ACCOUNTING AND CORPORATE REGULATORY AUTHORITY

PRACTICE MONITORING PROGRAMME

15TH PUBLIC REPORT
OCTOBER 2021

Quality Management in the New Norm

Contents

Glossary of Terms

ACRA	Accounting and Corporate Regulatory Authority
AARG	ASEAN Audit Regulators Group
AGS	Audit Guidance Statement
AQIs	Audit Quality Indicators
COVID-19	Coronavirus Disease 2019
CPE	Continuing Professional Education
EP200	Ethics Pronouncement 200 – *Anti-Money Laundering and Countering the Financing of Terrorism*
FRS	Financial Reporting Standard in Singapore
GAQWG	IFIAR's Global Audit Quality Working Group
GPPC	Global Public Policy Committee
IFIAR	International Forum of Independent Audit Regulators
IFIAR TTF	IFIAR's Technology Task Force
ISCA	Institute of Singapore Chartered Accountants
ISQM	International Standard on Quality Management
PAOC	Public Accountants Oversight Committee
PMP	Practice Monitoring Programme
PMSC	Practice Monitoring Sub-Committee
SMP	Small and Medium-sized Practice
SSA	Singapore Standard on Auditing
SSQC	Singapore Standard on Quality Control
SSQM	Singapore Standard on Quality Management

Section 1: Executive Summary

Quality Management in the New Norm

1.1 Audit quality is an integral part of the financial reporting system. High-quality audits play a crucial role in building confidence and trust in financial markets. This facilitates investment and economic growth, protects public interest, and generates value for the investors and other stakeholders in the financial reporting ecosystem.

1.2 Auditors and the preparers of financial statements have been working in the past year or so against a challenging background. The pandemic has transformed the way auditors and their clients performed their work. It has not only resulted in new ways of working remotely but also the way audits are performed. As audits evolved to meet the challenges of the pandemic and the uncertainties that it brought, ACRA's audit regulation on public accounting entities and public accountants was also evolving.

1.3 A positive development in strengthening the accounting sector and harnessing synergies across complementary functions, was the announcement by the Ministry of Finance (MOF) on 1 July 2021 on the merger of the accountancy-related units of ACRA, the Singapore Accountancy Commission (SAC) and the Accounting Standards Council (ASC) secretariat into a strengthened accountancy function under one entity. This merger will strengthen effectiveness of standards-setting, regulation and sector development for the accountancy profession.

1.4 The ACRA's Practice Monitoring Programme (PMP) will continue to reinforce ACRA's regulatory oversight on the quality of work of the public accountants, to ensure that high quality audits of financial statements are delivered to the financial reporting ecosystem in our efforts to protect public interest and foster greater transparency in the market.

1.5 This 15th PMP Public Report highlights the key findings of ACRA's inspections carried out from 1 April 2020 to 31 March 2021 at both firm and engagement level. This report covers the scope of ACRA's audit regulatory work and its inspection activities, including the coordinated inspection approach with other regulatory bodies.

1.6 ACRA continues to participate actively at international and regional forums to reinforce the audit quality agenda, and to keep abreast of developments and best practices. ACRA is a founding member of IFIAR and was re-elected in April 2021 to the IFIAR Board for another four-year term from 2021 to 2025. ACRA's Assistant Chief Executive (Accounting and

Compliance Group), Ms Kuldip Gill, has also been appointed to chair the Human Resources and Governance Committee of IFIAR.

1.7 ACRA observed that audit firms, which had embarked on digital transformation, have committed significant resources to innovate their audit practices and enhance audit quality. Firms have seen the benefits from deploying technology in audits but the use of technology, such as data analytics, has not been specifically covered in the current auditing standards. In August 2021, ISCA, in collaboration with ACRA, issued AGS 13 *Data Analytics in a Financial Statements Audit* to provide clarity to the audit profession on the application of data analytics in audits whilst meeting the requirements of the auditing standards.

1.8 As many audit firms embark to deploy technology in audits, ACRA observed that these firms, now have a challenge on getting the right talent. The firms have moved away from the traditional requisites of an auditor to broader technical and digital skillsets, alongside appropriate technology-related trainings to upskill and reskill the digital competencies of the existing audit workforce. In 2021, the SAC, Workforce Singapore and Skills Future Singapore conducted a study to evaluate the impact of emerging trends and technology on manpower in Singapore-based accounting practices. The report is expected to be released by end of 2021. ACRA has also carried out a review of the current CPE syllabus for public accountants to introduce information technology as a new core expertise area, in addition to the current technical competencies required for public accountants.

1.9 ACRA is concerned that the digital transformation within the small and medium-sized practices (SMPs) is lagging behind. In this report, ACRA highlights the benefits from utilising audit software that all SMPs, who have not adopted, should adopt in their digital transformation journeys. ACRA would like to remind the audit profession that whilst audit platforms and other automated tools and techniques allow audit firms to improve the efficiency and effectiveness of audits, they do not replace the professional evaluation, judgement and scepticism expected of an auditor.

1.10 ACRA regularly monitors the audit quality indicators (AQIs) of audit firms in the listed companies' segment to complement the firm-level inspections. Since 2020, ACRA has been publishing the industry average and range of AQIs relating to (i) staff oversight, (ii) average years of experience by staff grade and (iii) overall staff attrition rate. An analysis of the trends observed in the published AQIs, categorised by Big Four and non-Big Four firms in the listed companies' segment, is set out in Section 3 of this report.

1.11 Public accountants should pay particular attention to the recurring and emerging themes of common engagement inspection findings. Findings under the theme of "**Accounting estimates, including fair value measurement"** continue to top the list in the listed and non-listed companies' segments for the last three consecutive years. Insights under the recurring themes (a) **Accounting estimates, including fair value measurement** and (b) **Going Concern**, as well as an emerging theme (c) **Auditor's Reports**, are discussed in Section 4.

1.12 In seeking to understand how the audit profession is adapting and managing audit quality in the new normalcy, ACRA observed several positive initiatives launched by the audit firms, in response to the unprecedented disruptions from the onset of the pandemic. The initiatives have shaped the new ways audits are planned and executed.

1.13 As ACRA's regulatory activities adapt and continue to evolve, this report highlights the new ways of how ACRA's inspection activities are conducted to minimise any disruptions to the PMP process, as well as to the audit firms.

1.14 To spur improvements in audit quality, sector driven initiatives are introduced to support the audit profession. New regulatory initiatives which came into effect in 2021 include enhancements to Singapore Exchange Limited (SGX) Listing Rules on auditors and the Revised Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities as summarised in this report. ACRA would like to remind public accountants to ensure compliance with the new requirements.

1.15 One key change in the public accountancy landscape would be the issuance of the new Singapore Standard of Quality Management (SSQM) 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* and SSQM 2 *Engagement Quality Reviews* in October 2021. These quality management standards will replace the current quality control standards (i.e. Singapore Standard on Quality Control (SSQC) 1), with an effective date on 15 December 2022[1].

1.16 ACRA believes that the new quality management standards will increase audit firm leaderships' commitment to strengthen the system of quality management, establishing the foundation for consistent audit quality. ACRA observes that network firms are at different

[1] The effective date of 15 December 2022 is based on the effective date of the ISQM issued by the International Auditing and Assurance Standards Board (IAASB).

stages of implementing the new standards, and urges all public accounting entities, including SMPs to take immediate steps towards implementing the standards.

1.17 The public consultation of the Accountants (Amendment) Bill was issued on 14 October 2021. The proposed amendments aim to provide ACRA with enhanced powers to regulate the audit firms and public accountants, bringing firm-level inspections under ACRA's purview:

- requiring audit firms to remediate quality control deficiencies and imposing sanctions on non-compliances with the relevant quality control standards. Sanctions that may be imposed, include revoking the firm's registration, suspending, or restricting the firm from providing public accountancy services, financial penalty, or any other orders to improve the firm's compliance with quality control standards; and

- requiring public accountants to communicate their inspection findings and outcome to audited entities in instances of severe deficiencies (i.e. not satisfactory outcome).

The proposed amendments are targeted to be legislated in 2022.

1.18 Looking ahead, ACRA highlights in Section 7, the inspection focus areas that the audit profession needs to address in an evolving audit and economic environment. Whilst audit provides confidence and trust in corporate reporting, recent episodes of corporate fraud or major reporting gaps from companies around the world has raised concerns over the quality of audits and the role of external auditors. The audit profession needs to continuously evolve to stay ahead of the curve and collaborate with other stakeholders to strengthen public confidence and trust in the integrity of financial reporting.

Section 2: Scope of ACRA's Audit Regulatory Work

Merger of ACRA, SAC and ASC Secretariat

2.1 The Singapore Government's accountancy-related functions are currently housed in the following three entities:

- ACRA, that registers and regulates public accountants, business entities, and corporate service providers;
- SAC, that develops the accountancy sector and oversees the Chartered Accountant of Singapore (CA(Singapore)) designation, as well as its qualification programme – the Singapore Chartered Accountant Qualification (SCAQ) programme; and
- ASC, that sets accounting standards for companies, charities, societies, and co-operative societies.

2.2 On 1 July 2021, MOF announced the merger of ACRA, SAC and the ASC secretariat into a strengthened accountancy function under one entity. This merger will harness synergies across complementary functions and strengthen effectiveness of standards-setting, regulation and sector development. This is a positive development towards strengthening the accounting sector.

2.3 The Merged Entity will be formed and commence operations in the second half of 2022. The Merged Entity will retain the name Accounting and Corporate Regulatory Authority (ACRA), as it is well-recognised by accountancy and business stakeholders.

The Public Accountancy Landscape in Singapore

2.4 ACRA regulates 708 (2020: 701) public accounting entities and 1,163 (2020:1,155) public accountants providing public accountancy services in Singapore as of 31 March 2021.

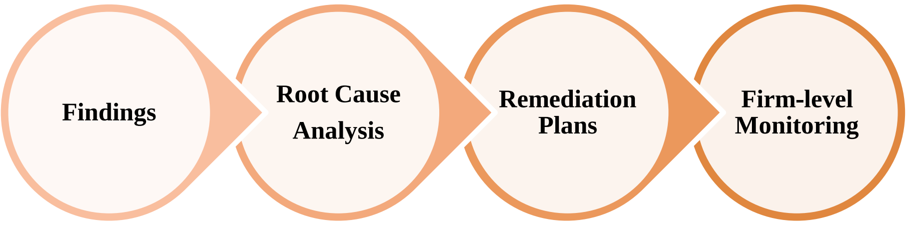
2.5 Audits of listed entities are concentrated in 16 audit firms, comprising the Big Four and 12 medium-sized firms. The other firms (mainly comprising smaller partnerships and sole proprietorships) audit the non-listed entities.

ACRA's Inspection Activities under the PMP

2.6 The key audit inspection activities within the scope of the PMP are as follows:

(i) **Engagement Inspection**

An engagement inspection is a review of an audit engagement performed by a public accountant as set out in the Accountants Act. The inspection assesses whether the work done by the public accountant complies with the Singapore Standards on Auditing (SSAs).



ACRA has a requirement for a root cause analysis ("RCA") to be performed at the end of each inspection, to facilitate audit firms in devising an effective remediation plan, that addresses the underlying root causes to the audit deficiencies identified. Firms should continuously monitor and evaluate the effectiveness of the RCA and remediation plans to avoid recurrence of the audit deficiencies. ACRA will review the identified root causes and effectiveness of remediation plans.

(ii) **Firm-level Inspection**

A firm-level inspection is a review of the effectiveness of the system of quality control, including policies and procedures, established by an audit firm. Presently, firm-level inspections are performed based on SSQC 1 and conducted on an advisory basis on audit firms that perform audits of listed companies. As part of inspections, ACRA also reviews and evaluates the effectiveness of the remediation actions carried out by firms in respect of the preceding firm-level inspections.

The proposed amendments to the Accountants Act will bring firm-level inspections under ACRA's purview. Once legislated, firm-level inspections will apply to all firms and ACRA will extend firm-level inspections to the audit firms who audit only non-listed entities. ACRA strongly urges all audit firms to ensure that they have in place an effective system of quality control in accordance with the relevant quality control/management standards (i.e. SSQC 1 or SSQM 1 and 2). A robust system of quality controls establishes the foundation, and the infrastructure for firms to enable consistency in the execution of quality audits.

ACRA's Inspection Approach – Calibrated to be Risk Focused

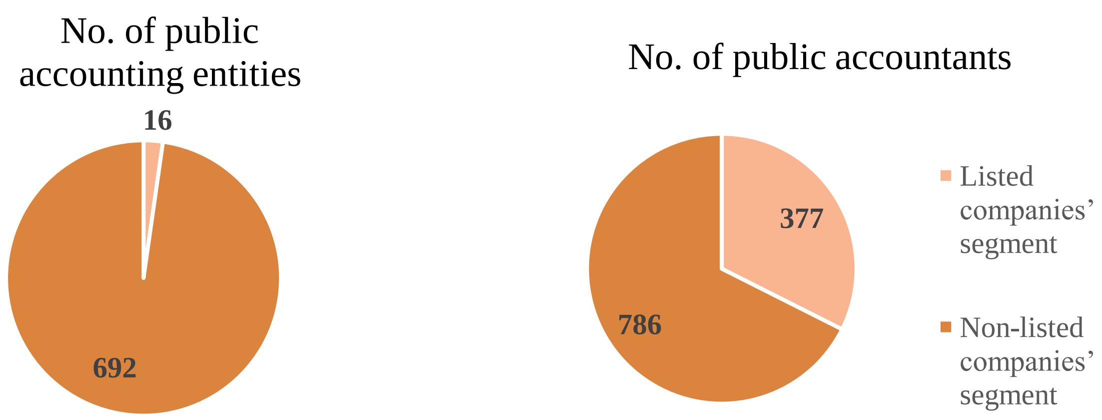
2.7 ACRA adopts a risk-based inspection approach that is calibrated to the complexity of the audits and level of public interest involved. Accordingly, ACRA's inspection approach is differentiated between the two segments:

(i) Listed companies' segment - those practising in audit firms that perform audits of listed entities; and

(ii) Non-listed companies' segment - those practising in audit firms that perform audits of only non-listed entities.

2.8 As at 31 March 2021, the number of public accounting entities and public accountants in the two segments is as shown in Figure 1 below.

Figure 1: Number of public accounting entities and public accountants in the listed and non-listed companies' segments



2.9 As of 31 December 2020, the Big Four audit firms collectively audit about 54% (2019: 55%) of the number of companies listed on the Singapore Exchange (representing about 70% (2019: 65%) of the total market capitalisation), and the remaining listed companies were audited by the medium-sized audit practices.

2.10 ACRA inspectors review the audits of the listed companies' segment and they carry out both engagement and firm-level inspections in this segment.

2.11 Since 2006, ACRA has collaborated with the Singapore national accountancy body, Institute of Singapore Chartered Accountants (ISCA), to carry out the review of the audits in the non-listed companies' segment under ACRA's oversight. In this respect, ACRA's oversight includes the determination of the public accountants to be reviewed, the selection of the engagements and a review of the findings. This collaboration, calibrated according to the risks involved, has led to an effective regulatory regime which is risk focused.

2.12 Findings from the engagement inspections of both the listed and non-listed companies' segments are submitted to the Practice Monitoring Sub-Committee (PMSC)[2]. The PMSC assesses the findings, taking into account the public accountant's written responses, and submits a report and recommendation to the Public Accountants Oversight Committee (PAOC)[3] for its final decision on the inspection outcomes and sanctions. This ensures that there is consistency in regulatory outcomes across all inspections. The PAOC is the deciding authority on the outcome of these inspections.

Coordinated Inspection Approach for Regulatory Action

2.13 Singapore's regulatory framework for ensuring that issuers listed on the SGX-ST provide full, accurate and timely disclosures of material information to investors is set out in the Securities and Futures Act and the listing rules of the SGX. The financial statements of Singapore-incorporated companies and the public accountants auditing listed issuers are regulated under the Companies Act and the Accountants Act respectively.

2.14 The Monetary Authority of Singapore ("MAS") administers the requirements under the Securities and Futures Act, and supervises SGX's administration of its listing rules, whilst ACRA administers the Companies Act and Accountants Act, and has two programmes (i.e. Financial Reporting Surveillance Programme and PMP) to monitor compliance with accounting and auditing standards respectively.

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[2] The PMSC comprises of independent practising public accountants and representatives from interested stakeholders to assist the PAOC in the administration of the PMP.

[3] PAOC is a committee comprising ACRA board members and is responsible for discharging ACRA's functions over the registration and regulation of public accountants in Singapore.

2.15 Since 2020, ACRA and MAS have established a Joint Monitoring and Surveillance Committee to:

(a) facilitate a co-ordinated review of the financial statements, audits and the related public announcements/disclosures of listed companies; and

(b) identify and co-ordinate the follow-up on potential breaches of the laws administered by ACRA and MAS, with a view for timely regulatory action and/or the expeditious commencement of any investigation.

2.16 High quality financial reporting is a collective responsibility of all stakeholders in the financial reporting ecosystem: each of the independent auditor, preparers, management, board of directors, audit committee members and shareholders have their respective roles to play in the ecosystem. Notwithstanding the distinct responsibilities of the preparers and auditors, the relationship between companies and their auditors should be collaborative in order to collectively contribute towards strengthening the quality of financial reporting, a cornerstone to high quality audits which in turn builds public trust and investor confidence in financial statements.

Contributing towards Global and Regional Audit Regulatory Initiatives

2.17 ACRA has been an active contributor towards international and regional developments in audit oversight and regulatory activities through its participation in the International Forum of Independent Audit Regulators (IFIAR) and the ASEAN Audit Regulators Group (AARG). These international and regional platforms allow ACRA to work with other audit regulators across the globe to share best practices in staying abreast of global audit trends and developments in supporting international and regional efforts in raising audit quality.

International Forum of Independent Audit Regulators

2.18 ACRA is a founding member of IFIAR, a global forum for audit regulators which has around 54 jurisdictions as its members. IFIAR promotes global collaboration and sharing of experiences among the audit regulators through initiatives such as inspection and enforcement workshops, annual surveys and publications on regulatory trends and developments. Through this participation in IFIAR, ACRA benchmarks its audit regulatory regime against other leading audit regulators to keep Singapore’s audit regulatory regime robust and relevant.

2.19 ACRA continues to serve on the Board of IFIAR and has been successfully re-elected to be a member of the IFIAR Board for another four-year term from 2021 to 2025 at the 2021 IFIAR plenary meeting. The IFIAR Board was established in April 2017 and is responsible for developing IFIAR's strategy and determining annual operating priorities.

2.20 Ms Kuldip Gill, ACRA's Assistant Chief Executive (Accounting and Compliance Group) has also been appointed to chair the Human Resources and Governance Committee (HRGC) of the IFIAR, which assists the IFIAR Board in overseeing matters relating to human resources and general governance.

2.21 Besides serving on the IFIAR Board, ACRA is also a member of the Global Audit Quality Working Group (GAQWG) since 2011. The GAQWG engages in ongoing dialogues with the leadership of the six largest international networks of audit firm (known as Global Public Policy Committee or GPPC[4] network) on initiatives to improve audit quality globally.

2.22 Furthermore, ACRA is a member of the IFIAR Technology Task Force (IFIAR TTF) which was set up in June 2020. IFIAR TTF's objective is to focus on the impact to audit quality of technology audit tools used widely around the world by the six GPPC audit firms. The IFIAR TTF achieves this objective through continuous engagement with each of the GPPC firm's global leaders to seek a wider understanding of their network level approaches to oversight of technological resources[5] used in audits across their global network firms.

2.23 One of IFIAR's key initiatives is the annual survey of inspection findings that aims to highlight common findings found globally by regulators and to measure changes in those findings. IFIAR released the results of its ninth annual survey of inspection findings from its member regulators' individual inspections of audit firms affiliated with the six GPPC audit firm networks on 15 March 2021[6]. The survey comprises findings from inspections conducted by 50 IFIAR members, including ACRA, focusing on inspection reports issued to the GPPC networks' member firms during the year ended 30 June 2020. From the survey, the theme for the most common inspection findings (i.e. accounting estimates, including fair

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[4] The six firms in the GPPC networks are BDO, Deloitte, EY, Grant Thornton, KPMG and PwC. In Singapore, as at 31 March 2021, Grant Thornton does not perform audits of listed entities.

[5] Further requirements on the use of technological resources can be found in SSA 220 (paragraphs A63 to A67) and SSQM 1 (paragraph 32 (f)) issued in October 2021.

[6] https://www.ifiar.org/activities/annual-inspection-findings-survey/

value measurement) for listed PIE audits is consistent with ACRA's engagement inspections in the listed and non-listed companies' segment, as discussed in Section 4.

ASEAN Audit Regulators Group

2.24 The formation of the AARG[7] is aimed at fostering closer collaboration, promoting audit quality and achieving greater alignment in audit regulatory practices amongst audit regulators in the ASEAN region. The AARG's activities complement IFIAR's efforts in upholding the standards of audit quality by focusing on common issues relating to audit regulation specific to the ASEAN region.

2.25 One of the AARG's key activities is the annual inspection workshops where delegates discuss topics covering regulatory developments, common inspection findings and sharing on inspection experiences. This year, the topics discussed included challenges faced during COVID-19 situation as well as emerging topics of significant impact on audit firms such as the challenges of implementing ISQM 1 and ISQM 2. The 8th AARG inspection workshop held on 17 and 18 June 2021, hosted virtually by Thailand SEC, saw about 150 participants from 12 countries. As part of the inspection workshop, representatives from the United States' Public Company Accounting Oversight Board (US PCAOB) shared on the use of technological tools for the future of audit regulation. To provide more insight on regional efforts in raising audit quality, the workshop had also invited audit committee representatives from Singapore and Thailand to discuss the role audit committees play, in enhancing audit quality.

2.26 Another key AARG activity is to engage with the regional leadership of the GPPC audit firms, to discuss current and emerging topics affecting audit quality in the region. This year, the topics discussed included implementation challenges from ISQM 1 and ISQM 2, technological tools for enhancement of audit quality and its impact on the audit workforce. Such periodic dialogues with the GPPC audit firms mirror the IFIAR GAQWG meetings and are beneficial in achieving a collaborative approach towards addressing common audit quality challenges.

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[7] The AARG comprises ACRA, Indonesia's Finance Professional Supervisory Center (Also known as Pusat Pembinaan Profesi Keuangan "PPPK"), Malaysia's Audit Oversight Board (AOB), Thailand's Securities and Exchange Commission (Thailand SEC) and The Philippines' Securities Exchange Commission (Philippines SEC).

Section 3: Firm-level Inspections and Audit Quality Indicators

Introduction

3.1 An effective system of quality control is the pillar to ensure consistent delivery of quality audits. ACRA has been carrying out firm-level inspections on an advisory basis to detect systemic risks in firms that audit listed companies based on SSQC 1. ACRA will be conducting statutory firm-level inspections based on the relevant quality control standards when the proposed amendments to the Accountants Act are enacted.

3.2 In addition to SSQC 1, SSA 220 *Quality Control for an Audit of Financial Statements* deals with specific responsibilities of the auditor regarding quality control procedures at the engagement level and addresses the responsibilities of the engagement quality control reviewer (EQCR).

3.3 ACRA also monitors AQIs to complement its firm-level inspections via offsite monitoring submissions by audit firms in the listed companies' segment. Since 2020, ACRA has been publishing information on industry average and range of certain AQIs, categorised by Big Four and Non-Big Four firms in the listed companies' segment. This industry comparison helps facilitate meaningful analysis and audit committees' discussion with the auditors. The industry information is updated twice a year (for the six months ended 31 March and twelve months ended 30 September) and is published on the ACRA website[8].

Common Firm-Level Inspection Findings and Key Reminders

3.4 The common findings from past firm-level inspections continue to recur in the recent 2020-2021 firm-level inspections, and they are tabled below. Audit firms are reminded to ensure that relevant policies and procedures are put in place to maintain an effective system of quality control.

[8] https://www.acra.gov.sg/public-accountants/audit-quality-indicators-disclosure-framework

	Common Firm-level Findings	Key Reminders
Leadership	**Linkage between audit quality and partners' performance evaluation and compensation** ACRA noted that the linkages between audit quality and partners' performance evaluation and compensation could be further strengthened to drive the right behaviour and promote an internal culture based on quality.	Audit firms should establish **policies that links the quality rating and compensation framework with clear prominent weightages to quality,** to demonstrate firm's overriding commitment to quality. Audit firms should consider incorporating audit quality related factors into partners' performance evaluation such as: • internal and external review results; • independence breaches; • lapses on archival of audit workpapers; • financial statement restatements; • effectiveness of partner acting as EQCR; • accountability of partner with quality control functional leadership roles; • any other non-compliance with firm's quality control policies and procedures.
Independence	**Violation of independence requirements** ACRA continues to note regulatory violations of the Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") and non-compliances with firm's independence policies, as well as inaccurate/incomplete or untimely independence declarations.	Auditor independence is the foundation for high audit quality. Public accountants and accounting entities could be subjected to disciplinary proceedings under Part VI of the Accountants Act for breach of independence requirements under the ACRA Code. Audit firms should continue its efforts to eradicate regulatory violations and improve the robustness of firm's monitoring and independence testing by considering initiatives such as, but not limited to:

	Common Firm-level Findings	Key Reminders
Independence	**Independence testing for staff** The robustness of audit firm's independence testing can be further enhanced by verifying employees' declarations, including **nil responses** of the employees and their spouse/immediate family members.	• Tailor an independence guide for partners and managers' spouse/immediate family members, as well as extending personal independence consultation helpdesk to them. • Increase coverage for independence testing, including partner candidates and previous violators. • Conduct mandatory annual personal independence refresher training, to remind staff of the firm's policies/requirements and also share observations from past independence violations. • Implement stricter independence sanctions, including financial penalties. • Encourage self-reporting of independence violations by meting out lighter sanctions as compared to violations detected from firm's monitoring.
A&C	**Execution lapses in acceptance and continuance ("A&C") process** ACRA continues to note varied execution lapses in the firm's A&C procedures, as well as the EP200 requirements.	Audit firms should assess the impact of COVID-19 on their clients' business and re-evaluate the client engagement risk classifications during the A&C stage. For clients in specialised industries (e.g. transactions involving digital assets), firms should assess the associated risks related to digital assets and whether they possess the specialised knowledge and professional competence to undertake those engagements during the A&C process.

	Common Firm-level Findings	Key Reminders
Human Resources	**High staff attrition** Staff attrition is a perennial issue of the audit profession. As audit firms continue to face high staff turnover, this would result in loss of knowledge and experience necessary to execute quality audits.	As seen from the increase in the average staff attrition rates for the six months ended 31 March 2021 in Figures 5a and 5b[9], audit firms should consider implementing effective staff retention initiatives to maintain healthy retention rates, especially for the high performing staff. One key staff retention initiative that firms have recognised its importance is to instil a coaching culture within their organisations. Firms should continue their efforts to promote timely and adequate involvement by audit partners and managers as on-the-job coaching by senior audit personnel greatly enhances staff's learning curve and deepens their job satisfaction. To minimise the negative impact on audit quality from staff attrition, firms are reminded to put in place processes to ensure proper handover of audit engagements when there are changes in engagement team members.

[9] The average attrition rates of the Big Four and Non-Big Four firms for the six months ended 31 March 2021 had increased by 7% and 19%, respectively.

	Common Firm-level Findings	Key Reminders
Engagement Performance	**Final assembly of audit files** Whilst ACRA has seen continuous efforts by audit firms to improve on the number of archival lapses, ACRA still notes lapses in the final assembly of audit files, such as • Incomplete or missing audit workpapers (e.g. limited/full scope components' audit workpapers not separately archived within 60 days from the group audit report date to support the group audit opinion); • Incomplete or missing engagements from the firm's track sheet used in monitoring of archival due dates; and • Non-timely archival of audit files and extent of archival lateness for a prolonged period after archival deadline.	ACRA is heartened to observe that certain audit firms have achieved zero archival lapses. This is encouraging and a testament to the efforts put in by the firms in implementing effective initiatives such as: • Institute full paperless electronic audit files to eradicate late archival of hardcopy workpapers; • Implement a stricter policy of a shorter archival timeframe than the requirements in SSQC 1 and SSA 230 *Audit Documentation* (i.e. less than 60 days); • Automate reminder emails for impending archival due dates, and utilise auto-archival function of audit software to lock down audit evidence at the last day of the archival period; and • Set a strong tone at the top on archival deficiencies in partners' and staff's performance appraisals, including repeat offenders.
Monitoring	**Ineffective monitoring controls in place to identify lapses** ACRA noted firm-level and engagement review findings which were not identified through the audit firms' monitoring programmes. This raised questions over the operating effectiveness of the firm's monitoring controls.	Monitoring is an important element that cuts across the above-said five areas of the audit firm's system of quality control. Firms should revisit the design and effectiveness of their internal monitoring or testing on firm-wide quality control areas which had significant impact from COVID-19 (e.g. client portfolio risk review).

	Common Firm-level Findings	Key Reminders
Monitoring	**Ineffective root cause analysis ("RCA") and remediation actions** ACRA notes that some audit firms continue to attribute the same or similar root causes to almost all the findings identified. Absence of a "deep-dive" RCA to find out the real underlying root causes could lead to ineffective remediation actions devised to address the identified lapses.	Recurring findings suggest that the audit firm's remediation plans were not effective to address the gaps identified. Firms should strengthen the effectiveness of RCA process to improve on the identification of the underlying root causes taking into consideration the independence of the individuals performing the RCA, focus group sessions with engagement teams, including EQCR, and accountability of the remediation actions. ACRA urges firms to continuously monitor the effectiveness of remedial actions undertaken and refine their policies and procedures to achieve continuous improvement.

3.5 Audit firms should take note of the changes to the quality management standards, namely SSQM 1, SSQM 2 and SSA 220 (Revised) which will be effective on 15 December 2022 and ensure that new policies and procedures are established to address those changes.

3.6 ACRA stresses that, under the proposed amendments to the Accountants Act, stern regulatory sanctions will be taken against audit firms for any severe non-compliance with the quality management standards under the proposed amendments.

ACRA's Observations from Firm-level Inspections

Investments in Technological Resources to Enhance Audit Quality

3.7 Auditors in the new norm are increasingly leveraging on technology to innovate their audit practices and transforming into a data-driven audit that can enhance audit quality. Advancements in technology have sparked an increased use of tools in audit firms, which significantly impacts the way in which audits are delivered and offers many benefits such as:

- Reduce detection risk where automated tools and techniques are used to analyse large data sets, often the entire population, in a more targeted way (e.g. samples selected from the exceptions or outliers generated from audit tools, instead of randomly selected samples).

- Gain deeper insights and identify unusual trends, leading to a more targeted risk assessment of the entity's operations, controls and transactions (e.g. effective journal entry testing, rather than manual selection of journal entries that are often voluminous.)

- Enhance the auditor's ability to exercise professional scepticism on accounting records that are inconsistent with his expectations by analysing data from external sources of information (e.g. pricing data, industry data, macro-economic data), in addition to internal accounting records produced by the audit client.

- Improve efficiency on audit process by reducing administrative burden and automating mundane/routine tasks (e.g. circularisation of third-party confirmation), thus allowing auditors to focus on more complex and judgemental areas.

- Improve communication and collaboration within audit teams and connectivity with clients (e.g. real-time status dashboards, cloud-hosted platforms for secure sharing of data).

3.8 ACRA is heartened that many audit firms have committed significant financial and human resources to develop and deploy technology in various phases of the audit, from planning and risk assessments to the execution of audit procedures. In some firms, auditors no longer conduct stocktakes with hardcopy stock count sheets. Instead, they use mobile apps or web-based applications to compile data from inventory counts and automatically reconcile to the inventory stock ledger, enabling the inventory count results to be monitored by other members of the audit team instantaneously. Technological innovations are essential not only to enhance the effectiveness and efficiency of audits but to keep the younger next-gen auditors engaged in the profession and make this profession more attractive for future aspiring auditors.

3.9 Standard setters having recognised that deployment of technological tools is increasing and will continue to increase in audits, are in the process of revising the standards. For example, SSA 315 (Revised 2021) has been revised in August 2021 to include specific application material which addresses the use of "*automated tools and techniques*" [10]. The International Auditing and Assurance Board (IAASB) is in the process of revising International Standards

[10] SSA 315 (revised 2021) *Identifying and Assessing the Risks of Material Misstatement* -paragraphs A21 onwards.

on Auditing (ISA) 500, *Audit Evidence* to address concerns on the nature and sources of information used in audits. A revised standard is expected in the near future.

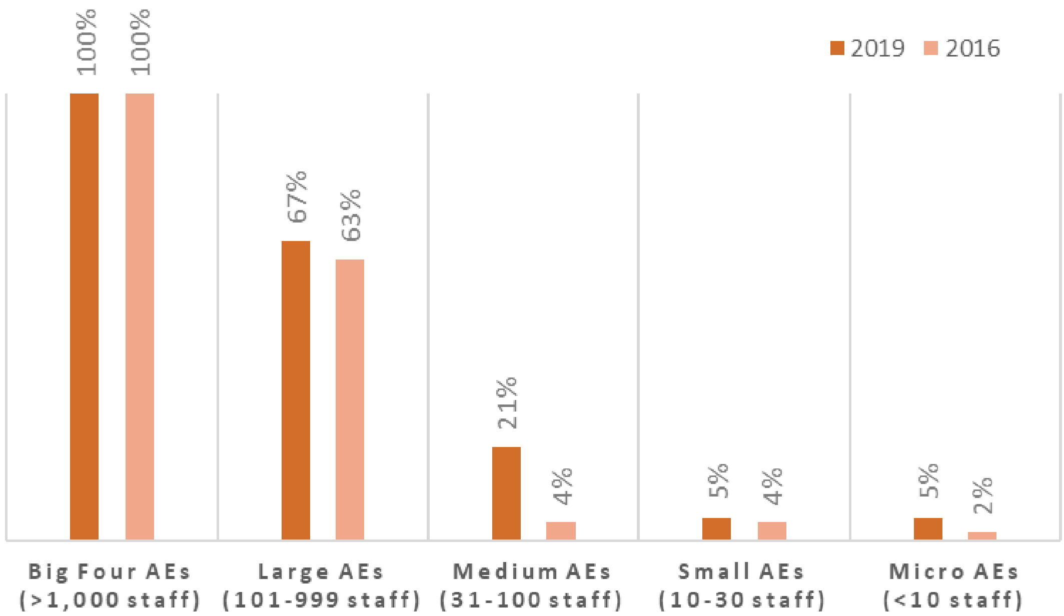
3.10 As the use of technology becomes more prevalent in audits, it does however give rise to areas that are not addressed in the current auditing standards, such as data analytics. To provide guidance on how auditing standards can be satisfied and complied with, ISCA, in collaboration with ACRA, issued AGS 13 *Data Analytics in a Financial Statements Audit* in August 2021. AGS 13 provides the key principles of the application of data analytics in a risk-based audit model, as well as illustrative examples on how data analytics may be effectively used in different phases of the audit, such as risk assessment procedures, substantive analytical procedures and tests of details.

3.11 In deploying technology in audits, public accountants should assess if there is a need to elevate fraud risk. This is the risk that the underlying data input into the audit tools may be altered by management to manipulate financial results. This includes designing additional audit procedures to respond specifically to the fraud risk when testing the reliability of the data inputs.

Upskilling in an Evolving Digital Economy into a Future-proof Audit Workforce

3.12 As shown in Figure 2, the adoption rate for data analytics has been growing steadily in the Big-Four and large accounting entities. This change perhaps was required to address the challenge faced by audit firms in attracting talent to join the profession and retain them. This is the opportunity for the audit profession to become a more appealing career option to the current and future auditors.

Figure 2: Adoption Level for Data Analytics for Audit by Accounting Entity ("AE") Size[11]



3.13 Given the rapid development and deployment of technology in audits, training and skillsets of the auditors has been a primary concern of audit firms. ACRA observed that the larger firms are recruiting talent with broader technical and digital skillsets, alongside with appropriate technology-related training to upskill and reskill the digital competencies of the existing audit workforce. Some firms have also collaborated with universities to provide technology-related courses to their audit professionals.

3.14 The SAC, Workforce Singapore and Skills Future Singapore are conducting a study to explore the impact of emerging trends and technology on manpower in Singapore-based

[11] Source: Singapore Accountancy Commission Accounting Entity Survey, AEcensus 2020

accounting practices. The study will identify possible interventions that stakeholders can co-develop to build a future-ready workforce equipped with the right capabilities and skills. The study is expected to be finalised by end of 2021.

3.15 Recognising the increasing use of technology in auditing and to encourage the use of technology, ACRA carried out a review of the current CPE syllabus applicable to public accountants to expand the current four Core Expertise Areas[12] to include Information Technology (IT). The proposed changes to the CPE syllabus will be announced in ACRA's Practice Direction to inform all public accountants of the changes to the CPE requirements.

3.16 ACRA encourages the audit professionals to set aside time and resources to invest in digital innovations and transformations, upskill and reskill the audit workforce so as to stay competitive and build resilience in their continuing quest to improve audit quality.

Trend analysis of AQIs of audit firms that perform audits of listed entities

3.17 ACRA introduced its AQI Disclosure Framework in 2015, with the aim of equipping audit committees to better evaluate and select the right auditor. The AQI enhances discussions between audit committees and audit firms on audit quality matters during the selection or re-appointment of auditors.

3.18 As part of ACRA's revisions to the AQIs Disclosure Framework in 2020[13], ACRA published relevant information on industry average and ranges for the audit firms in the listed companies' segment, categorised by Big Four and non-Big Four firms, to better facilitate industry comparison. The industry information provided focuses on:

I) Staff oversight:
   (i) Partner to manager and audit professional staff ratio (Figure 3), and
   (ii) Managers to audit professional staff ratio (Figure 4).

II) Average years of experience by staff grade.

III) Overall staff attrition rate (Figure 5).

[12] The current four core Expertise Areas are (1) Financial Reporting Standards and Pronouncements, (2) Ethics and Professionalism, (3) Auditing Standards, Pronouncements and Methodology, (4) Insolvency and Restructuring (applicable to judicial managers and approved liquidators).

[13] https://www.acra.gov.sg/Publications/Guides/Guidance_to_Firms_on_AQI_Framework/

3.19 The charts in Figures 3a to 5b illustrate the respective average AQIs in the Big Four and non-Big Four firms, as well as the highest and lowest AQIs of the audit firms for the respective reporting periods from 2018 to 2021.

Staff Oversight

3.20 Audit quality, ceteris paribus, is likely to increase with lower leverage ratios. A higher number of staff per partner/manager would suggest that partners/managers have greater supervision and review responsibilities, which may have a bearing on their limited capacity and distract them from providing adequate and focused attention to audit engagements.

3.21 The average partners to manager and audit professional staff ratios have been generally stable since 31 March 2018 for both Big Four and non-Big Four segments. As shown in Figure 4b, the average managers to audit professional staff of non-Big Four firms have decreased from 7.1 to 4.8 as at 31 March 2021 and range between the highest and lowest ratios had also narrowed over time. ACRA acknowledges the efforts audit firms have put in over the years to monitor and maintain/improve the leverage ratios.

Figure 3a: Staff oversight – Partners to manager and audit professional staff ratio of Big Four firms

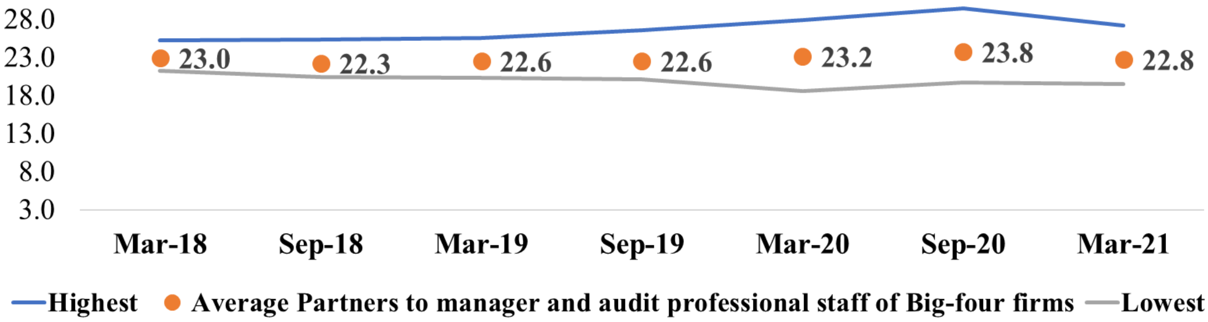


Figure 3b: Staff oversight – Partners to manager and audit professional staff ratio of non-Big Four firms

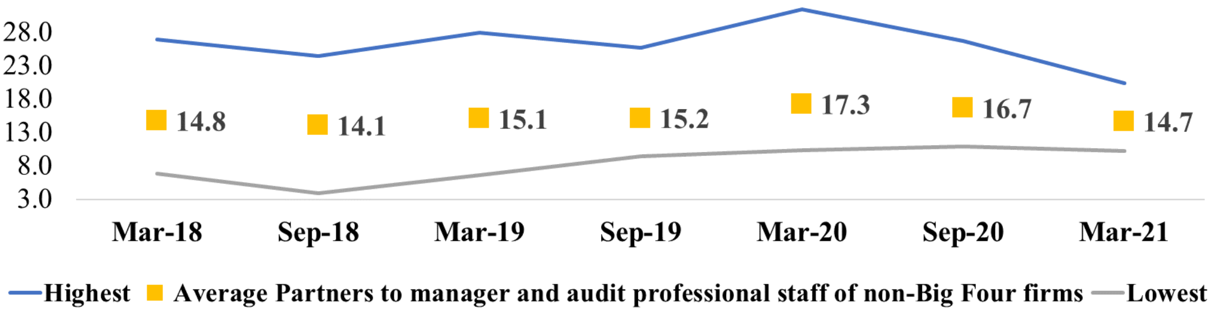


Figure 4a: Staff oversight – Managers to audit professional staff ratio of Big Four firms

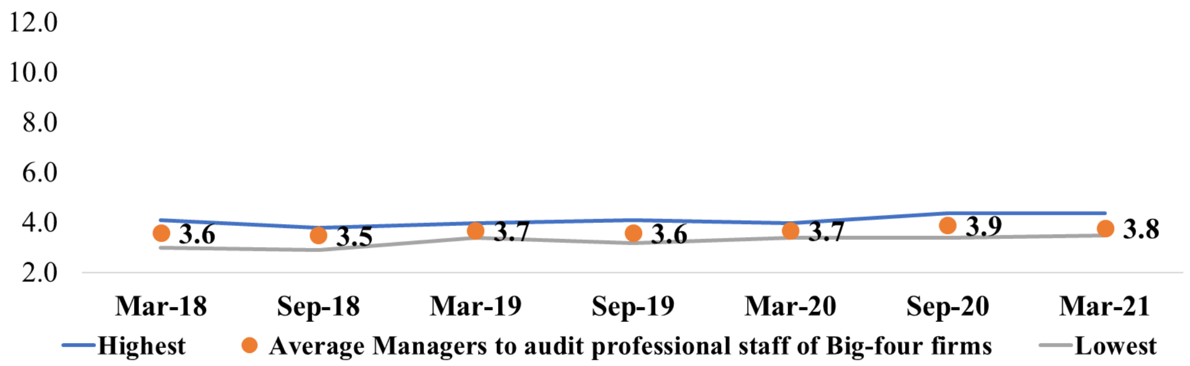
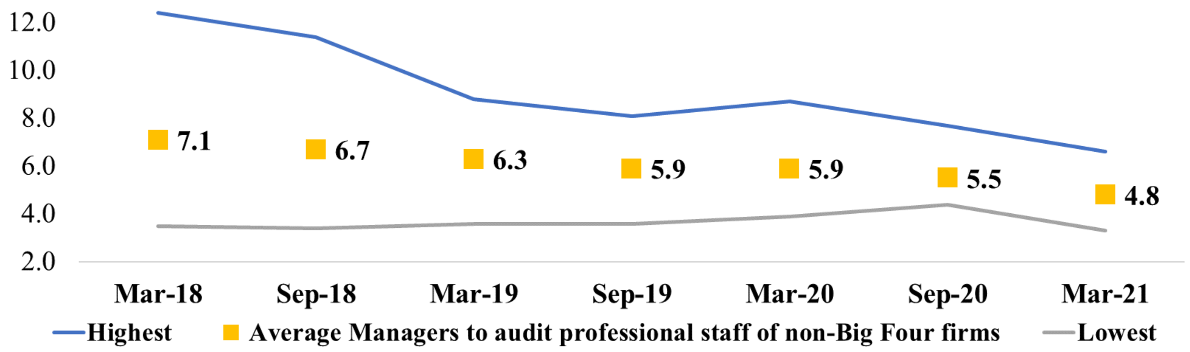


Figure 4b: Staff oversight – Managers to audit professional staff ratio of non-Big Four firms



Staff Attrition rate

3.22 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 loss of knowledge and experience, and audit firms may face difficulties in recruiting auditors with similar levels of experience and competency. In the longer run, this inhibits the firm's readiness and capability to identify and resolve audit and accounting issues effectively. Therefore, every staff retained adds on to the firm's knowledge and experience base necessary to execute high quality audits.

3.23 As shown in Figures 5a and 5b, the overall staff attrition rates for the twelve months ended 30 September from 2018 to 2020, were experiencing a decreasing trend for both the Big Four and non-Big Four segments. However, the average staff attrition rates for the most recent six months ended 31 March 2021 had increased by 7% and 19% for the Big Four and non-Big Four firms, respectively. Audit firms should step up their staff retention strategies and put in place processes to ensure proper handover of audit engagements, so as to minimise the negative impact on audit quality, as staff attrition picks up in the new normalcy endemic environment.

Figure 5a: Overall staff attrition rate of Big Four firms

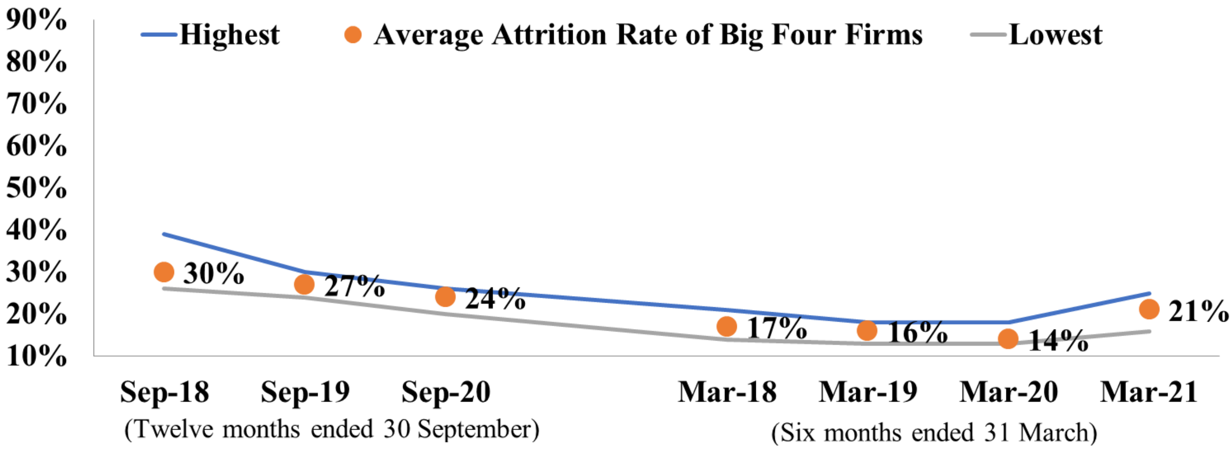
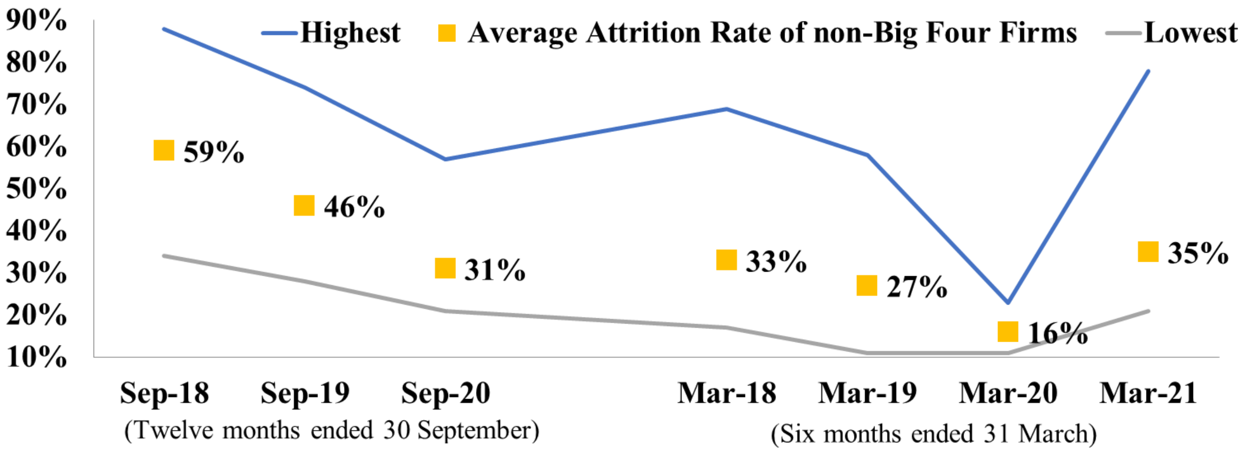


Figure 5b: Overall staff attrition rate of non-Big Four firms



3.24 As part of continuous enhancement and to ensure consistency, ACRA has developed a Guidance to Audit Firms on ACRA's AQI Disclosure Framework (2020 Revised)[14], to facilitate comparability of the AQI data provided by audit firms. ACRA will also perform sample checks to ensure that the AQI data provided by firms are prepared in accordance with the basis set out in the guidance.

3.25 Having AQIs alone is not a silver bullet to guarantee high quality audits. Audit firms are encouraged to share AQI data with audit committees, with comparison within the industry,

[14] https://www.acra.gov.sg/Publications/Guides/Guidance_to_Firms_on_AQI_Framework/

to allow for more meaningful analysis and discussions. Audit committees, on the other hand, should also endeavour to request AQI data from firms for use as a means to assess the firms' quality at the following junctures to better evaluate and select the right auditors:

i) after each financial year's audit is completed (when Audit Committees are considering whether to re-appoint the incumbent auditor); and

ii) when Audit Committees are considering a change in auditor.

Section 4: Engagement Inspection Findings

Introduction

4.1 Under the Accountants Act, Cap. 2, all public accountants in Singapore are statutorily subjected to practice reviews under ACRA's PMP, which assesses whether a public accountant has *complied with the prescribed standards, methods, procedures and other requirements when providing public accountancy services*.

4.2 A PMP inspection addresses the audit procedures performed by the public accountant to support its audit opinion. An inspection finding is raised when there has been non-compliance with the prescribed standards. Such non-compliance can either be a deficiency in audit procedure[15] or insufficient work performed to support the professional judgement[16] applied by the public accountant. However, **an inspection finding does not necessarily mean that the financial statements were misstated or that an audit failure (e.g. wrong audit opinion issued) has occurred**.

Analysis of Engagement Inspection Findings

4.3 The areas with the highest frequency of findings observed from ACRA's engagement inspections over a three-year period is illustrated in Figures 6A and 6B for listed and non-listed companies' segments, respectively. ACRA encourages audit firms to continue their pursuit to improve audit quality and focus the remediation efforts on the audit quality theme noted below.

[15] Deficiency may stem from inadequate work done or non-performance of audit procedures necessary to obtain sufficient appropriate audit evidence to support the audit opinion.

[16] Obvious to an experienced auditor that the public accountant's application of professional judgment is fundamentally flawed.

Figure 6A: Common inspection findings by themes in the listed companies' segment

2021	2020	2019
Accounting estimates, including fair value measurement	Accounting estimates, including fair value measurement	Accounting estimates, including fair value measurement
Going concern	Revenue recognition	Revenue recognition
Use of experts / specialists	Risk assessment & audit evidence	Risk assessment & audit evidence
Group audits	Group audits	Group audits
Risk assessment & audit evidence	Use of experts / specialists	

Figure 6B: Common inspection findings by themes in the non-listed companies' segment

2021	2020	2019
Accounting estimates, including fair value measurement	Accounting estimates, including fair value measurement	Accounting estimates, including fair value measurement
Audit report	Group audits	Group audits
Group audits	Revenue recognition	Revenue recognition
Inventory procedures	Audit report	Inventory procedures
Revenue recognition	Inventory procedures	Risk assessment & audit evidence

Accounting estimates, including fair value measurement

4.4 In the last three consecutive years, accounting estimates, including fair value measurements has topped the list of common findings in ACRA's engagement inspections. This observation is also consistent with the IFIAR Annual Inspection Findings Survey results, which showed that accounting estimates, including fair value measurement had the highest frequency of inspection findings for listed public interest entities' audits in the same period.

4.5 Accounting estimates vary widely in nature and often involve extensive management's judgements and significant assumptions, which may encompass complex models and calculation methods. Auditing accounting estimates has never been straightforward, nor easy. Auditors face challenges when evaluating whether significant judgments and assumptions that are susceptible to management's manipulation or bias, whether intentional or unintentional.

4.6 The theme on accounting estimates, including fair value measurement, is broad, as evidenced by the number of different areas that could involve accounting estimates. The audit deficiencies in this area resulted from the lack of sufficient and appropriate:

(a) risk assessment procedures, including appropriateness of valuation methodologies used;

(b) consideration of management bias, including changes in management's accounting estimates or method from prior periods;

(c) professional scepticism in challenging the underlying assumptions used, including consideration of contrary or inconsistent evidence that existed;

ACRA emphasises that auditors should **not be merely**:

- assessing qualitatively, with no quantitative assessment to challenge management's estimates; and
- looking out for supporting evidence and disregard contradictory evidence.

(d) work performed to assess the relevance and reliability of inputs and data used.

4.7 An analysis of the findings revealed the following financial statement line items and its audit deficiencies categorised under this theme:

Inventories

- Lack of robust challenge on the reasonableness of allowance for inventory obsolescence.

  ACRA observed that public accountants had recomputed the inventory provisions and relied on management's provisioning policy with no further corroboration.

Receivables

- Lack of sufficient appropriate audit evidence on the recoverability of receivables, including reasonableness of provision of expected credit losses ("ECL").

  For ECL estimation based on client's overseas holding company/head office's data (e.g. a blanket overlay to incorporate COVID-19 impact on the ECL for the entire group), ACRA observed that public accountants had not considered:
  - whether the COVID-19 impact and economic conditions might differ among different countries; and
  - whether the receivables under the Singapore entity share similar risk characteristics as those of its overseas holding company/head office.

Construction contracts

- Lack of sufficient evaluation on the reasonableness of management's estimates over:
  (a) the stage of completion of contracts;
  (b) total budgeted costs and estimated costs-to-complete;
  (c) provisions for foreseeable losses; and
  (d) provision for liquidated damages.

  ACRA observed that these public accountants failed to assess project costs overruns or delay in the completion of projects, that might trigger the need to revise total budgeted costs, include extension of time to complete the projects or pay liquidated damages.

Goodwill and other intangible assets
Property, plant and equipment

- Lack of adequate assessment on the reasonableness of inputs, variables and assumptions used by management in the discounted cash flow model.

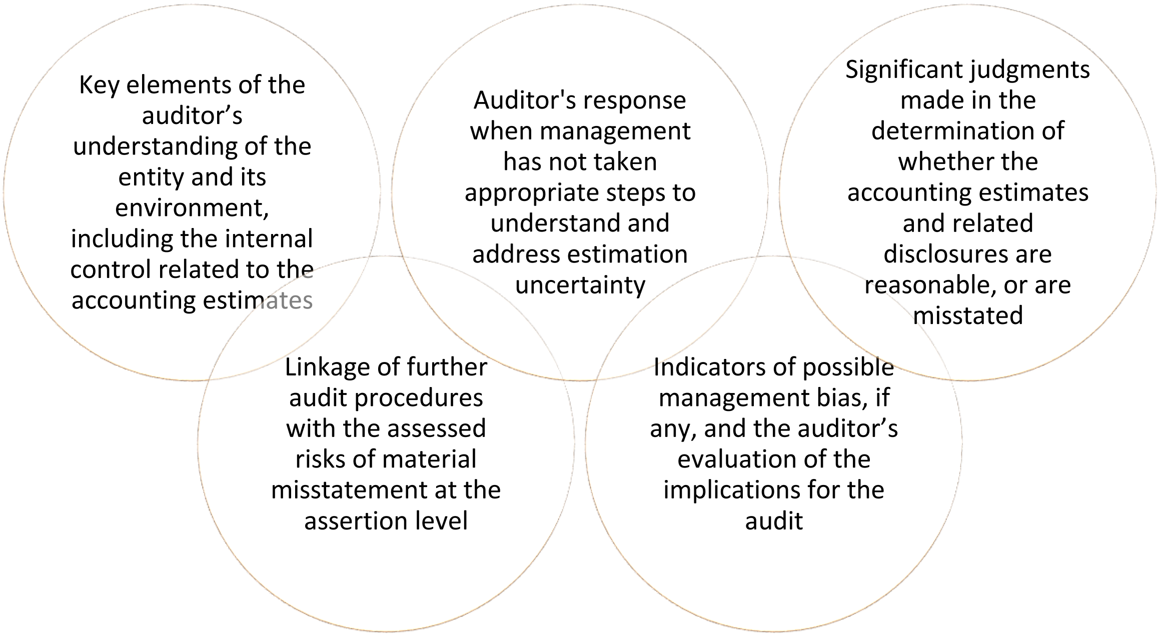
- Lack of sufficient appropriate audit evidence obtained to support the range of changes in assumptions used in the sensitivity analysis of accounting estimates.

- Lack of evaluation on how management addressed estimation uncertainty (e.g. their intent and ability to carry out specific course of action on certain future event).

  ACRA observed that public accountants had only assessed reasonableness of forecasted information via inquiry with management with no further corroboration.

4.8 SSA 540 (Revised) *Auditing Accounting Estimates and Related Disclosures* requires auditors to obtain sufficient appropriate audit evidence about whether accounting estimates and related disclosures in the financial statements are reasonable. It is also important that the audit documentation demonstrates how auditors have exercised their professional scepticism to arrive at their conclusion, including the challenges and judgement they have made throughout the audit. Specifically, SSA 540 (Revised) includes the audit documentation requirements of the auditors as shown in Figure 7.

Figure 7: Audit Documentation requirements under SSA 540 (Revised)



4.9 For significant assumptions, public accountants should consider management's **intent and ability** to carry out a particular course of action, as there may be economic uncertainties to limit management from carrying out a planned action.

4.10 Even in the new normalcy endemic environment, assumptions such as revenue projections based on management's past experience and expectation may not reflect current market information or represent expected future conditions or events.

4.11 Uncertainties surrounding the effects of the pandemic have heightened the subjectivity and measurement uncertainty of many accounting estimates. Some estimates may also involve complex processes and methods. Management may involve specialists (i.e. management's expert) to assist in the development of accounting estimates, and public accountants may also need to involve specialists (i.e. auditor's expert) to sufficiently evaluate assumptions in light of the pandemic.

4.12 ACRA urges all public accountants to engage with their clients early, to prepare a robust risk assessment of estimates during the planning phase with the involvement of senior audit personnel. Public accountants should also heighten their professional scepticism when assessing whether management's accounting estimates, and the related disclosures, are reasonable in the context of the continually changing and uncertain economic environment.

Pandemic Complicates Going Concern Assessments

4.13 The uncertainties arising from the COVID-19 pandemic such as supply chain disruptions and lockdowns, continue to be a key risk to business operations and have caused the economic conditions of many companies to deteriorate, such as decreasing revenue, operating losses, delayed payments from debtors and difficulty in obtaining financing. The uncertainties from the impact of COVID-19 have heightened public scrutiny over companies' ability to continue as a going concern should those conditions persist.

4.14 Whilst management is responsible for the evaluation of the companies' ability to continue as a going concern under FRS 1 *Presentation of Financial Statements*, public accountants should also be cautious and exercise professional scepticism when evaluating the quality of audit evidence obtained in support of management's assessment, including the adequacy of disclosures made by management about the impact of COVID-19 and the need to extend the going concern assessment beyond twelve months from the date of the financial statements. The indicators that going concern assumption may no longer be appropriate may go beyond the financial indicators such as entity's default on loans, denial of undrawn credit lines from banks or trade credits, loss of major customers, etc.

4.15 Public accountants should consider both negative and positive factors arising from the COVID-19 situation in the going concern assessment. For details on what needs to be considered in the going concern assessment, please refer to FAQ 10 of ISCA COVID-19 Technical FAQs[17] for further guidance.

4.16 The audit deficiencies in going concern assessment are summarised in the table below:

[17] https://isca.org.sg/covid-19-series/resources/isca-covid-19-technical-faqs

Common Findings on Going Concern Assessment	Key Reminders
Evaluation of the appropriateness of management's going concern assumptions ACRA noted that public accountants had accepted management's representations without obtaining sufficient appropriate audit evidence to corroborate management's representations. For example, • sources of financial support and the financial ability of the other party to provide the support; or • the outcome of a future event (e.g. refinancing of loans, success of new business model pivoted during the pandemic or new product launches).	For financial support provided by another party (e.g. holding company), public accountants should not only evaluate the **financial ability**, but also the **intent** of the other party to continue to provide the said financial support to the entity. For unutilised credit facilities, public accountants should evaluate whether there would be continued support from the bank or lender throughout the period of assessment, including the ability of the entity to comply with the financial covenants, if any. For auditor's reports with "*Material Uncertainty Related to Going Concern*", public accountants are still required to assess and conclude that management's use of going concern basis of accounting remain appropriate to support the unmodified audit opinion.

Common Findings on Going Concern Assessment	Key Reminders
Assessment on the cash flow projections used in the evaluation of going concern assumption In assessing management's cash flow projections, ACRA noted that there was lack of sufficient appropriate audit evidence obtained to assess: • the reliability of underlying data; • if there were any contradictory evidence used in the assumptions for the going concern assessment vis-à-vis the impairment assessment of non-financial assets held by the same entity; and • the reasonableness of assumptions used in management's forecasts (e.g. revenue, cost-cutting measures and estimated recovery period from COVID-19 impact on the business).	When reviewing cash flow projections, public accountants should consider whether the impact from COVID-19 could result in events or conditions that might trigger the need to extend the going concern assessment **beyond 12 months**[18] from the date of the financial statements and include scenario and/or sensitivity analyses to support their conclusion. Public accountants should be alert to changes in conditions or contrary internal (e.g. subsequent financial information) or external data (e.g. latest government measures on COVID-19, oil and gas prices) up to the date of audit report that could have an impact to the cash flow projections and the ability of the company to continue to operate.

4.17 Going concern assessments have always been a complex matter to address, particularly when significant judgements and estimates are applied, ACRA encourages public accountants to engage with management/those charged with governance early to approach the audit of going concern assessments and seek independent consultations where necessary.

[18] FRS 1 *Presentation of Financial Statements* paragraph 26: "*In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, **but is not limited to**, twelve months from the end of the reporting period*."

Common Findings relating to Auditors' Reports and Key Reminders

4.18 The auditor's report is the most important output of an audit as it contains an independent audit opinion after extensive hours of audit work, vast amount of audit evidence and audit documentation to conclude whether the financial statements as a whole are free from material misstatement. Public accountants must take pride in their final report and ensure that the reports issued meet the requirements laid out in the auditing standards.

4.19 The observed common errors and omissions in the auditor's report were generally due to failure to include information required by the auditing standards, which could result in missing or erroneous audit opinion issued. ACRA would like to remind public accountants that various illustrative auditor's reports are available under SSA 700 to SSA 810 for reference and public accountants are to take into consideration the specific facts and circumstances of the audit engagements when preparing the audit report.

4.20 ACRA wishes to highlight some of the common deficiencies related to auditors' reports and key reminders for the public accountants to ensure that the audit reports meet all the requirements laid out in the auditing standards.

Common Audit Report Findings	Key Reminders
Omission of audit opinion on the consolidated financial statements A typical set of consolidated financial statements comprise the following: • consolidated statement of financial position of the Group; • statement of financial position of the Company; • consolidated statement of comprehensive income; • consolidated statement of changes in equity; and • consolidated statement of cash flows. ACRA noted that public accountants **had not identified certain related statements listed above in the audit opinion paragraph**, which resulted in omission to provide an opinion to those statements omitted.	Such omission of audit opinion is a **severe** non-compliance with the requirements of the auditing standards and may result in public accountants not passing the PMP practice review. Further, public accountants are reminded **not to omit** indicating "**Group**" and "**consolidated**" under the relevant paragraphs in the auditor's reports issued on consolidated financial statements. The illustrative auditor's report on group audits is available under SSA 700 *Forming an Opinion and Reporting on Financial Statements*. Public accountants could also refer to AGS 1 *Sample Independent Auditor's Reports* for illustrative examples of commonly used audit reports.
Modifications to auditor's report ACRA noted that there was lack of auditor's assessment on the type of audit opinion issued. For example, an **"except for" opinion** was issued for cases where no audit work has been performed on significant components where the impact to the group financial statements could be material and pervasive.	Public accountants should assess whether any modification to the auditor's opinion is required based on the audit evidence obtained during the audit. In situations where an entity does not meet the exemption criteria for non-consolidation under FRS 110 *Consolidated Financial Statements*, public accountants should assess whether the misstatements, individually or in aggregate, are both material and pervasive to the group financial statements due to non-consolidation of significant components and may have to consider issuing a modified opinion, other than an "except for" opinion.

Common Audit Report Findings	Key Reminders
Basis for modified audit opinion ACRA noted instances of unclear description on the basis for modified opinion paragraphs such that the users of the financial statements would not understand how the auditor's conclusion was reached. For example, there was lack of: • description of matters giving rise to an "except for" opinion; and/or • quantification of the financial effects of misstatements to the financial statements.	Public accountants are reminded to adhere to the requirements of SSA 705 (Revised) *Modifications to the Opinion in the Independent Auditor's Report*, including the requirements on presentation and content, such as including a proper basis and justification to the modification. The audit procedures performed to arrive at the conclusion should also be appropriately documented in the audit working papers.

4.21 Whilst the public accountants in the listed companies' segment are generally more disciplined to ensure the accuracy and completeness of the information required in the audit reports, significant improvement is needed for the public accountants in the non-listed companies' segment to take due care when preparing the ultimate deliverable.

ACRA's Observations from Inspections in the New Norm

4.22 With an expectation that hybrid work arrangement is unlikely to go away in the near future, ACRA observed several positive initiatives where certain audit firms had adopted in responding to the disruptions brought about from the onset of the pandemic, which shapes the formulation of the audit strategy, approach and audit execution in response to the impact of COVID-19.

Audit firms' initiatives in response to the impact of COVID-19

Consultations

- Expand consultation requirements to include complex issues and/or greater element of uncertainty resulting from COVID-19 (e.g. going concern, fair valuation, and impairment assessments) where significant judgements and estimates were applied.
- Set up COVID-19 review committees, support groups and assign valuation specialists to guide audit teams on the impact of COVID-19 on accounting and auditing matters (e.g. going concern, impairment and valuations).

Electronic Audit Evidence

- Develop guidance to auditors on how to evaluate the reliability (including the completeness, validity and authenticity) of electronic audit evidence (e.g. electronic signatures, electronic confirmations).

Understanding of Internal Controls

- Increase partner and manager involvement when setting the audit strategy for tests of internal controls, due to modification of internal controls to accommodate client personnel working predominantly from home. In situations where the control environment may be operating differently than expected, auditors would need to consider the need for additional procedures to address the risk.

Guidance and Trainings

- Set up centralised COVID-19 resource centre to provide quick access to guidance on auditing and accounting matters tailored to local context.
- Conduct technical updates and trainings on audit issues in the current COVID-19 environment and frequently asked questions on remote audits.
- Enhance audit guidance, work programs and templates to incorporate COVID-19 impact (E.g. A&C procedures, risk assessment, fraud risk considerations, professional scepticism, group audits).

Engagement Quality Control Reviews

- Subject more engagements to engagement quality control reviews, targeted at industries more likely to be impacted by COVID-19.
- Increase scope of engagement quality control reviews review on areas with potential COVID-19 impact.

Internal Monitoring Programs

- Utilise virtual desktop infrastructure (VDI) access for remote overseas reviews.
- Develop specific review programs to address critical areas impacted by COVID-19 (e.g. client portfolio risk review).

Case Study

4.23 With the rising trend in findings related to the auditor's report in the non-listed companies' segment and the uncertainties from COVID-19 that would have an impact on the audit opinions issued by public accountants, the following case studies illustrate some other **non-exhaustive considerations** that may affect the auditor's judgement and type of opinion issued.

Case Study: Going Concern Assessment

The principal activities of the Company are related to the development of platform for the mobile application system.

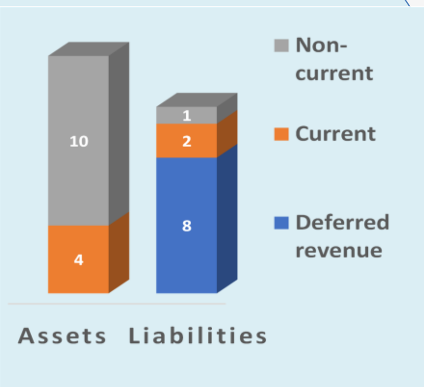
Material Uncertainty Related to Going Concern ("MURGC")

Net current liability: $6 million → **Negative operating cashflows : $1 million** → **Holding Company providing financial support to Company**

The above conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Management is of the view that it is appropriate to prepare the financial statements on a going concern basis as the holding company has undertaken to provide continuing financial support to the Company.

Auditor's Evaluation

A letter of financial support was obtained from the Holding Company to support management's going concern assessment.



The Auditor concluded that the going concern basis was appropriate as:

- Out of the current liabilities of $10 million, $8 million pertained to deferred revenue and would be realised progressively by reference to the percentage of completion of projects. Excluding the deferred revenue of $8 million, the Company would be in a net current assets position of $2 million.
- The Company made $5 million profits during the year and was in a net assets position of $3 million as at year end.

Nevertheless, the Auditor had considered it necessary to draw the user's attention to the Company's net operating cash outflows for the financial year, as well as the net current liabilities position of the Company as at year end. Accordingly, the Auditor expressed an unmodified audit opinion highlighting a MURGC in the auditor's report.

Other Consideration?

- Given that the Auditor had highlighted the basis for going concern (i.e continuing financial support from the Holding Company) in the MURGC, any assessment to evaluate **the financial ability and intent** of the supporting party (i.e. Holding Company), to provide the said financial support to the Company?
  Such assessment is especially important under the current COVID-19 environment as the supporting party's business plans and/or financial strength may be adversely impacted. Auditors should also take note if there are any disclosures relating to the negative impact of COVID-19 on the supporting party and consider their implications.
- Any assessment to evaluate the degree of uncertainty associated with the realisation of deferred revenue in the future?
  Given the uncertainties arising from the COVID-19 situation, the Auditor could consider requesting management to perform stress tests or scenario analysis and consider the need for going concern evaluation by management beyond twelve months from the end of the reporting period.

Case Study: Going Concern Assessment

Amid the economic turmoil related to the coronavirus pandemic, going concern is one of the auditor's key focus areas and the assessment requires significant professional judgement to predict into the future. If management has not performed the evaluation whether the going concern assumption is appropriate, the auditor is obligated to request management to perform the evaluation as required by the accounting standards.

Where there are events or conditions that may cast significant doubt on the Company's ability to discharge its liabilities as they fall due, auditors could consider some of the non-exhaustive list of factors* listed below, when evaluating management's cash flow forecast:

(a) The quantum of all debts which are due or will be due in the reasonably near future;

(b) Whether payment is being demanded or is likely to be demanded for those debts;

(c) Whether the company has failed to pay any of its debts, the quantum of such debt, and for how long the company has failed to pay it;

(d) The length of time which has passed since the commencement of the winding up proceedings;

(e) The value of the company's current assets and assets which will be realisable in the reasonably near future;

(f) The state of the company's business, in order to determine its expected net cash flow from the business by deducting from projected future sales the cash expenses which would be necessary to generate those sales;

(g) Any other income or payment which the company may receive in the reasonably near future; and

(h) Arrangements between the company and prospective lenders, such as its bankers and shareholders, in order to determine whether any shortfall in liquid and realisable assets and cash flow could be made up by borrowings which would be repayable at a time later than the debts.

*Source: https://www.supremecourt.gov.sg/docs/default-source/module-document/judgement/-2021-sgca-60-pdf.pdf

Case Study: Holding Company's Provisioning Policy

Case Facts

The principal activities of the Company are those of retail of leather products and apparels in Singapore. The Company had adopted its overseas Holding Company's inventory obsolescence provisioning policy based on the age of the goods purchased and an additional 15% COVID-19 provision for all inventories.

Age of inventories	Holding Company's provision policy		
	Provision policy in each aging category	**COVID-19 provision**	**Total inventory provision**
> 2 years	100%	-	100%
1-2 years	50%	15%	65%
< 1 year	0%	15%	15%

Historically, the company had sold stocks aged more than two years during clearance sales at discounted prices and reversed the inventory provisions made in prior year.

Auditor's Evaluation

The engagement team had:

- ascertained that inventories were aged correctly in the aging report;
- re-computed the inventory provisions based on the overseas Holding Company's provisioning policy; and
- observed from their inventory count that there were no damaged goods.

Accordingly, the auditor concluded that the provision for inventory obsolescence were fairly stated.

Other Consideration?

- Any independent assessment to ascertain that the overseas Holding Company's provisioning policy was appropriate for the Singapore Company?

  For example, whether there were any quantitative and qualitative analysis of inventory profile and sales trends based on historical and forecasted demand, gross profit margins during normal and clearance sales, retrospective review of prior period provisions, etc.
- Was it appropriate to apply different percentages of inventory provision to the **same product item in different age buckets** due to difference in purchase timings?
- Considering that the impact from COVID-19 varies significantly across different geographies, any assessment whether the 15% COVID-19 provision applied by the overseas Holding Company were appropriate and reasonable in the Singapore context?

SSA 540 (Revised) *Auditing Accounting Estimates and Related Disclosures* requires auditors to obtain sufficient appropriate audit evidence about whether accounting estimates, such as inventory provisions, are reasonable.

It is also important that the audit documentation demonstrates how auditors have exercised their professional scepticism to arrive at their conclusion that the inventory provisions were reasonable, including the challenges and judgement they have made to evaluate that the Singapore Company's, inventory provisioning policy that was adopted from the Holding Company, was reasonable and appropriate.

Case Study: Audit Opinion

Basis for Qualified Opinion

The consolidated financial statements of the group included the audited financial results of a subsidiary. The subsidiary's revenue for the year ended 31 December 2020 and total assets as at 31 December 2020 amounted to $19 million and $14 million, representing 45% and 60% of the group's revenue and total assets, respectively.

The subsidiary was audited by another independent auditor. We have reviewed the audit working papers of the component auditor as group auditors, but we are unable to conclude that sufficient audit evidence has been obtained by the component auditor.

Auditor's Evaluation

A copy of the Component Auditor's workpapers was provided to the Group Auditor for his review, but there was no response to the group audit instructions nor reply to the Group Auditor's queries on **numerous** account captions after his review.

The Group Auditor assessed that the potential impact to the consolidated financial statements was material but not pervasive:

(a) the company level financial statements could still be relied upon for decision making as the potential impact was only limited to the group's financial statements; and

(b) some work was performed by the Component Auditor, who had issued an unmodified audit opinion on the subsidiary's financial statements.

Accordingly, the Group Auditor issued a **qualified opinion** based as described in his basis for opinion above.

Other Consideration?

- Does the description and quantification of the financial effects in the "*Basis for Qualified Opinion*" provide a proper basis and justification for the qualified opinion?
- Would the potential impact of undetected misstatements on the group's financial statements be potentially pervasive?
- Any additional procedures to be performed by the Group Auditor on the financial information of the component?

SSA 705 (Revised) *Modifications to the Opinion in the Independent Auditor's Report* defines the **pervasiveness** of the effects on the financial statements are those that, in the auditor's judgement:
(i) are not confined to specific elements, accounts or items of the financial statements;
(ii) if so confined, represent or could represent a substantial proportion of the financial statements; or
(iii) in relation to disclosures, are fundamental to users' understanding of the financial statements.

The Group Auditor's evaluation had not sufficiently justified an "except for" **qualified opinion** as there was inadequate work performed to assess and conclude that the effect of the **potential undetected misstatements** could be material but **not pervasive**. Consequentially, there is a risk of an inappropriate audit opinion expressed.

Section 5: Navigating the New Norm

Introduction

5.1 The COVID-19 endemic has brought home the notion of what the future of audit will look like thereby driving towards the resilience of audit firms. The unprecedented Circuit Breaker restrictions in 2020 had compelled many auditors to render and deliver their services remotely. Audit firms, which adopted digital technologies before the pandemic, have reaped the benefits of digitalisation during the restriction period. Since then, these firms also adapted to the new way of interacting with audit clients and audit team members virtually. Conversely, there were many SMPs, who were unable to carry out the audit work remotely, faced disruptions to their audit workflows or even temporary suspension of audit work, under the tight Singapore Circuit Breaker measures.

5.2 In this section, we highlight the benefits of implementing an audit software, and ACRA encourages all SMPs, who have not boarded the digital transformation journey, to adopt in their pursuit to achieve sustainable audit quality.

5.3 Under the circumstances brought about by the pandemic, it is more important for ACRA to be agile in its regulatory activities to ensure that the profession continues with the delivery of high-quality audits. This section also covers the new norm of how ACRA inspections are being conducted to minimise disruption to the audit regulation of public accountants and public accounting entities in Singapore.

Digital Transformation for SMPs

5.4 Technology advancements bring about innovations that benefit audit firms. One of such technological advancements is the use of audit software on audit engagements. Whilst the audit software used by the larger firms are developed by their global networks, a majority of SMPs adopted audit software customised to their needs. As shown in Figure 8, ACRA observed that there are still a sizeable number of SMPs maintaining their audit documentation in physical hard copy files, either wholly or partially, without utilising audit software.

Figure 8: Adoption Level for Audit Software and Tools by Accounting Entity ("AE") Size[19]

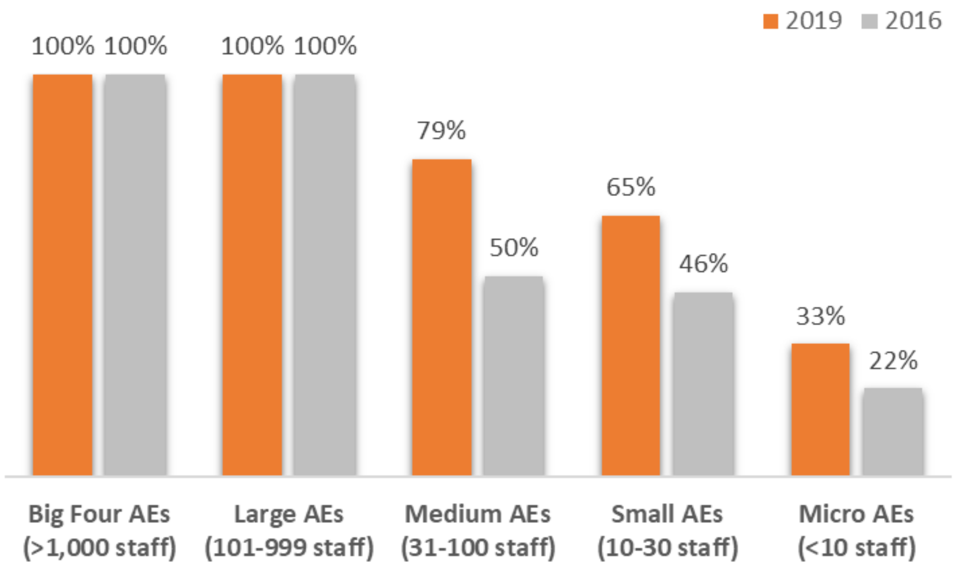


Figure 9: Benefits on use of audit software on audit engagements

[19] Source: Singapore Accountancy Commission Accounting Entity Survey, AEcensus 2020

5.5 There are numerous benefits derived from utilising audit software in audit engagements, to improve on the effectiveness and efficiency of quality audits such as:

(a) **Consistency in engagement performance** – Audit software could drive consistency in performance of audit procedures and audit documentation through standardised audit work programmes, templates and workflows.

(b) **Timely supervision and review of engagements** – Softcopy audit workpapers could be timely reviewed and supervised by senior audit personnel remotely in a remote or hybrid working environment, instead of last-minute reviews of hardcopy workpapers at the office.

(c) **Facilitate project management** – Audit software could enable the status and progress of the audit to be monitored by the engagement partner and manager in real time, so as to keep track of the outstanding tasks and timelines, as well as timely resolution of audit issues.

(d) **Safeguard confidentiality and integrity of audit files** – The confidentiality and integrity of audit files can be safeguarded through the use of user accounts and passwords in the audit software to gain access to the audit files.

(e) **Ease of accessibility and retrievability of audit files** – Electronic audit engagement files could be cloud-hosted for secure access by multiple engagement team members at the same time without the restrictions of physical hardcopy files. Completed audit engagements could also be archived electronically in the system and easily retrieved as and when the need arises.

(f) **Facilitate remote inspection and quality review of engagements** – With the travel restrictions and border closures by many countries during the COVID-19 pandemic, audit software could facilitate remote inspection and engagement reviews by reviewers assigned by global network to monitor the audit quality of member firms' engagement performance through remote virtual desktop infrastructure access.

(g) **Eliminate hardcopy files and storage space** – Electronic audit workpapers retained in softcopy could save physical storage space and rental costs during the retention period. A fully paperless audit file would also eradicate the possibility of late archival relating to hardcopy paper files.

5.6 In light of the above benefits and the fact that a remote working environment is here to stay for a while and there is no guarantee that it will not happen again, ACRA encourages all SMPs to embrace the adoption of technology for greater productivity and competitiveness in the post-COVID endemic environment.

Regulating Audit Quality in the New Norm

5.7 In times of responding to the unprecedented challenges raised by the crisis, ACRA remains agile and has adapted its regulatory activities and inspection process to accommodate to the new normal. ACRA closely coordinated with audit firms to conduct firm-level and engagement inspections remotely. For example, meetings with public accountants during the inspection period were conducted virtually over secured video conference platforms and inspection of electronic audit workpapers were conducted by the inspectors offsite. Nonetheless, ACRA continues to remain flexible to hold in-person meetings or onsite inspections with safe management measures, especially when dealing with highly confidential information or complex matters. Similarly, the regular PMSC and PAOC meetings[20] had also pivoted to meet virtually to minimise any disruptions to the PMP process.

5.8 ACRA's regulatory activities has adapted and continue to remain operational in the new norm, balancing the need to provide regulatory oversight, while being sensitive to the limitations and difficulties the pandemic is placing on the profession.

5.9 With the increasing trend in the adoption of technological tools to assist audit teams in performing audit work, which forms part of the audit evidence to support the audit opinion, ACRA is engaging in continuous discussions with audit firms to obtain an understanding of their digital transformation journeys and understand their concerns around the deployment of technology in audits.

[20] The inspection findings are reviewed by the PMSC, which comprises experienced public accountants and lay-members. The PMSC then reports to the PAOC with recommendations for the PAOC's decision on the PMP review outcome.

Section 6: Initiatives to Improve Audit Quality

Sector Driven Initiatives to Support the Audit Profession and Drive Audit Quality

6.1 ISCA actively promotes its on-going initiatives as well as constantly identifies and develops new initiatives to support the audit profession and to raise audit quality in the sector.

Driving Digital Transformation via the SMP Centre

6.2 ISCA drives digitalisation of the SMPs through its virtual SMP Centre, a one-stop centre that caters to the needs of audit practices. The SMP Centre curates digital tools that address practice needs and works with solutions providers to run tech talks to promote understanding of these tools. The Institute also works closely with government agencies to help SMPs defray costs when adopting new digital solutions.

ISCA Support Fund

6.3 This year, ISCA established the ISCA Support Fund to position the accountancy profession for success in the post-COVID-19 environment. ISCA obtained the support of Enterprise Singapore which contributed $1 million to the Fund under its SG Together Enhancing Enterprise Resilience (STEER) programme. Digital tools that support virtual operations and work-from-home as well as advisory tools that support audit firms' diversification efforts are curated under the ISCA Support Fund. In addition, ISCA also curates specialisation programmes in potential high-growth areas to support firms in tapping new opportunities, with funding support for these programmes.

Driving Technical Excellence and Best Practices through Publications

6.4 ISCA issues technical publications regularly aimed at providing guidance to the audit profession, enhancing their technical knowledge and sharing of best practices. This year, ISCA produced a new set of On-the-Job Training (OJT) Blueprints covering ten audit topics. These OJT Blueprints are developed with the aim to enhance audit firms' in-house training programme. The Blueprints highlight the key considerations and the tasks standards for each audit work procedure, as well as recommended competencies necessary for the audit staff to effectively carry out the tasks.

6.5 In addition to the new publications, ISCA also updates its existing illustratives, including the ISCA Audit Manuals and Illustrative Financial Statements, on an on-going basis.

Raising Quality through Skills Development

6.6 ISCA launched the ISCA Information Systems Risk Management Certificate to upskill the profession and increase the capabilities of the auditors in the area of information systems risk identification, assessment and management. This programme is also one of the curated programmes under the ISCA Support Fund.

Certified Practising Accountant (CPA) Australia's Best Practice Program

6.7 CPA Australia's Best Practice Program[21], which replaces its predecessor Quality Review Program, is a tailored program to deliver personalised support for business sustainability, ethical requirements and professional development. The program comprises two parts. First, an assessment of the business needs is carried out every three, six, and eight years according to the complexity of the business. The second part is a two-hour online consultation with a peer assessor who will support members in understanding their business needs and what actions to take to achieve strategic goals. In addition, a Support Plan including recommendations for resources and tools to support the business is provided. The Best Practice Program includes reviews of compliance with the quality control requirements.

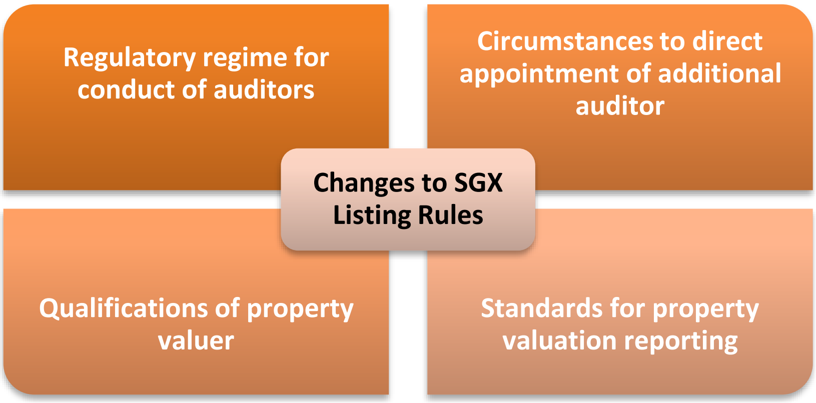
New Regulatory Initiatives

Enhancement to SGX Listing Rules on Auditors, Valuers and Valuation Reports

6.8 In January 2021, Singapore Exchange Regulation (SGX RegCo) enhanced the requirements on auditors and valuers in their dealing with listed companies, and standards governing valuation reports. The changes to the SGX Listing Rules, effective from 12 February 2021 are in the areas shown in Figure 10.

Figure 10: Enhancements to SGX Listing Rules on Auditors, Valuers and Valuation Reports

[21] https://www.cpaaustralia.com.au/public-practice/your-career-in-public-practice/cpa-australia-best-practice-program



6.9 One of the changes to the Listing Rules is that all primary-listed issuers must appoint an auditor registered with ACRA to conduct their statutory audits for the financial year beginning on or after 1 January 2022. Following this new requirement, all audits performed for all primary-listed issuers will effectively be subject to ACRA's regulatory oversight.

6.10 Further details on the changes to SGX Listing Rules can be found in SGX website[22].

Revised Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities

6.11 In February 2021, ACRA issued the revised Code of Professional Conduct and Ethics (the Revised ACRA Code) for public accountants and accounting entities to adopt the Final Pronouncements relating to the Restructured Code and Revisions to the Code pertaining to the Offering and Accepting of Inducements, issued by the International Ethics Standards Board for Accountants (or IESBA). The Revised ACRA Code is set out in the Accountants (Public Accountants) (Amendment) Rules 2021 and was effective from 1 March 2021.

6.12 The Restructured Code retains a principles-based approach and is a complete rewrite of the extant Code under a new structure and drafting convention that makes it easier to navigate and use.

6.13 The Revised ACRA Code incorporates amendments made to the definition of a financial institution which is a public interest entity for purposes of the Code. The amendments:

a. clarify existing terms in the definition referring to "licensed" entities;

[22] https://www.sgx.com/media-centre/20210112-sgx-regco-enhances-rules-auditors-valuers-and-valuation-reports

b. update existing terms in the definition to take into account revised regulatory regimes; and

c. include certain entities that are or will be regulated by MAS.

Chartered Accountants Australia and New Zealand (CA ANZ) Accountancy Qualification Recognised for Public Accountant Registration

6.14 Following the reciprocal agreement entered into between ISCA and CA ANZ to mutually recognise the chartered accountancy qualifications of both bodies, the Accountants (Public Accountants) Rules has been amended, to recognise the Chartered Accountants Program (CA Program) of the CA ANZ as one of the accountancy qualification programmes that meets the professional examination requirement for public accountant registration with effect from 29 June 2021. The amendment will allow individuals who have passed the CA Program on or after 1 January 2019 to apply to ACRA for registration as a public accountant.

Section 7: Upcoming Developments and Future Focus

7.1 With recent episodes of corporate fraud and major reporting gaps from companies around the world, the value of trust and confidence in the independent audit opinion is being affected. In a world of increasingly complex financial reporting and auditing issues, the conduct of audits today may no longer be applicable or effective tomorrow. It is of paramount importance that the audit profession must evolve to brace themselves for the future, so as to create long term trust and confidence in the quality of audits.

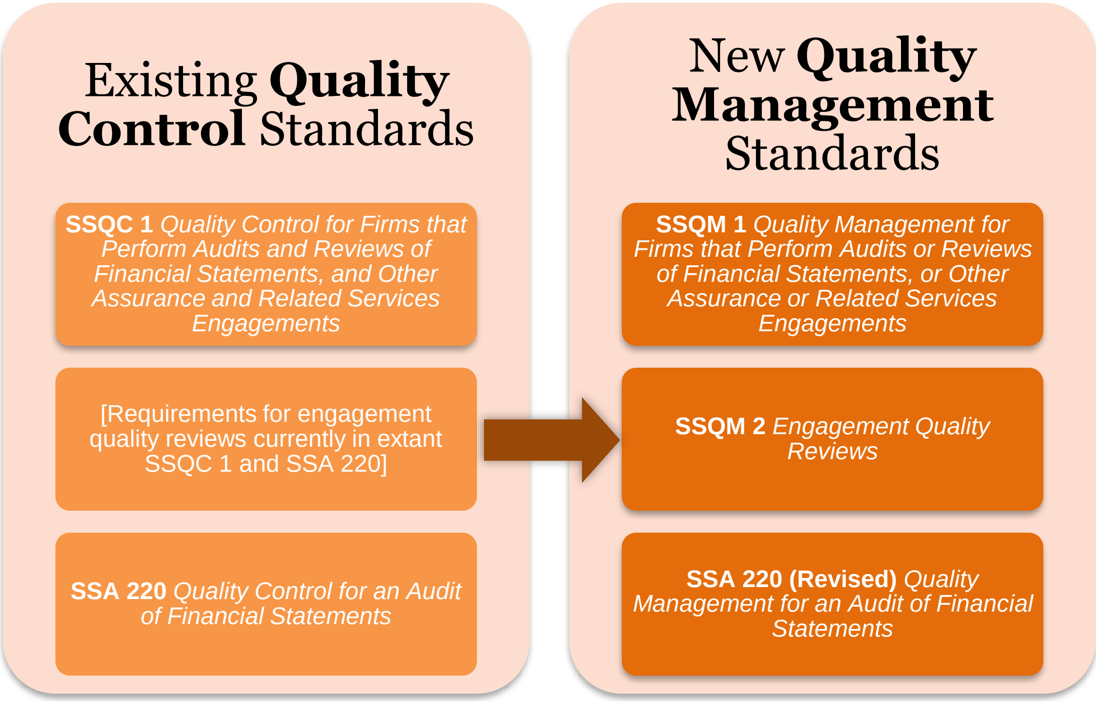
7.2 In this section, ACRA highlights the upcoming developments planned as well as ACRA's future focus that public accountants should be aware of and prepare themselves for the changes to achieve sustainable audit quality.

From Quality Control to Quality Management

7.3 In October 2021, ISCA had issued three interrelated quality management standards which replaces the current quality control standards with a proposed effective date on 15 December 2022[23].

[23] The proposed effective date of 15 December 2022 is based on the effective date of the ISQM issued by the International Auditing and Assurance Standards Board (IAASB).

Figure 11: Changes in Quality Management Standards



7.4 The quality management standards serve to strengthen audit firms' systems of quality management through a robust, proactive and effective approach to quality management. They include a new proactive risk-based approach to effective quality management systems within firms that establish the foundation for consistent engagement quality.

7.5 The new quality management standards shift focus from a traditional, compliance-based system to a more proactive and effective quality management. The key changes from the quality control standards to the new quality management standards to improve engagement quality are as shown in Figure 12.

Figure 12: Key Changes from Quality Control Standards to Quality Management Standards

7.6 Audit firms are required to comply with these quality management standards, which has an effective date of 15 December 2022. ACRA urges firms to adopt the standards as these would drive the audit profession to an enhanced approach to quality management, which better enables the consistent performance of quality audits. Once the standards are in place, ACRA will also be conducting firm-level inspections based on these quality management standards.

7.7 First-time implementation guides on ISQM 1 and 2 are available on IAASB's website[24] to help audit firms understand and implement the requirements of the quality management standards in the manner intended. The Quality Management webinar series[25], hosted by IAASB in collaboration with the International Federation of Accountants (IFAC), deep dived into aspects of ISQM 1 and are currently available on the IAASB's YouTube Channel.

7.8 ISCA, through its Auditing and Assurance Standards Committee, is committed to support the profession in the implementation of the new quality management standards. In June 2021, a

[24] https://www.iaasb.org/focus-areas/quality-management

[25] The webinar series focused on:
- Webinar One: All You Need to Know about the Firm's Risk Assessment Process
- Webinar Two: Resources: Expectations for Firms and Engagement Partners
- Webinar Three: What's New for Firms' Monitoring and Remediation Processes
- Webinar Four: Bringing it All Together: Exploring all the Components of a Quality Management System

focus group session was held to seek feedback from SMPs on implementation challenges and the proposed effective date of the quality management standards. Based on the feedback received from the focus group and various other engagement channels, ISCA will be rolling out implementation support activities to help SMPs in dealing with the implementation challenges, such as:

(a) guidance materials to raise awareness on the new standards;

(b) a quality management toolkit comprising implementation help tips, practical examples, suggested policies and procedures, and forms; and

(c) discussion-based workshops to guide audit firms in the development of customised quality management manual with the use of the toolkit.

ISCA also continues to provide support to audit firms in the implementation of the firm's tailored quality management policies and procedures under its Quality Assurance Review Programme.

7.9 The 2021 Technical Symposium by the Association of Chartered Certified Accountants (ACCA) held in September had covered key changes from the new Quality Management Standards (namely, ISQM 1 and 2, and ISA 220 (revised)). Discussions included the way professional accountancy firms manage quality, and the new proactive risk-based approach for an effective system of quality management that supports consistent engagement quality. ACCA is also planning for webinars in 2022 to provide guidance on ISQM 1 and 2.

Amendments to Accountants Act

7.10 ACRA's governing legislation, the Accountants Act and its subsidiary legislation, establishes the framework for registration and oversight of public accountants. Amendments to the Accountants Act are currently in progress, with the aim to improve ACRA's effectiveness in promoting audit quality and protecting public interest.

7.11 On 14 October 2021, ACRA launched a public consultation to seek feedback on the proposed amendments to the Accountants Act.

7.12 The proposed amendments to the Accountants Act seek to enhance ACRA's audit regulatory regime and widen the scope of ACRA's inspection powers. These amendments align ACRA's inspection powers with regulatory practices in jurisdictions that have established independent audit regulation. The key amendments are summarised below:

(i) introduce statutory quality control inspection (also known as “firm-level inspections”) of audit firms;

(ii) specify ACRA’s powers to conduct inspections on compliance with Anti-Money Laundering / Countering the Financing of Terrorism requirements by audit firms and public accountants (“AML/CFT inspections”);

(iii) allow ACRA to mandate remediation of lapses and impose sanctions on firms and/or public accountants (as the case may be) for lapses discovered during firm-level and AML/CFT inspections;

(iv) replace the current “pass” / “fail” grading system for the PMP with a new 3-tier assessment framework (i.e. “Satisfactory”, “Needs Improvement”, and “Not Satisfactory”), which will apply to both engagement and firm-level inspections;

(v) allow ACRA to require public accountants to disclose their inspection findings and outcome to their audited entities in situations where they have obtained a “Not Satisfactory” grading on their inspection; and

(vi) empower the PAOC to prescribe professional standards and the Code of Professional Conduct and Ethics to be applied by audit firms and public accountants.

7.13 The proposed amendments to the Accountants Act are targeted to be legislated in 2022.

Review of inspections on Public Accounting Entities and Public Accountants

Statutory Firm-Level Inspections on Public Accounting Entities

7.14 Firm-level quality controls and management are critical in sustaining consistent delivery of quality audits. At the international level, the sufficiency and robustness of firm-level controls are evaluated and monitored by many international audit oversight regulators. Locally, ACRA has been performing firm-level inspections since 2007 on an advisory basis.

7.15 With the enactment of proposed amendments to the Accountants Act, ACRA will be conducting statutory firm-level inspections based on the relevant Quality Control Standards (i.e. SSQC 1/SSQM 1), applicable for the purpose of the inspections. The amendments to the Accountants Act will equip ACRA with statutory powers to require audit firms to remediate quality control deficiencies and impose sanctions, where necessary against the firms for non-compliances with the relevant Quality Control Standards. In addition, the proposed amendments will allow ACRA to obtain legal powers to impose orders on audit firms for firm-level deficiencies and issue remedial orders to remediate the deficiencies noted. Sanctions that may be imposed on firms with deficiencies arising from statutory firm-level inspections, include revoking the audit firm’s registration, suspending or restricting the firm from providing public accountancy services, financial penalty or any other order to improve the firm's compliance with Quality Control Standards.

PMP Inspections on Public Accountants

7.16 The PMP inspection framework, last reformed in 2014, is periodically reviewed for improvements to ensure that the inspection methodology and process remains effective, efficient and relevant. With the impending move away from a binary "pass" or "fail" grading system for assessing the results of PMP inspections to a more variegated three-tier grading system (i.e. "Satisfactory", "Needs Improvement", and "Not Satisfactory"), ACRA is reviewing the current framework for PMP orders and sanctions, including the inspection methodology, risk profiling of public accountants, policies and post-inspection process. The proposed changes to the PMP inspection framework will be communicated to the audit profession when the review is completed. During the review, ACRA had sought feedback from various stakeholders, including the audit profession, as well as benchmarked against other jurisdictions' audit regulatory regimes. The essence of the change to a more variegated outcome is to create greater differentiation in the PMP outcomes, particularly for those with more serious consequences and to tailor appropriate remediation expectations in accordance with these outcomes.

7.17 The proposed amendments to the Accountants Act will also allow ACRA to require the public accountants to communicate their inspection findings and outcome, in instances of severe deficiencies (i.e. not satisfactory outcome), to their audited entities, such as audit committees of listed entities whose audits were inspected.

Impending Changes to CPE requirements

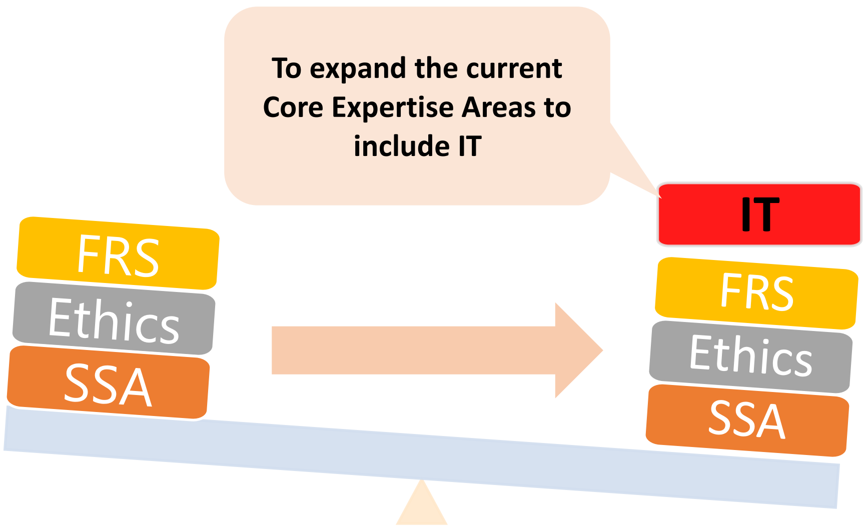
7.18 For renewal of public accountant's certificate of registration, public accountants are required to obtain at least 120 CPE hours in each rolling 3-year period of which at least 90 hours must be in structured learning and at least 20 hours of structured learning must be acquired in each calendar year. The objectives of CPE are to:

a. ensure that public accountants maintain an adequate level of knowledge, skills and abilities to enable them to carry out their work competently and professionally, in the face of technological developments, changing economic conditions and changing responsibilities and expectations; and

b. provide reasonable assurance to the public and business world at large that public accountants' competencies are being maintained and developed to satisfy their obligations to serve the public interest.

7.19 In light of the changing business landscape and the increasing use of technology in auditing, ACRA carried out a review of the current CPE syllabus for renewal of public accountant's certificate of registration. One of the proposed key changes is to expand the current Core Expertise Areas to include Information Technology (IT). Classifying IT as a core expertise area is expected to benefit the audit profession in equipping them with IT skills which are important with the increasing use of technology in auditing and encourage the push for digitalisation. This is also in line with the Accountancy Industry Digital Plan, to accelerate digitalisation as technology becomes increasingly vital in enabling the businesses to resume normal activities and operate safely in the endemic.

Figure 13: Enhancement to CPE Syllabus



7.20 The proposed changes to the CPE syllabus will be included in ACRA's Practice Direction to inform all public accountants of the changes to the CPE requirements and are expected to take effect from 2023 renewal of public accountant's certificate of registration and registration as a public accountant.

ACRA Inspection Focus Areas in an Evolving Audit Environment

7.21 One of ACRA's inspection focus will be on audits of companies in industries whose operations have received the most significant disruption as a result of the pandemic. Those industries may include, amongst others - aviation, hospitality etc.

7.22 Focus areas of ACRA's engagement inspections will also include unique situations due to the pandemic such as, but not limited to, remote inventory observations or fixed asset sighting, electronic audit evidence, going concern assessments, COVID-19-related disclosures, fraud risk considerations, group audits with component auditors in other jurisdictions, and the auditor's risk assessments.

7.23 ACRA will consider some element of unpredictability in our selection of engagements for inspections, but nonetheless, will continue to review how public accountants are planning, executing, completing and most importantly, documenting the audit procedures in compliance with the auditing standards.

7.24 For firm-level inspection of the listed companies' segment, ACRA will obtain updates of the progress of firm's implementation of the new SSQM 1 and 2 quality management standards with an anticipated effective date of 15 December 2022. This is an area that requires significant commitment from the firms' leadership and substantial investments to drive towards sustainable audit quality.