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ACCOUNTANCY AND AUDIT
CONVENTION SERIES

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ASEAN Federation of Accountants

PRACTITIONERS CONFERENCE 2022

Connecting the Trends of Tomorrow

Driving Sustainable Audit Quality

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Agenda

1. Scope of ACRA's Audit Regulatory Work
2. Firm-level Inspections
3. Engagement Inspections
4. Driving Sustainable Audit Quality in the New Norm
5. Upcoming Developments
6. Key Messages – Preparing for the Future

1

Scope of ACRA's Audit Regulatory Work

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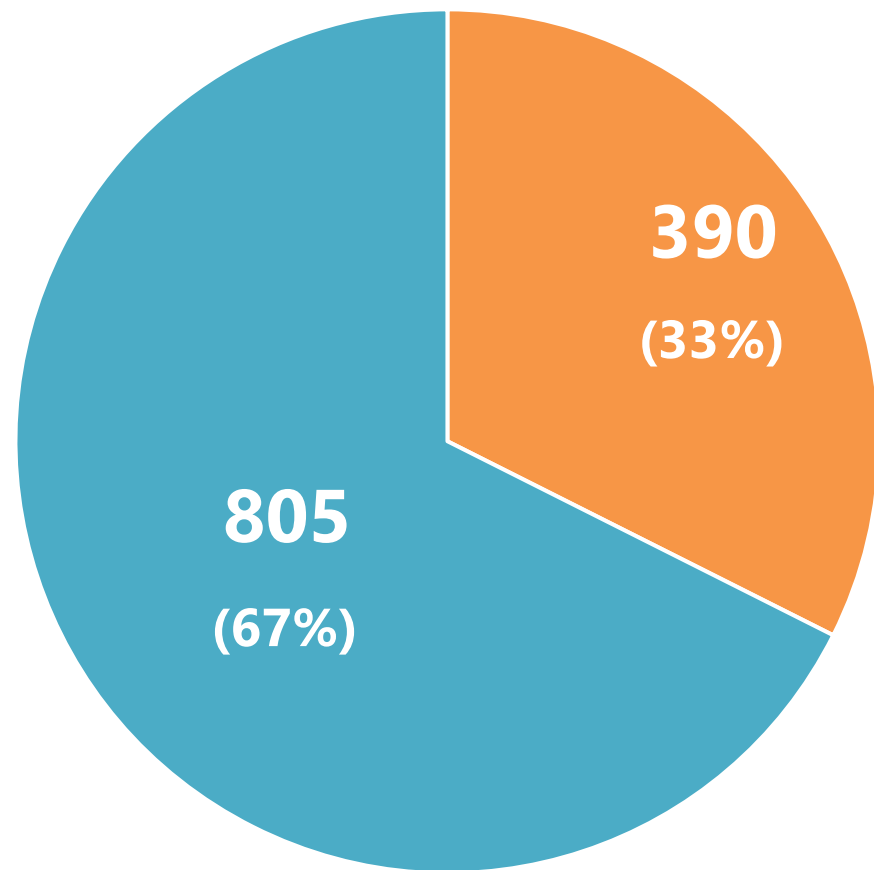
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Public Accountancy Landscape



Public Accountants

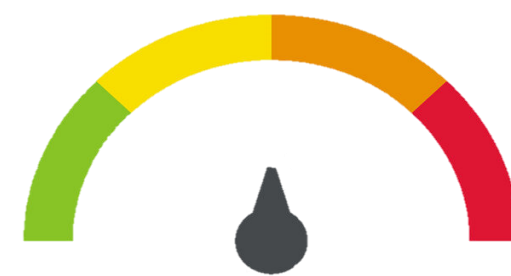


As at 31 March 2022

- Listed companies' segment
- Non-listed companies' segment

By ACRA Inspectors

By ISCA Inspectors with ACRA's oversight

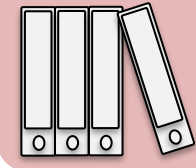


Risk-based approach

Public Accountants Oversight Committee decides on outcome to ensure consistency



ACRA's Inspection Activities



Engagement Inspections

Inspection against **auditing standards**.

Statutory basis on public accountants.

Root cause analysis to be performed to remediate the audit deficiencies identified.



Firm-level Inspections

Evaluation against **Singapore Standard on Quality Control (SSQC 1)**.

Currently, on public accounting entities in the listed companies' segment.

Singapore Standard on Quality Management (SSQM 1 & 2)

Effective 15 Dec 2022

Findings

Root Cause Analysis

Remediation Plans

Firm-level Monitoring

2

Firm-level Inspections

Leadership

Common Observations

Linkage between audit quality and partners' performance evaluation and compensation could be strengthened



Key Reminders / Good Practices

Commitment to audit quality

- Establish policies that link the quality rating and compensation framework with prominent weightages to quality.
- Incorporate audit quality related factors into partners' performance evaluation.



Independence

Common Observations

Violation of independence requirements

Independence testing for staff should be enhanced



Key Reminders / Good Practices

Independence requirements

- Breach of independence requirements under the ACRA Code could be subjected to disciplinary proceedings.

Good practices on independence testing

Risk-based approach

Increase coverage (i.e. sample size and extended testing period) or variation of the period

Initiatives to improve compliance (e.g. concierge services)

Stricter sanctions (including financial penalties)

Acceptance & Continuance

Common Observations

Execution lapses in acceptance & continuance process



Key Reminders / Good Practices

Client acceptance and continuance

- **Specialised industries (e.g. involving digital assets):** Assess the associated risks, and whether firms possess the necessary knowledge, professional competence and capacity to undertake those engagements.
- **Group audits:** Assess the cooperativeness and competency of component auditors, and the ability to obtain a good understanding of the group, its environment and business to enable an effective audit.

Client engagement risk classifications

- Assess the impacts of COVID-19 and Russia-Ukraine war, and any consequential impact (e.g. supply chain disruptions).



Human Resources

Common Observations

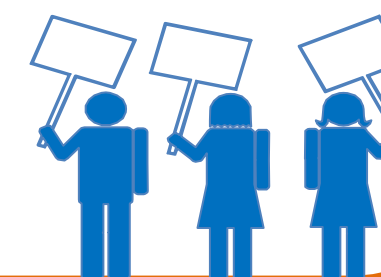
High / Increased staff attrition



Key Reminders / Good Practices

Impacts on audit engagements and quality

- Critical that partners are involved adequately and on a timely basis.
- Ensure proper handover of audit engagements when there are changes in engagement team members to minimise negative impact on audit quality.
- Audit programs need to be clear (e.g. in setting out the nature, timing and extent of audit procedures), particularly important when there is turnover of team members.
- For offshoring or outsourcing activities, ensure that such tasks are completed with high audit quality, and that other related risks (including independence, confidentiality and data security) are mitigated.



Engagement Performance

Common Observations

Final assembly of audit files



Key Reminders / Good Practices

Good practices on archival policies

Auto-archival function of audit software that locks down audit evidence within the archival period

Full paperless electronic audit file

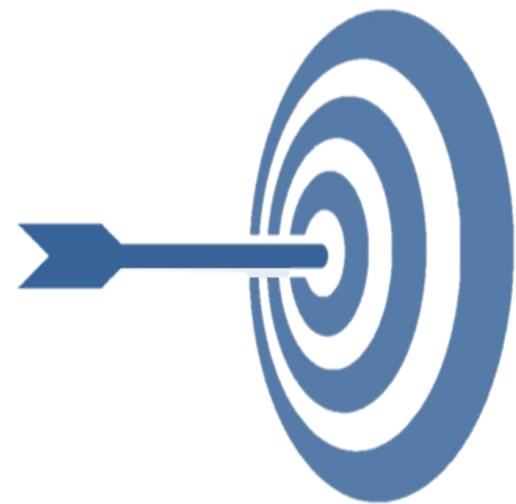
Shorter assembly timeframe

Automate reminder emails for impending due date with increasing frequency nearer to the deadline

Monitoring

Common Observations

Ineffective monitoring controls in place to identify lapses



Key Reminders / Good Practices

Monitoring activities

- Revisit the design and effectiveness of the internal monitoring or testing on firm-wide quality control areas to ensure that monitoring activities are robust and timely.
- Consider digitalising or automating certain monitoring activities.



Root cause analysis

- Identify the root causes of the findings and develop the appropriate remediation action plan. Communicate findings to partners and staff on a timely basis to minimise recurrence.
- Also identify positive root causes, such as good practices observed.

3

Engagement Inspections

Common Inspection Findings in 2022

Listed Companies Segment

Accounting estimates, including fair value measurement

Revenue recognition

Use of experts / specialists

Group audits

Going concern



Consistently topped the list of ACRA annual common inspection findings and IFIAR annual inspection findings survey results

Non-Listed Companies Segment

Accounting estimates, including fair value measurement

Audit report

Group audits

Going concern

Revenue recognition

Accounting Estimates, including Fair Value Measurement

Common Findings

- Assessment on reasonableness of **assumptions**, including consideration of contrary or inconsistent evidence.
- Consideration of **management bias**, including changes in management's accounting estimates and/or methods from prior periods.
- Assessment on whether the **inputs and data** used were relevant and reliable.



Key Reminders

- Consider both corroborative and contradictory evidence, including independent sources of information.
- Not to merely arrive at an estimate independently, without understanding how management had arrived at their estimates.
- If a developed range is "wide", consider if the "wide" range is reasonable.
- Consider impacts, if any, on audit opinion.
- Documentation requirements set out in SSA 540 (Revised).

Revenue Recognition

Recognising revenue at a point in time
(as opposed to over time)



The manner in which the progress towards complete satisfaction of a performance obligation was measured

FRS 115

*Revenue from Contracts
with Customers*

Auditors are reminded to

- “Carry forward” assessments made in a prior audit and update for any changes (e.g. in contractual terms or business model).
- Consider the terms of contract, any legislation or legal precedents that apply to the contract, and if there is a need to seek legal input independently.
- Assess if revenue recognised based on certain milestones represent the faithful depiction of the company’s performance towards complete satisfaction of the performance obligations.

Auditor's Report



Omission of audit opinion is a **severe non-compliance** with the requirements of the SSAs and may result in not passing the Practice Monitoring Programme review.

Certain related statements in the **audit opinion paragraph**

Clarity on the basis for **modified audit opinion**

**Other
Common
Omissions**

Accounting and other records to be kept by the Singapore subsidiaries audited by the public accountant have been properly kept in accordance with the Companies Act

Responsibilities of the management and directors for the oversight of the financial reporting process

Description of the **auditor's responsibilities** in a group audit engagement

Auditor's Report

SSA 700

Forming an Opinion and Reporting on Financial Statements

SSA 705 (Revised)

Modifications to the Opinion in the Independent Auditor's Report

ISCA Audit Guidance Statement 1

Sample Independent Auditor's Reports

Auditors are reminded to

- Ensure information and presentation set out in the auditor's report is complete and adhere to the requirements of the SSAs.
- Assess whether any modification to the auditor's opinion is required based on the audit evidence obtained.
- Document clearly the basis and judgements made in arriving at the audit opinion.



Group Audits

SSA 600

Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)

ACRA Audit Practice Bulletin No. 1 of 2015

Audits of Group Financial Statements (Including the Work of Component Auditors)

ISCA Audit Guidance Statement 12

Group Audits – Inaccessibility of Component Auditors' Work Papers and Other Considerations

Companies Act



ISA 600 (Revised)

Expected to be effective for financial periods beginning on or after 15 Dec 2023

- Financial statements of components audited by a large established network, by itself, does not relieve the group auditor of the requirement to comply with SSA 600.
- Need to set group materiality.
- Section 207(6) provides for group auditors of Singapore-incorporated companies a right of access to certain records and information of subsidiary corporations.

Emerging Areas of Concern

SSA 320

Materiality in Planning and Performing and Audit

Key considerations

- Qualitative and quantitative factors
- Appropriate benchmarks
- Appropriate percentages
- Group audits – to set group and component materiality
- Revision as the audit progresses



It is of paramount importance that materiality is set appropriately.

An inappropriate audit materiality could lead to an inappropriate audit opinion and/or audit inefficiencies.



Emerging Areas of Concern

Auditors are reminded to

- Determine a sample size that is sufficient to reduce sampling risk to an acceptably low level.
- Exercise due care in documenting the sampling methodology to comply with SSA 530.

The use of data analytics, when deployed appropriately, could help auditors to reduce sampling risk.



Auditors are reminded to

- Maintain control over requests and responses.
- Apply the principles to both physical and electronic confirmations or platforms.

The use of service providers does not relieve the auditor of the responsibility to maintain control over external confirmations.

4

Driving Sustainable Audit Quality in the New Norm

Implementation of Quality Management Standards

Establish **foundation** for consistent execution of high quality and efficient audits

Not solely a matter of compliance

Singapore Standard on Quality Management (SSQM 1 & 2)
Effective 15 Dec 2022

Align goals throughout the firm

Streamline processes, leading to enhanced consistency, greater efficiency and better quality

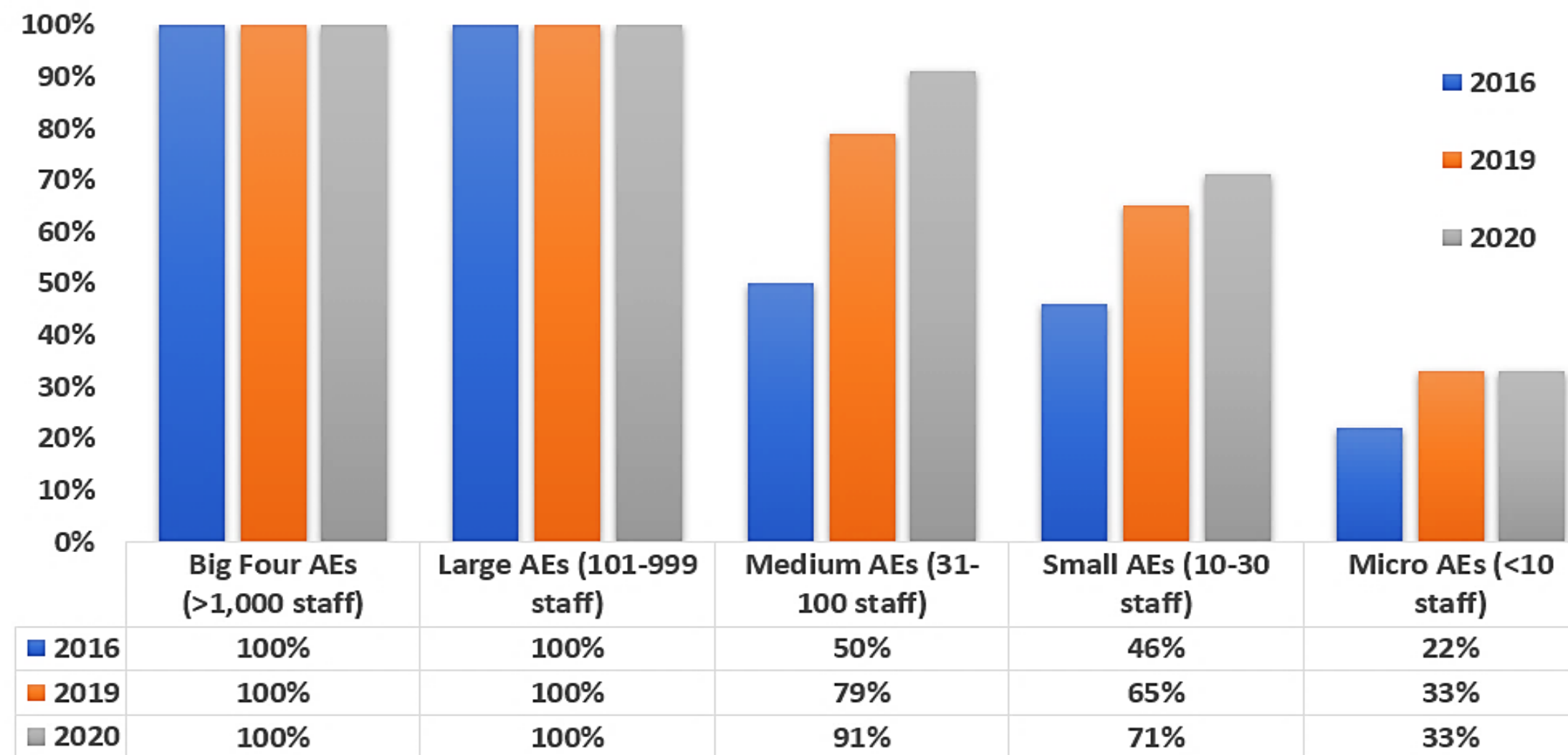


To encourage and support firms' compliance with the Quality Management Standards, ISCA announced the **voluntary compliance programme** which commences in early 2023.

Use of Audit Software

Small and medium-sized practices should fully harness the benefits that could be derived from the use of audit software, in order to drive sustained **improvement in audit quality**.

Adoption level for audit software by Accounting Entity (AE) size



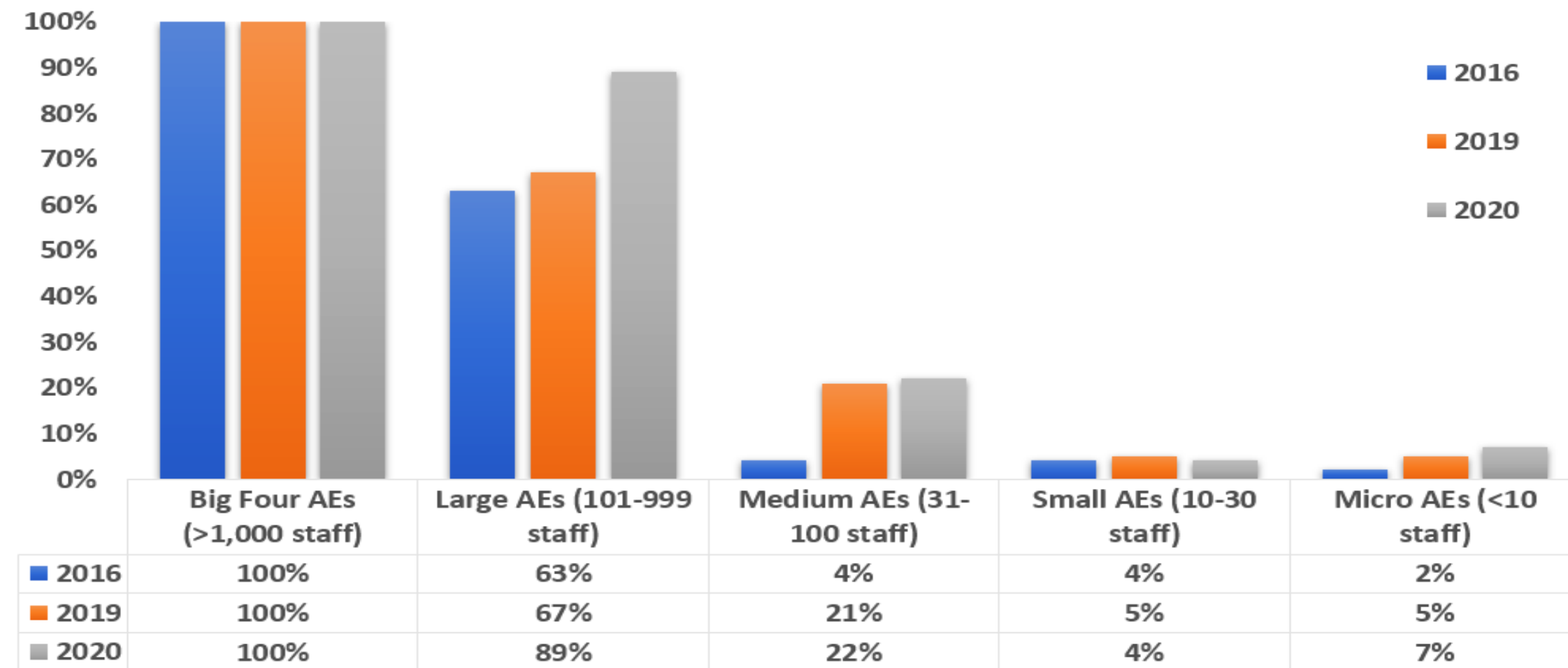
Source: Singapore Accountancy Commission Accounting Entity Survey, AEcensus 2021 and 2020.

Audit Data Analytics

Larger firms have made commendable efforts to adopt data analytics in audit.

ACRA encourages small and medium-sized practices to look for ways in which deploying data analytics would bring about **uplifting of audit quality**.

Adoption level for data analytics for audit by Accounting Entity (AE) size



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

Audit Data Analytics



Whilst there are benefits of deploying data analytics in audit, it is imperative that the auditor obtains **sufficient appropriate audit evidence** in evaluating whether those data provided by the audited entity is **sufficiently reliable** for the auditor's purposes.

SSA 315 (Revised 2021)

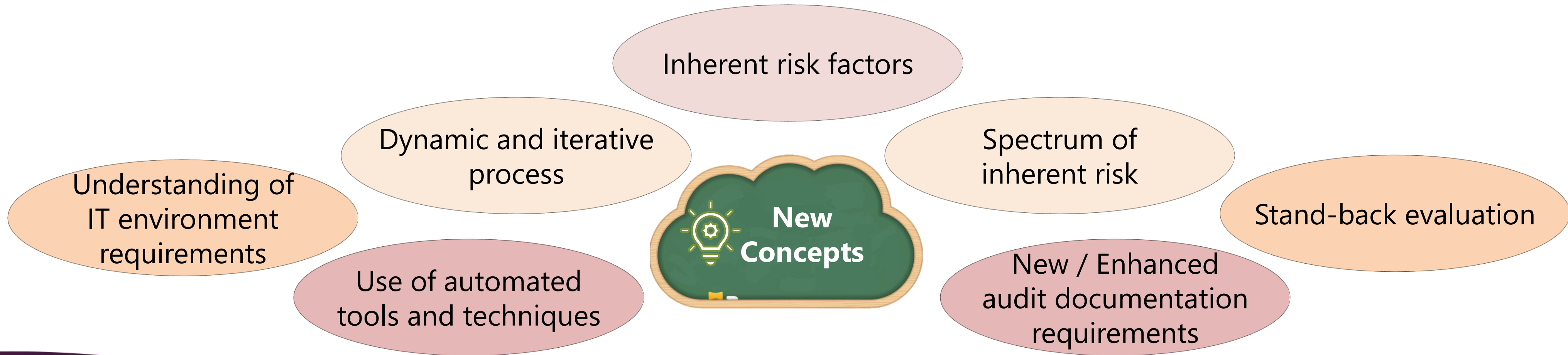
Identifying and Assessing the Risks of Material Misstatement

Effective for
financial periods
beginning on or after
15 Dec 2021



A robust risk assessment **forms the basis** for designing and implementing audit responses.

It has a **pervasive effect on all aspects** of the audit and contributes to achieving **high audit quality**.



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Upcoming Developments

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Inspections on Public Accountants



Enhancements that have been effective

- Increased transparency for proposed fail outcomes, whereby assessments of the inspectors and of the Practice Monitoring Sub-Committee will be shared with the public accountant.
- Specific training courses for orders to acquire additional CPE hours, instead of a 3-day Practice Monitoring Programme regulatory course.

Upon enactment of the amendments to Accountants Act in 2023

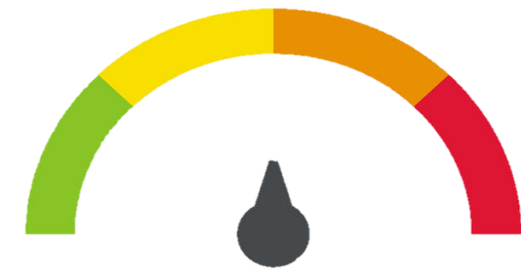
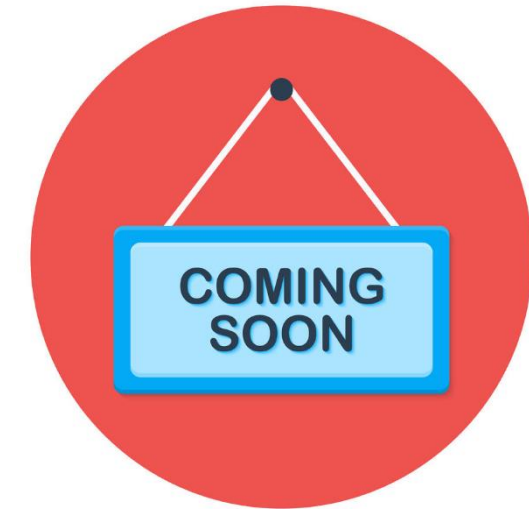
- Classify findings as either low, moderate or high severity, based on the nature and extent of non-compliance with the auditing standards, as well as the impact or potential impact of misstatement(s) on the audited financial statements.
- Replace peer review orders with hot review orders which are likely more effective as a means of remediation and continuous improvement.



Inspections on Public Accounting Entities

Upon enactment of the amendments to Accountants Act in 2023

- Conduct statutory firm-level inspections.
- Impose sanctions on firms with deficiencies or non-compliances with the quality control / management standards.



Risk-based approach

Extends to all firms,
including non-listed companies segment.



Outreach programme & feedback

Other Regulatory Initiatives

Expected to be effective
15 Dec 2022

Revisions to ACRA Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities

Revisions to Non-Assurance Services and Fee-related Provisions

- To strengthen the independence requirements when audit firms provide non-assurance services to their audit clients.
- To enhance engagement with Those Charged with Governance (TCWG) and transparency of fee-related information to TCWG and stakeholders.

Amendments to the extant SG410.4A

- The extant SG410.4A will be replaced by SG410.27A.
- To only cover fees from the listed audit client and its downstream controlled entities and exclude fees received for audit-related services.

Sustainability Reporting

International and local commitments towards **Environmental, Social and Governance (ESG)** matters.



International Sustainability Standards Board

Set up to deliver a global baseline standard for investor focused sustainability reporting to fulfil the growing and urgent demand for streamlining and formalising corporate sustainability disclosures.



Joint ESG Working Group

Issued technical bulletin to raise awareness and consideration of impact of ESG factors and developments on financial reporting and auditing.



Sustainability Reporting Advisory Committee

Set up to advise on a roadmap for wider implementation of sustainability reporting for Singapore-incorporated companies (beyond SGX listed companies).



Sustainability Reporting

What it means to the audit profession?

- Seize opportunities of providing assurance on sustainability reports.
- Prepare and engage audit clients on their sustainability journey.
- Keep abreast of developments in sustainability reporting landscape.
- Capability building in the areas of sustainability reporting standards and related assurance¹.



**Create transparency
and accountability**
to stakeholders



¹ These courses will be considered as Category 1 and 3 respectively, for purposes of fulfilling CPE requirements.

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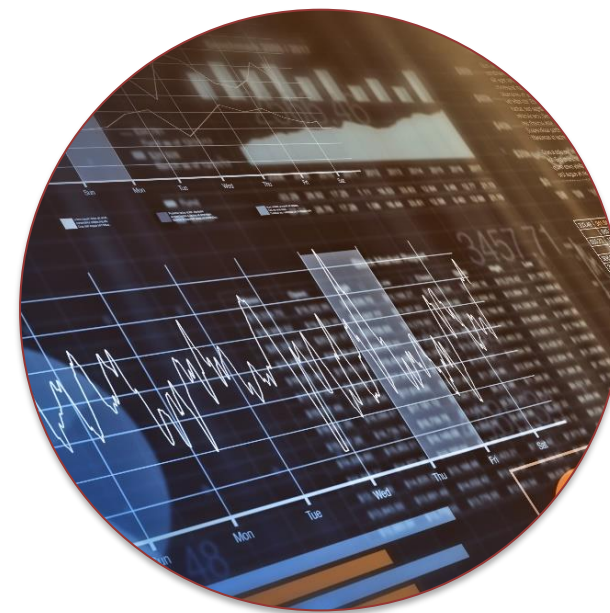
Key Messages – Preparing for the Future

Key Messages – Preparing for the Future



Implementation of Quality Management Standards

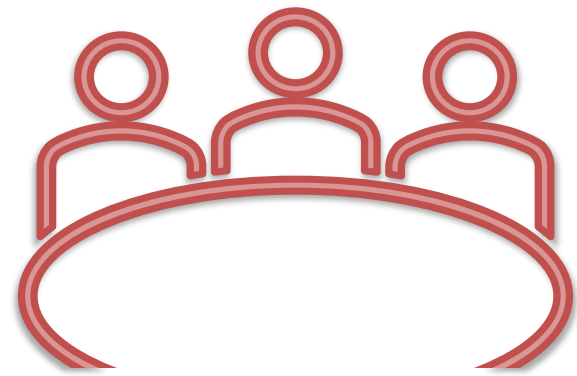
- Leadership to take ownership and set the tone at the top.
- Having a culture of continual improvement.



Digitalise, innovate and adopt technology

- Upskill and reskill to build a digital ready workforce.
- Continue to explore ways to digitalise, innovate and adopt technology in audits, in order to achieve better effectiveness and efficiency.

Key Messages – Preparing for the Future



Build strong multi-disciplinary teams

- Build capacity and capabilities in various disciplines, including sustainability reporting, valuation, IT audit, tax, etc.

Thank you

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