

## **Clarifications to Questions on Hot Review**

### **Public Accountant (PA) under hot review order**

1. What are the legal provisions which provide the Oversight Committee with the power to issue hot review orders?

The legal provision governing this initiative is section 38(1)(a) of the Accountants Act, Cap. 2.

2. What is the objective of the hot review?

The purpose to subject the work of the PA to a review is to uphold audit quality by enabling the PA to improve his work under the supervision of a suitably qualified PA or former PA.

The reviewer serves as a mentor assisting the PA under review to review the quality of the audit process undertaken. The focus is on helping the PA to improve the quality of his audit process. Notwithstanding the review, the responsibility of the PA who is under review in signing off the audit report with respect to the audit judgment and opinion issued remains unchanged.

That is, the PA remains solely responsible for the audit engagements that have been signed off notwithstanding that the engagement has been reviewed by a hot reviewer.

### **Timing of hot review**

3. Is hot review required concurrently as the audit progresses?

Yes, the PA should ensure he engages the hot reviewer throughout the audit process in a timely manner and not at the end of the audit process. The hot review process must be completed prior to the conclusion of the audit and the sign-off on the audit report.

### **Selection of audit engagements**

4. How many audit engagements will be subject to hot review?

There are different orders issued by the Oversight Committee depending on the severity of findings during the practice review. The Oversight Committee may order that all audit engagements signed off by the PA within a specified hot review period to be subject to hot review.

In most cases, the number of audit engagements to be subject to hot review within a specified hot review period will be stated in the order issued by the Oversight Committee.

5. Are there any criteria for the selection of the audit engagements, if not expressly stated in the order issued by the Oversight Committee?

The PA should bear in mind that the objective of the hot review is to provide an opportunity for him to improve on his audit process under the guidance of another suitably qualified PA. For this purpose, the audit engagements selected should be among the top audit clients (in terms of audit fees) of the PA. Other factors in the consideration for file selection could be the size of operations of the company (indicated by turnover and net profit of the company) as well as nature and complexity of the operations.

6. If during the hot review period, the PA no longer has any client with turnover above S\$5 million, does he/she still need to send the files for hot review?

What if the PA is unable to comply with the number of audit engagements to be subjected to hot review?

What should the PA do if he/she knows that he/she is not able to comply with the hot review order prior to the expiry of his/her hot review date?

PA is required to inform ACRA one month prior to the expiry of his/her hot review period. PA has to provide evidence to apply for variation in order that can only be granted by Oversight Committee.

Oversight Committee may vary the order to require other files to be hot reviewed.

### **Hot reviewer**

7. Who can be engaged as a hot reviewer?

The PA can engage any suitably qualified PA, subject to ACRA's approval, to be the hot reviewer so long as there are no conflict of interest or independence issues.

8. Who is considered a suitably qualified PA?

A registered PA who has passed ACRA's practice review is considered a suitably qualified PA.

Alternatively, a former PA who passed the practice review and has kept himself sufficiently abreast of the changes to audit processes is also considered a suitably qualified PA.

PAs who do not have a hot reviewer in mind may wish to refer to the list of hot reviewers that can be found at [<http://www.icpasmembers.org.sg/hotreview.asp?syn=1>] as a starting point.

9. Does the PA need to seek approval from ACRA for the hot reviewer selected?

Yes, the PA needs to seek prior approval from ACRA for the hot reviewer selected.

10. Can a PA decline to be appointed as hot reviewer if he/she is not comfortable with the work of the PA who has failed his/her practice review?

Hot reviewers should in the first place assess whether he/she is in the position to act as the PA's mentor to improve audit quality. If hot reviewer is not confident of doing so, hot reviewer should not accept the appointment.

11. Is the hot reviewer to be compensated?  
Any compensation (if any) made to a hot reviewer will depend on the private arrangement between the PA and the hot reviewer.
12. Are there any guidelines on the number of hours for reviewing an engagement file or fees to bill a PA?  
No, as the hours incurred should depend on the complexity of the file reviewed.
13. Does the compensation arrangement need to be reported to ACRA?  
No, the compensation arrangement need not be reported to ACRA. For clarity, the appointment of a hot reviewer should be confirmed in an engagement letter that should cover matters such as those pertaining to the scope of engagement, remuneration, confidentiality, responsibility and professional conduct.
14. What if a PA is unable to find another PA to be his/her hot reviewer?  
PA can refer to the list of hot reviewers in ICPAS website (<http://www.icpasmembers.org.sg/hotreview.asp?syn=1>) for a start. If this fails, contacts ACRA.
15. What if no one wants to be appointed as my hot reviewer? How can ACRA helps in such situation?  
PA should inform ACRA and ACRA will liaise with the pool of hot reviewers available.
16. What if a PA requires more time to appoint the hot reviewer? (Note: a PA has to submit the hot reviewer appointment within 2 weeks from the date of order)  
PA should contact ACRA and ask for an extension of time within 2 weeks from the date of the order.
17. Do I need to change the hot reviewer if, subsequent to ACRA's approval and during the PA's hot review period, the hot reviewer failed his/her PMP?  
PA has to assess suitability of hot reviewer upfront and upon obtaining new knowledge. As a matter of policy, ACRA will allow the hot reviewer to continue as hot reviewer for the PA. However, the hot reviewer who fails his/her PMP will not be allowed to be appointed as hot reviewer subsequently.
18. What should be covered in the hot reviewer's appointment letter?  
The appointment letter should cover matters pertaining to scope of engagements, remuneration, confidentiality, responsibilities and professional conduct etc.

### **Responsibility under the hot review**

19. Are there any checklists or manuals that (a) the hot reviewer needs to refer to; or (b) will guide the hot reviewer during the hot review process?  
There are no checklists or manual that the hot reviewer needs to refer to or that will guide the hot reviewer during the hot review process. It is at the discretion of the hot reviewer to conduct the hot review as he or she deems fit so as to meet the objective of providing guidance to the PA to improve the quality of his audit process. The hot reviewer should also request for the complete set of findings report issued by ACRA

and a copy of the remediation plan drawn up by the public accountant to address the audit deficiencies noted in the Oversight Committee's order letter. The hot reviewer should assist the public accountant in implementing the action plans noted in his remediation plan.

The PA and the hot reviewer should also bear in mind that the audit should be conducted in accordance with the Singapore Standards on Auditing and the audited financial statements should be properly drawn up in accordance with the provisions of the Singapore Companies Act, Cap 50 and Singapore Financial Reporting Standards. The PA and the hot reviewer should refer to ACRA's Practice Direction 4 of 2010 on Hot Review for further details on the scope of the hot review process.

20. What is the extent of review a hot reviewer should perform?

The hot review should be performed on the whole audit engagement and not just the review of selected working papers. The hot reviewer should request the PA to submit the whole audit files, including the permanent audit file for hot review. Key audit issues and high risk areas should also be discussed with the PA to determine whether the PA has taken appropriate steps to address the key audit issues and high risk areas.

21. What if the hot reviewer is too busy to review the files prior to the expiry of the hot review period?

This should be addressed upfront during appointment of a hot reviewer. If there is any valid reason for a delay, the PA has to inform ACRA one month prior to the expiry of his/her hot review period to request for extension. ACRA reserves the rights to grant extension on discretionary basis.

22. What if the PA had not given the hot reviewer adequate time to review the file? Is there a minimum time frame stipulated?

There is no stipulated time frame within the hot review period. However the PA should start planning once notified of the order and allow sufficient time for hot reviewer to review the file, bearing in mind intended sign-off date, end of hot review period and the hot reviewer's workload.

This is to ensure that the hot reviewer has adequate time to mentor the PA. The hot reviewer should clearly communicate this in the appointment letter.

23. Does a report arising from the hot review need to be prepared?

Yes, a report should be prepared so that the PA can provide documentary evidence that the hot review process had taken place and demonstrate compliance with the hot review order issued by the Oversight Committee. Although the format of the hot review report is at the discretion of the hot reviewer, the hot review report should contain at least minimal basic information as listed in Annex A.

24. Who should the hot review report be submitted to?

No submission required. The PMP reviewers will review the hot review reports to assess the effectiveness of the hot review process and PA's compliance with the hot review order during the revisit review. However, ACRA reserves the right to request for the hot review report.

### **Compliance of hot review order**

25. Will any disciplinary action be taken against the PA for non-compliance of the hot review order?

ACRA takes a stern view if a PA does not comply with the Oversight Committee's order of appointing a hot reviewer or completing a hot review process. Non-compliance with the hot review may result in disciplinary and/or enforcement action.

- 26 What if the PA forgets to write in to ACRA and submit the list of audit files that have been subjected to hot review and the names of hot reviewers?

It is the PA's responsibility to ensure that he/she informs ACRA on his/her compliance with his/her hot review order, to provide the list of audit files that have been subjected to hot review and the names of the hot reviewers.

Non-compliance with the hot review orders may result in disciplinary and/or enforcement action.

**Basic information to be included in the hot review report**

- Name of Public Accountant (PA) under review;
- Name of PA acting as hot reviewer and registration number;
- For the engagements selected for review:
  - Name of entity;
  - Financial year-end;
  - Date of audit engagement letter;
  - Number of years on audit engagement for partner/manager;
  - Type of auditor's report issued;
  - Sign-off date of auditor's report;
  - Date of subsequent events performed;
  - Principal activities;
  - Materiality, performance materiality and uncorrected detected misstatements;
  - Audit approach;
  - Risk areas identified by the PA;
  - Summary of key issues by the PA;
  - Discussion of key issues and basis of key judgements between the hot reviewer and the PA;
  - Number of hours spent on the hot review;
- List of findings raised in relation to each of the engagements reviewed;
- Dates of commencement and completion of the hot review;
- Signature of hot reviewer; and
- Date of hot review report

### Suggested Hot Review Report Template

THIS SECTION TO BE COMPLETED BY THE PUBLIC ACCOUNTANTS UNDER HOT REVIEW ORDER

#### SECTION A: ENGAGEMENT INFORMATION

1. Name of PA: \_\_\_\_\_
2. Name of PA firm: \_\_\_\_\_
3. Name of hot review partner: \_\_\_\_\_
4. Name of entity under hot review: \_\_\_\_\_
5. Financial year ended: \_\_\_\_\_
6. Date of audit engagement letter: \_\_\_\_\_
7. Number of years the audit engagement partner has been on this audit engagement:  
\_\_\_\_\_ years
8. Number of years the audit engagement manager has been on this audit engagement:  
\_\_\_\_\_ years
9. Principal activities of the company:  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
10. Materiality used:
  - a) Group materiality (if applicable): \_\_\_\_\_
  - b) Performance materiality: \_\_\_\_\_
  - c) Uncorrected detected misstatements: \_\_\_\_\_
11. Audit approach:  
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12. Risk areas identified by the audit engagement partner:

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13. Summary of key issues identified by the audit engagement partner:

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14. Date of the subsequent events review is performed up to \_\_\_\_\_

15. Type of audit opinion issued: \_\_\_\_\_

16. Date of auditor's report: \_\_\_\_\_

\_\_\_\_\_ [signature of PA on hot review order]

[Name of PA on hot review order]

[PA's registration number]

THE FOLLOWING SECTION TO BE COMPLETED BY THE HOT REVIEW  
PARTNER

SECTION B: HOT REVIEW PARTNER INVOLVEMENT

1. Hot review commencement date: \_\_\_\_\_
2. Hot review completion date: \_\_\_\_\_
3. Number of hours incurred: \_\_\_\_\_ hours
4. Summary of matters discussed on planning section with the public accountant:

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5. Summary of discussion with the public accountant on key issues identified by public accountant (if any):

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6. Summary of discussion with the public accountants on basis of key judgements (if any):

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7. Summary of discussion with the public accountants on the auditor’s opinion proposed by public accountant:

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8. Date of hot review report: \_\_\_\_\_

\_\_\_\_\_ [signature of Hot Review Partner]

[Name of Hot Review Partner]

[PA’s registration no.]