

A publication by ACRA on the

# **AUDIT PRACTICE GUIDANCE NO.1 OF 2024**

**ROOT CAUSE ANALYSIS AND REMEDIATION PLAN**

**Issued on 26 November 2024**

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## INTRODUCTION

- 1.1 Root cause analysis (“RCA”) is a means of identifying the most appropriate actions that can be implemented to prevent or reduce future recurrences of the issues as well as others that could occur from the same root cause factor(s).
- 1.2 ACRA has introduced a structured monitoring programme for public accountants (“PAs”) who receive a “Partially satisfactory” or “Not satisfactory” inspection outcome under the Practice Monitoring Programme (PMP) and for accounting entities (“AEs”) whose Quality Control Standards (“QC”) reviews did not comply with the relevant QC standards leading to either “Partially satisfactory” or “Not satisfactory” outcome as an approach to prevent and/or reduce the occurrence of recurring PMP inspection or QC review findings.
- 1.3 PAs and AEs are to submit their RCA<sup>1</sup> and remediation plan (“RAP”)<sup>1</sup> to ACRA within one month from the notification of the outcome (“PAOC order”) for review. The PAs and AEs should undertake a comprehensive and critical analysis to identify the underlying root causes of the PMP inspection or QC review findings and provide the RAP detailing how and when the remedial actions will be implemented.
- 1.4 As part of the structured monitoring programme, ACRA will be reviewing and assessing the information in the RCA and RAP submissions to ascertain the robustness of the RCA and appropriateness of the RAP.
- 1.5 If ACRA has assessed that the RCA and RAP are lacking in terms of robustness and/or appropriateness, ACRA will require the PA/AE to re-assess and to submit a revised RCA and RAP.
- 1.6 PAs and AEs are required to complete the implementation of the RAP within 12 months from the notification of the PAOC order. However, ACRA expects the PAs and AEs to plan the implementation of remedial actions soonest for the most critical areas which require early intervention.
- 1.7 The effectiveness of a RAP is dependent on whether the remedial actions are the most relevant and appropriately designed to remediate the QC or engagement level audit deficiencies. To develop effective remedial actions, one must assess and understand the underlying causes of the audit lapses or QC deficiencies.
- 1.8 The purpose of this Audit Practice Guidance is to provide guidance on the steps to perform a proper RCA and consequently to design the appropriate remediation plan.

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<sup>1</sup> As part of the sanctions imposed by the Public Accountants Oversight Committee (“PAOC”)

## PLANNING FOR THE RCA AND RAP PROCESS

2.1 Before an RCA is carried out, PAs and AEs should plan the RCA process by:

(i) Establishing a plan and timetable

As soon as the PA/AE becomes aware of the PMP inspection or QC review findings or when the PAOC order is issued, a plan with appropriate timelines should be established to not only comply with ACRA's one-month submission timeline but also to ensure the PA/AE gives sufficient time to perform a robust RCA and complete it on a timely basis for the design of the appropriate remedial actions.

(ii) Identifying sufficiently qualified personnel to perform the RCA exercise

The personnel who performs the RCA ("RCA reviewer") should possess sufficient experience, technical skills, objectivity and authority to perform a thorough and credible analysis and they could be:

- *Members of a central function in the AE*

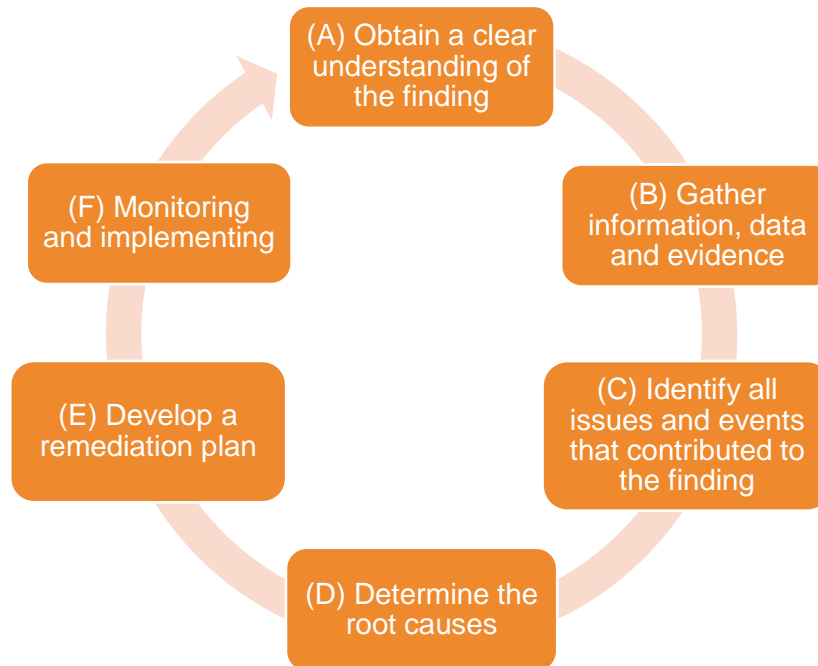
The RCA reviewer(s) could be part of the quality, methodology, training or monitoring function and is expected to maintain an open mind to recognise the root causes, some of which may lie with system of quality management for which the RCA reviewer has direct responsibility.

- *A third party (for smaller AEs)*

Where there is no suitable person available within the AE and a sufficiently objective view can only be obtained from someone outside the AE, the PA/AE may consider the need to consider engaging a third party to perform the RCA reviewer role. In this case, the PA is encouraged to consider **involving the appointed hot reviewer(s) in performing the RCA and to formulate the RAP.**

## COMPONENTS IN THE RCA AND RAP PROCESS

3.1 To effectively carry out an RCA, the following process may be adopted by the PAs and AEs with the RCA reviewer:



### (A) Obtain a clear understanding of the finding

The PA and the AEs are to **share the findings with the RCA reviewer** so that the RCA reviewer can **understand the findings to develop an understanding or analyse the potential gaps** between the actual procedures performed and the procedures that would have been expected or required for audit engagements; and the deficiency<sup>2</sup> in AE's system of quality management ("SoQM").

This step is important to establish **what additional procedure(s) is/are necessary** to bridge the gap.

<sup>2</sup> Deficiency as defined in the Singapore Standard on Quality Management 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* ("SSQM 1") as:

"This exists when:

- (i) A quality objective required to achieve the objective of the system of quality management is not established;
- (ii) A quality risk, or combination of quality risks, is not identified or properly assessed;
- (iii) A response, or combination of responses, does not reduce to an acceptably low level the likelihood of a related quality risk occurring because the response(s) is not properly designed, implemented or operating effectively; or
- (iv) An other aspect of the system of quality management is absent, or not properly designed, implemented or operating effectively, such that a requirement of this SSQM has not been addressed."

**(B) Gather information, data and evidence**

Information is to be gathered about the facts and circumstances relating to “what went wrong” with the audit or “what was deficient” in the SoQM which led to the PMP inspection or QC review findings raised.

***For PMP inspection findings***, the following provides the RCA reviewer possible inputs of information and data for further analysis on the audit.

**(1) Understanding the qualitative and quantitative characteristic of the audit**

Relevant information and data gathered will provide the RCA reviewer a thorough understanding of the environment under which the audit work was performed and to assist the RCA reviewer in identifying factors which correlate to the inspection outcomes as well as developing questions to be discussed in the interviews with the audit engagement teams.

The following are examples of relevant information:

Focus areas	Metrics
<b>Audit engagement management team (including engagement quality control reviewer (“EQCR”))</b>	<ul style="list-style-type: none"> <li>○ Years of experience</li> <li>○ Years on the audit engagement</li> <li>○ Previous inspection (both internal and external) results</li> </ul>
<b>Audit engagement team</b>	<ul style="list-style-type: none"> <li>○ Composition of the audit engagement team (non-management) and years of experience</li> <li>○ Breakdown of time spent by staff and partner level</li> <li>○ Timing and extent of involvement of engagement partner and EQCR</li> <li>○ Any involvement of specialists and the specialist hours incurred</li> </ul>
<b>Engagement execution</b>	<ul style="list-style-type: none"> <li>○ Level of risk assessed in the areas where the findings were raised</li> <li>○ Planned audit procedures in the areas where the findings were raised</li> </ul>
<b>Inspected entity</b>	<ul style="list-style-type: none"> <li>○ Industry</li> <li>○ Geographic location</li> <li>○ Financial data</li> <li>○ Years as an audit client</li> </ul>

Focus areas	Metrics
	<ul style="list-style-type: none"> <li>○ Audit fees</li> <li>○ Recent restatements</li> </ul>

(2) Review of audit working papers and/or supporting documents used by audit engagement team at time of their work

Reviews are carried out to **obtain facts** from the audit file and to **understand the background information of the engagement** which supported the current state of the audit quality issue (i.e. how the audit work was actually performed). The relevant documentation collected and reviewed often includes:

- Audit working papers - to understand whether the audit engagement team had appropriately executed the required procedures or whether documented procedures were unclear. This includes a review of the audit planning and risk assessment documentation
- Consultation memorandum, if any, relating to the audit quality issue
- Guidance or templates used by the audit engagement team

The information gathered from the above stated reviews may assist the RCA reviewer in developing interview questions to be posed to the audit engagement team.

(3) Conducting interviews with relevant engagement team members

The RCA reviewer is strongly encouraged to conduct interviews with the individuals involved in the audit engagement so to **gain important insights into the circumstances and conditions** which may have caused the findings.

Interviewees

- The interviews should include all key individuals, ranging from the engagement partner, EQCR and manager to more junior staff members responsible for the audit deficiencies. For larger and more complex engagements which involved specialists, the RCA reviewer may call upon the specialists to share their perspectives of the issues.
- The benefit of interviewing the different individuals is to **obtain different views on the possible causes which should help in concluding on the underlying causes**. Hence it would be more beneficial and objective that such interviews are performed in person on a one-to-one basis to avoid a collective mindset which may occur from a group interview.

- The interviews with key individuals outside the audit engagement team, such as the independence, audit technical and risk teams, can be held to provide deeper insight as to whether any of the root causes relate to the AE's quality management processes.

#### Approach to interviews

- Interviews should be conducted in a **structured and timely manner**, allowing the individuals to recollect the facts and circumstances when the issue occurred and for improved effectiveness by adequately investigating the underlying root causes.
- **Interview questions should be tailored** to each interviewee based on the review of audit working papers as well as other information relevant to that interviewee.
- Interview questions should not be an attempt to analyse the root causes but are simply obtaining more information about the facts and circumstances related to the finding. The questions to the individuals are therefore phrased using “what” rather than “why”.
- It is important to communicate clearly to the interviewees that the RCA process is not a performance evaluation process or a “blame and shame” process but to support the RCA reviewer in identifying the underlying causes of the findings.

#### Conduct of the interviews

- To effectively conduct the interviews, the RCA reviewer may consider the following when formulating the interview questions:
  - ask “what” happened or “how” something had happened to encourage an honest and factual response triggering a cognitive response rather than an opinion view which may trigger emotive/defensive responses from the interviewees.
  - Use open-ended questions instead of close-ended questions to facilitate the discussion with the interviewees, encouraging the interviewees to share their perspectives and potentially exploring the likely causal or contributing factors.
  - Ask probing follow-up questions to deep dive into important points.
  - Avoid leading questions that might bias the interviewee's responses.
  - Avoid negatively worded questions that might discourage the interviewee from providing their perspectives.



Please refer to **Appendix 1** for the non-exhaustive list of types of interview questions which can be formulated.

- During the interview, the RCA reviewer should:
  - Obtain an understanding of the interviewee’s role and responsibility in the audit engagement team, and his/her specific responsibility in relation to the audit quality issue, and the interviewee’s understanding of the AE’s policies and guidance and requirements.
  - Give the interviewee time to think and elaborate

**For QC review findings**, the RCA reviewer should obtain an **understanding of the design, implementation or operation** of the related SoQM process where the deficiency arose. To **gain insights into the circumstances and conditions** which may have caused the findings, the RCA reviewer should speak to the process owner(s)<sup>3</sup> and control operator(s)<sup>4</sup> to understand their roles and responsibilities and experience in the related SoQM process, the environment in which the related SoQM process is operating for the achievability of the quality objectives and the availability of resources to design, implement or operate the related SoQM process.

### **(C) Identify all issues and events that contributed to the finding**

Issues and events that contributed to the occurrence of the finding are termed “causal factors”. Causal factors are typically more immediate or direct apparent reasons than root causes. **Causal factor identification** is a critical step in RCA, bridging the gap between data collection and root cause determination by:

- **Identifying all significant contributors** to the audit quality issue.
- Creating a **comprehensive picture of how and why** the finding occurred.
- Providing a **foundation for identifying root causes**.

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<sup>3</sup> Process owner is an individual assigned operational responsibility and accountability for the implementation and operation of specific aspects of the SoQM (broadly eight components in SoQM: (1) The firm’s risk assessment process; (2) Governance and leadership; (3) Relevant ethical requirements; (4) Acceptance and continuance of client relationships and specific engagements; (5) Engagement performance; (6) Resources; (7) Information and communication; and (8) The monitoring and remediation process).

<sup>4</sup> Control operator is an individual who performs the SoQM control activity.

### Review and analyse collected data and information

After sufficient data and information has been gathered from the above Step (B), the RCA reviewer should **review and analyse** the collected data and information and **look for patterns, anomalies, and potential connections** to the findings to identify the causal factors.

The following are examples of common categories of causal factors (non-exhaustive) which could be considered when identifying the possible causal factors:

- 1) Human factors
  - Skills and competence: lack of training, inexperience or inadequate skills
  - Workload: Overwork, time pressure, or inadequate staffing
  - Communication: Misunderstandings or poor information flow
  - Decision-making: Errors in judgement or complacency
- 2) Procedural factors
  - Inadequate procedures: Unclear or missing instructions/guidelines
  - Non-compliance: Failure to follow AE's policies and procedures
- 3) Organisational factors
  - Resource allocation: Budget constraints, understaffing
  - Leadership: Commitment, lack of supervision, lack of accountability
  - Policies: Inadequate or poorly communicated/designed policies

Due to the complexity of the audits and the SoQM, there is usually no one single, controllable root cause of issues. Hence an effective RCA considers all relevant causes before concluding on the underlying root cause. If the identified factors are not sufficiently comprehensive and if the significance of individual causal factors is not understood, corrective remedial actions are not likely to be effective.

**(D) Determine the root causes**

Identifying the root causes requires the exercise of professional judgement to be taken.

Based on the causal factors identified in Step (C), the RCA reviewer will review and look for patterns or themes among the factors and identify which factors seem more fundamental or far-reaching. The RCA reviewer can apply some of the common techniques (non-exhaustive) used to identify the root causes:

*(i) 5 Whys*

- A popular tool that looks for the hidden cause by continuing to ask the question “why” to get to the bottom of “what caused this issue”.
- Whilst “5” is not always the magic number, it is often the fifth “why” that the cause is discovered.
- This iterative method is most effective when answers are grounded in factual evidence.

Application: Start with each significant causal factor, ask “why did this occur?” repeatedly and continue until reaching a point where further questioning does not yield new insights.

*(ii) Fishbone diagram (also known as the Cause and Effect diagram)*

- A visual mapping of cause and effect analytical tool that provides a systematic way of looking at the effects and the causes that create or contribute to those effects.
- This method identifies and categorises multiple possible causes that could have led to the identified issue.

Application: Use the fishbone diagram to visualise relationships, define the problem (the “head” of the fish), identify major categories of causal factor (e.g. People, Organisational, Management, Procedural) (the “bones”), place causal factors in appropriate categories and look for common causal factors across different branches of the diagram.

Useful RCA will identify the real key factors, and it needs to reach a conclusion to have a true impact i.e. to prevent the recurrence of the findings. Please refer to **Appendix 2** which lists out some of the issues that might be root causes.

RCA that is not sufficiently robust may not identify the real root causes for findings. If the wrong cause is identified, the wrong remedial action will be taken. To perform a robust RCA, the RCA reviewer should **avoid** some of the following **common pitfalls**:

- 1) Stopping at the first apparent cause
  - The RCA reviewer should not stop at the first causal factor identified to conclude that it is the “underlying” root cause. The RCA reviewer should challenge superficial answers and carry out deeper questioning using the “5 Whys” techniques to deep dive and obtain answers into why things went wrong.
- 2) Confusing symptoms with root causes
  - Visible effects or manifestations of a problem should not be mistaken as the underlying root cause of the issue. To avoid this, the RCA reviewer should challenge the preconceived notions by employing techniques like the “5 Whys” or the “Fishbone diagram” to look beyond the immediate symptoms and dig deeper into the underlying issue.
- 3) Bias towards blaming individuals
  - The purpose of the RCA is not to seek the establishment of a blame culture. The RCA reviewer should emphasize a focus on the systemic issues to encourage honest responses and reporting from interviews conducted.
- 4) Insufficient data collection
  - An RCA exercise should not be an attempt to obtain a “quick fix” answer. The RCA reviewer should establish robust data collection protocols to access to all the necessary information and resources required to identify the root causes to be addressed to present
- 5) Rushing the RCA
  - To perform a robust RCA, the RCA reviewer should allocate adequate time for the thorough analysis and to resist pressure to provide quick fixes.

**(E) Develop a RAP**

An effective RAP is not just about fixing a problem/issue, but about **addressing the root causes** and **preventing the recurrence** of the audit quality issues. The RAP should **address each of the identified root causes with specific remedial actions**. It should include clear responsibilities and timelines in the remediation process.

PAs and AEs can consider following the SMART guideline to formulate the RAP:

<b>Specific</b>	The RAP should be specific and focus on addressing the identified root causes. <ul style="list-style-type: none"> <li>Clearly define the remedial actions to be taken</li> <li>Identify who is responsible for each remedial action</li> <li>Specify what resources/support are needed</li> <li>Detail the exact steps to address the root causes</li> </ul>
<b>Measurable</b>	The RAP should have clear criteria for measuring the progress and completion.
<b>Attainable</b>	The RAP should be realistic and attainable given the available resources and constraints.
<b>Relevant</b>	The RAP should be responsive to the identified root causes.
<b>Time-bound</b>	The RAP should have a clearly defined and reasonable time frame for completion. <ul style="list-style-type: none"> <li>Set specific timelines for completing each phase of remediation</li> <li>Establish a timeline for the overall remediation process<sup>5</sup> and to test the effectiveness of the remediation</li> <li>Include milestones for tracking the progress of implementation</li> </ul>

<sup>5</sup> ACRA requires the appropriate remedial actions to be implemented soonest for critical cases which require early intervention or no later than 12 months from the date of the notification.

Any remedial action resulting in a change in the AE's system of quality management, or the behaviours of the audit engagement team/SoQM process owner(s) and/or control operator(s) is to be supported by the AE's leaders and the audit engagement team/SoQM process owner(s) and/or control operator(s). A failure to implement the appropriate remedies will mean that the RCA process will not bring the required value and benefits to the AE or/and the audit engagement team. A common remedial action is training. However, this should not be seen as a panacea for every finding. To design and implement the appropriate remedial actions, the AE or/and the audit engagement team should **avoid** some of the following **common pitfalls** in remediation:

- 1) Implementing solutions without thorough analysis
  - There are no linkages between the causes and actions. The AE or/and the audit engagement team should use a structured approach linking causes to actions to ensure that remedial actions directly address the identified root causes.
- 2) One-size-fits-all solutions
  - There is no one solution extensive enough to cover the root causes. The AE or/and the audit engagement team should consider the unique aspects of each issue and to tailor remedial actions to address the specific issue.
- 3) Inadequate resource allocation
  - There are inadequate resources assigned/allocated to carry out what the remedial actions plan to achieve. To ensure the effective implementation of the RAP, the resources required should have been planned and allocated according to the efforts required to implement the RAP.
- 4) Lack of follow-through
  - There is no clear identification of the person responsible to implement the remedial actions. The AE should establish clear accountability for the remedial actions and implement regular progress checks and reporting mechanisms to measure the progress and to address any potential changes/challenges in implementing/completing the RAP.

**PMP inspection findings - Retrospective or prospective remediation**

The PA is to assess whether the remediation is solely to be performed prospectively (“prospective remediation”) i.e. the remedial actions focus on preventing recurrence of identified audit quality issues or to be performed retrospectively (“retrospective remediation”) i.e. the remedial actions involve a look back on past audits and the requirement to revise or restate past financial information. The PA may assess some of the following considerations when determining whether the remediation should be carried out retrospectively:

- Is there an omitted procedure or omitted audit evidence which has an important or significant impact to the audit engagement team’s ability to support the audit report?
- Are there material misstatements in the financial statements pervasive to impact the “true and fair view” of the financial information?
- Are there regulatory compliance violations with potential legal implications?

**(F) Monitoring and implementing**

Finally, the PA/AE should establish mechanisms to monitor the implementation of the RAP. The PA/AE may consider the following non-exhaustive steps in implementing and monitoring the implementation of the RAP developed in above Step (E):

- 1) Clearly communicate the RAP to all relevant stakeholders responsible for carrying out each remedial action and ensure everyone understands their roles and responsibilities as well as the timelines.
- 2) Provide the necessary training to staff for any new processes or procedures to be implemented.
- 3) Document all the changes to policies, procedures, processes and systems and to update relevant manuals and guideline/guidance.
- 4) Track the progress and set up status updates to discuss the progress and challenges.
- 5) Conduct interim testing during implementation to ensure changes are working as intended and make the necessary adjustments if any to the RAP.
- 6) Establish a schedule for ongoing monitoring of the implemented changes and if possible, to deploy performance indicators to measure effectiveness.

Note: Please note that the contents of this ACRA's Audit Practice Guidance are provided for the guidance of PAs and AEs in their preparation of the RAP. Whilst the guidance contains suggested approaches and steps for performing RCA and formulating the RAP, it is intended as non-authoritative guidance to assist PAs and AEs and not to impose specific ways of performing the RCA or formulating the RAP. They are not rules of ACRA and are not intended to serve as a substitute for the relevant laws or standards. The PAs/AEs must observe, maintain and apply the prescribed professional standards, methods, procedures and other requirements in carrying out the audits of financial statements.

The review of root causes and the corresponding remedial actions by ACRA is to seek clarifications and to provide comments (if any) on the RCA and RAP submissions and does not constitute a review of the AE's SoQM. The review also does not signify ACRA's endorsement or approval of the RCA and RAP submissions or on the effectiveness of the RAP.



## APPENDIX 1

### List of types of interview questions (non-exhaustive)

a. Open-ended Questions:

These encourage detailed responses and allow interviewees to provide information freely. Examples of such questions:

- Can you walk me through the procedures you have performed?
- Can you walk me through the process that led to this finding?
- What factors do you think contributed to this issue?

b. Probing Questions:

These follow up on initial responses to dig deeper into specific aspects. Examples of such questions:

- You mentioned a lack of resources. Can you elaborate on what specific resources were missing?
- When you say the process was unclear, what aspects were particularly confusing or unclear?
- How long has this issue been occurring, and has its frequency or severity changed over time?

c. Clarifying Questions:

These help ensure the interviewer correctly understands the information provided.

d. Reflective Questions:

These encourage the interviewee to consider the issue from different perspectives. Examples of such questions:

- If you could go back in time, what would you do differently to prevent this issue?
- What warning signs do you think we might have missed?

e. Knowledge-testing Questions:

These assess the interviewee's understanding of relevant policies, procedures or regulations. Examples of such questions:

- What is your understanding of the procedure regarding management's estimates?
- Can you explain the steps in the confirmation process as you understand them?

## APPENDIX 2

### List of potential root causes (non-exhaustive)

- a. Resources issues
  - Competencies of staff – preparer and reviewer skill gap
  - Experience of staff – lack of relevant industry or technical experience
  - Time availability – time pressures, budget constraints
  - Resource constraints – understaffing
  - Lack of clarity on responsibilities
  - Excessive workload
  - Inappropriate team mix
- b. Personal, ethical and attitude issues
  - Professionalism – lack of work ethics, poor attitude to work
  - Audit mindset – lack of professional scepticism
  - Unwillingness to learn
  - Pressures to meet timelines leading to corner cutting
- c. Process issues
  - Issues from the AE's policies and procedures – outdated or inadequate policies or procedures, lack of clear documented procedures
  - Inadequate review and supervision
  - Failure to consult when appropriate
  - Poor project management
  - Lack of accountability
  - Insufficient training
  - Insufficient partner's involvement
  - Failure to perform timely review

# About Accounting and Corporate Regulatory Authority

The Accounting and Corporate Regulatory Authority (ACRA) is the regulator of business registration, financial reporting, public accountants, and corporate service providers. We are responsible for developing the accountancy sector and setting the accounting standards for companies, charities, co-operative societies, and societies in Singapore. ACRA fosters a vibrant and trusted business environment that enables innovation and growth and contributes towards making Singapore the best place for business.

For more information, please visit [www.acra.gov.sg](http://www.acra.gov.sg)

