

ACRA's Audit Quality Indicators (AQIs) Disclosure Framework

ACRA-SGX-SID Audit Committee Seminar 2016

Presented by: Ms Julia Tay, Deputy Chief Executive, ACRA



Agenda

- 1. Audit Firms – Are they the same?**
- 2. Developing ACRA's AQIs Disclosure Framework**
- 3. ACRA's AQIs Disclosure Framework**
- 4. How ACs should use the AQIs?**

Audit Firms

- Are They the Same?

Audit Firms

– Are They the Same?



Sample Auditor Evaluation

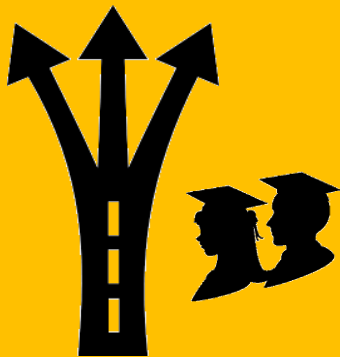
S/N	Questions asked	Audit Firms			
		A	B	C	D
1	Is the firm part of an international network?	✓	✓	✓	✓
2	Does the audit engagement partner have relevant expertise?	✓	✓	✓	✓
3	Does the firm have specialists to deal with technical areas?	✓	✓	✓	✓
4	Has the audit team received industry specific training over the last 12 months?	✓	✓	✓	✓
...
8	How much are the audit fees?	\$1.2m	\$750k	\$1.5m	\$1m

Without quality differentiation, ACs often fall back on the quantum of audit fees.

Audit Firms

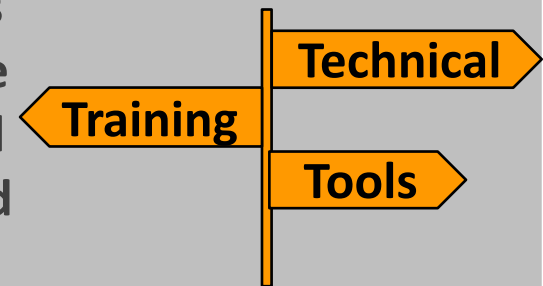
– Are They the Same?

Audit Firms are inherently DIFFERENT



Different calibre
of accounting
graduates
selecting firms

Some firms
invest more
in technical
support and
training



Some firms
are better at
retaining
talent

Some partners
spend more
time to
supervise staff
and resolve
audit issues



Developing ACRA's AQIs Disclosure Framework

Developing ACRA' AQIs Disclosure Framework - Where Did We Start?

Insights from ACRA's Inspections

- Root causes of non-compliances



Focus Groups / Consultations

- What audit committees want
- What audit firms can provide



International Developments

- Conceptual framework by audit regulators / international orgs (e.g. PCAOB, IAASB, CAQ)



- Transparency Reports / Public AQI reports by audit firms

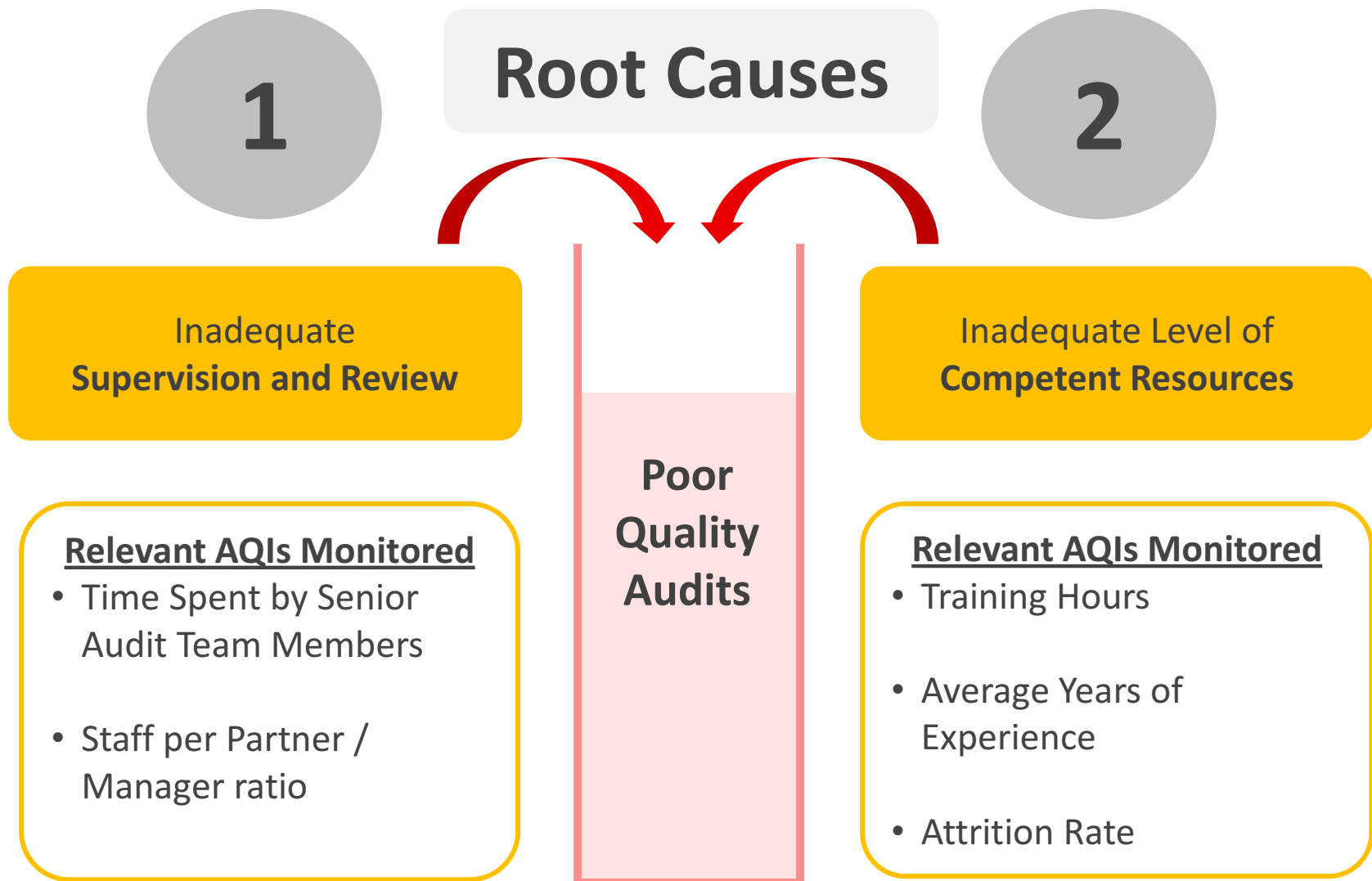
Academic Research / Literature

- Contributors to audit quality



Insights from ACRA's Inspections

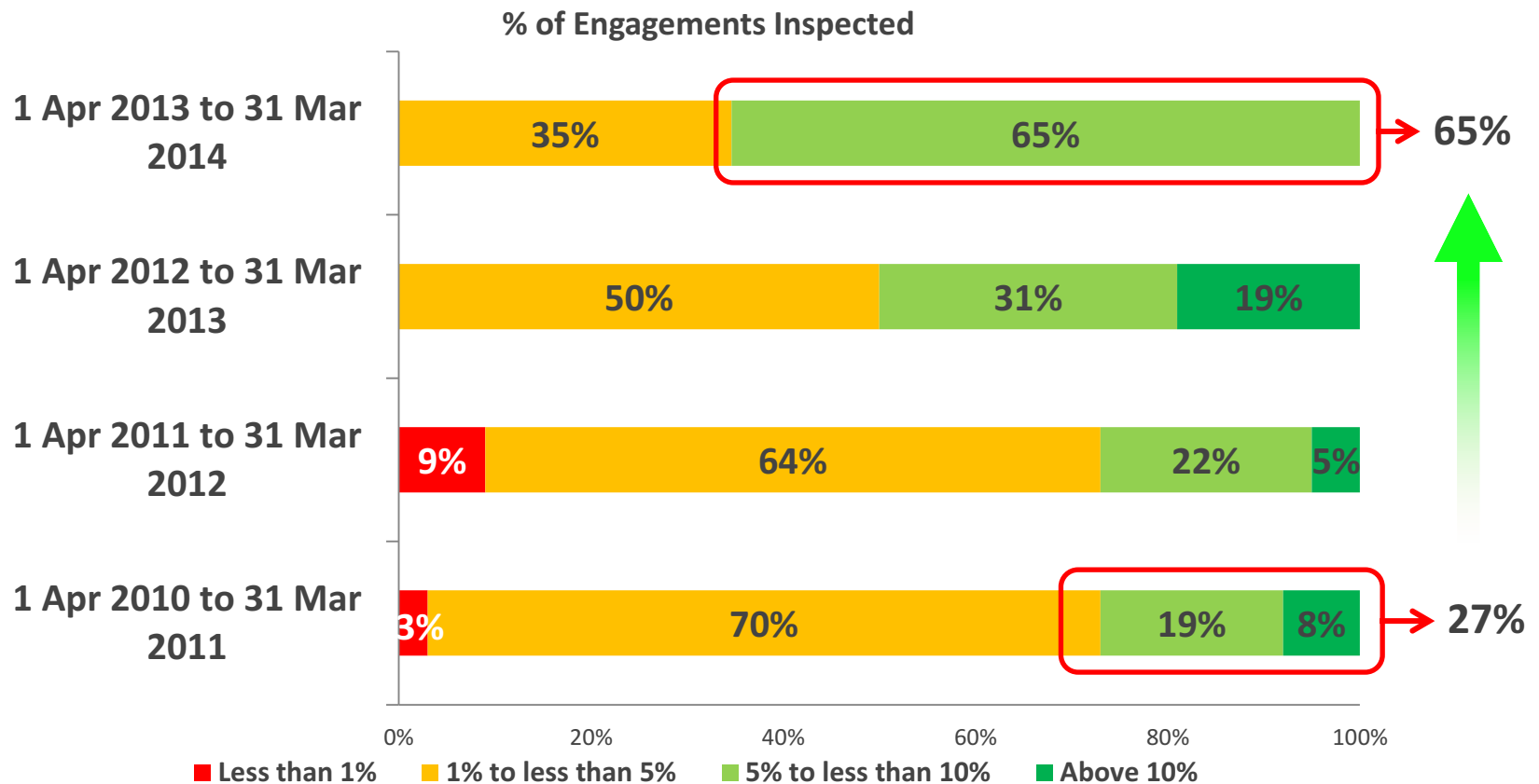
- Root Causes Identified



Insights from ACRA's Inspections

- Time Spent by Engagement Partners

- Proportion of engagements inspected where audit partners spent > 5% of total audit hours increased from 27% in 2011 to 65% in 2014.



Focus Groups / Consultations - Feedback from Audit Committees

5

Focus Groups

ACRA
ACCOUNTING AND CORPORATE
REGULATORY AUTHORITY

SID
SINGAPORE
INSTITUTE OF
DIRECTORS



**CENTER
FOR AUDIT
QUALITY**

>70

AC Members

(mix of small to large listcos)

Facilitates
audit quality
conversation

Avoid
information
overload

Especially
helpful to
smaller listcos

Do not
mandate
in law

AQIs that
indicate industry
expertise

Focus Groups / Consultations - Feedback from Big-Four Firms

Support Received from Big-Four Firms

Deloitte.

EY

KPMG

pwc

Need clear
definitions to enable
comparability

Flexibility to
add qualitative
comments

ACRA's AQIs Disclosure Framework

ACRA's AQIs Disclosure Framework

- The 8 Indicators



ACRA's AQIs Disclosure Framework effective 1 January 2016

Who

How

When

What

For Listed Companies



Audit Firms



Private communication
on voluntary basis



Audit Committees

- Tenders for a change of auditors
- Subsequent annual re-appointments
- Big-4 audit firms committed to provide data to ACs

- Two years data to be provided, where available
- Disclosed in standard format to ACs (for comparability)

How ACs Should Use the AQIs?

How ACs Should Use the AQIs?

Understand

- **Relevance** of AQIs and their **relation to audit quality**
- **Context** in which they are presented

Evaluate

- AQIs as a **whole**, not in **isolation**
- **Historical trends** of AQIs / **Comparison** across firms

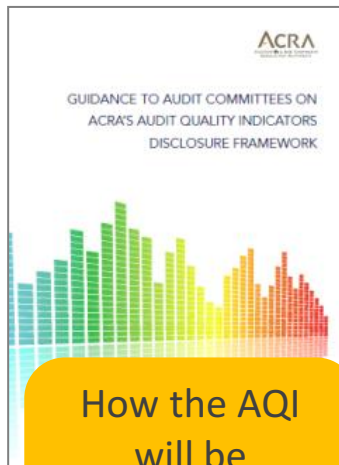
Engage

- Starting point on **audit quality conversations**
- **Ask questions** and **set expectations** for audit

How ACs Should Use the AQIs?

- ACRA's Guidance to ACs

Extract from Guidance



ATTRITION RATE

Degree of P

What the AQI represents

GRANULARITY:



Definition

This AQI highlights the percentage of auditors that left the audit firm in

Firm - Level or
Engagement - Level

How the AQI will be presented to ACs

Sample Presentation Format

Comparative figures

	12 months ended 30 Sep 20X5	12 months ended 30 Sep 20X4
Attrition rate	[30%]	[32%]

[Firms can include relevant narratives/commentaries (e.g. the retention rate of key audit engagement team members or attrition rates of high potential professional staff in the audit firm)]

Narratives to provide context to AQI

How the AQI relates to audit quality

Relevance

This AQI indicates the audit firm's ability to retain knowledge and experience.

Whilst some attrition is expected, audit quality is likely to be significantly affected by excessively high attrition rates in an audit firm. Besides the loss of knowledge and experience, the audit firm may face difficulties in re-hiring auditors with similar levels of experience and competency. In the longer run, this inhibits the audit firm's readiness and capability to identify and resolve audit and accounting issues effectively.

What ACs Should Ask / Look Out For

- Example 1: Audit Hours (YoY¹ Comparison)

AUDIT HOURS

- Year-on-Year Comparison

Audit Hours of Senior Audit Team Members	FY 20X5		FY 20X4	
Lead Audit Partner Hours	40		56	
Concurring Partner Hours	8		16	
	Singapore Firm	Member Firms	Singapore Firm	Member Firms
Other Partner(s) Hours	0	110	0	150
Audit Manager(s) Hours	200	300	160	290
Total Audit Hours	1,300	3,052	1,201	2,804
Total Partner(s) and Audit Manager(s) Hours as a % of Total Audit Hours				
- Singapore Firm only	19%		19%	
- Member Firms of the Same Network	14%		16%	

- Reason for **decrease in hours**?
- Are the **FY20x5 hours appropriate**, considering they are less than 5% of total audit hours?

- Is there **excessive delegation** of work to the audit manager?
- Is this **appropriate considering the complexity of issues** faced during the year?

¹ Year-on-Year

What ACs Should Ask / Look Out For

- Example 2: Audit Hours (Firm Comparison)

AUDIT HOURS

Audit Firm A (budgeted)		
Audit Hours of Senior Audit Team Members	FY 20X5	
Lead Audit Partner Hours	50	
Concurring Partner Hours	20	
	Singapore Firm	Member Firms
Other Partner(s) Hours	0	-
Audit Manager(s) Hours	120	-
Total Audit Hours	1,400	-
Total Partner(s) and Audit Manager(s) Hours as a % of Total Audit Hours		
- Singapore Firm only	14%	
- Member Firms of the Same Network	-	

Audit Firm B (budgeted)		
Audit Hours of Senior Audit Team Members	FY 20X5	
Lead Audit Partner Hours	80	
Concurring Partner Hours	34	
	Singapore Firm	Member Firms
Other Partner(s) Hours	0	-
Audit Manager(s) Hours	190	-
Total Audit Hours	1,500	-
Total Partner(s) and Audit Manager(s) Hours as a % of Total Audit Hours		
- Singapore Firm only	20%	
- Member Firms of the Same Network	-	

Audit Firm B is committing a higher level of involvement by senior audit team members.

- To corroborate with other AQIs (e.g. experience levels, training, inspection results)
- To compare actual against budgeted after audit is completed and set future expectations

What ACs Should Ask / Look Out For

- Example 3: Inspection Results

INSPECTION



Type of Inspection: External Inspections by ACRA

Firm-Level			
	Inspection Year	20X4	20X2
	No. of Audit Partners Inspected	10	10
	Inspection Results	8 Pass, 2 Fail	9 Pass, 1 Fail

Engagement-Level		Year last inspected	Results
	Lead Audit Partner	20X4	Fail
	Concurring Partner	Not Inspected	Not Inspected

Engagement-Level	Inspection findings for: Lead Audit Partner	
	Inadequate work was performed on appropriateness of client's revenue recognition policy	Remediation actions taken include: <ul style="list-style-type: none"> - Mandatory refresher training on revenue - Assignment of a more experienced concurring partner on the audit.

- Were there any **pervasive / repeated findings** identified?
- Were they **applicable to the engagement**?

Note: When inspection results are unfavourable, do not immediately conclude audit failure.

- What was the **root cause of the finding**?
- Were the **remediation actions satisfactory / sufficient**?

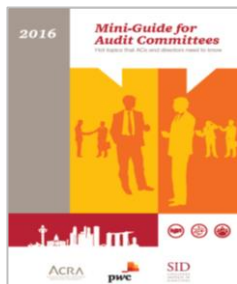
Available Resources



ACRA's AQI Disclosure Framework

- **Joint ACRA-CPA Australia Publication**
 - What are AQIs? How to use them?
- **Guidance to Audit Committees**
 - Definition and relevance of ACRA's AQIs
- **Guidance to Audit Firms**
 - Measurement basis of ACRA's AQIs

Other Resources



**ACRA-PwC-SID
Mini Guide for
ACs**



**Update to 2014
Guidebook for
Audit Committees
in Singapore**

How ACs Should Use the AQIs?

- Interpreting the 8 Indicators

AQI	Indicates:	Audit quality likely to increase with:
Audit Hours	Senior audit team members' involvement in the engagement	↑ Levels of involvement / supervision
Experience	Firm's ability to deploy experienced resources to audits	↑ Years of experience of audit team, particularly industry specific experience
Training	Firm's invested hours to equip auditors with the required knowledge and skills	↑ Training hours, particularly industry specific training
Inspections	Firm's and audit partners' ability to consistently execute quality audits	↑ Consistently favourable inspection results

How ACs Should Use the AQIs?

- Interpreting the 8 Indicators

AQI	Indicates:	Audit quality likely to increase with:
Independence	Firm's ability to maintaining auditor independence	Independence is a pre-requisite for audit quality
Quality Control	Firm's ability to provide central resources to support the execution of quality audits	↑ Dedicated quality control resources
Staff Oversight	Senior audit team members' capacity to supervise junior team members	↓ Staff per partner / manager ratios
Attrition	Firm's ability to retain knowledge and experience	↓ Attrition rate

Thank You