estimates reasonable? Are the types of projects undertaken similar to the past? Does each of those cost components contribute towards satisfaction of the performance obligation?

ACRA, through Audit Practice Bulletin (APB) No.1 of 2015 *Audits of Group Financial Statements (Including the Work of Component Auditors)*, had provided guidance to public accountants on certain key aspects of group audits.

With the localised version of International Standard on Auditing (ISA) 600 (Revised) *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* expected to be effective for audits of group financial statements for periods beginning on or after 15 December 2023, it is timely that ACRA, together with the ISCA Auditing and Assurance Standards Committee, looks into "refreshing" the APB to provide more guidance to the profession.

In February 2020, ISCA had also issued AGS 12 *Group Audits – Inaccessibility of Component Auditors' Work Papers and Other Considerations* which provides guidance when group auditors are faced with extraordinary events beyond the control of the group engagement team which restrict the travel for a period/duration such that it will impact the finalisation of the auditor's report.

Section 207(6) of the Companies Act also provides for group auditors of Singapore-incorporated companies to a right of access to certain records and information of subsidiary corporations, for purposes of the group audits.

Case Study 2: Going Concern Assessment

Background Information

The principal activities of the Company are those of manufacturing of spare parts used in the air transportation industry.

Net current liabilities: $8 million + **Loss before tax: $2 million** + **Negative operating cashflows: $3 million**

Going concern was identified by the auditor as a significant risk, given the above-mentioned indicators. Within current liabilities, there was an amount owing to the holding company of $6 million.

Auditor's Evaluation

The auditor has concluded that there was no material uncertainty related to going concern, given that:

- The holding company has provided a letter of financial support to the Company to provide funds to the Company as and when required by the Company, and also undertaken not to recall the amount owing of $6 million until such time that the Company generates profits and is able to repay.
- The Company forecasted a profit before tax and positive operating cashflows of $2 million, respectively, for the next financial year. The "turnaround" was mainly attributed to a new customer, with whom the Company is in *advanced negotiation* to supply to. Therefore, the Company expects that it will also generate sufficient cashflows from operations to allow the Company to continue as a going concern.

Other Considerations

- Any assessment by the auditor to evaluate the financial ability and intent of the holding company to provide the financial support?
- How did the auditor assess the reliability and reasonableness of management's forecast that it will generate sufficient cashflows from operations to continue as a going concern? Was there a retrospective review of management's past forecasts? Did the auditor also consider the need to obtain management's forecast beyond only the next financial year?

  Was there an assessment whether the ongoing COVID-19 situation or the conflict between Ukraine and Russia would have an impact on the Company's operations?

Case Study 3: Use of Experts/Specialists

Background Information

The principal activities of the Company relate to provision of construction services. It had a building (part of property, plant and equipment) in New Zealand which was constructed over several years. During the year in which the construction was completed, the Company switched to recording the building at its fair value (previously at cost) and recognised a significant fair value gain.

The property was of a highly specialised nature and there were no comparable sales transactions, therefore the valuer engaged by the Company adopted the replacement cost approach in the valuation. There were several inputs and assumptions mentioned in the valuation report, with no quantitative details, including construction costs, gross margins, demolition costs and financing costs.

Auditor's Evaluation

The auditor had assessed the competency, capabilities and objectivity of the management's expert and accepted the valuation derived by the management's expert.

Other Considerations

How has the auditor evaluated the appropriateness of the management's expert's work? Such considerations may include:

- The relevance and reasonableness of the significant assumptions and methods used by the expert.
- The relevance, completeness, and accuracy of significant source data used.
- The relevance and reasonableness of the expert's findings or conclusions, their consistency with other audit evidence, and whether they have been appropriately reflected in the financial statements.

Emerging Areas of Concern

4.22 This section sets out some of the emerging areas of concern as we note through our inspections and hence some key reminders that ACRA wishes to communicate to the profession.

Materiality in Planning and Performing an Audit

4.23 Auditing standards define information to be material if its misstatement, including omission, individually or in aggregate, could reasonably influence the economic decisions of users taken on the basis of the financial statements. Materiality is assessed both quantitatively and qualitatively.

4.24 The concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

4.25 It is therefore of paramount importance that materiality is set appropriately. An inappropriate audit materiality could lead to an incorrect audit conclusion, i.e. inappropriate audit opinion.

4.26 Auditors are required to determine materiality for the financial statements as a whole, commonly referred to as "overall materiality", at the planning stage. This allows the auditor to determine performance materiality and a clearly trivial threshold for accumulating misstatements. Further, based on assessed risks and understanding the views and expectations of TCWG and management, auditors may also determine a specific materiality to be applied to particular classes of transactions, account balances or disclosures.

4.27 Setting overall materiality generally starts with a critical step – that of choosing the appropriate benchmark. There are several factors to consider when choosing a benchmark, including the nature of the entity and the industry in which it operates, and whether users focus on particular items in the financial statements. The appropriate benchmark chosen should therefore be linked to what the users are most concerned about in the financial statements. To this end, for a profit-oriented business, profit is generally considered an important benchmark for users of the financial statements. ACRA noted however that there appeared to be a high proportion of inspected engagements which had used revenue as the benchmark in setting materiality.

4.28 It must be said that no one size fits all and auditors have to apply their professional judgement to determine an appropriate benchmark and the chosen benchmark needs to be justifiable, with the rationale robustly and clearly documented. This is similarly applicable to the selection of percentages to be applied to the chosen benchmarks, i.e. whether the auditor has applied the higher end, or lower end of the range, etc.

4.29 In the case of a group audit, auditors are reminded of the requirement to, amongst others, determine materiality for the group financial statements as a whole, for purposes of providing a group audit opinion. It also does not suffice to place reliance on the respective components' materiality being "small" and therefore not determine a group materiality, given that the group auditor is required to evaluate the effect of the aggregated uncorrected misstatements (along with the nature of those uncorrected misstatements) of the components on the group financial statements.

4.30 Auditors are also reminded to reassess materiality on an ongoing basis as the audit progresses, mindful that circumstances may change during the course of the audit or some of the audit findings may mean that the initial assessments may no longer be appropriate.

Audit Sampling – Sample Size

4.31 A topic closely related to the appropriate setting of audit materiality is that of audit sampling. Audit sampling is one of the means available to auditors for purposes of selecting items for testing. It is designed to enable conclusions to be drawn about an entire population on the basis of testing a sample drawn from it.

4.32 Audit sampling carries sampling risk. In the context of tests of details, sampling risk could lead to two types of erroneous conclusions: (a) that a material misstatement exists when in fact it does not. This leads to additional work to establish that the initial conclusions were incorrect and thus creates inefficiency; or (b) that a material misstatement does not exist when in fact it does. This is the more dreaded of the two, as it affects audit effectiveness and could lead to an inappropriate audit opinion.

4.33 The level of sampling risk that the auditor is willing to accept is inversely related to the sample size required. Though largely down to judgement and on the case specifics, auditors are reminded of the requirement to determine a sample size that is sufficient to reduce sampling risk to an acceptably low level, based on the auditor's assessment of the risks of material misstatement.

4.34 Where auditors refer to certain sampling matrices to determine sample sizes, due care should be exercised to put in place documentation to demonstrate compliance with SSA 530 *Audit Sampling*.

4.35 In Section 5.8 of this report, it is discussed how the use of audit data analytics, when deployed appropriately, could help auditors to reduce this sampling risk.

External Confirmations – Need to Maintain Control

4.36 External confirmations are an important source of audit evidence and form an integral part of most audits. Confirmations from third parties that are sent by and directly received by the audit team are generally considered to be audit evidence of good quality.

4.37 When using external audit confirmation procedures, the auditor shall maintain <u>control</u> over the external confirmation requests, including, inter alia, determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor.

4.38 The above is not new. It is however worth revisiting the principles and requirements, given the increasing availability and/or use of service providers helping to send and receive electronic confirmations, as well as more confirmations (both the requests and the receipt of responses) now being done electronically.

4.39 The use of a service provider does not relieve the auditor of the responsibility to maintain control over the confirmation requests and responses. One such way this could be achieved is through a timely and robust review of the service provider's Service Organisation Controls (the "SOC reports"). Another way could be to perform direct testing of the design and operating effectiveness of the service provider's controls.

4.40 Where it comes to sending and receiving confirmations over an electronic platform, a related guidance was issued by ISCA in February 2022, i.e. Audit Bulletin 2 *Bank Confirmations Through Digital Platforms*[12]. The principles set out in this audit bulletin would largely be similarly applicable to other types of external audit confirmations.

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[12] https://isca.org.sg/docs/default-source/audit-assurance/guidances/ab-2---bank-confirmations-through-digital-platforms.pdf

Section 5: Driving Sustainable Audit Quality in the New Norm

Introduction

5.1 Audit firms were impacted in their audit work to different extent during the COVID-19 outbreak, depending on where the firms were, in terms of their digitalisation journey. Firms which were less digitalised and therefore unable to carry out audit work remotely faced severe disruptions. With the worst of the COVID-19 pandemic and the resultant movement restrictions seemingly behind us, the world has entered into a new normal way of work and interaction. Hybrid work arrangements appear to be here to stay in this new norm. The acceleration therefore, of audit firms digitalising and leveraging on technology, should continue to enhance both the effectiveness and efficiency of audits.

5.2 Beyond audit software, firms should also look to incorporate data analytics into their audit workflows to heighten the quality of audit, through reducing sampling risk and increasing coverage, being more focused on anomalies, having a better understanding of the audited entity and the risk areas, amongst others.

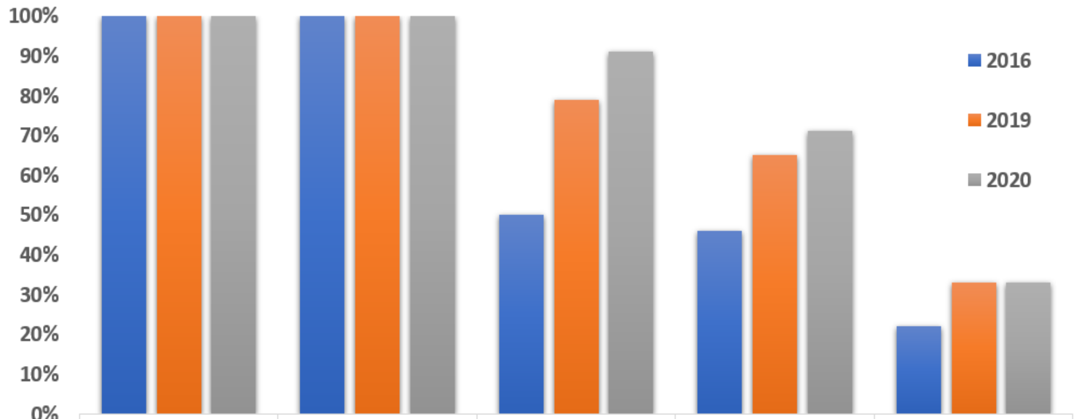
5.3 Given the ever-changing audit landscape, it is also important that ACRA remains agile in its regulatory role and encourage adoption of technology to the extent that audit quality is not compromised in the pursuit of digitalisation and innovation.

5.4 ACRA also wishes to highlight certain key features of the revisions made to an important standard – SSA 315 (Revised 2021), which is effective for audits of financial statements for periods beginning on or after 15 December 2021.

Use of Audit Software

5.5 In the 2021 PMP report, ACRA discussed numerous benefits that audit software can bring about. With reference to Figure 7a, the adoption amongst the smaller firms (i.e. the "Micro AEs") appears to be plateauing. To this end, ACRA urges the firms which have not adopted audit software to do so and fully harness the benefits that could be derived from the use of audit software, in order to drive sustained improvement in audit quality.

Figure 7a: Adoption level for audit software and tools by Accounting Entity ("AE") size[13]



	Big Four AEs (>1,000 staff)	Large AEs (101-999 staff)	Medium AEs (31-100 staff)	Small AEs (10-30 staff)	Micro AEs (<10 staff)
2016	100%	100%	50%	46%	22%
2019	100%	100%	79%	65%	33%
2020	100%	100%	91%	71%	33%

Audit Data Analytics

5.6 Globally, auditors are increasingly leveraging on technology. The most commonly deployed technology being those of data analytic tools, which serves to enhance the quality of audits and to deal with large volumes of data more effectively. Data analytics for audit is widely defined as the science and art of discovering and analysing patterns, deviations and inconsistencies, and extracting other useful information in the underlying data or related to the subject matter of an audit through analysis, modelling and visualisation for the purpose of planning and performing the audit.

5.7 ACRA is cognisant that deploying data analytics in audit has the potential to uplift audit quality. Where ACRA comes across areas where data analytics could be deployed by the inspected firm, a recommendation is brought up to the firm's leadership for consideration, as part of the firm-level inspection[14]. With reference to Figure 7b, the larger firms have made commendable efforts to adopt data analytics in audit. ACRA encourages the medium and smaller firms to press on in their journey to innovate and to look for ways in which deploying data analytics would bring about uplifting of audit quality.

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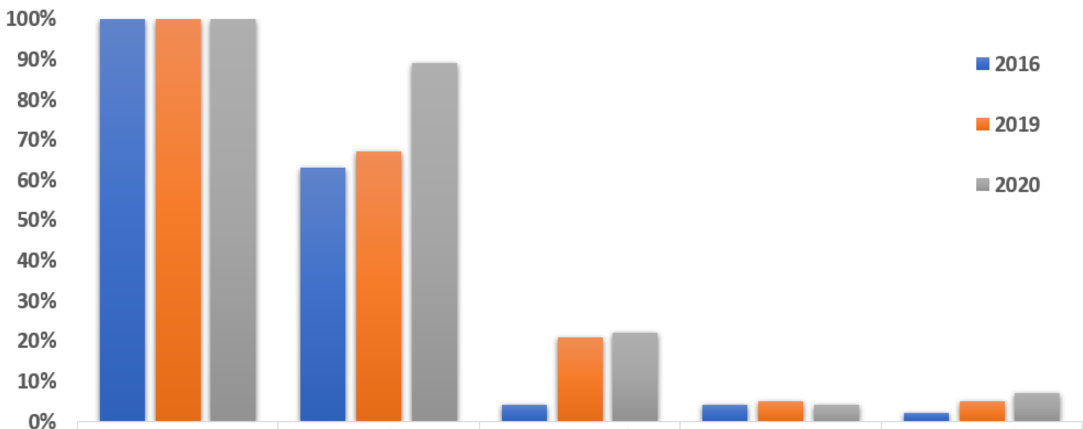
[13] Source: Singapore Accountancy Commission Accounting Entity Survey, AEcensus 2021 and 2020.

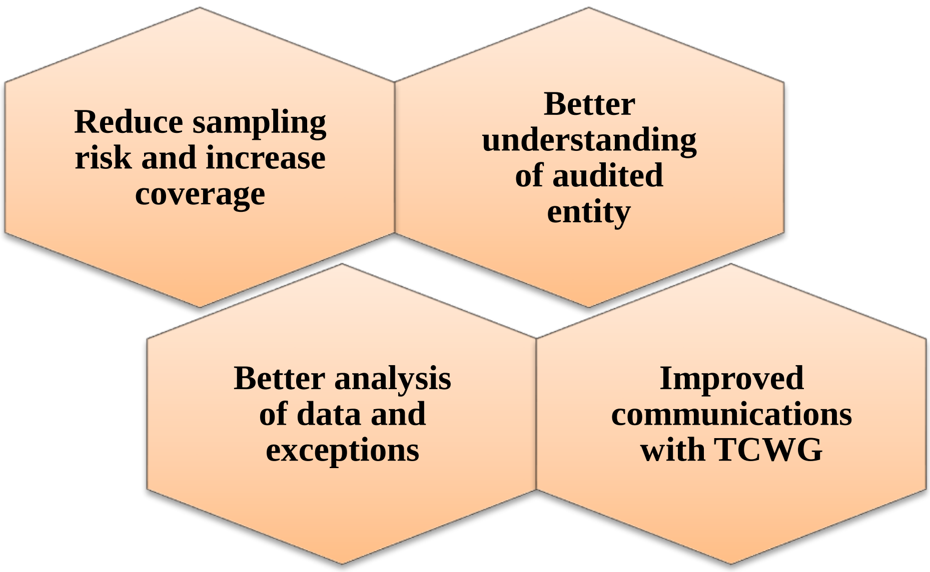
[14] As mentioned, firm-level inspections are currently carried out only for the listed companies' segment.

Figure 7b: Adoption level for data analytics for audit by Accounting Entity (“AE”) size[13]



	Big Four AEs (>1,000 staff)	Large AEs (101-999 staff)	Medium AEs (31-100 staff)	Small AEs (10-30 staff)	Micro AEs (<10 staff)
2016	100%	63%	4%	4%	2%
2019	100%	67%	21%	5%	5%
2020	100%	89%	22%	4%	7%

Figure 8: Benefits on use of audit data analytics



5.8 There are several benefits that could be derived from deploying data analytics in audit, to improve on both the effectiveness and efficiency of audits, such as:

(a) **Reduce sampling risk and increase audit coverage** – The use of data analytics facilitates the testing of entire data population, thereby improving coverage of audit procedures. Consequentially, this reduces or even eliminates sampling risk through enabling better risk-based selections for further analysis or testing. This is particularly beneficial in areas where voluminous transactions occur.

(b) **Better understanding of audited entity and audit risks** – Analysing more data leads to broader and deeper auditor insight of the entity and its environment and more robust risk assessment, resulting in better identification of audit risks. This also leads to a better allocation of the senior audit resources to the risk areas.

(c) **Better analysis of data and exceptions** – Data analytics, when deployed appropriately, helps to identify unusual patterns and exceptions that might not be discernible using more traditional audit techniques.

(d) **Improved communications with TCWG** – Information and insights obtained through data analytics can be shared with the client, adding value to the audit, and providing a real benefit to management, in that they are provided with useful information and insights from a different perspective.

5.9 Having discussed the benefits of deploying data analytics in audit, ACRA would also like to highlight a key area where auditors need to be mindful of, when deploying them. It is imperative that the auditor, prior to placing reliance on data provided by the audited entity, obtains sufficient appropriate audit evidence in evaluating whether those data is sufficiently reliable for the auditor's purposes, including determining the appropriate sample sizes and checking to the appropriate underlying source documents, as necessary.

Regulating Audit Quality Amidst Increasing Digitalisation

5.10 With the increasing trend in digitalisation and adoption of technological tools in audit, ACRA continues to engage the profession to obtain an understanding of the firms' digital transformation journey and understand their concerns, if any, around the deployment of technology in audits and how ACRA could address them together with the profession. In this regard, ACRA is heartened to hear that audit regulations have not been cited as an impediment to firm's digitalisation and innovation efforts.

SSA 315 (Revised 2021) *Identifying and Assessing the Risks of Material Misstatement*

5.11 Whilst the revised SSA introduces certain new concepts and other changes, the overall objective of the auditor when performing procedures to identify and assess risks of material misstatement remains the same, which is to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement.

5.12 The concept of the spectrum of inherent risk has been introduced to assist the auditor in making a judgement, based on the likelihood and magnitude of a possible misstatement, on a range from lower to higher risk, for the purposes of assessing risks of material misstatement. Inherent risk factors (i.e. complexity, subjectivity, change, uncertainty and susceptibility to misstatement due to management bias or other fraud risk factors insofar as they affect inherent risk) have also been introduced to help auditors consider risks of material misstatement on the spectrum of inherent risk.

5.13 Auditors are required to continue to exercise professional scepticism when designing and performing audit procedures. Risk assessment procedures ought to be designed in a manner that is not biased towards obtaining corroborative audit evidence or excluding contradictory audit evidence. Paragraph A238 of SSA 315 (Revised 2021) also sets out various matters that could be documented to demonstrate the exercise of professional scepticism by the auditor.

5.14 New and/or enhanced documentation requirements have also been introduced in paragraph 38 of SSA 315 (Revised 2021), including, amongst others, the need to document key elements of the auditor's understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control, the risk assessment procedures performed and the rationale for significant judgements made.

5.15 The auditor is also required to evaluate the completeness of the significant classes of transactions, account balances and disclosures identified, by focusing on those classes of transactions, account balances and disclosures that are material (either quantitatively or qualitatively) but have not been identified as significant. This new stand-back serves to enhance and improve the completeness of the risk identification process.

5.16 With respect to Information Technology (IT), the main changes are found in the auditor's required understanding of the information system and control activities components. These include obtaining an understanding the IT environment relevant to the information system and the entity's use of IT.

5.17 Recognising that automated tools and techniques may be used to obtain audit evidence as a basis for the identification and assessment of risks of material misstatement, certain application and other explanatory material have been included in SSA 315 (Revised 2021) containing specific considerations for the use of such automated tools and techniques, found under the heading "automated tools and techniques".

5.18 Though risk assessment decisions are generally made at a point in time, the process is dynamic and iterative. Auditors are therefore reminded to be mindful of any corroborative and conflicting/inconsistent information obtained throughout the audit to ascertain if any revisions to those initial risk assessment decisions are necessary.

5.19 In addition to the standard itself, there is also a *First-time Implementation Guide*[15] released by International Auditing and Assurance Standards Board (IAASB) to help stakeholders understand and apply the revised standard as intended.

5.20 The quality of risk identification and assessment has a pervasive effect on all aspects of the audit and contributes to achieving high audit quality.

Common Findings Arising from ACRA's Check on Compliance with Continuing Professional Education Requirements

5.21 Public accountants are required to undertake Continuing Professional Education (CPE) in accordance with the CPE syllabus[16] approved by the PAOC for purposes of renewing their certificate of registration. The objective of CPE is to achieve and maintain quality and standards in professional services and contribute to the public accountant's ability to undertake audits competently and professionally.

[15] https://www.iaasb.org/publications/isa-315-first-time-implementation-guide

[16] With effect from 2023, the revised CPE syllabus is found in https://www.acra.gov.sg/docs/default-source/default-document-library/how-to-guides/renewing-public-accountant-registration/revised-cpe-syllabus.pdf

5.22 ACRA, jointly with ISCA, conducts periodic compliance checks on public accountants' compliance with CPE requirements, including orders to acquire additional CPE hours imposed by PAOC. Arising from recent checks, the following observations were noted:

(a) **Lack of evidence of participation to support structured CPE hours** – Learning activities (including watching relevant webcasts or videos) without evidence of course completion or participation from the programme providers will be regarded as unstructured CPE hours.

(b) **Incorrect classification of CPE hours** – Time spent on writing technical books may only be recognised upon publication and should be classified appropriately. For instance, writing a tax guidebook on tax planning in Singapore would be more appropriately classified under "Others" instead of core categories.

(c) **Incorrect recognition of CPE hours –** Whilst structured CPE hours may include service as a member of a committee of board of recognised professional body or standards-setting body to the extent that technical material is prepared or reviewed by the public accountant, the time spent on attending company meetings which may discuss matters relating to financial reporting or business ethics will not be considered as structured CPE in Categories 1 and 2, respectively.

(d) **Incorrect recognition of instructing hours in compliance with PAOC orders –** PAOC orders for public accountants to acquire additional CPE hours should be fulfilled by attending relevant training courses as a participant, and not as a course instructor.

Section 6: Upcoming Developments

Introduction

6.1 Trust and confidence in the audit profession underscore the value of independent audit opinions. The way audits are performed is in constant transformation and will be different in the future, just like how the way certain procedures are performed today has transformed from, say two years ago. Auditors and audit firms need to stay relevant amidst macro challenges, including that of a declining pool of skilled workforce. This is to ensure that there is sustained improvement in audit quality and that the profession continues to earn, and maintain, the trust and confidence from the many groups of stakeholders who rely on independent audit opinions in one way or another.

6.2 The growing momentum and interest in ESG matters, globally, is expected to shape the audit landscape and service offerings by the audit firms in the years to come. In Singapore, the whole of government and the regulators have been working progressively to enhance sustainability reporting to support the various objectives and initiatives set out in the Singapore Green Plan 2030.

6.3 Equally important within the ecosystem is the existence and effective operation of a fair and rigorous regulatory regime. Therefore, similar to how audits have evolved, audit regulations also need to keep pace and stay relevant.

6.4 In this section, ACRA discusses sustainability reporting, and also highlights certain key enhancements to ACRA's regulatory regime, both in terms of the changes to the Accountants Act, as well as refinements to the regulatory programmes.

Enhancements to ACRA's Regulatory Regime

Amendments to Accountants Act

6.5 The Accountants Act and its subsidiary legislation are the governing legislations for the registration and oversight of public accountants and public accounting entities.

6.6 On 14 October 2021, ACRA and MOF launched a public consultation to seek feedback on the proposed amendments to the Accountants Act. After considering the feedback received, response to the public consultation was issued in September 2022[17].

6.7 The amendments to the Accountants Act seek to raise audit quality and enhance the audit regulatory regime in Singapore. These amendments align Singapore's regulatory practices with those in jurisdictions that have established independent audit regulation. The key amendments are summarised below:

(i) **Introduction of inspections on public accounting entities for compliance with quality control standards** ("QC inspections"). This amendment allows ACRA to conduct statutory QC inspections on public accounting entities to ensure compliance with professional standards and the applicable legal and regulatory requirements, and to mandate remediation of lapses and impose sanctions on public accounting entities for significant lapses discovered during QC inspections.

(ii) **Introduction of a tiered assessment framework** for PMP and QC inspections and the corresponding orders that may be imposed. The new tiered assessment framework is intended to provide greater distinction within the grading system to drive improvements in public accountants' and public accounting entities' compliance with professional standards.

[17] https://www.mof.gov.sg/news-publications/press-releases/summary-of-responses-to-public-consultation-on-the-draft-accountants-(amendment)-bill

The **definitions** of the four tiers are as follows:

Outcome	Definition
Satisfactory	If the relevant professional standards/pronouncements have been complied with in all significant respects with no instance(s) of non-compliance.
Satisfactory but with findings	If the relevant professional standards/pronouncements have been complied with in all significant respects, with limited and/or minor instance(s) of non-compliance.
Partially Satisfactory	If extensive number of minor instances or more than minor instance(s) of non-compliance with relevant professional standards/pronouncements have been identified. However, the instances of non-compliance are not significant/severe.
Not Satisfactory	If extensive number and/or significant/severe and/or repeated non-compliances with relevant professional standards/pronouncements have been identified.

(iii) **Provision of powers for the PAOC to require a public accountant who has obtained a "Not Satisfactory" inspection outcome to disclose their audit inspection findings to the audit client of the inspected engagement**. This is to provide greater transparency of public accountants' inspection findings and to enhance the ability of the audit committees to evaluate the quality and effectiveness of their auditor. The sharing of inspection findings is also intended to focus the auditor and the audited entity's discussions on measures that are taken to remediate the finding. ACRA intends to impose such orders on audits of public interest entities.

Should a public accountant fail to comply with this order, ACRA may directly communicate the inspection findings to the audited entity and take regulatory action against the public accountant for not complying with the order.

6.8 The amendments to the Accountants Act have been passed in Parliament on 3 October 2022. The changes are expected to take effect in 2023 with the passing of subsidiary legislations to operationalise the amendments.

PMP Inspections on Public Accountants

6.9 The PMP inspection framework, last reformed in 2014, is periodically reviewed to ensure that the inspection methodology and processes remain effective, efficient, and relevant. With the impending changes to the Accountants Act, ACRA has also taken the opportunity to review and refresh the current framework for PMP orders and sanctions, as well as the inspection methodology. During the review, ACRA had sought extensive feedback, as well as benchmarked against other jurisdictions' audit regulatory regimes. The key revisions and updates that will be effective along with the effective date of amendments to the Accountants Act include:

(i) Classifying findings as either low, moderate or high severity, based on the nature and extent of non-compliance with the auditing standards, as well as the impact or potential impact of misstatement(s) on the audited financial statements arising from the failure to detect the entity's non-compliance with accounting standards; and

(ii) Replacing peer review orders with hot review orders which are likely more effective as a means of remediation and continuous improvement.

6.10 ACRA had also made certain enhancements that have already been effective, and they include:

(i) In the spirit of transparency for proposed fail outcomes, the assessments of the inspectors and of the PMSC, which include the validity and severity of the individual findings and the basis of the proposed fail outcome, will be shared with the public accountant; and

(ii) Orders for additional CPE hours to be more targeted and focused and therefore instead of attending a 3-day PMP regulatory course, affected public accountants will be ordered to attend specific training courses relevant to the findings.

Statutory Firm-level Inspections on Public Accounting Entities

6.11 Firm-level quality controls and management are critical in sustaining consistent delivery of quality audits. At the international level, the sufficiency and robustness of firm-level controls are evaluated and monitored by many international audit oversight regulators. Locally, ACRA has been performing firm-level inspections since 2007, on an advisory basis.

6.12 The enactment of the amendments to the Accountants Act will allow ACRA to impose sanctions on firms with deficiencies arising from statutory firm-level inspections, include revoking the audit firm's registration, suspending, or restricting the firm from providing public accountancy services, financial penalty, or any other order to improve the firm's compliance with quality control standards. Stern regulatory sanctions will be taken against audit firms for any severe non-compliance with the quality control standards.

6.13 Once legislated, firm-level inspections will apply to all firms and ACRA will extend firm-level inspections to the audit firms which do not audit listed entities. ACRA strongly urges all audit firms to ensure that they have in place an effective system of quality control in accordance with the relevant quality control/management standards (i.e. SSQC 1 or SSQM 1 and 2).

6.14 ACRA is in the process of formulating the firm-level inspection framework and will seek feedback from the respective stakeholder groups. The salient details of the framework will be shared with the profession in due course, ahead of commencement of the inspections.

Other Regulatory Initiatives

Revisions to the Non-Assurance Services and Fee-related Provisions of the Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities

6.15 ACRA will be issuing revisions to the ACRA Code to adopt the Final Pronouncements on Revisions to NAS and Fee-related Provisions of the Code issued by the IESBA, and make amendments to the extant SG410.4A of the ACRA Code on the proportion of non-audit fees to audit fees for listed audit clients and communication to TCWG. The Revised ACRA Code is expected to be effective from 15 December 2022.

6.16 The objectives of the revisions are to (a) strengthen the independence requirements, especially for PIE audit clients, when audit firms provide NAS to their audit clients; and (b) to enhance engagement with TCWG and transparency of fee-related information to TCWG and stakeholders.

6.17 The key changes to the revised NAS and fee-related provisions include:

(a) New prohibition on audit firms from providing NAS that might create a self-review threat to PIE audit clients, regardless of the materiality of outcome or results of the NAS on the financial statements which the firm will express an opinion. New application material is provided in the Revised ACRA Code to assist firms in identifying and evaluating whether a proposed NAS might create self-review threats;

(b) New provisions to strengthen and improve the quality of communication with TCWG before providing NAS to PIE audit clients so as to enable TCWG to have effective oversight of the firm's independence;

(c) Clarification that an audit fee is a standalone fee and should not be influenced by the provision of services other than audit to an audit client;

(d) New application material to help firms evaluate and address the threats to independence created when a large proportion of fees from an audit client is for services other than audit;

(e) Enhanced provisions to address undue fee dependency for both PIE and non-PIE audit clients. The firm shall cease as auditor of the PIE audit client if fee dependency continues for 5 consecutive years. As an exception, the firm may continue as the auditor, subject to certain conditions; and

(f) New provisions to enhance transparency of fees paid by PIE audit clients to assist TCWG and the public in forming their views about the firm's independence.

Amendments to the Extant SG410.4A of the ACRA Code

6.18 The extant SG410.4A of the ACRA Code requires audit firms to communicate with TCWG of the listed audit client and discuss the relevant safeguards to apply to reduce the threat to independence to an acceptable level, when the total annual fees from non-audit services received by the firm and its network firms from the listed audit client and its related entities (which include parent and sister entities of the listed audit client) exceed 50% of the total annual audit fees. The 50% threshold in SG410.4A is not a strict prohibition, but serves as a trigger for audit firms to engage TCWG.

6.19 ACRA will replace the extant SG410.4A with SG410.27A. SG410.27A is similar to the extant SG410.4A except that it will only cover fees from the listed audit client and its downstream controlled entities and exclude fees received for audit-related services[18].

6.20 The revision of scope to exclude both parent and sister entities took into account (a) the practical challenges faced by audit firms in collating fee information from the network firms on the provision of services to these entities which are not controlled by the listed audit client; (b) feedback from ISCA's survey of Audit Committee members in 2020; and (c) IESBA's revised standards on NAS and Fee-related provisions.

6.21 Public accountants may refer to the following resources for guidance on the application of the revised NAS and Fee-related provisions and SG410.27A:

(a) IESBA Staff Q&A: Revised NAS Provisions of the Code[19];

(b) IESBA Staff Q&A: Revised Fee-related Provisions of the Code[20]; and

(c) ISCA EP 100 Implementation Guidance 5 – *Frequently Asked Questions on Provision of Non-Audit Services to Listed Entities*.

Sustainability Reporting

6.22 The list of pledges towards net zero emissions by governments and corporates continue to grow and investors are increasingly integrating Environmental, Social and Governance (ESG) considerations in their investment and lending decisions. The Singapore Green Plan 2030 was released in February 2021 to help chart the country's way towards a more sustainable future over the next decade, strengthening the country's commitment to the global climate agenda and positioning us to achieve our long-term net zero emissions aspirations. It was also announced in Budget 2022 that Singapore will strive to achieve net zero emissions by or around mid-century.

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[18] Audit-related services are services where the work involved is (a) closely related to the work performed in the audit engagement, and (b) usually carried out by members of the engagement team, for the audit engagement who are required to comply with the independence requirements, and include reporting required by law or regulation to be provided by an engagement team for the audit engagement.

[19] https://www.ethicsboard.org/publications/iesba-staff-qa-revised-non-assurance-services-provisions-code

[20] https://www.ethicsboard.org/publications/iesba-staff-qa-revised-fee-related-provisions-code

6.23 From a financial information perspective, risks associated with ESG matters can have a material impact on companies' business models, cash flows, financial position and financial performance. Most, if not all, companies are impacted in one way or another by climate-related risks. The financial statements are a key source of information for various stakeholders to understand the financial impact of ESG-related risks on the company and allow them to assess how the company is managing the risks and the impact on the company's prospects.

6.24 Preparers and the profession need to consider the impact of ESG-related risks on the entity's business and operating environment, and their potential implications on the entity's financial statements. The Technical Bulletin issued by ISCA's joint ESG working group (as discussed in Section 7.6 of this report) seeks to raise awareness and consideration of such impact of ESG factors and developments on financial reporting and auditing.

6.25 From a non-financial information perspective, the growing momentum and interest in ESG matters globally has led to calls to provide greater transparency and assurance on companies' ESG-related information.

6.26 In Singapore, the Singapore Exchange Regulation (SGX RegCo) has been progressively enhancing sustainability reporting for listed companies, which includes sustainability reporting since 2016 and the introduction of climate reporting from FY 2022. In June 2022, ACRA and SGX RegCo set up a Sustainability Reporting Advisory Committee to advise on a roadmap for wider implementation of sustainability reporting for Singapore-incorporated companies, beyond SGX listed companies.

6.27 The audit profession has a critical role to play in advancing the sustainability agenda. As sustainability reporting picks up, there will be demand for auditors to provide assurance on these sustainability reports, and therefore the audit profession is well poised to seize the opportunity of providing that assurance and hence the trust and confidence to stakeholders. Simultaneously, the profession should also prepare and engage their audit clients on their sustainability journey.

6.28 As sustainability reporting gains traction, the profession will have to keep abreast of the developments in this space, particularly, the key developments surrounding the ISSB. The ISSB aims to deliver a global baseline standard for investor-focused sustainability reporting to fulfil the growing and urgent demand for streamlining and formalising corporate sustainability disclosures. These standards are widely anticipated as a crucial step toward harmonising the sustainability reporting landscape.

6.29 Providing a well-rounded and multi-faceted view of sustainability reporting requires the effort of strong and compelling multi-disciplinary teams with different backgrounds. To take advantage of the emerging opportunities, the profession must also stand ready to upskill and adapt, including undertaking courses and training or certificates in sustainability related fields to build up competencies.

6.30 Given the potential direct impact of sustainability reporting on financial statements and audits, ACRA will consider courses undertaken by public accountants from 2023 in the areas of sustainability reporting standards and related assurance as Category 1 and Category 3 respectively, for purposes of fulfilling the CPE requirements for the renewal of their certificate of registration.

Section 7: Other Initiatives to Improve Audit Quality

Sector Driven Initiatives to Support the Audit Profession and Drive Sustainable Audit Quality

7.1 Recognising that quality is core to the audit profession, ISCA actively promotes its on-going initiatives as well as identifies and develops new initiatives to support the audit profession to raise audit quality. ACRA is supportive and actively provides input to ISCA on certain of such initiatives.

Driving Quality, Digitalisation and Growth via the SMP Centre of Excellence

7.2 The SMP Centre of Excellence is a one-stop hub that caters to the various needs of audit firms, with focus on the following four key areas:

(a) Raising of audit quality through programmes such as the Quality Assurance Review Programme, technical publications and other resources;

(b) Levelling up the digital capabilities of firms through introduction of curated solutions, funding schemes and provision of advisory support;

(c) Upskilling audit professionals via qualification and certification programmes and curated training courses; and

(d) Supporting firms in managing and growing their practices with initiatives to help SMPs enhance their offerings and seek new markets.

Implementation Support Activities for the New Quality Management Standards

7.3 ISCA has rolled out certain implementation activities to support the profession in implementation of the new quality management standards. This includes publishing Audit Bulletin 3 *Implementation of Quality Management Standards*, as well as a quality management toolkit comprising implementation help tips, practical examples, suggested policies and procedures. There have also been webinars and workshops organised by ISCA, focusing on tips to overcome challenges that could be encountered in implementation of the quality management standards, and sharing of experience by fellow audit practitioners.

7.4 Practitioners may also refer to the website[21] set up by ISCA which contains links to first-time implementation guides and other resources.

Voluntary Compliance Programme

7.5 To encourage and support audit firms' compliance with the quality management standards, ISCA announced the voluntary compliance programme which will commence in early 2023. This is a voluntary programme for audit firms to demonstrate that they have implemented a system of quality management that is in line with the quality management standards, and hopefully, in the process also help the firms increase their competitive advantage and build trust with their clients and other stakeholders. ACRA will take into consideration the audit firms' certification statuses when risk-profiling the firms for purposes of regulatory inspection.

ESG Implications on Financial Reporting and Auditing

7.6 Given the wide-ranging implications arising from ESG considerations, ISCA, in collaboration with ACRA, have formed a joint ESG working group to support the profession in dealing with such developments, in the context of financial reporting and auditing of financial statements. A bulletin relating to these climate-related considerations has been published by the working group.

[21] www.isca.org.sg/standards-guidance/audit-assurance/resources/quality-management