

# ACRA

ACCOUNTING AND CORPORATE  
REGULATORY AUTHORITY

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## PRACTICE MONITORING PROGRAMME

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10<sup>th</sup> Public Report 2016



A DECADE-LONG  
JOURNEY IN ENHANCING  
AUDIT QUALITY

The Accounting and Corporate Regulatory Authority (ACRA) is the national regulator of business entities and public accountants in Singapore. ACRA also plays the role of a facilitator for the development of business entities and the public accountancy profession. The mission of ACRA is to provide a responsive and trusted regulatory environment for businesses and public accountants.

### **Scope / Disclaimer**

ACRA's oversight of the profession has been stringent and its inspection methodologies have evolved to be more rigorous but also more targeted and risk based. Therefore, the observations in this report, while raising some concerns, reflect a rigorous approach and a high benchmark reflecting the need to maintain a high degree of confidence in the financial information that underpins Singapore's markets. In presenting the specific findings in this report, efforts have been made to provide as much of the context as possible under which these findings arose in the PMP. The findings should not be read in isolation or regarded as creating mandatory rules in addition to the auditing standards. Public accountants should read and assess the applicability and severity of each of the findings in the broader context of upholding the profession's standards and in careful consideration of the uniqueness of individual audit engagements.

### **Published August 2016**

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### **Glossary of Terms**

AARG	ASEAN Audit Regulators Group
ACRA	Accounting and Corporate Regulatory Authority
AOB	Malaysia's Audit Oversight Board
AQI	Audit Quality Indicator
EQCR	Engagement Quality Control Review
FRSP	Financial Reporting Surveillance Programme
IAASB	International Auditing and Assurance Standards Board
IFIAR	International Forum of Independent Audit Regulators
IOS WG	IFIAR's Investor and Other Stakeholders Working Group
ISCA	Institute of Singapore Chartered Accountants
GAQ WG	IFIAR's Global Audit Quality Working Group
GPPC	Global Public Policy Committee
NUS	National University of Singapore
PAOC	Public Accountants Oversight Committee
PMP	Practice Monitoring Programme
PPPK	Indonesia's Finance Professions Supervisory Center
SEC	Thailand's Securities and Exchange Commission
SFRS	Singapore Financial Reporting Standard
SSA	Singapore Standard on Auditing
SSQC	Singapore Standard on Quality Control



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# FOREWORD

Audit is the cornerstone of market confidence in the reliability of the financial information with which business decisions are made. The key focus of ACRA's Practice Monitoring Programme (PMP) is therefore to uphold high audit quality and preserve the trust and standing of Singapore's audit profession.

This 10<sup>th</sup> PMP Public Report marks a significant milestone for both ACRA and the profession. In the last decade, even as capital markets recover from the legacy of the global financial crisis, a number have been rocked by financial and accounting scandals. Singapore has been fortunate and we have not encountered an audit failure with catastrophic implications for our market. We must remain vigilant. Robust audit regulation is crucial in upholding market confidence, protecting public interest and spurring the profession to meet higher standards.

This is also a significant milestone for the profession as it has responded well to regulation. Having just transitioned out of self-regulation about a decade ago, the profession must be commended for its resilience and adaptability despite the rising demands of an ever-changing world and demands of tighter regulation. The audit profession remains the only profession that is subjected to a pre-emptive quality test even before any audit failure has been proven. This not only underscores the enormous responsibility of the profession with respect to public interest but also the undisputed value of the audit.

The PMP Public Report, published annually since 2007, has been guiding public accountants on what is needed to meet standards when performing audits and the quality controls to be implemented in order to sustain a viable practice. In this 10<sup>th</sup> edition, ACRA is drawing key audit insights from a 10-year trend analysis of inspection findings. We hope you will find this report and other guidance published by ACRA useful.

We congratulate the profession for arriving at this significant milestone. We would like to thank you for responding positively to regulation and your contribution towards making Singapore the best and trusted place to do business. Let us continue to work together and ensure a higher standard of audit quality in the years to come.



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**Professor Tan Cheng Han, S.C.**  
Chairman  
Public Accountants Oversight Committee



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**Mr Kenneth Yap**  
Chief Executive  
Accounting and Corporate Regulatory Authority

# OVERVIEW

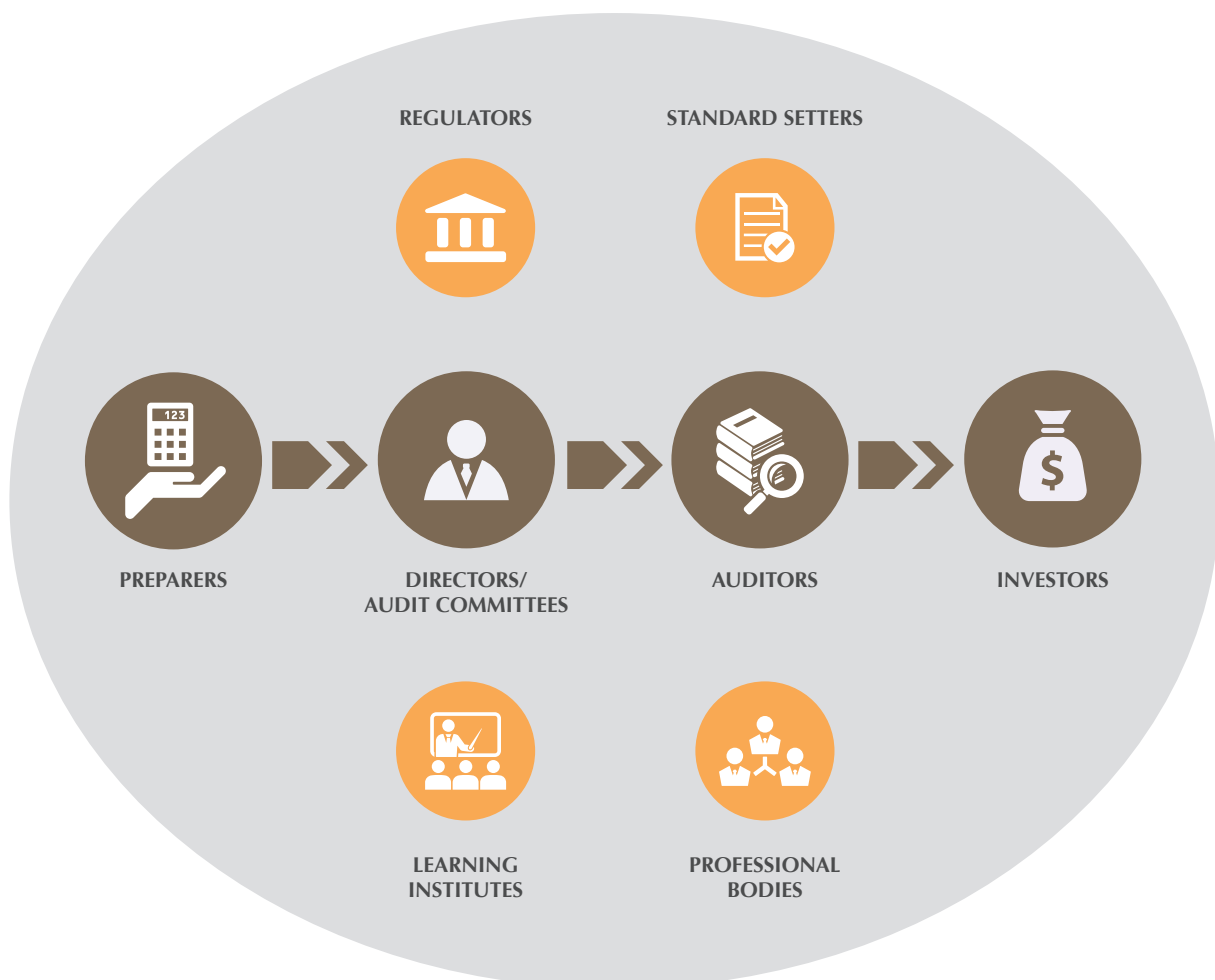
## FINANCIAL REPORTING: MEETING INVESTORS' NEEDS, STRENGTHENING MARKET CONFIDENCE

### *A Decade-long Journey to Strengthen the Financial Reporting Eco-system*

The publication of this 10<sup>th</sup> PMP Public Report is an apt juncture to reflect on the origins of independent audit regulation which was instituted globally across major capital markets in the aftermath of financial and accounting scandals in the 2000s. The key impetus for robust audit oversight was the need to protect the interests of investors in the preparation of informative, accurate, and independent audit reports.

In the financial reporting eco-system as articulated in Figure 1 below, investors are the key stakeholder at the end of the financial reporting value chain that benefits from accurate financial reports, strong corporate governance and high quality audits.

**Figure 1: The financial reporting eco-system**



To this end, ACRA has, in the last decade, implemented programmes, both regulatory and developmental, with the clear aim of strengthening each and every element of the financial reporting value chain. Unlike many other fellow audit regulators around the world, ACRA is not constrained by a mandate limited to audit regulation alone. We are able to take a holistic regulatory approach that encompasses the entire financial reporting eco-system – from preparers, audit committees, auditors and even corporate secretaries and filing agents.

Starting from the beginning of the value chain, ACRA ramped up its FRSP<sup>1</sup> in 2014 to raise the bar on financial reporting. From its audit inspections in the initial years, ACRA noted that financial reporting issues upstream can have knock-on effects on audit quality downstream. The FRSP was thus initiated to rebalance the different stakeholders' responsibilities over financial reporting. Encouragingly, ACRA is starting to see some positive behavioural changes, with financial statement preparers taking charge of their companies' financial statements.

ACRA also observed that audit committees or other stakeholders charged with corporate governance are important gatekeepers to reliable financial statements. Audit committees have dual oversight of financial reporting by preparers within companies as well as oversight of the internal and external auditors and audit process. For this reason, ACRA has been engaging regularly with audit committees over the years as key partners in helping to raise financial reporting and audit quality.

More recently, ACRA has also collaborated with the Singapore Institute of Directors and the Stock Exchange to establish a regular engagement platform, i.e. the annual Audit Committee Seminar<sup>2</sup>, to hold dialogues on strengthening the corporate governance of companies, including financial reporting and audits. At the 2016 seminar, ACRA introduced the AQI Disclosure Framework<sup>3</sup> to aid audit committees in evaluating external auditors based on a common set of comparable audit quality indicators.

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<sup>1</sup> Financial Reporting Surveillance Programme.

<sup>2</sup> Details of the ACRA-SGX-SID Audit Committee Seminars can be located at:

2015 – [https://www.acra.gov.sg/AC\\_Seminar\\_2015.aspx](https://www.acra.gov.sg/AC_Seminar_2015.aspx)

2016 – [https://www.acra.gov.sg/Publications/Guides/ACRA-SGX-SID\\_Audit\\_Committee\\_Seminar\\_2016/](https://www.acra.gov.sg/Publications/Guides/ACRA-SGX-SID_Audit_Committee_Seminar_2016/)

<sup>3</sup> The publication “Guidance to Audit Committees on ACRA’s Audit Quality Indicators Disclosure Framework” can be located at: <https://www.acra.gov.sg/uploadedFiles/Content/Publications/Guides/Guidance%20to%20ACs%20on%20ACRA%20AQIs%20Disclosure%20Framework.pdf>

These efforts to strengthen the financial reporting value chain upstream (financial statement preparers and audit committees), have been complemented by on-going efforts to further enhance audit quality downstream. On top of its core regulatory programme, the PMP, ACRA has also provided numerous guidance to the profession to strengthen their core competencies. This includes the annual PMP Public Reports<sup>4</sup> as well as a series of Audit Practice Bulletins<sup>5</sup>. In recent years, ACRA also undertook initiatives to raise awareness on the issues faced by the profession such as the need to deepen appreciation for the value of audits and to address talent attraction and retention issues in audit firms.

At this 10<sup>th</sup> year mark, it is an appropriate juncture for ACRA to review and take stock of whether the needs of investors with respect to financial reporting and audits have been met. It would also be useful to gauge the level of trust and confidence in audit reports that investors have today, compared to the previous decade when regulatory systems were not yet established and robust.

This motivated ACRA to commission an Investor Perception Study this year. This Study, in collaboration with ISCA<sup>6</sup>, and independently conducted by NUS<sup>7</sup>, surveyed more than 200 Singapore retail and institutional investors to gather their views about financial reporting, audits, ACRA's PMP and FRSP as well as emerging topics such as the enhanced auditor's report.

The profession should be heartened to know that based on the results of the Study, published in August 2016, there was a **resounding affirmation that investors not only value but are increasingly demanding for quality audits and financial reporting**. ACRA is also encouraged to note that regulatory measures such as the PMP and FRSP provide key assurance indicators for investors on the integrity and reliability of audits and the financial reports.

These findings underscore the **importance for all stakeholders in the financial reporting eco-system to play their respective roles effectively**. ACRA will draw on the insights from the Study as it lay out its regulatory strategy and approach for the next decade.

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<sup>4</sup> ACRA's PMP Public Reports can be located at:  
[https://www.acra.gov.sg/Publications/Reports/Practice\\_Monitoring\\_Programme\\_Public\\_Reports/](https://www.acra.gov.sg/Publications/Reports/Practice_Monitoring_Programme_Public_Reports/)

<sup>5</sup> ACRA's Audit Practice Bulletins can be located at:  
[https://www.acra.gov.sg/publications/Audit\\_Practice\\_Bulletin/](https://www.acra.gov.sg/publications/Audit_Practice_Bulletin/)

<sup>6</sup> The Institute of Singapore Chartered Accountants.

<sup>7</sup> The National University of Singapore.

# SECTION 1: EXECUTIVE SUMMARY

## *A Resilient Audit Profession that Continually Strives to Adapt and Keep Pace*

- 1.1 The audit profession has proven its resilience and ability to adapt well to rapid changes in the business environment, tighter requirements in professional standards<sup>8</sup> and greater regulatory scrutiny. Despite the increasing demands of the job, **the number of public accountants has grown 36% in the last 10 years from only 790 in 2007 to stand at 1,076 as at 31 March 2016**. This healthy growth trend is a good development as Singapore strives to become a global accountancy hub.
- 1.2 In tandem, ACRA's audit regulation has also evolved in response to rising complexities and changing business landscapes. In 2014, ACRA undertook a reform of its inspection methodology to sharpen its risk-based focus. ACRA also continues to participate actively at international and regional forums to push the audit quality agenda globally and to keep abreast of developments and best practices. Section 2 summarises ACRA's inspection activities and how ACRA's PMP has evolved over the past decade.

## *Trends in Inspection Findings and Audit Quality Indicators*

- 1.3 ACRA adopts a risk-based inspection approach that is calibrated in scope and intensity according to the nature and complexity of the audits and the level of public interest risks involved. Accordingly, the inspection approach is differentiated for public accountants and public accounting entities<sup>9</sup> (firms) that perform audits of listed companies versus those who only audit non-listed companies.
- 1.4 For this 10<sup>th</sup> PMP Public Report, ACRA is presenting an analysis of inspection findings by common themes. The 10-year trending analysis can provide useful insights such as a recurring theme that needs urgent remediation or an emerging theme that public accountants should be alerted to. A discussion of the inspection findings in the top four themes: (a) **accounting estimates, including fair value measurement**, (b) **audit evidence**, (c) **revenue**, and (d) **group audits** is set out in Section 4.

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<sup>8</sup> Include financial reporting standards, auditing standards and ethical and independence standards.

<sup>9</sup> Public accounting entities comprise public accounting corporations, public accounting firms and accounting limited liability partnerships (collectively referred to as "firms" in this report).



### ***Listed Companies Segment***

- 1.5 Overall, the **listed companies segment has shown improvement in audit quality**. Comparing the 2016 inspection results to 2015, the percentage of inspected audit engagements that had at least one finding has reduced by 27% as discussed in Section 4. This exceeds IFIAR's targeted reduction of 25% of the same measure over a four-year period as discussed in Section 5. The nature of findings raised on engagement inspections has also evolved to more complex areas such as auditing accounting estimates rather than omissions of basic audit procedures.
- 1.6 At the firm-level, ACRA has also seen **encouraging results** and positive efforts by firms. This is evidenced by the measurable improvements in some key AQIs such as staff retention rates and time spent by engagement and EQCR partners as discussed in Section 3. To spur firms on, ACRA is **indicating some AQI targets** that would further drive up audit quality in Figure 10 of Section 3. Whilst **only a guidance**, such targets will also be useful in enhancing the audit committee's understanding of the AQI data and facilitate more meaningful audit quality conversations.
- 1.7 Notwithstanding overall improvements, the **pace of progression has been somewhat uneven** with some firms having room for greater improvement. The more recent inspections revealed that there are still deficient areas which firms need to remediate, particularly in the area of **monitoring**. Therefore, firms should continue to take steps to improve, including the identification of **root causes** for the deficiencies and effecting changes to policies and procedures where necessary.

### ***Non-listed Companies Segment***

- 1.8 The scene over at the non-listed companies segment is less optimistic. Whilst there had been similar **progress in the nature of inspection findings** from cursory to more significant ones over the last 10 years, comparing the 2016 inspection results to 2015, there has been **no improvements** in the percentage of inspected audit engagements that had at least one finding as discussed in Section 4.
- 1.9 ACRA recognises that public accountants in this segment typically operate in smaller practices and some may not have resources to support the delivery of quality audits. However, it is also ACRA's responsibility to ensure a level-playing field which acknowledges and balances the interests of those public accountants in this segment who put in the effort to uphold audit quality. To this end, ACRA will not hesitate to take tougher enforcement actions where necessary, to protect public interest as well as to preserve the good standing of the profession.
- 1.10 ACRA urges public accountants in this segment to **take immediate steps** to understand the root causes of the findings, develop action plans and **put in their best efforts to execute audits properly and avoid repeated findings**. Public accountants should pay particular attention to the recurring and emerging themes of audit deficiencies highlighted in Section 4.

## *New Regulatory Initiatives to Improve Audit Quality*

- 1.11 In the last 10 years, ACRA has introduced various regulatory and non-regulatory initiatives to help public accountants in executing high quality audits. This year, to further encourage public accountants to take on a long-term forward approach towards improving audit quality, ACRA is introducing two new regulatory initiatives that are calibrated to help specific groups of the profession.
- 1.12 The first initiative is targeted at public accountants practising in firms that are part of the GPPC networks<sup>10</sup>. It seeks to drive a **25% reduction in the percentage of inspected audits of listed entity engagements with at least one finding over a four-year period from 2015 to 2019**. ACRA believes that the 25% goal will provide a measurable target for public accountants' efforts to improve audit quality and steer them in the right direction.
- 1.13 The second initiative focuses on public accountants that **have not shown significant improvements despite repeated findings of poor audit quality. From inspections commencing on or after 1 April 2017, the names of public accountants imposed with hot review or restriction orders on revisit inspections will be published on ACRA's website**. This is an expansion of the current regime which already publicises the names of public accountants under suspension or cancellation orders. ACRA believes this will motivate public accountants to develop sound remediation plans and actively pursue initiatives to improve the quality of their audits before their next inspections. Such concerted remediation efforts will further raise audit quality and level the playing field in the long run. Section 5 discusses these two new initiatives in greater detail.

## *Upcoming Developments and Future Focus*

- 1.14 In an ever-changing world constantly disrupted by new technologies and business models, public accountants must **stay abreast of new developments and upgrade their skills and competencies** to stay relevant. Section 6 summarises some key areas that public accountants should start preparing for, including the new revenue standard that will likely affect a majority of audits. Similarly, ACRA remains committed to be a progressive regulator by periodically reviewing its regulatory approach, policies and procedures to ensure they remain relevant and effective.
- 1.15 Together, ACRA will work hand-in-hand with the profession **to uphold audit quality and strengthen the public's trust in audits** for the next decade and beyond.

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<sup>10</sup> The Singapore audit firms that are part of the GPPC networks are BDO, Deloitte, EY, Grant Thornton, KPMG and PwC. However, as at 31 March 2016, Grant Thornton does not perform any audits of listed companies and will therefore be part of this initiative from Singapore's perspective when it starts to audit listed companies.

## SECTION 2: ACRA'S REGULATORY SCOPE AND INSPECTION ACTIVITIES

### *Introduction*

- 2.1 This is ACRA's 10<sup>th</sup> PMP Public Report. Every year, ACRA issues a Public Report to provide an overview of ACRA's inspection activities, summarise key inspection findings, share new initiatives and highlight upcoming developments affecting the profession. Such transparency helps firms and public accountants focus on the priority areas to remediate and improve. It also provides information to users of public accountancy services and other relevant stakeholders who may take an interest in the quality of audits performed.
- 2.2 Being the 10th Public Report, this section summarises ACRA's inspection scope and activities over a period from the 12 months ended 31 March 2007 to 31 March 2016. This section will also present how ACRA's audit regulation has evolved as various enhancements were made to the inspection methodology and regulatory approach during this period.

### *About the PMP and ACRA's Inspection Activities*

- 2.3 The PMP marks the beginning of independent audit oversight in Singapore. Established with the objective of promoting market confidence in audits and financial reporting, it has been the key regulatory instrument used by ACRA to ensure that public accountants uphold audit quality in carrying out their audits. ACRA carries out two key inspections activities under the PMP as follows:

(a) **Engagement Inspections**

This entails a review of an audit performed by a public accountant to assess whether the public accountant's work complies with SSAs<sup>11</sup>. Engagement inspections are backed by legislation. The PAOC<sup>12</sup> is the deciding authority on the outcome of these inspections.

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<sup>11</sup> Singapore Standards on Auditing which are adopted from International Standards on Auditing.

<sup>12</sup> Public Accountants Oversight Committee which is a committee comprising ACRA board members and are responsible for discharging ACRA's functions over the registration and regulation of public accountants in Singapore.

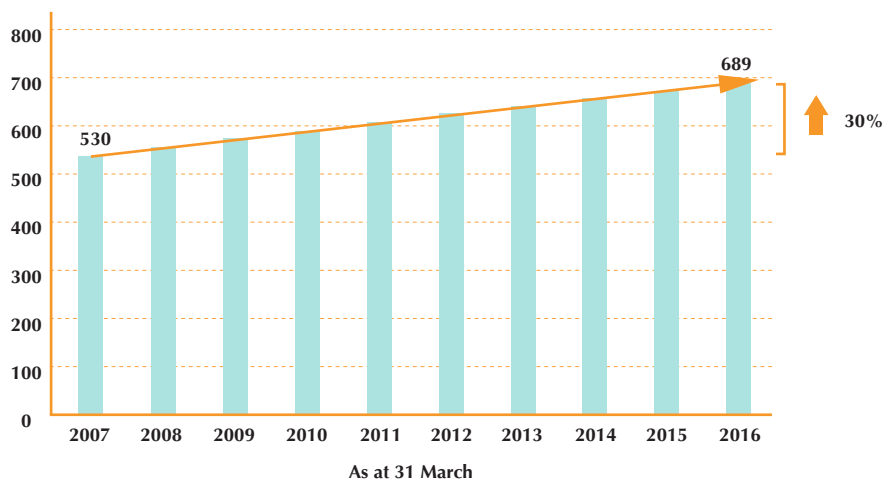
**(b) Firm-level Inspections**

This assesses the firm's compliance with SSQC 1<sup>13</sup>, including the effectiveness of the policies and procedures established by the firm in its system of quality control. Presently, firm-level inspections are conducted on an advisory basis on selected firms. Recognising that a strong system of quality control is fundamental in ensuring consistent delivery of quality audits in compliance with SSAs, ACRA is in the process of institutionalising firm-level inspections as a statutory requirement. Once legislated, firm-level inspections will apply to all firms.

## The Public Accountancy Landscape in Singapore

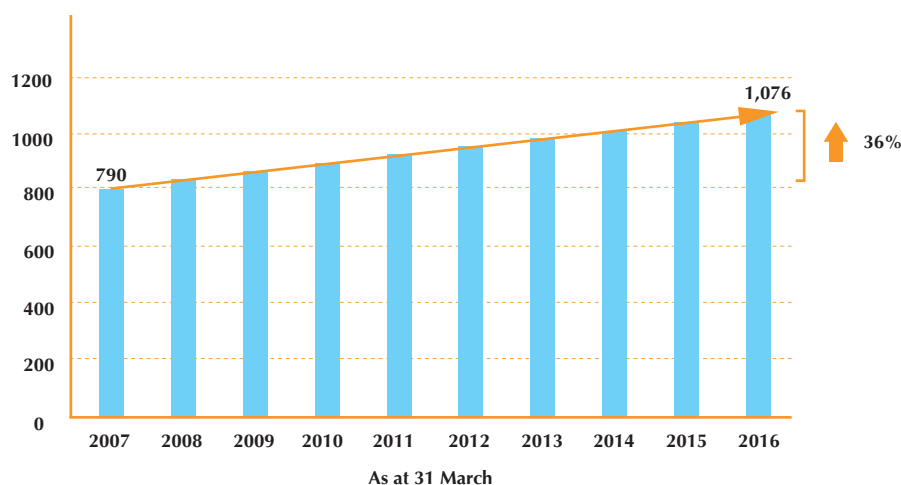
- 2.4 Singapore's financial statements audit market is serviced by over 600 firms and about 1,000 public accountants registered with ACRA as at 31 March 2016. ACRA's regulatory scope includes all firms and public accountants providing public accountancy services in Singapore.
- 2.5 Since 2007, the numbers of firms and public accountants have grown by over 30% as shown in Figures 2 and 3. The healthy growth trend is a good development as Singapore strives to become a global accountancy hub.

**Figure 2: Number of firms registered with ACRA from 2007 to 2016**



<sup>13</sup> Singapore Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Services Engagements.*

Figure 3: Number of public accountants registered with ACRA from 2007 to 2016



- 2.6 Majority of the 689 firms registered as at 31 March 2016 comprise sole proprietorships and small practices with less than five public accountants. These firms audit mainly financial statements of small and medium private enterprises in Singapore. This segment of firms and enterprises are the bedrock of Singapore's economy.
- 2.7 Audits of listed companies are concentrated in about 20 larger firms comprising the Big-Four<sup>14</sup> and medium-sized audit practices.

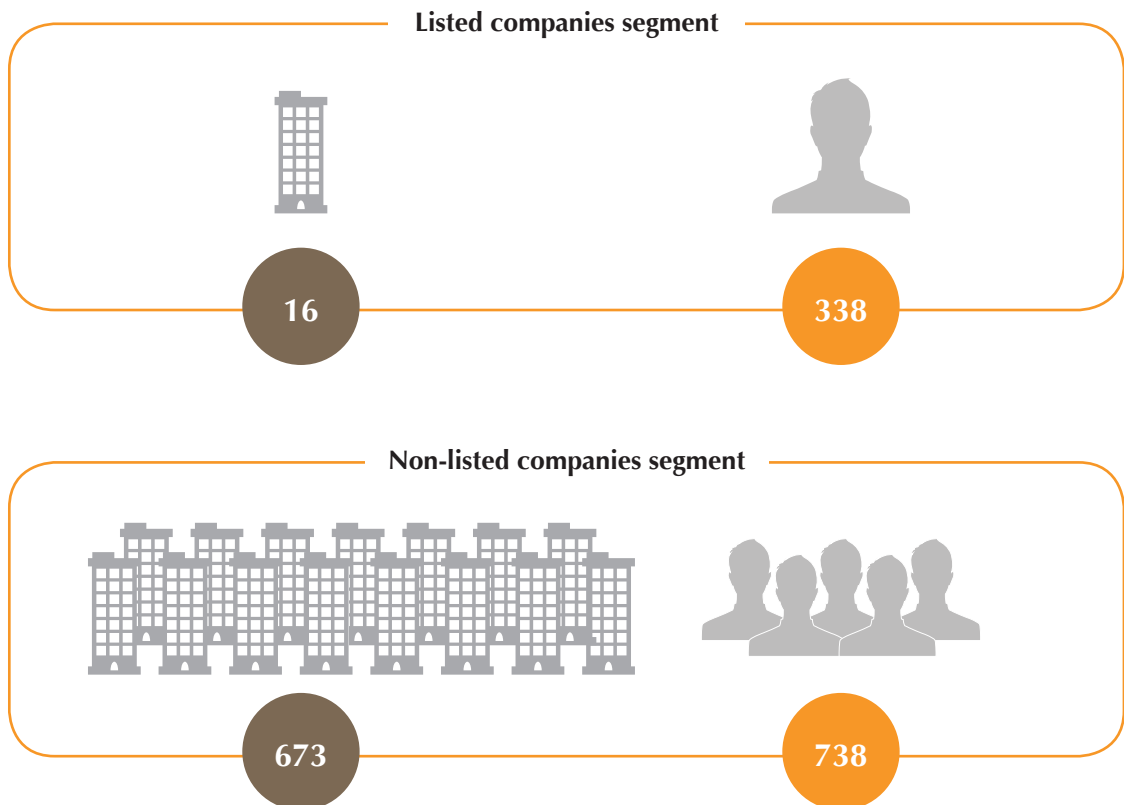
### *ACRA's Inspection Approach – Calibrated According to Risk*

- 2.8 ACRA adopts a risk-based inspection approach that is calibrated in scope and intensity according to the nature and complexity of the audits and the level of public interest risks involved. This drives the efficient use of resources and leads to more effective regulatory outcomes. Accordingly, ACRA categorises public accountants into two broad segments:
- Those practising in firms that perform audits of listed companies (listed companies segment); and
  - Those practising in firms that perform audits of non-listed companies (non-listed companies segment).

<sup>14</sup> The Big-Four firms comprise Deloitte, EY, KPMG and PwC.

2.9 ACRA's inspection approach is differentiated between the two segments of public accountants and firms. As at 31 March 2016, the number of firms and public accountants in the two segments are shown in Figure 4.

**Figure 4: Number of firms and public accountants in the listed and non-listed companies segments as at 31 March 2016**



2.10 Inspections in the listed companies segment are carried out directly by ACRA's inspectors and the scope of inspection is as follows:

- Public accountants are subjected to engagement inspections; and
- Firms are subjected to firm-level inspections.

- 2.11 Public accountants in the non-listed companies segments are also subjected to engagement inspections. Since 2006, ACRA has collaborated with ISCA, Singapore's national accountancy professional body, such that ISCA's inspectors carry out the inspections on public accountants in this segment under ACRA's regulatory oversight. This collaboration has enabled ACRA to deploy its limited resources to focus on higher risk audits.
- 2.12 Due to the size and operations of firms in the non-listed companies segment, ACRA will only extend firm-level inspections to this segment when they become statutorily mandated in a few years' time. In the meantime, an engagement inspection approach is considered sufficiently effective in monitoring the quality of the public accountants' work in this segment. Notwithstanding this, ACRA reminds firms in this segment to establish strong systems of quality control to sustain a consistent execution of quality audits.

### *ACRA's Inspection Methodology – Reformed in 2014 to Sharpen its Risk-based Focus*

- 2.13 ACRA periodically reviews and enhances its inspection methodology to ensure that they remain effective, efficient and relevant. These reviews are based on ACRA's cumulative inspection experience, benchmarking with international best practices and feedback from the profession and other stakeholders. Following a holistic review in 2014, the PMP was reformed with significant enhancements made to the inspection methodology<sup>15</sup>.

#### *Enhancements to Engagement Inspections*

- 2.14 Prior to 2014, ACRA adopted a cover-to-cover approach for engagement inspections where the entire audit file was reviewed and checked for compliance with the SSAs. This was necessary in the infancy years of the programme for ACRA to identify areas of recurring audit deficiencies and understand audit quality issues faced by public accountants.
- 2.15 From 2014, in line with ACRA's risk-based regulatory approach, the inspection methodology was enhanced in the following four key areas, amongst other enhancements:
- (a) **Inspection Focus** – the inspections would focus on significant risk areas of an audit that may potentially impact the audit opinion.
  - (b) **Risk-based Selection** – public accountants and the audit engagements selected for inspections would focus on those that exhibit the highest risk factors. This would include the market capitalisation of listed companies, industry-specific business risks, significant non-routine transactions, results of past inspections etc.

<sup>15</sup> Details of the reform can be found in Section 4 of the 2014 PMP Public Report located at: [https://www.acra.gov.sg/uploadedFiles/Content/Public\\_Accountants/Professional\\_Resources/Conference\\_Materials/2014/ACRA2014\\_PMPEP%20Report\\_Web.pdf](https://www.acra.gov.sg/uploadedFiles/Content/Public_Accountants/Professional_Resources/Conference_Materials/2014/ACRA2014_PMPEP%20Report_Web.pdf)

- (c) **Inspection Reporting** – only significant findings would be reportable i.e. those relating to significant risk areas arising from either a deficiency in audit procedure or inappropriate professional judgement. In reporting only significant findings, public accountants are better guided to focus on areas that require priority remediation.
- (d) **Root Cause Analysis** – public accountants would be required to conduct a root cause analysis of the inspection findings and submit a remediation plan to ACRA. A root cause analysis would help public accountants to fix issues right at the source and successful remediation would then ensure that findings do not recur.

### ***Enhancements to Firm-level Inspections***

2.16 Similarly, the firm-level inspection methodology was also enhanced as follows:

- (a) **Inspection Frequency** – moved away from a fixed two to three-year cycle and instead adopted the principle that:
  - (i) Firms with client portfolio of more than 10% share of market capitalisation of listed companies will be inspected annually<sup>16</sup>.
  - (ii) Other firms will be inspected once every three years unless a previous inspection result had not been satisfactory.
- (b) **Inspection Intensity** – full scope inspections on all six SSQC 1 elements will not be performed every visit but every third visit. In the intervening period, depending on the rating (see below) from the last inspection, ACRA may not test or perform limited testing. Such risk-based calibration incentivises firms to achieve good inspection results.
- (c) **Three-tiered Rating** – prior to 2014, all firm-level inspection findings were reported with no indication of ACRA's overall assessment of the operating effectiveness of quality controls in each SSQC 1 element. With the reform, ACRA has implemented a three-tiered rating system - Satisfactory, Needs Improvement and Non-Satisfactory. A rating system not only allows the firm to know its compliance with SSQC 1 but also helps ACRA to calibrate its inspection scope.

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<sup>16</sup> Currently comprises the Big-Four firms that collectively audit approximately 60% of the 767 listed companies listed on the Singapore Stock Exchange (representing about 60% of the total market capitalisation of \$905 billion). All numbers are as at 31 December 2015.



## 10-year Inspection Activity Report Card

2.17 Since 2007, ACRA has:

- (a) In respect of engagements, inspected 223 and 953 public accountants<sup>17</sup> in the listed companies and non-listed companies segments, respectively. A diverse range of 13 industries have also been covered over the years. The focus on specific industries is informed by ACRA's risk assessment model.
- (b) In respect of firm-level inspections, completed three cycles of full-scope firm-level inspections on firms in the listed companies segment. Post the 2014 PMP reform, ACRA completed the inspections of 10 firms in 2015 and nine in 2016.

## International Activities

2.18 In the past decade, ACRA has been an active contributor towards international developments in audit oversight and regulatory activities through its participation in platforms such as the IFIAR<sup>18</sup> and the AARG<sup>19</sup>. These international and regional platforms seek to foster closer collaboration amongst ACRA and other independent audit regulators to raise the bar for quality audits and financial information.

## International Forum of Independent Audit Regulators

2.19 Established in 2006, IFIAR comprises audit regulators from over 50 jurisdictions with a unified aim to promote collaboration and consistency in regulatory activity, and to share knowledge of the audit market environment and practical experience of independent audit regulatory activity. ACRA is a founding member of IFIAR, and its active involvement in IFIAR includes:

- (a) Member of IFIAR's Advisory Council<sup>20</sup> for a four-year term since April 2013;
- (b) Member of IFIAR's GAQ WG<sup>21</sup> since 2011; and
- (c) Member of IFIAR's IOS WG<sup>22</sup> since 2014.

<sup>17</sup> The number of inspections does not represent unique inspections and may include revisit inspections of the same public accountant.

<sup>18</sup> International Forum of Independent Audit Regulators.

<sup>19</sup> ASEAN Audit Regulators Group.

<sup>20</sup> The Advisory Council assists and advises the IFIAR Chair and Vice-chair on key organisational and governance matters of IFIAR. ACRA was first elected onto the Advisory Council for a two-year term from 2008 to 2010 and is now serving a second four-year term after being successfully elected in April 2013.

<sup>21</sup> Formerly known as the Global Public Policy Committee Working Group, the Global Audit Quality Working Group is responsible for co-ordinating IFIAR's ongoing dialogue with the GPPC audit firms on audit quality matters.

<sup>22</sup> The Investor and Other Stakeholders Working Group is responsible for organising IFIAR's dialogue with investor representatives and other stakeholders such as audit committees to raise awareness and seek feedback on audit quality issues.

- 2.20 In the past 10 years, IFIAR has not only grown in numbers, but has also stepped up engagement with the audit profession, strengthened capacity of its members and raised awareness on audit quality issues across other stakeholders. One of IFIAR's key initiatives has been its annual survey of inspection findings that aims to highlight common findings found globally by regulators and to measure changes in those findings.
- 2.21 IFIAR released its fourth annual survey of findings on 3 March 2016. The survey comprises findings from inspections of 35 IFIAR members including ACRA, focusing on the GPPC audit firms'<sup>23</sup> organisation-wide systems for quality control and their audits of public interest entities and systemically important financial institutions. Broadly consistent with prior years' surveys and ACRA's own inspections, findings were observed in the areas of **fair value measurement, internal controls testing and revenue recognition**. Section 4 further analyses the trends in themes of ACRA's inspection findings in the last 10 years.
- 2.22 In response to the persistent deficiencies noted from the survey, IFIAR had also, for the first time, issued a measurable target to reduce the levels of audit deficiencies. This initiative seeks to reduce the percentage of inspected audits of listed entity engagements with at least one finding performed by the GPPC audit firms, as reported by members of the GAQ WG, by at least 25% by 2019. Further details on this initiative can be found in Section 5.
- 2.23 Since 2012, IFIAR has also begun to propose changes to its governance structure as it prepares itself for more effective governance in view of its growing membership. In 2015, a new governing board structure was approved to replace the Officer-led structure (comprising IFIAR's Chair and Vice-chair). This is to allow for greater sharing of responsibilities and to enable decisions on key operational matters to be taken across a representative cross-section of the membership at Board level. In 2016, the membership also approved establishing IFIAR's permanent secretariat in Tokyo, Japan to provide dedicated resource and continuity on IFIAR's organisational matters. These changes are expected to be put in place in 2017.

### **ASEAN Audit Regulators Group**

- 2.24 Comprising ACRA, Malaysia's AOB<sup>24</sup>, Indonesia's PPPK<sup>25</sup> and Thailand's SEC<sup>26</sup>, the AARG is an informal co-operation group aimed at fostering closer collaboration among audit regulators to promote audit quality in the ASEAN region.

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<sup>23</sup> The GPPC audit firms comprise the firms from the following networks: BDO International Limited, Deloitte Touche Tohmatsu Limited, Ernst & Young Global Limited, Grant Thornton International Limited, KPMG International Cooperative and Pricewaterhouse Coopers International Limited.

<sup>24</sup> Audit Oversight Board.

<sup>25</sup> Finance Professions Supervisory Center.

<sup>26</sup> Securities and Exchange Commission.

2.25 The AARG's activities complement IFIAR's efforts to uphold the standards of audit quality by focusing on audit quality issues specific to this region. Some of the key initiatives are:

- (a) **Annual Inspection Workshops** – aimed at building capacity amongst AARG regulators and other regulators in the ASEAN region, topics discussed at these workshops include inspection developments, findings, best practices as well as emerging topics such as preparation for the inspections of the enhanced auditor's report. The 2016 workshop hosted by Indonesia's PPPK saw over 50 participants from 11 countries, including China and Japan. Representatives from the World Bank also shared insights about different regulatory models around the world to aid those in the process of establishing their audit regulatory regimes in this region.
- (b) **Annual Meetings** – these are meetings held with the regional leadership and international representatives from the Regulatory Working Group of the GPPC firms to discuss a variety of current and emerging topics affecting audit quality in the region. This year's meeting will be hosted by ACRA in Singapore on 26 August 2016. Such periodical dialogues with the firms are beneficial in achieving a collaborative approach towards addressing common audit quality challenges.
- (c) **Non-regulatory Initiatives** – the AARG has undertaken non-regulatory initiatives with the mission of raising audit quality and promoting the value of audit in this region. In 2013 and 2014, ACRA, AOB and the SEC commissioned a survey of audit staff across three markets so that firms can address talent-related issues that impact audit quality<sup>27</sup>. In 2014, following a discussion at the annual meeting with firms, ACRA commissioned a study of audit adjustments to measure the gap between the unaudited management accounts and the audited financial statements. The results not only directed ACRA to fix financial reporting issues upstream but also affirmed the value of an audit in ensuring that the final audited financial statements are reliable<sup>28</sup>.

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<sup>27</sup> The survey "Talent Attraction and Retention in Larger Accounting Firms" can be located at: [https://www.acra.gov.sg/uploadedFiles/Content/Public\\_Accountants/Professional\\_Resources/Conference\\_Materials/2012/TalentAttractionandRetentioninLargerAcctFirms.pdf](https://www.acra.gov.sg/uploadedFiles/Content/Public_Accountants/Professional_Resources/Conference_Materials/2012/TalentAttractionandRetentioninLargerAcctFirms.pdf)

<sup>28</sup> The survey "Audit Adjustments Matter: Upholding Financial Reporting Quality" can be located at: [https://www.acra.gov.sg/uploadedFiles/Content/Public\\_Accountants/Professional\\_Resources/Conference\\_Materials/2014/Audit%20Adjustments%20Matter\\_report.pdf](https://www.acra.gov.sg/uploadedFiles/Content/Public_Accountants/Professional_Resources/Conference_Materials/2014/Audit%20Adjustments%20Matter_report.pdf)

# SECTION 3: FIRM-LEVEL INSPECTIONS AND AUDIT QUALITY INDICATORS

## *Introduction*

- 3.1 An effective system of quality control is key to ensuring the consistent delivery of quality audits at the engagement-level. Recognising the higher public interest of listed company audits, ACRA has been carrying out firm-level inspections based on SSQC 1 to detect systemic risks in firms which engagement inspections may not reveal. As at 31 March 2016, about one-third of Singapore's public accountants practise in 16 firms that audit listed companies.
- 3.2 Since 2010, ACRA also started monitoring certain audit quality indicators or AQIs to complement its firm-level inspections. Such monitoring outside of onsite inspections enable ACRA to continually assess if policies and procedures established by firms have been effective in meeting the intended quality objectives in specific SSQC 1 elements. This also enables ACRA to take early actions when the AQIs raise red flags.
- 3.3 With its inspection experience, ACRA developed and introduced its AQI Disclosure Framework in October 2015, which comprises eight comparable quality markers that correlate closely with audit quality. The indicators are intended to encourage robust discussion about audit quality between audit committees and auditors.
- 3.4 This section will highlight the trends in selected AQIs based on periodic submissions made by the firms. ACRA has also disclosed its **expected targets** for some of these AQIs in this section. ACRA believes that these targets will spur firms towards the next milestone in achieving high quality audits. It will also better enable audit committees, the users of AQIs, to make sense of the AQI information provided by firms when deciding on auditor appointments.

## *Trends Observed from Firm-level Inspections and Selected AQI Targets*

- 3.5 Over the past decade, ACRA has seen **commendable improvements** and positive efforts from firms to enhance their systems of quality control and to remediate findings raised. Despite being advisory in nature, firms have taken ACRA's recommendations seriously and have gradually put in place policies and procedures to meet the requirements of SSQC 1. The aggregated data of some AQIs are also showing **positive trends**.

### ***Leadership and Tone at the Top – Clearer Linkage between Quality and Performance***

- 3.6 Most firms have paid heed to ACRA's repeated emphasis on the **importance of leadership and tone at the top** in driving quality within and throughout the firm. Over the years, firms, notably the Big-Four, have taken bold moves to establish compensation systems that gives sufficient weightage to quality elements in the public accountant's appraisal to ensure a **direct linkage between audit quality and overall performance**. A balanced consideration was given to a public accountant's results from internal and external reviews as well as independence testing, his/her effectiveness as an EQCR<sup>29</sup> partner and other areas such as the ability to retain staff that he directly supervises. However, in a few firms, ACRA noted that the linkages appeared weak and encourages these firms to do more to establish a clearer quality rating and compensation framework.
- 3.7 Firms have also taken other positive steps to demonstrate leadership's commitment to and focus on audit quality. For example, in non-Big-Four firms where there is an increasing trend of direct admission of audit partners, a **quality assessment framework** was developed to assess the competencies and quality attributes of these external candidates before admitting them into the partnership. ACRA further encourages these firms to maintain documentary evidence to support their assessment and decisions in accordance with the established framework.
- 3.8 Another positive trend is **an increase in headcount in the quality control functions** over the years, particularly in the non-Big-Four firms. Quality control functions typically comprise the technical, risk management, internal quality review and monitoring departments. This willingness to invest in and expand these resources is a reflection that the firm's leadership is serious about addressing audit quality issues and recognises the importance of these support functions in driving audit quality improvements.

### ***Human Resources – Better Retention of Audit Talent***

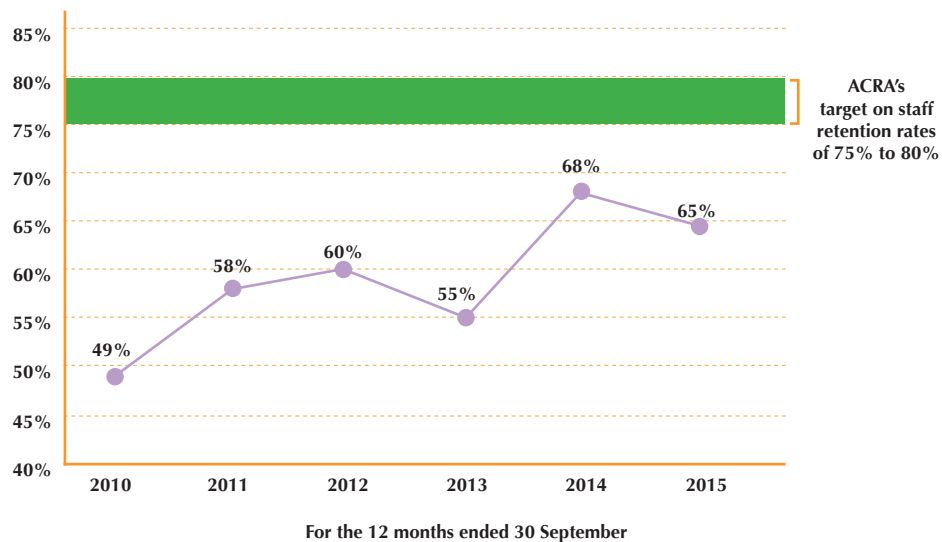
- 3.9 Carrying out a high quality and effective audit requires a deep understanding of the entity which takes time for staff to build up and accumulate. Poor staff retention results in a loss of knowledge and experience and may impair the firm's ability to identify and address audit and accounting issues effectively. Therefore, every staff retained adds on to the firm's knowledge and experience base. From its inspection experience, ACRA considers a **staff retention rate of 75% to 80%** to be a reasonable target that would sufficiently retain, within the firm, the knowledge and experience necessary to execute quality audits.

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<sup>29</sup> Engagement Quality Control Review.

3.10 In this regard, ACRA is heartened to note that firms appear to be gradually arresting the perennial issue of **talent retention** as seen from an **increasing trend in average staff retention rates** from 2010 to 2015 in Figure 5. It is worth mentioning that one firm managed to consistently maintain a healthy retention rate of more than 75% in the last three years. Considering the difficulty in implementing effective staff retention initiatives, this is encouraging and a testament to the efforts put in by firms over the years.

**Figure 5: Average staff retention rates of firms in the listed companies segment from 2010 to 2015**



3.11 One key initiative strongly valued by staff is on-the-job coaching as this greatly enhances their learning curve and deepens their job satisfaction. ACRA noted that most firms have recognised its importance and have taken various steps to promote coaching by public accountants and their audit managers by requiring them to perform on-site reviews instead of last minute desk-top reviews back in the office. Some firms are also recognising individual contributions and showing more personalised appreciation for their staff beyond monetary benefits. However, as these initiatives become the new norm, firms that are able to develop more innovative staff retention strategies will continue to be differentiated competitively.

### Engagement Performance – Need to Increase Capacity for Supervision of Junior Auditors

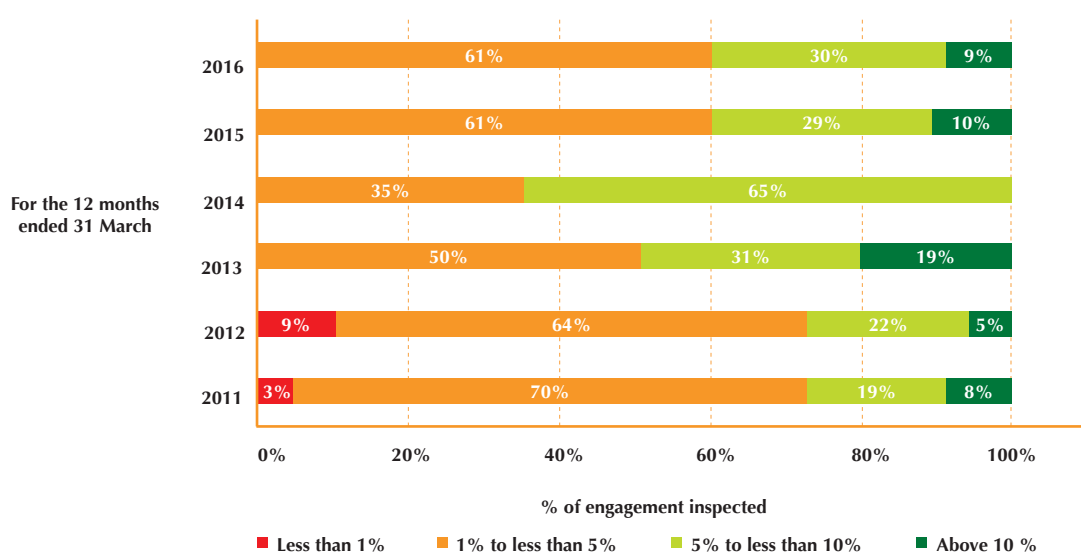
3.12 In the early years of the PMP, ACRA found that engagement partners and EQCR partners were not spending enough time in reviewing and supervising audits. In some cases, engagement partners recorded less than 1% of the total audit hours and EQCR partners recorded only a few hours. This caused ACRA to raise serious concerns especially on inspections of high-risk listed company audits.

3.13 Hence, ACRA has been communicating its expectations on the involvement of senior auditors as follows:

- (a) Engagement partner to spend at least **5% of total engagement hours for an engagement with normal risk rating and 10% for an engagement of higher risk rating** (since 2012);
- (b) Engagement partner and manager to collectively spend at least **20% of total engagement hours** (since 2015); and
- (c) EQCR partner to spend at least **13 hours**<sup>30</sup> on an engagement (since 2011).

3.14 Over the years, **engagement partners and managers have been spending more time on their engagements**. As shown in Figure 6, the proportion of inspected audits that met ACRA's expected engagement partner involvement increased from 27% (in 2011) to 39% (in 2016).

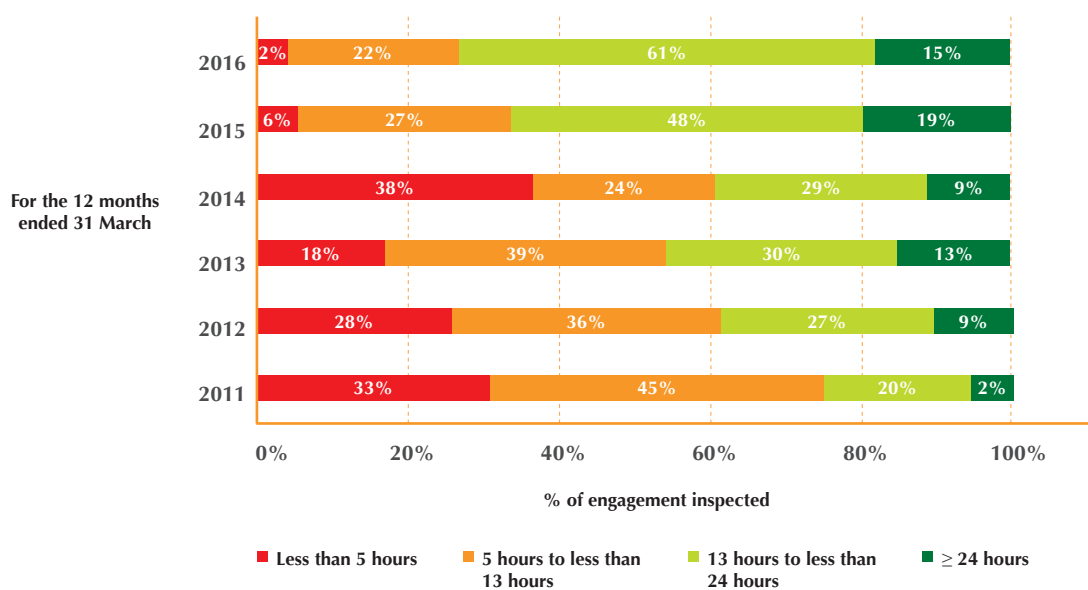
**Figure 6: Time recorded by engagement partners in the listed companies segment from 2011 to 2016**



<sup>30</sup> Based on an activity-based estimate in ACRA's Audit Practice Bulletin No. 1 of 2011 Engagement Quality Control Review which can be located at: [https://www.acra.gov.sg/uploadedFiles/Content/Publications/Audit\\_Practice\\_Bulletin/2011\\_AuditPracticeBulletinNo1of2011\\_16Sep2011.pdf](https://www.acra.gov.sg/uploadedFiles/Content/Publications/Audit_Practice_Bulletin/2011_AuditPracticeBulletinNo1of2011_16Sep2011.pdf)

- 3.15 Since 2015, ACRA also started analysing the collective involvement of the engagement partner and manager. ACRA noted an improvement in 2016 where 28% of engagements inspected had collective hours exceeding 20% of total engagement hours compared to 19% in 2015.
- 3.16 For the **involvement of EQCR partners**, ACRA also noted a **significant improvement** based on the minimum threshold of 13 hours. Based on Figure 7, the proportion of engagements with at least 13 hours of EQCR partner involvement has increased from 22% to 76% in the last six years. This reflects the firms' recognition of EQCR as a critical and value-adding function that provides an independent oversight to ensure the quality of audits. We continue to urge EQCR partners to be effective in their role to improve audit quality and challenge engagement partners on the audit procedures performed particularly those pertaining to significant management estimates and judgments.

**Figure 7: Time recorded by EQCR partners in the listed companies segment from 2011 to 2016**



- 3.17 Notwithstanding a general improvement in the number of hours spent by engagement partners, managers and EQCR partners, ACRA believes that **more can be done to raise the level of involvement particularly for engagement partners**. A public accountant acting as an engagement partner is ultimately the person responsible for the overall audit and the audit opinion issued. No other persons (including designated coaches) can substitute for the time that the public accountant needs to personally dedicate to an audit.



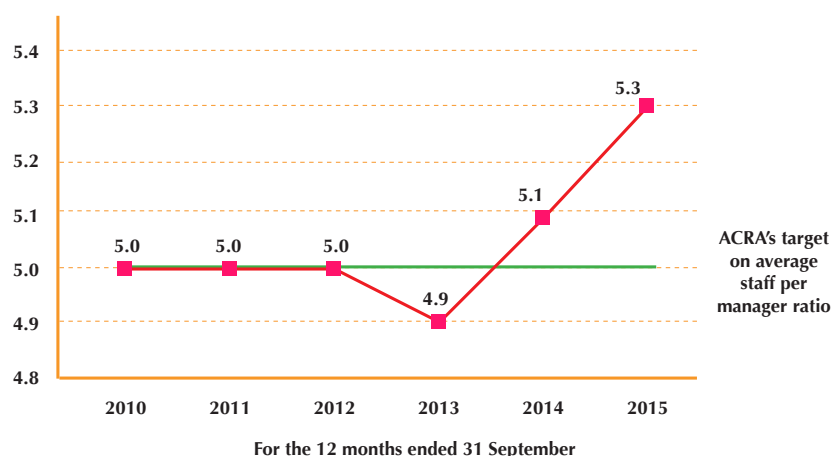
3.18 The level of involvement that can be afforded by engagement partners is closely intertwined with two key firm-level AQIs, namely the staff leverage model and the portfolio allocation in terms of the complexity and number of clients. It is therefore imperative for the firms' policies and procedures to support deeper and timelier engagement partner involvement. In this regard, ACRA considers the following to be healthy leverage ratios and portfolio sizes:

- (a) **Staff per manager ratio of less than 5;**
- (b) **Staff per partner ratio of less than 15;** and
- (c) A public accountant's portfolio **should not have more than 5 listed company audits with the same financial year-ends**, unless supported by other partner-level resources.

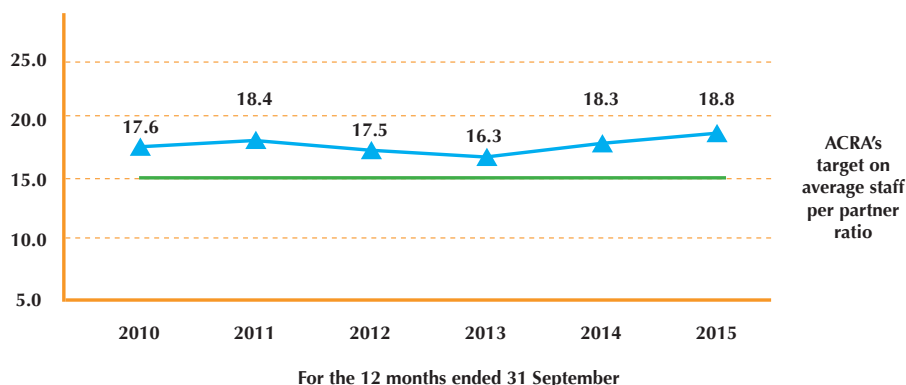
3.19 The staff per partner ratio is correlated to the earlier AQI of engagement partner time spent (paragraph 3.13). Hence the staff per partner ratio target is set at less than 15 as that will allow a partner to spend at least 5% of the total audit hours in supervising his/her audit team.

3.20 Figures 8 and 9 show that the **staff leverage ratios have been generally stable** in the last six years with the average staff per manager ratio within a range of 4.9 to 5.3 while the average staff per partner ratio was between 16.3 and 18.8. ACRA acknowledges the efforts firms have put in over the years to monitor and maintain these ratios such as upfront planning for its resource needs and having proper recruitment and promotion strategies.

**Figure 8: Average staff per manager ratios of firms in the listed companies segment from 2010 to 2015**



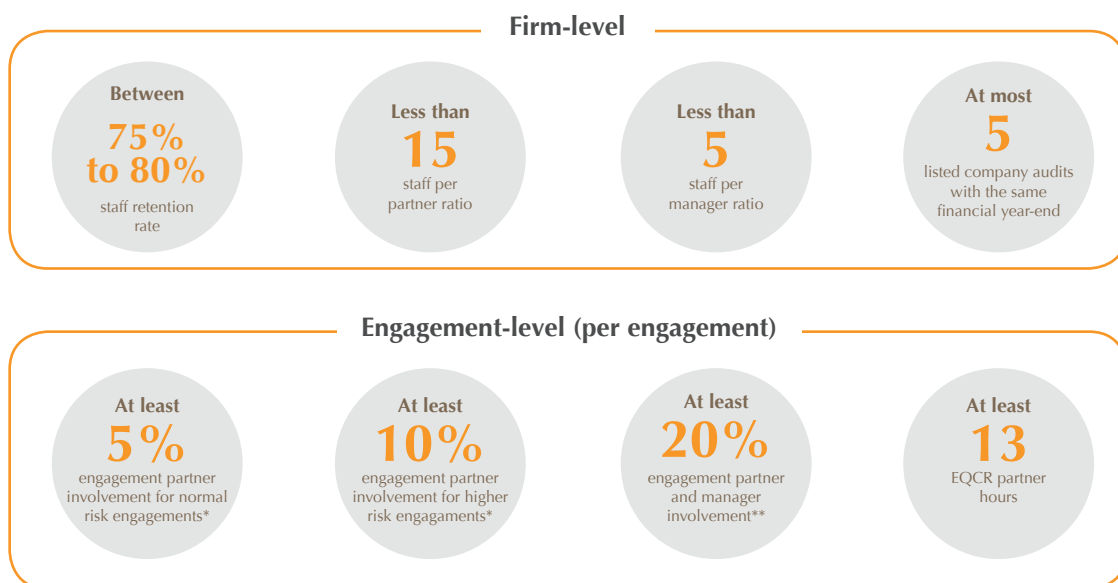
**Figure 9: Average staff per partner ratios of firms in the listed companies segment from 2010 to 2015**



3.21 Figure 10 provides a summary of **ACRA's targets** with respect to each AQI discussed in the preceding paragraphs. ACRA recognises the inter-dependency of these AQIs and understands that many factors, such as the firm's operating models and staffing strategies, interplay to influence the final AQI. **ACRA stresses that these targets are provided as guidance only and cannot and should not be interpreted in isolation without a deeper analysis of the underlying contextual factors.** Notwithstanding this, ACRA believes that these targets will help firms and public accountants to know what they should strive to maintain or exceed.

3.22 Having received market feedback, these targets will also be useful in enhancing the audit committees' understanding of the AQI data provided by firms and facilitate more meaningful audit quality conversations.

**Figure 10: ACRA's targets for selected AQIs**



\* Engagement partner hours over total engagement hours

\*\* Engagement partner and manager hours over total engagement hours

## *Post 2014 PMP Reform: ACRA's Focus on Firms' Internal Monitoring Systems*

- 3.23 Moving away from AQIs, ACRA would like to discuss inspection findings relating to the element of monitoring under SSQC 1, which has been one of ACRA's focus in the last two inspection cycles.
- 3.24 Monitoring is a fundamental element that cuts across the first five areas of the firm's system of quality control but its importance may have been overlooked by firms that view it as a mere compliance mechanism. Strong monitoring controls in each of the five elements are essential to help firms achieve the following:
- (a) Ensure that the necessary policies and procedures are in place;
  - (b) Determine if the policies and procedures are operating effectively; and
  - (c) Where lapses have occurred, ensure that appropriate actions are taken to rectify and remediate.
- 3.25 Following the 2014 PMP reform, the operating effectiveness of a firm's policies and procedures will impact the firm's risk rating which further affects the frequency and intensity of ACRA's subsequent inspections. Where proven to be effective, ACRA will also seek to rely on the firm's own monitoring mechanism and this will lessen the inspection burden on the firm.
- 3.26 In the 2015 and 2016 inspections, ACRA's findings on the firms' monitoring policies and procedures were generally in two categories:
- Category 1:** Monitoring controls were in place and operating effectively, but inappropriate follow-up actions were taken to address the lapses identified.
- Category 2:** Monitoring controls were in place but not operating effectively such that lapses were not identified.
- 3.27 Findings in Category 1 reflect the seriousness in which firms consider lapses. For example, ACRA noted recurrence of findings on archival in most firms which were identified by the firms' internal monitoring system. However, in some instances, firms merely sent reminder emails to the engagement partners in default with no further actions taken. Such inconsequential follow-up actions taken by firms would not send a strong signal on the importance of timely archival and partners are likely to remain nonchalant about this issue.

- 3.28 It is important for firms to take appropriate actions to drive the right behaviour and firms should revisit the effectiveness of actions taken when lapses are identified. In one firm, a strong tone at the top was set when archival deficiencies were considered in a partner's performance appraisal. This may be considered harsh but the deterrent policy was proven effective in that firm.
- 3.29 ACRA is **also concerned** that observations in Category 2 occurred in some firms where the monitoring systems were previously assessed by the firms to be effective. It appears to ACRA that over time, certain monitoring policies and procedures became perfunctory and no longer met their intended quality objectives. This suggests that firms may have lacked diligence in executing and following through with monitoring and compliance procedures which can lead to serious consequences in the long run. ACRA urges all firms to constantly revisit their monitoring policies and procedures for continued relevance and operating effectiveness and should not become complacent over time.
- 3.30 To enable a better appreciation of ACRA's observations in Category 2, the following lists some examples of ineffective monitoring controls with respect to ethics and independence:
- (a) **Ineffective frequency** of monitoring process – Firms generally have a process to monitor the relative fees of audit and non-audit services in compliance with SG290.219A<sup>31</sup> of the Code<sup>32</sup>. ACRA noted that in some firms, this monitoring mechanism takes place only annually and would not have detected, on a timely basis, situations when the 50% threshold is being crossed due to non-audit services provided during the year.
  - (b) **Ineffective sampling** for compliance testing – Firms generally have in place a process to monitor overdue debts for compliance with section 290.220<sup>33</sup> of the Code. In some firms' compliance testing, ACRA noted that the samples tested were immaterial whereas debts of large amounts were not selected for testing.
- 3.31 These examples show that firms need to revisit the design and effectiveness of their monitoring policies and procedures and develop a risk-based compliance testing approach to ensure that the underlying objectives are met. It is especially important for a firm's monitoring system to be able to identify exceptions on a timely basis especially relating to potential breaches of independence rules which carry serious consequences.

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<sup>31</sup> SG290.219A states that "Where an audit client is a listed entity or a public company and the amount of annual fees received for non-audit services compared to the total annual audit fees from the audit client is 50% or more, the firm shall disclose to those charged with governance of the audit client the fact that the total of such fees represent 50% or more of the total annual audit fees received by the firm and discuss the safeguards it will apply to reduce the threat to an acceptable level. Examples of safeguards that could be considered and applied include (a) Independent internal or external quality control reviews of the engagement; and (b) Consulting a third party, such as a professional regulatory body or other professional accountant, on key audit judgments."

<sup>32</sup> Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities.

<sup>33</sup> Section 290.220 of the Code states that "A self-interest threat may be created if fees due from an audit client remained unpaid for a long time, especially if a significant part is not paid before the issue of the audit report for the following year. Generally the firm is expected to require payment of such fees before such audit report is issued."

3.32 To this end, ACRA stresses that it has **zero tolerance for independence breaches** and would not condone a failure by firms to identify lapses and take appropriate actions internally. Firms should also take note of upcoming developments and changes to their ethical and independence obligations so as to ensure that new policies and procedures are established to address those changes. For example, ACRA noted that some firms were not fully prepared for the implementation of EP 200<sup>34</sup> when it became mandatory from 1 May 2015. As discussed in Section 6, the Code will soon be revised to tighten the requirements with respect to the provision of non-audit services to audit clients. Firms should take note of and be prepared for these changes.

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<sup>34</sup> Ethics Pronouncement 200 on “Anti-Money Laundering and Countering the Financing of Terrorism – Requirements and Guidelines for Professional Accountants in Singapore” which can be located at: <http://isca.org.sg/media/775622/ep-200.pdf>

# SECTION 4: TRENDS IN ENGAGEMENT INSPECTION FINDINGS

## *Introduction*

- 4.1 All public accountants in Singapore are statutorily subjected to engagement inspections under ACRA's PMP, which assesses whether audits performed by public accountants comply with the requirements of the SSAs. An inspection finding is raised when there has been non-compliance. Such non-compliance can either be a deficiency in audit procedure or an inappropriate professional judgement applied by the public accountant.
- 4.2 It is **important to note** that an inspection addresses the procedures performed by the auditor. An inspection finding **does not necessarily mean that the financial statements were misstated**. An inspection finding alone also **does not necessarily mean an audit failure** i.e. the audit opinion was wrong or not supported by sufficient appropriate audit evidence.

## *Trends in Engagements with Inspection Findings and Audit Quality*

- 4.3 In line with the IFIAR GAQ WG's initiative to reduce the percentage of inspected audits of listed entity engagements with at least one inspection finding discussed in Sections 2 and 5, ACRA started monitoring the same measure since 2015 for both the listed companies and non-listed companies segments. Although IFIAR's initiative is targeted at audits of listed entity engagements, ACRA believes that there should be a **consistent measure of improvements in audit quality for all public accountants in Singapore**.
- 4.4 ACRA recognises that the frequency of inspection findings is not the sole measure of progress in audit quality. However, inspection findings are raised as the public accountant's audit has not met the expected level of diligence required by professional standards to satisfy the public interest role the audit is meant to fulfil. Therefore, trends in inspection findings provide a meaningful indication of the profession's progress over time toward greater improvement in audit quality.
- 4.5 ACRA noted **commendable improvement in the listed companies segment** where there was a 27% reduction in the percentage of inspected audit engagements inspected with at least one finding in 2016 compared to 2015.

- 4.6 In contrast, public accountants in the non-listed companies segment require significant improvement as there was no improvement in the same measure in 2016 compared to 2015. Notwithstanding that the audits in this segment are non-listed companies and may have lesser public interest exposure, ACRA is still concerned with the recurrence and high proportion of engagements with inspection findings.

### ***Analysis of 10-year Trends of Inspection Findings by Common Themes from 2007 to 2016***

- 4.7 To focus the profession on areas of improvement, ACRA is presenting an analysis of inspection findings by common themes in this 10<sup>th</sup> Public Report. The trending by themes will provide useful insights such as a recurring theme that needs urgent remediation or an emerging theme that public accountants should be alerted to.
- 4.8 The trends are analysed separately for the listed companies and non-listed companies segments given the different nature and complexity of engagements selected for inspections. Figures 11 and 12 show the 10-year trends for the two segments based on 13 themes which are broadly adopted from the same themes reported in the IFIAR annual survey of inspection findings (refer to Section 2 for further details). Using similar themes will in turn allow for the benchmarking of Singapore's inspection results with other IFIAR audit regulators internationally.
- 4.9 To ensure that each finding is only categorised under one theme, findings that could possibly fall under two themes e.g. a valuation issue in a group audit situation will be placed under the more "dominant" theme, in this case "group audits" rather than "accounting estimates, including fair value measurement". Annex 1 provides a brief description of the key findings that would generally be included in each of the 13 themes.

Figure 11: Inspection findings by common themes in the listed companies segment from 2007 to 2016

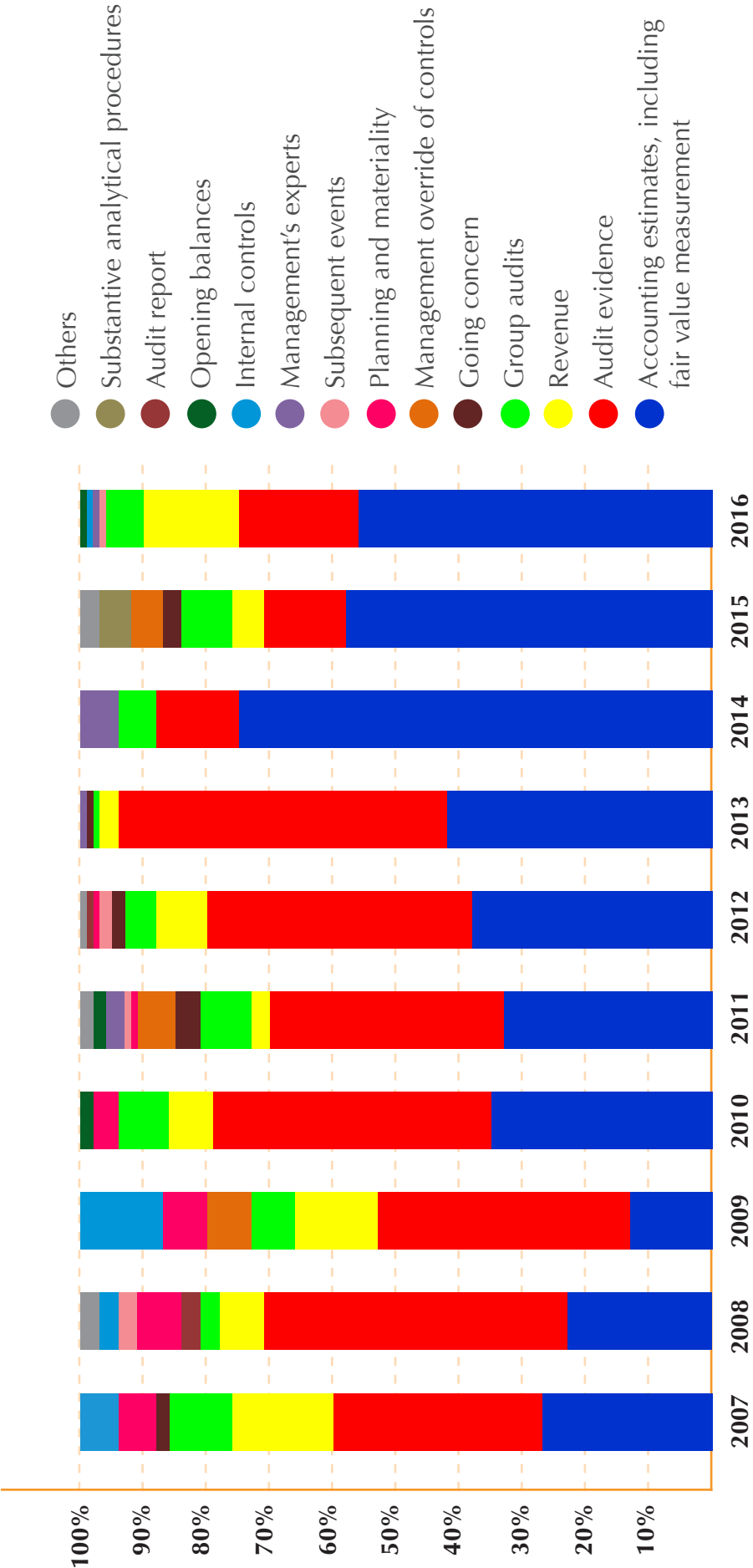
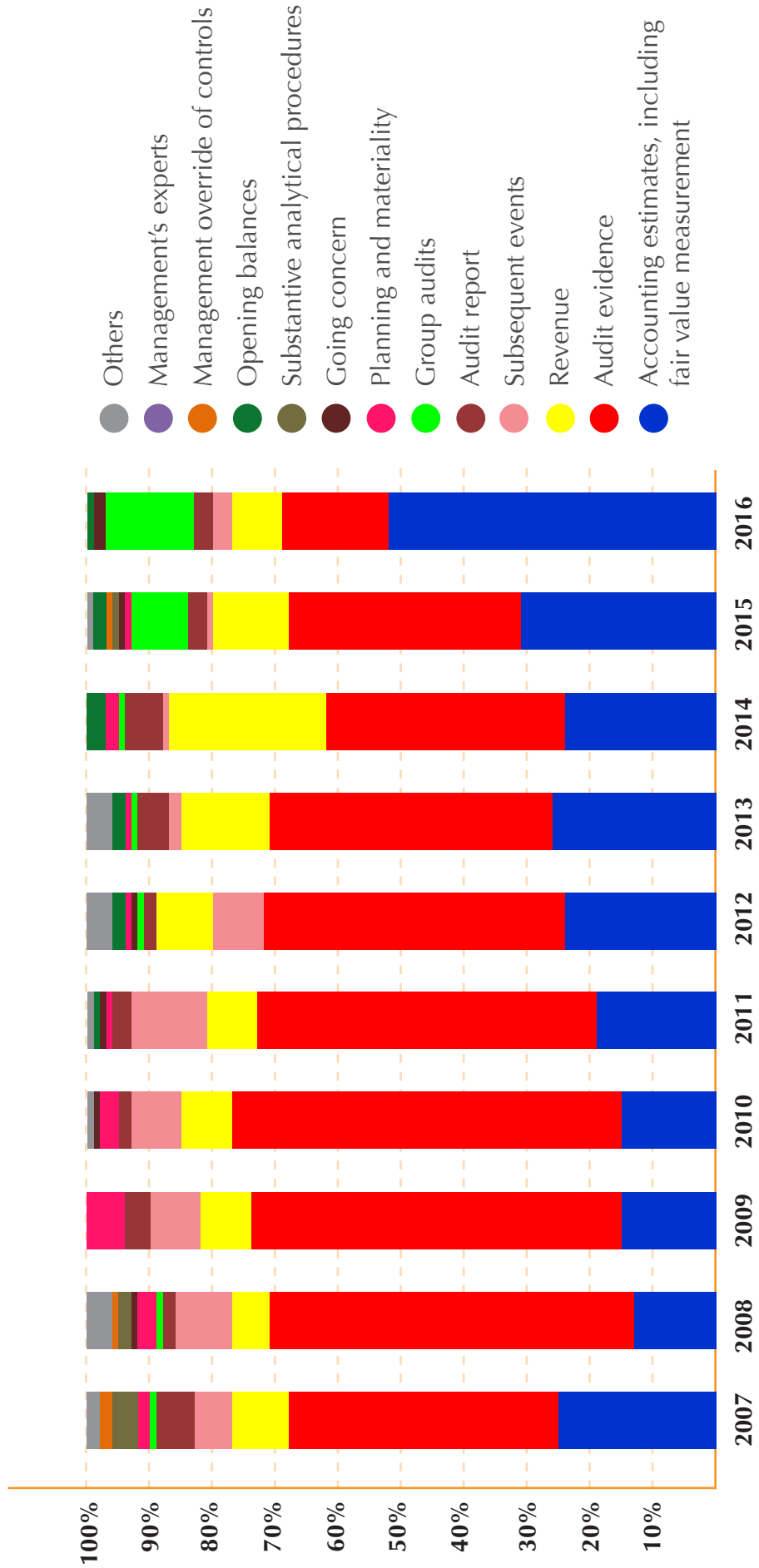




Figure 12: Inspection findings by common themes in the non-listed companies segment from 2007 to 2016



4.10 Notably, the **top themes** in both segments do not differ and are as follows:

- (a) Accounting estimates, including fair value measurement;
- (b) Audit evidence;
- (c) Revenue; and
- (d) Group audits.

4.11 Over 80% of the inspection findings in the past decade fell within these top four themes. The following paragraphs further discuss the nature of the audit deficiencies in each of the four themes. The discussion seeks to highlight the trends in key audit deficiencies and is not intended to provide a comprehensive list of all inspection findings over the last 10 years. Public accountants may refer to past PMP Public Reports<sup>35</sup> which discussed inspection findings at length, with case studies and illustrative examples featured in the more recent reports.

### ***Theme One: Accounting Estimates, Including Fair Value Measurement***

4.12 The prevalence of this theme was more significant in the listed companies segment. This was expected given the higher complexity of business transactions and accounting issues in listed companies. ACRA noted that the audit deficiencies in this area generally resulted from a **failure to**:

- (a) Sufficiently test and challenge **underlying assumptions** used by management; and
- (b) Sufficiently test the **accuracy of data** used.

4.13 These deficiencies were also noted where **management's experts** were involved in obtaining audit evidence on accounting estimates and fair value measurements. Public accountants did not test the underlying data used by experts and did not evaluate the adequacy of the expert's work as required by SSA 500 *Audit Evidence*<sup>36</sup> before placing reliance.

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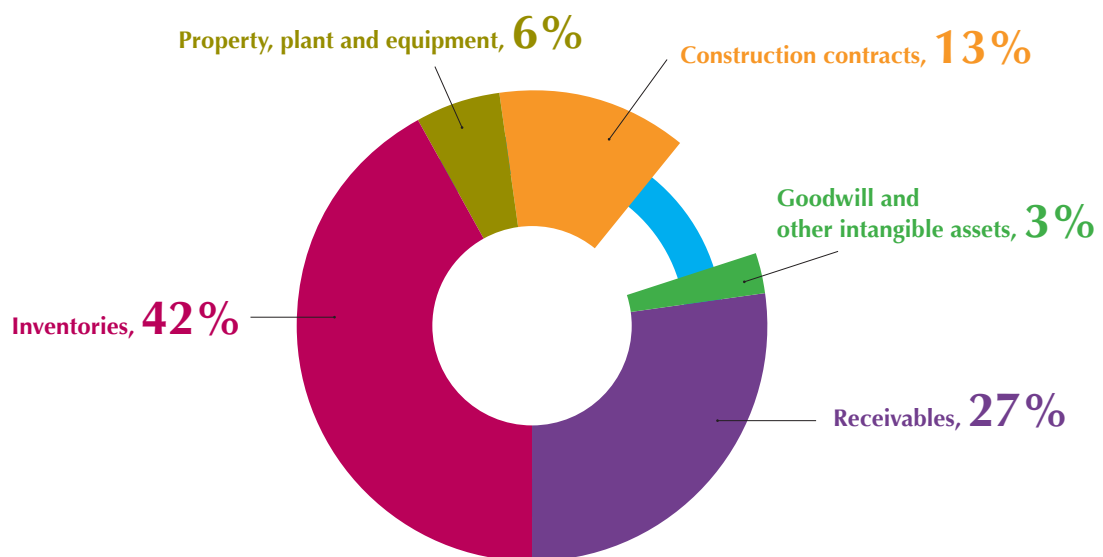
<sup>35</sup> Practice Monitoring Programme public reports are available at: [https://www.acra.gov.sg/Publications/Reports/Practice\\_Monitoring\\_Programme\\_Public\\_Reports/](https://www.acra.gov.sg/Publications/Reports/Practice_Monitoring_Programme_Public_Reports/)

<sup>36</sup> SSA 500.8 states that "If information to be used as audit evidence has been prepared using the work of a management's expert, the auditor shall, to the extent necessary, having regard to the significance of that expert's work for the auditor's purposes: (a) Evaluate the competence, capabilities and objectivity of that expert; (b) Obtain an understanding of the work of that expert; and (c) Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion."

4.14 An analysis of the financial statement line items revealed that the following line items contributed approximately 90% of the inspection findings in this theme, as shown in Figure 13:

- (a) Inventories;
- (b) Receivables;
- (c) Construction contracts;
- (d) Property, plant and equipment; and
- (e) Goodwill and other intangible assets.

**Figure 13: Top financial statement line items in the theme of “Accounting Estimates, Including Fair Value Measurement” in the listed and non-listed companies segments**



4.15 For goodwill, other intangible assets and property, plant and equipment, ACRA noted that public accountants continue to **face challenges in auditing the discounted cash flow model (DCF)**, which is commonly used by management to determine the recoverable amount of an asset for impairment purpose. In particular, public accountants often failed to adequately assess the reasonableness of inputs, variables and assumptions used by management such as the DCF period, growth rates and success rates of new products/projects, and terminal values.

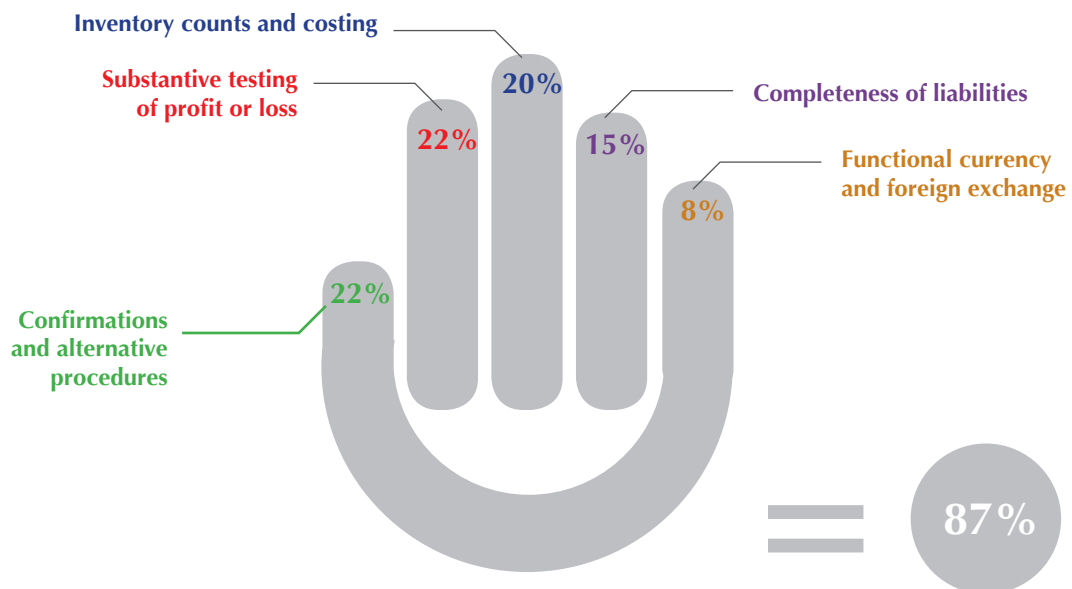
4.16 In the area of inventories, public accountants **failed to independently challenge the reasonableness of allowance for inventory obsolescence** based on their understanding of the entity’s business. In the non-listed companies segment, it was often noted that public accountants would merely re-compute the inventory obsolescence recorded by management and rely on management’s representation with no further corroboration.

- 4.17 The inspection findings on receivables were more prevalent in the non-listed companies segment. Public accountants **do not perform any audit work to test the recoverability of receivables**, which includes testing subsequent receipts from the customer.
- 4.18 Inspection findings in the area of construction contracts is of concern to ACRA, particularly in the non-listed companies segment where there is an upward trend in recent years. Public accountants in this segment still appear to be have **difficulties grappling with the requirements of SFRS 11 Construction Contracts and continue to fall short in auditing management’s assumptions and estimates** in the following aspects:
- (a) Stage of completion of contracts, for example relying on the valuation report of management’s experts to determine the value of work performed to-date without independent corroborative evidence;
  - (b) Management’s budgeted costs, estimated costs-to-complete and completeness of contract costs and liabilities to be recorded;
  - (c) Provisions for foreseeable losses; and
  - (d) Provisions for liquidated damages.
- 4.19 *SSA 540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* requires public accountants to obtain sufficient appropriate audit evidence about whether accounting estimates, including fair value estimates, in the financial statements are reasonable.
- 4.20 To enable a more effective and robust challenge of management’s estimates and assumptions, public accountants may want to consider engaging their own auditor’s experts. Whilst it is not a requirement to do so, public accountants should determine the need for an auditor’s expert appropriately, considering whether the engagement team has the competence and capabilities to obtain sufficient appropriate audit evidence without an auditor’s expert. This decision should not be influenced by commercial reasons such as cost considerations.
- 4.21 ACRA urges all public accountants to heighten their professional scepticism and exercise appropriate professional judgement when carrying out audit procedures in this theme of inspection findings.

## ***Theme Two: Audit Evidence***

- 4.22 This theme can be essentially viewed as the “catch-all” category which would include inspection findings related to procedures carried out to gather audit evidence on the existence, completeness and other non-valuation related assertions of a wide range of account balances and transactions. These findings may include deficiencies in the execution of substantive procedures, omissions of key audit procedures and failure to assess the appropriateness of management’s accounting policies and treatments.
- 4.23 For the avoidance of doubt, this theme excludes deficiencies related to:
- (a) Auditing revenue, which would be categorised under “revenue”; and
  - (b) Gathering audit evidence related to the valuation assertion, which would be categorised under “accounting estimates, including fair value measurement”.
- 4.24 Notably, since the 2014 PMP reform which moved away from a cover-to-cover approach, there has been a marked decrease in findings in this theme which tended to be non-systemic in the past, especially in the listed companies segment. ACRA also noted the prevalence of this theme was more significant in the non-listed companies segment as public accountants in this segment often do not involve themselves upfront during the audit planning and take time to fully understand the client’s business and current year’s risks.
- 4.25 For a more meaningful analysis of the nature of these findings, ACRA identified the common categories that contributed over 80% to the inspection findings in this theme:
- (a) Confirmations and alternative procedures;
  - (b) Substantive testing of profit or loss;
  - (c) Inventory counts and costing;
  - (d) Completeness of liabilities; and
  - (e) Functional currency and foreign exchange.

Figure 14: Top categories in the theme of “Audit Evidence” in the listed and non-listed companies segments



- 4.26 For the listed companies segment, ACRA noted that over the years, the nature of inspection findings in this theme has evolved to issues in **more complex areas rather than omissions of basic audit procedures**. For example, in auditing the completeness of liabilities, findings on search for unrecorded liabilities, such as the scope of testing, have decreased over time and have progressed to more complicated areas such as testing accruals for project costs and warranties.
- 4.27 ACRA noted that the nature of inspection findings in the non-listed companies segment has generally **improved from a state of “no work performed” to having “some audit procedures performed”**. However, the audit evidence gathered may still be insufficient and/or inappropriate. Therefore, public accountants in this segment need to put in more effort to at least ensure that basic audit procedures are performed to properly address the risks of material misstatements identified.
- 4.28 Figure 15 summarises some of the common inspection findings that are still seen in the non-listed companies segment in the main categories listed in paragraph 4.25. Public accountants should pay attention to these areas and address these “low-hanging fruits” so that they can devote their attention to more complex auditing procedures.

**Figure 15: Common inspection findings in the theme of “Audit Evidence” in the non-listed companies segment**

Category	Common inspection findings
Confirmations and alternative procedures	<p>Pertain to the use of <b>external confirmations</b> to address the <b>existence</b> and/or <b>completeness</b> of financial statement line items such as cash, receivables, inventories and payables. Audit deficiencies in this area relate to non-compliance with SSA 505 <i>External Confirmations</i> such as:</p> <ul style="list-style-type: none"> <li>• Failure to circularise when necessary.</li> <li>• Failure to maintain control over the confirmation process.</li> <li>• Insufficient alternative procedures performed when confirmation replies are not received.</li> <li>• Insufficient work performed to test reconciliation between confirmation replies and accounting records.</li> <li>• Lack of authentication of faxed confirmation replies.</li> </ul>
Substantive testing of profit or loss	<p>Pertain to testing the <b>occurrence and cut-off</b> of material profit or loss items such as:</p> <ul style="list-style-type: none"> <li>• Failure to test material items such as purchases, rental, freight, payroll, depreciation.</li> <li>• Inappropriate testing of purchases cut-off. For example, work was done to vouch to payments post financial year-end and hence not addressing the cut-off assertion.</li> </ul>
Inventory counts and costing	<p>Pertain to testing the <b>existence of inventories</b> and <b>accuracy of cost</b> such as:</p> <ul style="list-style-type: none"> <li>• Failure to reconcile differences between the inventory counts and accounting records.</li> <li>• Failure to test inventory movements between date of inventory count and year-end date (roll-forward or roll-backward procedures).</li> <li>• Inadequate procedures to verify the existence of Goods-In-Transit and inventories at third party locations (including inventories on consignment or at overseas locations).</li> <li>• Inadequate procedures to test weighted average costing of inventories.</li> </ul>
Completeness of liabilities	<p>Pertain to testing the <b>completeness of payables</b> such as insufficient work done to test unpaid supplier’s invoices and inadequate scope when performing search for unrecorded liabilities.</p>
Functional currency and foreign exchange	<p>Pertain to the failure to assess the company’s compliance with SFRS 21 <i>The Effects of Changes in Foreign Exchange Rates</i> such as:</p> <ul style="list-style-type: none"> <li>• Failure to assess the appropriateness of the company’s functional currency.</li> <li>• Failure to assess the appropriateness of the company’s translation of foreign currency balances and transactions.</li> </ul>

### **Theme Three: Revenue**

- 4.29 Findings in “revenue” were generally due to a **failure to:**
- (a) Sufficiently **understand the terms and conditions of contracts** with customers; and
  - (b) Appropriately **assess and respond to the presumed fraud risk** in revenue recognition, particularly in the substantive audit procedures designed and performed.
- 4.30 ACRA noted that public accountants continue to be **challenged in assessing the appropriateness of the entity’s revenue recognition policies**, particularly for new business models and commercial arrangements which have become increasingly complex and creative. Public accountants often **lacked a proper understanding of the business and failed to critically analyse the entity’s contracts with their customers**.
- 4.31 There may be multiple performance obligations included in a contract that may result in different revenue recognition policies, thereby requiring different audit procedures to be performed for each revenue stream. There was also inadequate assessment of whether the entity was a principal or agent in a contract which would impact the recognition of revenue on a gross or net basis.
- 4.32 ACRA noted that the prevalence of this theme was slightly more significant in the non-listed companies segment as public accountants in this segment also fall short in executing basic audit procedures such as test of details. For example, the **terms of trade were often not considered** in determining when risk and rewards were passed from the entity to its customer, particularly for overseas sales.
- 4.33 Following the 2014 PMP reform which focuses on significant risks, there is an upward trend of “revenue” related findings in the listed companies segment as shown in Figure 11. ACRA noted that public accountants in the **non-listed companies segment** also increasingly perform more audits of entities with less straight-forward revenue recognition policies. In view of IFRS 15 *Revenue from Contracts with Customers* coming into effect in 2018 (refer to Section 6 for further details), public accountants in both segments are urged to equip themselves with the requisite knowledge of the business and the new revenue standard and work towards reducing findings in this area.



- 4.34 Whilst there are generally **less basic findings related to substantive audit procedures performed and “vouching” deficiencies** over the years, ACRA wishes to highlight some of the more common audit deficiencies for public accountants to take note of:
- (a) Failure to trace sales transactions to source documents;
  - (b) Inadequate work done on credit notes and sales rebates;
  - (c) Inappropriate design and application of “dual purpose test” (being a combination of manual test of controls and substantive procedures) resulting in an ineffective testing; and
  - (d) Misconception that analytical reviews are the same as substantive analytical procedures.
- 4.35 Revenue is a presumed fraud risk under SSA 240 *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*<sup>37</sup>. In order to design effective substantive procedures, it is important for public accountants to consider which types of revenue, transactions or assertions present heightened fraud risks, including obtaining an understanding of the entity’s related controls, including control activities<sup>38</sup>. Whilst public accountants in the listed companies segment are generally more disciplined in carrying out this step, greater improvement is needed for those in the non-listed companies segment.

#### **Theme Four: Group Audits**

- 4.36 With businesses increasing in scale and diversity, group audits have inevitably become a norm especially for public accountants in the listed companies segment, which tend to have larger and multi-national audit entities. This explains the prominence of findings related to SSA 600 *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* in this segment relative to the non-listed companies segment. However, there is an increasing trend of group audit findings in the most recent inspection cycles as public accountants in the non-listed segment take on larger engagements.

<sup>37</sup> SSA 240.26 states that “When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks. [SSA 240.47] specifies the documentation required when the auditor concludes that the presumption is not applicable in the circumstances of the engagement and, accordingly, has not identified revenue recognition as a risk of material misstatement due to fraud”.

<sup>38</sup> SSA 240.27 states that “The auditor shall treat those assessed risks of material misstatement due to fraud as significant risks and accordingly, to the extent not already done so, the auditor shall obtain an understanding of the entity’s related controls, including control activities, relevant to such risks.”

- 4.37 Generally, public accountants in both segments **continue to face challenges in assessing the adequacy of the component auditor's work and in demonstrating their involvement as a group engagement partner.**
- 4.38 In the listed companies segment, the findings were often due to **inadequate audit evidence retained in the group audit working papers** on the extent of testing performed by the component auditors on significant risks or areas of management's judgement or estimates.
- 4.39 The findings were more severe in the non-listed companies segment where public accountants tend to **solely rely on the component auditor's opinion and checklists** without further understanding and challenging the work done by the component auditors. Often, the public accountants did not review the working papers of the component auditors and failed to demonstrate their involvement in the audit as the group engagement partner.
- 4.40 Public accountants should ensure that there is sufficient audit evidence on the work done by the component auditors reported through the Summary Memorandum or supplemented by documentation of the group engagement team's review of the component auditors' audit working papers. Email communications should also be archived where it serves as necessary and relevant audit evidence in support of the work done by component auditors.
- 4.41 Public accountants should also refer to ACRA's Audit Practice Bulletin No. 1 of 2015<sup>39</sup> which provides guidance and clarity on the audit procedures necessary prior to placing reliance on the work performed by component auditors, and the level of rigour and professional scepticism expected of a public accountant in his role as the group engagement partner. Illustrative examples have also been included in the bulletin which public accountants may find useful.

### ***Achieving High Quality Audits - Risk Assessment and Audit Documentation***

- 4.42 Arising from ACRA's decade of inspection experience, ACRA would like to remind public accountants that conducting a **robust risk assessment** as well as ensuring **adequate audit documentation** are essential elements in achieving a quality audit.

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<sup>39</sup> ACRA's Audit Practice Bulletin No. 1 of 2015 *Audits of Group Financial Statements (Including The Work of Component Auditors)* can be located at: [https://www.acra.gov.sg/uploadedFiles/Content/Publications/Audit\\_Practice\\_Bulletin/APB%20No%201%20of%202015%20\(final\).pdf](https://www.acra.gov.sg/uploadedFiles/Content/Publications/Audit_Practice_Bulletin/APB%20No%201%20of%202015%20(final).pdf)

- 4.43 ACRA noted that **failure to perform an adequate or robust risk assessment** in accordance with SSA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*<sup>40</sup> led to **ineffective audit procedures performed that did not address the underlying risks of material misstatement**. Particularly for the non-listed companies segment, ACRA noted a high proportion of engagements inspected that did not have any significant risks identified.
- 4.44 In the 2016 inspections of the listed companies segment, ACRA had, in some instances, elevated certain risks originally determined by public accountants as “normal” to “significant”. In 31% of such engagements inspected where there were elevated risks, ACRA had raised inspection findings as the audit procedures performed were not specifically responsive and did not address the risks. This further supports ACRA’s repeated emphasis for public accountants to conduct a proper risk assessment so as to identify appropriate significant risks in their audits.
- 4.45 To help and provide guidance to public accountants on performing the required risk assessment to identify the significant risks before carrying out the necessary audit procedures, ACRA issued Audit Practice Bulletin No. 1 of 2016<sup>41</sup>. This bulletin also provided an illustrative example on a three-step approach to risk assessment as well as how an inappropriate identification and assessment of significant risks would have a cascading impact on the work performed.
- 4.46 ACRA would also like to stress the importance of **audit documentation** in supporting the public accountant’s conclusion and opinion. Through our inspections, we noted many instances where public accountants **lacked the discipline to adequately document the audit procedures performed in the audit working papers**. Changes during the audit were also not updated, resulting in outdated documentation which did not support the public accountant’s conclusions.
- 4.47 Without the available audit evidence in the audit working papers, it would not be possible to assess if the public accountant had indeed performed the required audit procedures, or assess if the work performed was sufficient and appropriate. ACRA would like to remind all public accountants to ensure proper audit documentation in accordance with SSA 230 *Audit Documentation*<sup>42</sup>.

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<sup>40</sup> SSA 315.28 states that “In exercising judgment as to which risks are significant risks, the auditor shall consider at least the following: (a) Whether the risk is a risk of fraud; (b) Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention; (c) The complexity of transactions; (d) Whether the risk involves significant transactions with related parties; (e) The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty; and (f) Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.”

<sup>41</sup> ACRA’s Audit Practice Bulletin No. 1 of 2016 *Identifying, Assessing and Responding to the Risks of Material Misstatement in the Financial Statements* can be located at: [https://www.acra.gov.sg/uploadedFiles/Content/Publications/Audit\\_Practice\\_Bulletin/APB%20No.%201%20of%202016.pdf](https://www.acra.gov.sg/uploadedFiles/Content/Publications/Audit_Practice_Bulletin/APB%20No.%201%20of%202016.pdf)

<sup>42</sup> SSA 230.8 states that “The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand: (a) The nature, timing, and extent of the audit procedures performed to comply with the SSAs and applicable legal and regulatory requirements; (b) The results of the audit procedures performed, and the audit evidence obtained; and (c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.”

# SECTION 5: INITIATIVES TO IMPROVE AUDIT QUALITY

## *Introduction*

- 5.1 The ultimate objective of the PMP is to improve the quality of audits performed by public accountants in Singapore. Therefore, ACRA recognises the importance of following through each inspection cycle with targeted initiatives to help the profession understand, remediate and prevent recurrence of the inspection findings.
- 5.2 Over the past 10 years, ACRA has introduced various initiatives to help public accountants improve and work towards achieving consistent execution of high quality audits. In this regard, ACRA recognised that non-regulatory initiatives can also be effective and far-reaching beyond the profession so that other relevant stakeholders in the financial reporting value chain can also help drive improvements to audit quality:
- (a) **Issuing Audit Practice Bulletins (APBs)** to guide the profession in applying the principles-based auditing standards and to set ACRA's expectations so as to achieve uniformity in practice. Since 2009, ACRA has issued various APBs covering a broad range of topics such as audit considerations during the global financial crisis, external confirmations, impairment of non-financial assets, engagement quality control review, auditor independence, group audits, risk assessment and the enhanced auditor reporting standards.
  - (b) **Introducing remedial elements into PMP orders**, such as attendance of the 3-day regulatory and other technical courses as well as peer reviews. Instead of mere punitive sanctions, these remedial programmes help public accountants improve their technical competencies and receive practical guidance from their peers.
  - (c) **Designing and developing courses and programmes** in close collaboration with ISCA, which are tailored to meet specific training needs of public accountants. For example, the Public Practice Programme was launched in 2010 to provide practical insights to aspiring public accountants on managing a public practice. A course on the audit of SFRS 11 *Construction Contracts* was also added to ISCA's curriculum in 2014 when ACRA was concerned about the trend of recurring audit deficiencies in that area.

- (d) **Commissioning research pieces** to raise awareness on audit quality issues and provide a platform for dialogue with the profession and other stakeholders. For example, a survey of preparers in 2013 and the audit adjustment study in 2014 highlighted the need for preparers, directors and audit committees to take ownership and improve the quality of financial reporting by companies, rather than deflecting those responsibilities to the auditors. This helps public accountants as, instead of addressing preparation issues, they can focus on conducting effective and high quality audits.
- (e) **Introducing the AQI Disclosure Framework** in 2015 to enable firms to use a portfolio of eight audit quality indicators to explain to audit committees, the time and resources expended to achieve quality on listed company audits. In a tender situation, the framework also creates a healthier competition as firms differentiate themselves on quality rather than the level of audit fees or client service.

### *New Regulatory Initiatives*

- 5.3 Reflecting on the trends in the engagement inspection findings presented in Section 4, ACRA noted that the **pace of progression has been somewhat uneven** between the public accountants in the listed companies segment and those in the non-listed companies segment. Whilst there are positive signs in the listed companies segment, the picture is less rosy in the non-listed companies segment.
- 5.4 To work towards an overall improvement in audit quality in the longer-term, ACRA is introducing two new regulatory initiatives to help specific groups of the profession. This affirms ACRA's regulatory philosophy that there is no one-size-fits-all solution and measures should be calibrated according to the needs of each regulated segment.

### ***Reduction in the Percentage of Inspected Audit Engagements with at Least One Finding***

- 5.5 As mentioned in Section 2, IFIAR and the GPPC networks have agreed to work towards a targeted reduction of at least 25% in the percentage of inspected audits of listed entity engagements with at least one finding in nine countries<sup>43</sup> over a four-year period. Whilst the frequency of inspection findings is not the sole measure of progress in audit quality, there is consensus between IFIAR and the GPPC networks that the percentage of inspected audits of listed entity engagements with at least one finding must decrease. Hence, this initiative sets a **measurable target that focuses the commitment of both IFIAR and the GPPC networks to improve audit quality globally.**

<sup>43</sup> Comprising Australia, Canada, France, Germany, Japan, Netherlands, Singapore, UK and USA, being the nine countries represented on IFIAR's GAQ WG.

- 5.6 In Singapore, ACRA is committed to work together with the six firms to meet the target. In this connection, ACRA's reformed PMP methodology will help in this cause as it (i) focuses the firms on significant risk areas requiring priority remediation and (ii) requires firms to critically question the root cause of inspection findings and resolve issues right at the source.
- 5.7 Although this initiative covers only the six firms, ACRA also aims to see overall improvements in the entire listed companies segment. However, as the other firms in this segment do not have the benefit of the same single platform (i.e. IFIAR GAQ WG) that is able to steer global leadership and resources towards improving audit quality, ACRA does not intend to impose the same target across all firms but will work with each firm to prioritise remediation of more severe findings within the short timeframe. Overall, ACRA aims to bring down the percentage of inspected audit engagements with at least one finding for the entire listed companies segment by 2019.

### ***Publicising Additional Inspection Outcomes***

- 5.8 Since 2007, ACRA has been publicising the names of public accountants who have been issued suspension or cancellation orders on its website<sup>44</sup>. This is in line with ACRA's efforts to promote greater transparency of our regulation of the profession to enhance public confidence in the work of the profession. **With effect from inspections commencing on or after 1 April 2017, ACRA will extend the publication regime to include public accountants imposed with hot review or restriction orders on revisit inspections.**
- 5.9 Section 4 revealed that over the past 10 years, there continues to be a high incidence of recurring audit deficiencies in certain areas in the non-listed companies segment. Public accountants in this segment have not shown improvements in audit quality as measured by the percentage of inspected audit engagements with at least one finding in 2016 as compared to 2015. For some of these public accountants in the non-listed companies segment, their initial inspections surfaced findings requiring orders such as hot reviews or restrictions to be imposed on them. Of key concern are those that did not follow-up to make the necessary improvements and the second inspection (revisit) revealed recurring audit deficiencies.

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<sup>44</sup> [https://www.acra.gov.sg/Public\\_Accountants/Regulatory\\_Notices/](https://www.acra.gov.sg/Public_Accountants/Regulatory_Notices/)

- 5.10 ACRA considers that extending the scope of its publication regime to include public accountants who continue to display recurring audit deficiencies at revisit inspections as necessary to strengthen the deterrence effect. It will also serve to motivate these public accountants to develop sound remediation plans and actively pursue initiatives to improve the quality of their audits before the revisit inspection take place. This will **ensure audit quality is raised across the profession. It will also level the playing field in the long run** so as to benefit public accountants who have taken the effort and time to uphold the quality of their audit work. More importantly, this initiative seeks to **protect public interest** as publicising these outcomes enables relevant stakeholders such as audit committees to make informed decisions on auditor appointments before engaging the services of the public accountants.
- 5.11 As the PMP is not punitive in nature and instead focuses on quality assurance, only the names of public accountants where recurring audit deficiencies at revisit inspections were found and imposed with hot review or restriction orders, will be publicised. Public accountants found to have audit deficiencies in their initial inspections will first be given the opportunity to improve.
- 5.12 **ACRA wishes to highlight that a public accountant who has failed to pass an inspection does not necessarily mean that the public accountant is unfit to practice.** Depending on the severity and nature of inspection findings, the PAOC imposes orders that the PAOC considers appropriate and balanced to address public interest risks as well as to provide the public accountant an opportunity to remediate and improve. This is in line with the quality assurance nature of the PMP. However, where there are serious deficiencies found in the public accountant's work such that the public accountant will pose a risk to the public interest if allowed to continue providing public accountancy services, the PAOC will not hesitate to suspend or even cancel the public accountant's registration.
- 5.13 Further details on this new initiative can be found in ACRA's Practice Direction No. 1 of 2016 *Publicising Inspection Outcomes under ACRA's Practice Monitoring Programme*<sup>45</sup>.

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<sup>45</sup> The practice direction can be located at:  
[https://www.acra.gov.sg/Publications/Practice\\_Directions/](https://www.acra.gov.sg/Publications/Practice_Directions/)

# SECTION 6: UPCOMING DEVELOPMENTS AND FUTURE FOCUS

## *Introduction*

- 6.1 In an ever changing world constantly disrupted by new technologies and business models, the profession will face many opportunities as well as challenges. The conduct of audits today may no longer be applicable tomorrow. To ensure its continued relevance to the capital markets, the profession must **stay abreast of new developments and upgrade their skills and competencies** to deal with increasingly complex financial reporting and auditing issues. Those who fail to do so may find themselves struggling and falling behind.
- 6.2 It is also of **paramount importance to maintain stakeholders' trust in audits and confidence in the independent audit opinion**. It only takes one audit failure to rock the market's trust in the entire profession. Therefore, as public accountants and firms evolve to brace themselves for the future, **audit quality must always be upheld and never be compromised**.
- 6.3 In this section, ACRA will highlight several upcoming developments as well as ACRA's future focus that public accountants should be aware of and prepare themselves for.

## *The Enhanced Auditor Reporting Standards*

- 6.4 In July 2015, the enhanced auditor reporting standards<sup>46</sup> were issued in Singapore and will be effective for audits of financial statements for periods ending on or after 15 December 2016. This is the most significant change in the form, structure and content of the auditor's report in the history of the profession.
- 6.5 The auditor's report is the only visible output of an audit. **Public accountants must take pride in their reports** and ensure that the reports issued meet all the requirements laid out in the enhanced standards. Even if some of these changes may be viewed as minor revisions in language or formatting, it would be embarrassing and unacceptable for public accountants not to get their reports right.

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<sup>46</sup> The enhanced auditor reporting standards comprise the following new and revised SSAs:

- (a) SSA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*;
- (b) SSA 701 (New), *Communicating Key Audit Matters in the Independent Auditor's Report*;
- (c) SSA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*;
- (d) SSA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*;
- (e) SSA 570 (Revised), *Going Concern*;
- (f) SSA 260 (Revised), *Communication with Those Charged with Governance*; and
- (g) Conforming Amendments to Other SSAs.



- 6.6 Whilst the most noticeable and publicised change is the new requirement for public accountants auditing listed entities to **communicate key audit matters** (KAMs) in their reports, other changes in the enhanced standards **apply to all audits and will affect all public accountants**. For example, public accountants will have added responsibilities regarding **going concern** in “close-call” situations<sup>47</sup>.
- 6.7 Noting that public accountants may face challenges in complying with the enhanced standards, ACRA issued APB No. 2 of 2016<sup>48</sup> to provide guidance to the profession particularly in the new areas of communicating KAMs and addressing going concern in “close-call” situations, where the exercise of significant professional judgement from public accountants may be required. To ensure proper application of the enhanced standards by public accountants, this will be a focus for ACRA’s inspections in 2017.
- 6.8 ACRA also urges the profession to seize this opportunity to differentiate itself on quality when communicating the KAMs. A public accountant should demonstrate his deep understanding of the business, his astute assessment of the risk areas and his sound professional judgement in arriving at his audit opinion when communicating the KAMs to his clients. In doing so, he not only promotes the value of audit but also gains a competitive edge over his peers.

### ***Impending Revisions to the ACRA Code of Professional Conduct and Ethics (Code): Provision of Non-Assurance Services***

- 6.9 **Independence is the bedrock of audits.** The credibility of a public accountant’s audit opinion on the financial statements would be severely undermined if there is any doubt on the public accountant’s independence from the audit client, whether in fact or in appearance. Accordingly, ACRA expects public accountants and firms to adhere strictly to the requirements of the Code which sets out ethical and independence standards for the profession.

<sup>47</sup> Situations where events or conditions were identified that may cast significant doubt on the entity’s ability to continue as a going concern, but after considering management’s plans to deal with these events or conditions, management and the public accountant conclude that no material uncertainty exists.

<sup>48</sup> APB No. 2 of 2016 *The Enhanced Auditor Reporting Standards: Communicating Key Audit Matters and Addressing Going Concern in “Close-call” Situations* can be located at: [https://www.acra.gov.sg/uploadedFiles/Content/Publications/Audit\\_Practice\\_Bulletin/APB%20of%202016.pdf](https://www.acra.gov.sg/uploadedFiles/Content/Publications/Audit_Practice_Bulletin/APB%20of%202016.pdf)

6.10 Currently, the Code prohibits an auditor from providing non-assurance services to an audit client save for certain circumstances as the provision of such services may impair the auditor's independence. The Code is in the process of being revised to further strengthen the requirements and guidance relating to non-assurance services and the key changes are summarised as follows:

(a) **Removing the “emergency situations” provisions**

Under the extant Code, an auditor is prohibited from providing services to an audit client that is a public interest entity (PIE) related to:

- (i) the preparation of accounting records and financial statements (i.e. accounting and bookkeeping services); and
- (ii) tax calculations for the purpose of preparing accounting entries,

except in emergency situations when it is impractical for the PIE audit client to make other arrangements. To avoid misuse by auditors through interpreting “emergency situations” loosely, the provisions will be **removed** in the revised Code.

(b) **Enhanced clarification on what entails “management responsibility”**

An auditor is prohibited from providing non-assurance services to an audit client that will result in the auditor assuming a management responsibility. To avoid the risk of the auditor assuming a management responsibility, the revised Code will require the audit firm to ensure that **client management acknowledge their responsibility for non-assurance services** in specific areas. In this regard, ISCA has issued EP 100 IG 1<sup>49</sup> to help public accountants and firms in terms of requesting client management to acknowledge their responsibility.

(c) **Enhanced guidance on the concept of “routine or mechanical”**

With the necessary safeguards in place (e.g. the use of a separate engagement team to perform the non-assurance service), an auditor can provide accounting and bookkeeping services that are of a routine or mechanical nature to a non-PIE audit client and divisions or related entities of a PIE audit client. In the revised Code, it will be clarified that accounting and bookkeeping services that are “routine or mechanical” are those requiring **little to no professional judgment from the auditor**.

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<sup>49</sup> The Ethics Pronouncement 100 Implementation Guidance 1 can be located at: <http://isca.org.sg/media/77727/ep-100-ig-1-nas-for-publication.pdf>

- 6.11 The revised Code is targeted to be issued before the end of 2016 and will be effective for audits of financial statements for the period commencing on or after 1 January 2017.
- 6.12 In general, before accepting any non-assurance service engagement, the firm must assess if the performance of the service to the audit client would create threats to independence. ACRA noted that most firms have the policy where the lead audit engagement partner approves all non-assurance services to be provided to an audit client, which may include his own request for a non-assurance service. This would potentially create a self-review threat on the part of the lead audit engagement partner. To prevent any self-review threat and ensure that there is appropriate assessment on the nature and permissibility of the non-assurance services, firms may wish to appoint an independent person to review the services. Firms should also have a policy in place for consultation and approval of all significant non-assurance services to be provided to listed audit clients.
- 6.13 Even if the firm is satisfied that the non-assurance service can be provided, the firm should document its assessment, the judgement applied and conclusions reached regarding the firm's basis for accepting the non-assurance service and how the firm has complied with the independence requirements set out in the Code.
- 6.14 ACRA takes a serious view towards non-compliance with the Code and other ethical pronouncements adopted by the PAOC such as the EP 200. ACRA will continue to assess the firms' and public accountants' compliance with these requirements in its inspections and will take appropriate disciplinary actions if non-compliance is observed.

### ***The New Revenue Standard: IFRS 15 Revenue from Contracts with Customers***

- 6.15 Issued in May 2014, IFRS 15 provides a single, comprehensive revenue recognition model for all contracts with customers. Under the new model, revenue is recognised based on the satisfaction of performance obligations and entities would carry out the following five-step process:

Step 1: Identify the contract with a customer

Step 2: Identify the separate performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to each performance obligation identified

Step 5: Recognise revenue as each performance obligation is satisfied

- 6.16 Whilst the standard will be effective for periods beginning on or after 1 January 2018 and has not been issued in Singapore, public accountants should start planning for their training needs in this area due to the following reasons:
- (a) This standard could significantly change the way many entities across all industries recognise revenue. It will also result in a significant increase in the volume of disclosures related to revenue. Being “the” revenue standard, it will affect almost all the public accountants’ audit entities that have contracts with customers.
  - (b) Particularly in Singapore’s context, this standard will replace SFRS 18 *Revenue* and SFRS 11 *Construction Contracts* when adopted. Section 4 highlighted that public accountants continue to fall short in the areas of auditing revenue and construction contracts. Compared to SFRS 18 and SFRS 11, the new revenue standard is more complex and expected to involve greater management judgement and estimates in the five-step process. This implies that public accountants will also be required to exercise greater professional scepticism and judgement to effectively audit this area in the future.
- 6.17 Therefore, it is fundamental for public accountants to be fluent in this new standard. One cannot audit in a vacuum. Having a strong grasp of the requirements equips the public accountant technically and strengthens his ability to challenge management’s judgement and estimates and finally determine if the entity has applied the standard appropriately.
- 6.18 With less than 18 months before the global effective date and considering that retrospective application of the standard is required, **ACRA urges all public accountants to take immediate steps to become proficient with the requirements of this new standard.**

### ***Emerging Audit Approach and Delivery Models***

- 6.19 Auditing is a function of how businesses are run. The changing business environment and business models will impact how audits are carried out. In response to these changes, firms are also evolving in innovative ways in terms of their audit approach and audit business models so as to conduct more effective and efficient audits. Two emerging trends noted are the use of data analytics in audits and off-shoring.

### ***Use of Data Analytics in Audits***

- 6.20 With rapid advances in technology, businesses are increasingly focusing on “big data” and relying on digital information systems to process transactions. These will feed into the financial and corporate reporting systems and eventually affect financial information flows into the financial statements. As business transactions and information flows become more complex and voluminous, the use of traditional auditing methods alone, such as sampling and simple analytical review, may no longer enable public accountants to obtain sufficient and appropriate audit evidence.
- 6.21 Accordingly, firms have started employing the use of data analytics in the audits of financial statements of selected entities. Combined with traditional auditing techniques, data analytics may help public accountants perform a better audit in various ways such as gaining a better understanding of their audit entity, identifying trends, anomalies and possible misstatements and testing complete sets of data rather than just sampling. It may also aid in supporting the public accountants’ basis and conclusions reached.
- 6.22 Whilst the power of data analytics could make it possible for public accountants to improve audit quality, ACRA cautions against any inappropriate reliance. **Data analytics is only a tool and must be applied in line with the auditing principles. It cannot replace a public accountant’s professional scepticism and judgement**, for example in setting the data extraction parameters or when analysing outliers in exception reports. Rather, its full potential can be only harnessed to the extent that the public accountant is able to apply it appropriately in the context of an entity’s audit.

### ***Off-shoring***

- 6.23 Over the years, with rising business costs, pressure on audit fees and talent attraction and retention issues, firms are exploring more sustainable audit delivery models that can lead to effective and efficient audits.
- 6.24 Recognising that audit team members need not be physically working together in the same location, some firms have set up offices in other jurisdictions to support the local engagement teams in their audits. More commonly known as off-shoring, staff in off-shore centres typically take instructions from the local engagement teams and assist in administrative matters or carry out specified audit procedures.
- 6.25 Notwithstanding that these staff are located overseas, ACRA reminds all public accountants that they **remain responsible for the overall audit** and must be satisfied that the overseas staff have the competences and capabilities to perform the work assigned. The public accountant is also responsible for the direction, supervision and performance of the off-shored work and should review the work performed by the overseas staff.
- 6.26 As new audit delivery models become more prevalent in the profession, it is crucial for public accountants to ensure that **audit quality is not compromised** regardless of which audit delivery model is employed by their firms or used in their engagements.

### ***ACRA's Commitment to Also Stay Abreast***

- 6.27 In urging the profession to stay abreast of the latest developments, ACRA remains committed to be a progressive regulator by periodically reviewing its regulatory approach, policies and procedures to ensure they remain relevant and effective in a fast changing world. ACRA is also aware that obsolete regulation not only impedes audit quality improvements but it may potentially reverse the mutually respectful and collaborative working relationship with the profession that was built up over the last 10 years.
- 6.28 **Building Inspection Capabilities** – one of ACRA's plans to stay abreast is to build up its inspection teams to include trained experts who are capable of inspecting audits of specialised industries and IT audits. This is especially important given the increasing complexity of businesses and widespread use of technology.

- 6.29 **Embracing New Trends** – ACRA also believes in embracing new trends such as data analytics and off-shoring. To be supportive of the positive impact of data analytics on audit quality, ACRA has been actively engaging the firms to understand how data analytics is being deployed in their audits. ACRA will also be updating its inspection methodology and upskilling its inspection teams to enable them to inspect audits applying data analytics.
- 6.30 **Allowing Time for Change** – ACRA is cognisant that the profession needs time and space to adapt to significant changes such as the enhanced auditor’s report. For this reason, ACRA approved the adoption of the enhanced standards soon after they were issued by the IAASB to enable a long lead time of 17 months for the profession to implement the changes. In addition, ACRA also worked with ISCA and various stakeholders to encourage early adoptions so that the profession can have some reference points. Lastly, while an area of focus in our 2017 inspections, ACRA will ensure that its inspection findings do not impose new requirements or stifle the profession’s creativity in enhancing auditor reporting.
- 6.31 **Influencing Standards-setting** – while we generally adopt standards set internationally, ACRA has been actively engaging the IAASB in putting forth our views on the need to update the current set of standards to cater for new audit models such as internet banking, electronic confirmations, data analytics, off-shoring etc. In the meantime, while the IAASB is updating the standards, ACRA’s inspection approach will recognise the rising trend of new audit models and adjust our inspection methodology to accommodate new ways of gathering audit evidence.
- 6.32 Together, ACRA will work hand-in-hand with the profession **to uphold audit quality and strengthen trust in audits** as it moves towards the next 10 years and beyond.

# ANNEX 1 – DESCRIPTION OF THEMES OF INSPECTION FINDINGS

Theme	Description
Accounting estimates, including fair value measurement	<p>Non-compliance with the requirements of SSA 540 <i>Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures</i> such as:</p> <ul style="list-style-type: none"> <li>• Failure to sufficiently test and challenge the underlying assumptions used by management in deriving the accounting estimates.</li> <li>• Failure to sufficiently test the accuracy of data used.</li> <li>• Failure to be alert to indicators of possible management bias and respond appropriately.</li> </ul>
Audit evidence	<p>Failure to obtain sufficient appropriate audit evidence to address the risks of material misstatements pertaining to existence, completeness and other non-valuation related assertions, including:</p> <ul style="list-style-type: none"> <li>• Deficiencies in executing substantive procedures e.g. sampling error in test of details.</li> <li>• Omissions of key audit procedures e.g. no inventory count performed.</li> <li>• Failure to assess the appropriateness of management's accounting policies and treatments e.g. wrong choice of functional currency.</li> </ul>



Theme	Description
Audit report	<p>Failure to comply with the requirements of SSA 700 <i>Forming an Opinion and Reporting on Financial Statements</i>, SSA 705 <i>Modifications to the Opinion in the Independent Auditor’s Report</i> and SSA 706 <i>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report</i> such as:</p> <ul style="list-style-type: none"> <li>• Failure to comply with the structure and contents as required by the standards.</li> <li>• Inappropriate dating of the reports.</li> <li>• Failure to include “other matter” or “emphasis of matter” paragraphs when required by the standards.</li> </ul>
Going concern	<p>Non-compliance with the requirements of SSA 570 <i>Going Concern</i> such as:</p> <ul style="list-style-type: none"> <li>• Failure to assess the appropriateness of management’s use of the going concern basis of accounting.</li> <li>• Failure to consider whether events or conditions result in a material uncertainty over the entity’s ability to continue as a going concern.</li> <li>• Inadequate work done to test management’s basis e.g. cash flow projections or sources of financial support.</li> </ul>
Group audits	<p>Non-compliance with the requirements of SSA 600 <i>Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)</i> such as:</p> <ul style="list-style-type: none"> <li>• Inappropriate scoping of significant components.</li> <li>• Failure to assess the competency of component auditors.</li> <li>• Failure to sufficiently consider the nature, timing and extent of involvement in the component auditor’s work, including evidence of review.</li> </ul>

Theme	Description
Internal controls	<p>Non-compliance with the requirements of SSA 330 <i>The Auditor's Responses to Assessed Risks</i> such as:</p> <ul style="list-style-type: none"> <li>• Failure to obtain sufficient appropriate audit evidence that the controls are operating effectively before placing reliance.</li> <li>• Inappropriately using a test of details approach to test the operating effectiveness of controls.</li> <li>• Failure to consider the impact on the audit as a result of ineffective controls.</li> </ul>
Management's expert	<p>Non-compliance with the requirements of SSA 500 <i>Audit Evidence</i> such as:</p> <ul style="list-style-type: none"> <li>• Failure to test the reliability of the source data used by the expert.</li> <li>• Lack of understanding of the scope of the expert's work.</li> <li>• Insufficient challenge made of the expert's work, including the assumptions used.</li> </ul>
Management override of controls	<p>Non-compliance with the requirements of SSA 240 <i>The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</i>, particularly pertaining to journal entries testing, such as:</p> <ul style="list-style-type: none"> <li>• Failure to test the completeness of journal entries.</li> <li>• Lack of basis in determining the nature, timing and extent of testing.</li> <li>• Inadequate work done on non-standard and consolidation journal entries.</li> </ul>

Theme	Description
Opening balances	<p>Non-compliance with the requirements of SSA 510 <i>Initial Audit Engagements – Opening Balances</i> such as:</p> <ul style="list-style-type: none"> <li>• Failure to review the working papers of the predecessor auditor where the prior year financial statements were audited.</li> <li>• Failure to test opening balances and purely rely on the prior year’s clean audit opinion.</li> <li>• Failure to consider the impact of a modified opinion in the prior year on the current year’s report.</li> </ul>
Planning and materiality	<p>Non-compliance with the requirements of SSA 300 <i>Planning an Audit of Financial Statements</i> and SSA 320 <i>Materiality in Planning and Performing an Audit</i> such as:</p> <ul style="list-style-type: none"> <li>• Failure to set out an audit plan.</li> <li>• Failure to determine materiality and/or performance materiality.</li> <li>• Inappropriate determination of materiality and/or performance materiality.</li> </ul>
Revenue	<p>Failure to respond appropriately to the risks of material misstatements in revenue such as:</p> <ul style="list-style-type: none"> <li>• Failure to sufficiently understand the terms and conditions of contracts with customers.</li> <li>• Failure to appropriately assess the presumed fraud risk in revenue recognition.</li> <li>• Failure to respond to the (significant) risks identified due to inappropriate control or substantive testing.</li> </ul>

Theme	Description
Subsequent events	<p>Non-compliance with the requirements of SSA 560 <i>Subsequent Events</i> such as:</p> <ul style="list-style-type: none"> <li>• Failure to perform a subsequent events review.</li> <li>• Failure to update the subsequent events review performed up to the date of the auditor's report.</li> <li>• Failure to assess the impact of subsequent events on the financial statements.</li> </ul>
Substantive analytical procedures	<p>Non-compliance with the requirements of SSA 520 <i>Analytical Procedures</i> such as:</p> <ul style="list-style-type: none"> <li>• Failure to develop an appropriate and sufficiently precise expectation.</li> <li>• Failure to sufficiently investigate significant differences.</li> <li>• Inappropriate use of a simple analytical review as a substantive analytical procedure.</li> </ul>

## Annex 2 – Weblinks to ACRA's Publications

Publication	Weblink
<b>PMP Public Reports</b>	
1 <sup>st</sup> PMP Public Report	<a href="https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/reports/research-and-reports-on-audit-quality/practice-monitoring-programme-public-reports/PracticeMonitoringProgrammePublicReport2007.pdf">https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/reports/research-and-reports-on-audit-quality/practice-monitoring-programme-public-reports/PracticeMonitoringProgrammePublicReport2007.pdf</a>
2 <sup>nd</sup> PMP Public Report	<a href="https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/reports/research-and-reports-on-audit-quality/practice-monitoring-programme-public-reports/PracticeMonitoringProgrammeSecondPublicReportUnder.pdf">https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/reports/research-and-reports-on-audit-quality/practice-monitoring-programme-public-reports/PracticeMonitoringProgrammeSecondPublicReportUnder.pdf</a>
3 <sup>rd</sup> PMP Public Report	<a href="https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/reports/research-and-reports-on-audit-quality/practice-monitoring-programme-public-reports/PracticeMonitoringProgrammeThirdPublicReportAugust.pdf">https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/reports/research-and-reports-on-audit-quality/practice-monitoring-programme-public-reports/PracticeMonitoringProgrammeThirdPublicReportAugust.pdf</a>
4 <sup>th</sup> PMP Public Report	<a href="https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/reports/research-and-reports-on-audit-quality/practice-monitoring-programme-public-reports/ACRAPMP4thPublicReport.pdf">https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/reports/research-and-reports-on-audit-quality/practice-monitoring-programme-public-reports/ACRAPMP4thPublicReport.pdf</a>
5 <sup>th</sup> PMP Public Report	<a href="https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/reports/research-and-reports-on-audit-quality/practice-monitoring-programme-public-reports/PMPReport2011AllSectionsv6final.pdf">https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/reports/research-and-reports-on-audit-quality/practice-monitoring-programme-public-reports/PMPReport2011AllSectionsv6final.pdf</a>
6 <sup>th</sup> PMP Public Report	<a href="https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/reports/research-and-reports-on-audit-quality/practice-monitoring-programme-public-reports/PMPReport2012170712finalclean.pdf">https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/reports/research-and-reports-on-audit-quality/practice-monitoring-programme-public-reports/PMPReport2012170712finalclean.pdf</a>
7 <sup>th</sup> PMP Public Report	<a href="https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/reports/research-and-reports-on-audit-quality/practice-monitoring-programme-public-reports/2013_07_30_PMPReport2013Clean.pdf">https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/reports/research-and-reports-on-audit-quality/practice-monitoring-programme-public-reports/2013_07_30_PMPReport2013Clean.pdf</a>
8 <sup>th</sup> PMP Public Report	<a href="https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/reports/research-and-reports-on-audit-quality/practice-monitoring-programme-public-reports/ACRA2014_PMPEPReport_Web.pdf">https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/reports/research-and-reports-on-audit-quality/practice-monitoring-programme-public-reports/ACRA2014_PMPEPReport_Web.pdf</a>
9 <sup>th</sup> PMP Public Report	<a href="https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/reports/research-and-reports-on-audit-quality/practice-monitoring-programme-public-reports/2015PMPPublicReport.pdf">https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/reports/research-and-reports-on-audit-quality/practice-monitoring-programme-public-reports/2015PMPPublicReport.pdf</a>
<b>Audit Practice Bulletins</b>	
No. 1 of 2009: <i>Audit Considerations in the Current Economic Environment</i>	<a href="https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/audit-practice-bulletin/16March2009AuditPracticeBulletinNo1of2009.pdf">https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/audit-practice-bulletin/16March2009AuditPracticeBulletinNo1of2009.pdf</a>

Publication	Weblink
No. 1 of 2010: <i>External Confirmations</i>	<a href="https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/audit-practice-bulletin/AuditbulletinExternalconfirmationsfinaltopublish.pdf">https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/audit-practice-bulletin/AuditbulletinExternalconfirmationsfinaltopublish.pdf</a>
No. 2 of 2010: <i>Impairment of Non-Financial Assets</i>	<a href="https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/audit-practice-bulletin/AuditPracticeBulletinNo2of2010.pdf">https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/audit-practice-bulletin/AuditPracticeBulletinNo2of2010.pdf</a>
No. 1 of 2011: <i>Engagement Quality Control Review</i>	<a href="https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/audit-practice-bulletin/AuditPracticeBulletinNo1of2011_16Sep2011.pdf">https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/audit-practice-bulletin/AuditPracticeBulletinNo1of2011_16Sep2011.pdf</a>
No. 2 of 2011: <i>Audit Considerations in an Uncertain Economic Environment</i>	<a href="https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/audit-practice-bulletin/APBNo2of2011_13Dec.pdf">https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/audit-practice-bulletin/APBNo2of2011_13Dec.pdf</a>
No. 1 of 2012: <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements (Part 1) - Leadership Responsibilities for Quality within the Firm</i>	<a href="https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/audit-practice-bulletin/AuditPracticeBulletin1of2012.pdf">https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/audit-practice-bulletin/AuditPracticeBulletin1of2012.pdf</a>
No. 2 of 2012: <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements (Part 2) - (A) Relevant Ethical Requirements and (B) Acceptance and Continuance of Client Relationships and Specific Engagements</i>	<a href="https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/audit-practice-bulletin/AUDITPRACTICEBULLETINNO2OF2012final18Sept.pdf">https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/audit-practice-bulletin/AUDITPRACTICEBULLETINNO2OF2012final18Sept.pdf</a>

Publication	Weblink
No. 3 of 2012: <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements (Part 3) – Human Resources</i>	<a href="https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/audit-practice-bulletin/AuditPracticeBulletinNo3of2012_HumanResources.pdf">https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/audit-practice-bulletin/AuditPracticeBulletinNo3of2012_HumanResources.pdf</a>
No. 1 of 2013: <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements (Part 4) – (A) Engagement Performance and (B) Monitoring</i>	<a href="https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/audit-practice-bulletin/APB1of2013.pdf">https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/audit-practice-bulletin/APB1of2013.pdf</a>
No. 2 of 2013: <i>Auditor Independence – Serving as an Officer or Director on the Board of Assurance Clients</i>	<a href="https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/audit-practice-bulletin/APBNo2of2013.pdf">https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/audit-practice-bulletin/APBNo2of2013.pdf</a>
No. 1 of 2014: <i>Compliance with Continuing Professional Education Requirements for Renewal of Certificate of Registration by Public Accountants</i>	<a href="https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/audit-practice-bulletin/CPEPublication_2014.pdf">https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/audit-practice-bulletin/CPEPublication_2014.pdf</a>
No. 1 of 2015: <i>Audits of Group Financial Statements (including the work of component auditors)</i>	<a href="https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/audit-practice-bulletin/APBNo1of2015(final).pdf">https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/audit-practice-bulletin/APBNo1of2015(final).pdf</a>

Publication	Weblink
No.1 of 2016: <i>Identifying, Assessing and Responding to Risks of Material Misstatement in the Financial Statement</i>	<a href="https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/audit-practice-bulletin/APBNo-1of2016.pdf">https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/audit-practice-bulletin/APBNo-1of2016.pdf</a>
No. 2 of 2016: <i>The Enhanced Auditor Reporting Standards: Communicating Key Audit Matters and Addressing Going Concern in "Close-call" Situations</i>	<a href="https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/audit-practice-bulletin/APB2of2016.pdf">https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/audit-practice-bulletin/APB2of2016.pdf</a>
<b>Other Publications</b>	
The Value of Audit: Views from Audit Committee Chairmen (2010)	<a href="https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/reports/research-and-reports-on-audit-quality/TheValueofAudit_210710.pdf">https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/reports/research-and-reports-on-audit-quality/TheValueofAudit_210710.pdf</a>
Talent Attraction and Retention in Larger Accounting Firms (2012)	<a href="https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/reports/research-reports/TalentAttractionandRetentioninLargerAcctFirms.pdf">https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/reports/research-reports/TalentAttractionandRetentioninLargerAcctFirms.pdf</a>
Strengthening the Financial Reporting Value Chain in Singapore (2013)	<a href="https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/reports/research-reports/SurveyofPreparersACCAACRAprintedfinal.pdf">https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/reports/research-reports/SurveyofPreparersACCAACRAprintedfinal.pdf</a>
Audit Adjustments Matter: Upholding Financial Reporting Quality (2014)	<a href="https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/reports/research-reports/audit-adjustments-matter_report.pdf">https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/reports/research-reports/audit-adjustments-matter_report.pdf</a>
Deepening the Audit Quality Conversation (2015)	<a href="https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/reports/research-and-reports-on-audit-quality/ACRA-CPAAJointPublicationonAQI.pdf">https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/reports/research-and-reports-on-audit-quality/ACRA-CPAAJointPublicationonAQI.pdf</a>



Publication	Weblink
Guidance to Audit Firms on ACRA's Audit Quality Indicators Disclosure Framework (2015)	<a href="https://www.acra.gov.sg/docs/default-source/default-document-library/public-accountants/audit-quality-indicators-disclosure-framework/guidance-to-firms-on-acra-aqis-disclosure-framework.pdf">https://www.acra.gov.sg/docs/default-source/default-document-library/public-accountants/audit-quality-indicators-disclosure-framework/guidance-to-firms-on-acra-aqis-disclosure-framework.pdf</a>
Guidance to Audit Committees on ACRA's Audit Quality Indicators Disclosure Framework (2015)	<a href="https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/reports/research-and-reports-on-audit-quality/GuidancetoACsonACRAAQIsDisclosureFramework.pdf">https://www.acra.gov.sg/docs/default-source/default-document-library/training-and-resources/publications/reports/research-and-reports-on-audit-quality/GuidancetoACsonACRAAQIsDisclosureFramework.pdf</a>

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