



# **AUDIT REGULATORY REPORT 2023**

Audit Quality through Quality Management

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## Glossary of Terms

ACRA	Accounting and Corporate Regulatory Authority
AASC	Auditing and Assurance Standards Committee
AGS	Audit Guidance Statement
CA	Companies Act 1967
CPE	Continuing Professional Education
ESG	Environmental, Social and Governance
FRS	Financial Reporting Standard in Singapore
IAASB	International Auditing and Assurance Standards Board
IESBA	International Ethics Standards Board for Accountants
ISA	International Standard on Auditing
ISCA	Institute of Singapore Chartered Accountants
ISQM	International Standard on Quality Management
ISSA	International Standard on Sustainability Assurance
ISSB	International Sustainability Standards Board
PAOC	Public Accountants Oversight Committee
PIE	Public Interest Entity
PMP	Practice Monitoring Programme
PMSC	Practice Monitoring Sub-Committee
SGX	Singapore Exchange
SMP	Small and Medium-sized Practice
SoQM	System of Quality Management
SSA	Singapore Standard on Auditing
SSIC	Singapore Standard Industrial Classification
SSQC	Singapore Standard on Quality Control
SSQM	Singapore Standard on Quality Management

## Section 1: Executive Summary

### Audit Quality Through Quality Management

- 1.1 Following the amendments to the Accountants Act effective on 1 July 2023, ACRA commenced its regulatory quality control inspections of accounting entities. This marks a crucial advancement of ACRA's regulatory regime on the public accountancy profession. ACRA has separately formulated a programme for the inspection of the quality control systems of accounting entities which, like the PMP, is risk focused. Further details are set out in Section 2 of the report.
- 1.2 ACRA's regulatory activities are critical in fostering greater confidence in the profession and serves to protect the public interest, particularly for stakeholders who rely on audited financial statements.
- 1.3 ACRA enhanced the PMP framework to make the inspection methodology more effective and relevant, while providing greater transparency to public accountants.
- 1.4 On the engagement level findings, ACRA urges public accountants to focus on analysing root causes of the findings, to devise an effective remediation plan to prevent recurrence. In Section 3, ACRA sets out areas of emerging concerns, including group audits and going concern, which are areas of recurrent findings.
- 1.5 ACRA engaged several firms to understand their journey in operationalising the SSQM and in their adoption of technological tools in financial statement audits. We are pleased to share our observations, including good practices, in Section 4 of this report.
- 1.6 ACRA continues to take a serious view of non-compliance with PAOC orders and with CPE requirements. As part of raising the audit quality bar, ACRA has increased the level of sanctions meted out to public accountants for such non-compliances.
- 1.7 Looking forward, ACRA expects the demand for sustainability reporting and assurance on them to increase. To grow adequate pool of climate auditors, the Sustainability Reporting Advisory Committee recommended for one-off transition of professionals with applicable or adjacent competencies, including public accountants that have passed the recognised sustainability reporting and assurance bridging course(s), to be able to register as climate auditors. More details are set out in Section 6.

- 1.8 To seize this opportunity, the profession should continue to invest in quality management systems and compelling multi-disciplinary teams equipped with the right mix of competencies.

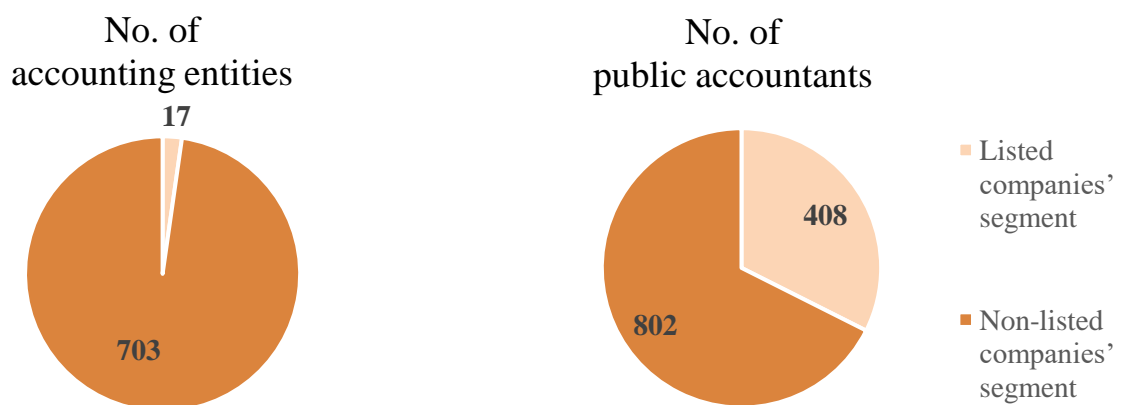
## Section 2: Scope of ACRA’s Audit Regulatory Work

### The Public Accountancy Landscape in Singapore and ACRA’s Inspection Activities

2.1 ACRA regulates 720 (2022: 709) accounting entities or audit firms and 1,210 (2022: 1,195) public accountants providing public accountancy services in Singapore as of 31 March 2023.

2.2 These number of accounting entities and public accountants disaggregated between the listed and non-listed companies’ segments are as shown in Figure 1 below.

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



2.3 ACRA’s inspection activities relating to public accountants and accounting entities are as follows:

(i) **Engagement Inspection**

An engagement inspection is a review of an audit engagement, to assess whether the work performed by the public accountant complies with the professional standards.

(ii) **Quality Control Inspection**

A quality control inspection is a review of the system of quality management established by an accounting entity in compliance with SSQM 1 and SSQM 2, both of which were effective from 15 December 2022.

(iii) **AML/CFT Inspection**

ACRA also conducts inspections on compliance with Anti-Money Laundering/ Countering the Financing of Terrorism requirements<sup>1</sup> by accounting entities and public accountants. The requirements are stipulated in the Accountants (Prevention of Money Laundering and Financing of Terrorism) Rules 2023, and are aligned with the international standards set by the Financial Action Task Force.

2.4 In this report, whilst ACRA notes that the audit firms must continue to improve the quality of their audits, other participants in the financial reporting ecosystem have a role to play. Management and audit committees of audited entities must ensure information provided to the auditors is accurate and complete, aside from a well governed company with effective internal controls, which underpins high-quality audit and financial reporting.

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<sup>1</sup> The requirements are prescribed in the Accountants (Prevention of Money Laundering and Financing of Terrorism) Rules 2023 and apply to:

- (a) An accounting entity which, by way of business, prepares to carry out or carries out transactions for a client concerning any of the following activities:
- Buying and selling of real estate;
  - Managing of client money, securities, or other assets;
  - Management of bank, savings, or securities accounts;
  - Organisation of contributions for the creation, operation, or management of companies;
  - Creation, operation or management of legal persons or arrangements, and buying and selling of business entities; and
- (b) A public accountant of the accounting entity which prepares to carry out or carries out any such transactions on behalf of the accounting entity.

## ACRA's Inspection Approach – Calibrated to be Risk-Focused

- 2.5 ACRA's regulatory regime is risk focused so the inspection approach is calibrated to the complexity of the audits and level of public interest involved. As of 31 March 2023, the Big Four audit firms in Singapore collectively audit about 49% (2022: 52%) of the number of companies listed on the Singapore Exchange (representing about 78% (2022: 77%) of the total market capitalisation), and the remaining listed companies are audited by other audit firms.
- 2.6 There is a wide spectrum in the number of companies listed on SGX that these other audit firms referred to above audit – from 6% of the number of listed companies on one end, to auditing 1 listed company on the other end.
- 2.7 The regulatory programmes involve ACRA inspectors carrying out both engagement and quality control inspections in the listed companies' segment.
- 2.8 On the other hand, ISCA, Singapore's national accountancy body, generally carries out the review of the audits in the non-listed companies' segment under ACRA's oversight. In this respect, ACRA's oversight includes, amongst others, the determination of the public accountants to be reviewed and the selection criteria for audit engagements, assessment and calibration of the severity of the findings, and the rigour and quality of the inspection process.
- 2.9 To drive consistency in regulatory outcomes across all inspections, findings from the engagement inspections of both the listed and non-listed companies' segments are submitted to the PMSC<sup>2</sup>, which submits a report and its recommendation to the PAOC<sup>3</sup> for its decision on the inspection outcomes and sanctions (if any). The PAOC is the deciding authority on the outcome of these inspections.
- 2.10 The quality control inspections in the non-listed companies' segment will similarly be carried out by ISCA, under ACRA's oversight.

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<sup>2</sup> PMSC comprises of independent practising public accountants and representatives from interested stakeholders to assist the PAOC in the administration of the PMP.

<sup>3</sup> PAOC is a committee responsible for discharging ACRA's functions over the registration and regulation of public accountants and accounting entities in Singapore.



2.11 The PAOC (Firm Level)<sup>4</sup> is the deciding authority on the outcome of the quality control inspections for both segments.

## ACRA's Enhanced Regulatory Regime

2.12 The PMP is a key instrument of ACRA's regulatory oversight on the audit quality of the public accountants' work.

2.13 We continuously evaluate the effectiveness of our regulatory oversight and refine our strategy and hold outreach activities to promote high-quality audits in Singapore. The inspection programmes serve to protect public interest and foster greater confidence in audited financial reports.

2.14 The amendments<sup>5</sup> to the Accountants Act have been effective since 1 July 2023. In conjunction with the AA amendments, ACRA has also:

- (a) Refreshed the PMP inspection framework to ensure that the inspection methodology and processes remain effective, efficient, and relevant. Under the enhanced PMP framework, sharing of the inspectors' and PMSC's assessment (covering both (i) the validity and severity of findings; and (ii) the proposed PMP outcome) with the inspected public accountant will apply in cases of proposed "Not Satisfactory" outcomes.
- (b) Formulated the framework for the new regulatory quality control inspection programme. Salient details of the quality control inspection framework are set out from Sections 2.15 to 2.18 below.

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<sup>4</sup> PAOC (Firm Level) means the PAOC without any of its members who are public accountants.

<sup>5</sup> Key amendments were discussed in Section 6 of the 2022 PMP Report, including (i) introduction of quality control inspections on accounting entities for compliance with quality control standards; (ii) introduction of a tiered assessment framework for both the PMP and quality control inspections; and (iii) provision of powers for the PAOC to require a public accountant who has obtained a "Not Satisfactory" inspection outcome to disclose the inspection findings to the audit client of the inspected engagement.

## Quality Control Inspection Framework

- 2.15 ACRA devised the framework for quality control inspections, following consultations with the profession and studying other jurisdictions' regulatory programmes.
- 2.16 ACRA adopts a risk-based approach in its implementation of quality control inspections. Outcomes of quality control inspections will be considered for purposes of determining the frequency of subsequent quality control inspections, and when calibrating the number of public accountants that ACRA selects for PMP.
- 2.17 As part of the quality control inspections, an observed quality control deficiency<sup>6</sup> is tantamount to an inspection finding. The severity of an inspection finding would be classified as either low, moderate, or high, depending on the nature, severity and pervasiveness of the matters that gave rise to the finding.
- 2.18 The outcome<sup>7</sup> of a quality control inspection is driven by the extent and severity of inspection finding(s). Factors such as (i) whether the findings are recurring and (ii) whether there are regulatory breaches are also taken into consideration.

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<sup>6</sup> As defined in SSQM 1, para 16.

<sup>7</sup> Either Satisfactory (with or without findings), Partially Satisfactory or Not Satisfactory, as defined in <https://www.acra.gov.sg/public-accountants/practice-monitoring-programme-pmp/quality-control-review-process>

## Section 3: Engagement Inspections

### Introduction

- 3.1 Public accountants in Singapore are statutorily subjected to practice reviews under the Accountants Act in the form of ACRA's PMP. The PMP assesses a public accountant's compliance with professional standards when providing public accountancy services.
- 3.2 A PMP inspection reviews 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 professional standards. Such non-compliance can either be a deficiency in audit procedure<sup>8</sup> or insufficient work performed to support the professional judgement<sup>9</sup> applied and/or the conclusions reached by the public accountant. However, an inspection finding does not necessarily mean that the financial statements are misstated or that an audit failure (e.g. wrong audit opinion issued) has occurred.
- 3.3 In this section, ACRA (i) sets out the nature of top findings arising from PMP inspections<sup>10</sup>, (ii) discusses the importance of a comprehensive root cause analysis and remediation action plan, and (iii) reiterate certain key reminders on the following:
- Group audits, including SSA 600 (Revised) *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*;
  - Audit report - Non-consolidation of subsidiaries;
  - Going concern;
  - Audit documentation and workpapers; and
  - Fair valuation of unquoted investments.

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<sup>8</sup> 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.

<sup>9</sup> Obvious to an experienced auditor that the public accountant's application of professional judgment is fundamentally flawed. Evaluation of the public accountant's professional judgment is based on whether the judgement reached reflects a competent application of auditing and accounting principles and is appropriate in the light of, and consistent with, the facts and circumstances that were known to the public accountant up to the date of the auditor's report.

<sup>10</sup> For the period April 2022 to March 2023.

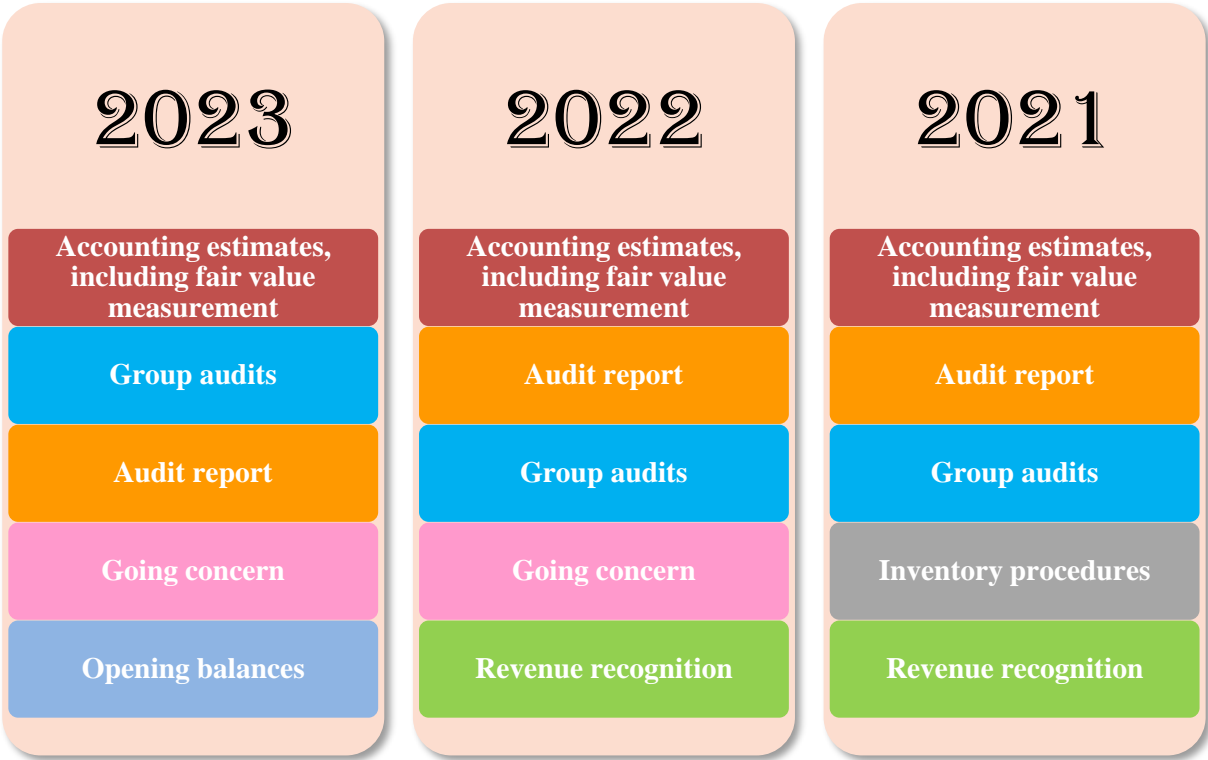
## Analysis of Engagement Inspection Findings

3.4 The areas with the highest frequency of findings observed from ACRA’s engagement inspections over the past three years are illustrated in Figures 2a and 2b for listed and non-listed companies’ segments respectively. The fact that certain audit quality themes are recurring is unacceptable, especially in light of remedial measures and sanctions meted out by PAOC, including those of training and other educational/mentorship initiatives such as hot reviews.

**Figure 2a: Top inspection findings by themes in the listed companies’ segment**



**Figure 2b: Top inspection findings by themes in the non-listed companies’ segment**



3.5 Public accountants ought to focus on analysing root causes, in order to devise an effective remediation plan to prevent recurrence of these findings. A root cause analysis is an important part of a continuous improvement cycle designed to understand and identify the factors that caused or contributed to the findings, such that the appropriate remedial actions can be designed and implemented to address the risk of repetition. Further, root cause analysis can be used to promote the recurrence of positive outcomes.

3.6 Generally, training appears to be a common remediation action, which could be a knee-jerk reaction to a wide range of inspection findings. Without first identifying the actual root cause or causes, there is a risk that the lack of training (in itself) may not be the answer, and that the real underlying issue remains unresolved. Even where training on technical matters may be the right answer, knowledge gap may not be the sole root cause, i.e. there could be a range of other behavioural or organisational factors that ought to be considered and addressed.

- 3.7 For instance, for findings relating to group audits, the following are possible root causes:
- (a) Lack of necessary knowledge, professional competence, or capacity to undertake the group audit engagement.
  - (b) Inadequate coverage of the group entities to the extent that the public accountant (group auditor) is unable to obtain an adequate understanding of the group. This may result in a lack of a robust risk assessment.

As mentioned, once the root causes have been established, the public accountant ought to devise an effective remediation plan to prevent recurrence of the deficiencies.

## **Key Reminders**

### **Group Audits, Including SSA 600 (Revised) *Special Considerations – Audits of Group Financial Statements (including the Work of Component Auditors)***

- 3.8 SSA 600 (Revised) is effective for audits of financial statements for periods beginning on or after 15 December 2023. Whilst the revised SSA introduces certain new concepts and requirements, the overall objective of the auditor when performing a group audit engagement remains the same, which is to ensure that the underlying work performed by both the group and component auditors are sufficient to support the audit opinion on the consolidated financial statements.
- 3.9 To better align to SSA 315 (Revised 2021) *Identifying and Assessing the Risks of Material Misstatement*, a new risk-based approach is introduced for planning and performing a group audit engagement, with the removal of the concept of significant components and more focus on identifying and assessing the risks of material misstatement at assertion level of the consolidated financial statements that are associated with components. Consequentially, this strengthens and reinforces the need for robust communication and interactions between the group auditor and component auditors.

- 3.10 The revised SSA also clarifies the requirements of quality management in a group audit to better align with SSQM 1, the various type of restrictions<sup>11</sup> that may exist and guidance on how these restrictions may be overcome, and how the concepts of materiality and aggregation risk apply in a group audit.
- 3.11 In terms of restrictions on access to information, CA Section 207 paragraph 6<sup>12</sup> provides for group auditors of Singapore-incorporated companies a right of access to records of subsidiary corporations for the purposes of group audits. This may help address certain challenges that group auditors might face in accessing component auditors' working papers, provided the parent company bears the expenses required for the component auditors to provide the accounting records to the group auditor.
- 3.12 Whilst enhanced documentation requirements have also been introduced in the revised SSA, highlighting the importance of the group auditor's review of component auditor's audit documentation, the fundamentals encapsulated in SSA 230 *Audit Documentation* have not changed. Audit documentation<sup>13</sup> of a group audit engagement needs to be sufficiently robust to enable an experienced auditor, having no previous connection with the audit, to understand the audit procedures performed, the evidence obtained, and the conclusion reached with respect to significant matters arising from the group audit.
- 3.13 It is imperative therefore that accounting entities revisit the existing audit methodology with respect to group audits. Public accountants, on the other hand, should commence the planning for a group audit engagement earlier rather than later, and engage component auditors, where necessary, to identify and assess the risks of material misstatement, so as to design responsive audit procedures.
- 3.14 ACRA is collaborating with ISCA AASC on the issuance of guidance in relation to group audits, which will include the SSA 600 (Revised).

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<sup>11</sup> Such as restricted access to people and information and component auditor's audit documentation.

<sup>12</sup> CA Section 207 paragraph 6 provides "*An auditor of a parent company for which consolidated financial statements are required has a right of access at all times to the accounting and other records, including registers, of any subsidiary corporation, and is entitled to require from any officer or auditor of any subsidiary corporation, at the expense of the parent company, such information and explanations in relation to the affairs of the subsidiary corporation as the auditor requires for the purpose of reporting on the consolidated financial statements.*"

<sup>13</sup> SSA600 (Revised) para A168 provides that the audit documentation for the group audit comprises the documentation in the group auditor's file and the separate documentation in the component auditor files.

## Revisions to the Code Relating to the Definition of Engagement Team and Group Audits

- 3.15 With the objective of aligning and conforming its standards with the ISAs and the ISQMs, IESBA issued the Final Pronouncements (FP) on Revisions to the Code Relating to the Definition of Engagement Team and Group Audits (ET-GA).
- 3.16 The Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code) has been revised to adopt the ET-GA FP. The revised ACRA Code will be effective from 15 December 2023, which is aligned with the effective date of SSA 600 (Revised). Specifically, the relevant changes in Section 400 and 405 in the revised ACRA Code will be effective for audits and reviews of the financial statements for periods beginning on or after 15 December 2023.
- 3.17 The key revisions to the ACRA Code include:
- (a) Enhancing the independence considerations for individuals and firms in an audit of group financial statements with a new section 405 titled Group Audits and new defined terms such as component, group, group audit and group engagement partner which are based on or aligned as closely as possible with those in SSA 600 (Revised);
  - (b) Setting out clearly the independence provisions applicable to a PIE that would apply to a component auditor firm (CAF) outside the group auditor firm's (GAF's) network when the group audit client is a PIE, and the component audit client is not a PIE; and
  - (c) Providing transitional provisions to address situations where a CAF outside the GAF's network has commenced an engagement to provide non-assurance services to a component audit client prior to 15 December 2023. In such situations, the CAF may continue with the engagement under the extant provisions of the Code until it is completed in accordance with the original engagement terms.



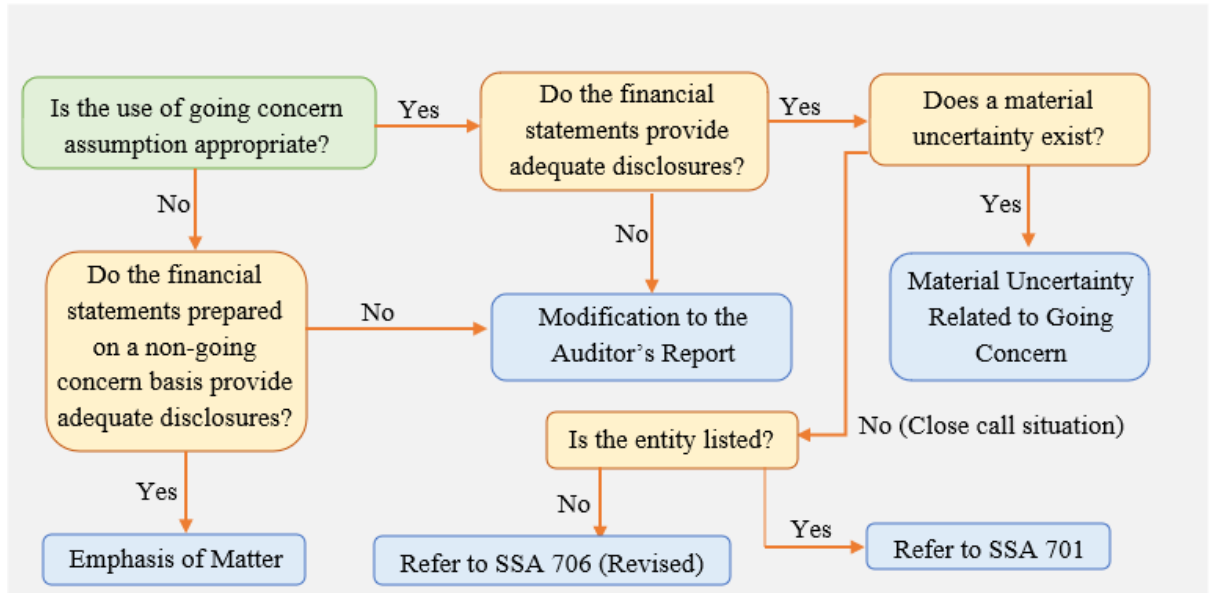
## **Audit Report - Non-Consolidation of Subsidiaries**

- 3.18 An area of concern that is related to group audits is where an audited parent entity does not present consolidated financial statements as required by FRS 110 *Consolidated Financial Statements*, the auditor ought to assess if this calls for a modification to the audit opinion.
- 3.19 In making the assessment and the necessary modification to the audit opinion, the auditor needs to consider if (i) the non-consolidation leads to the financial statements being materially misstated; and (ii) whether the effects of the non-consolidation are pervasive to the financial statements. As the facts and circumstances differ from case to case, the auditor needs to exercise professional judgement in these evaluations and ensure that the audit documentation supports the professional judgement and conclusions reached.
- 3.20 ACRA is collaborating with ISCA AASC on the issuance of an audit bulletin to provide further guidance and illustrative examples in due course.

## **Going Concern**

- 3.21 Where going concern assumption is concerned, the auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude whether there is a material uncertainty about the company's ability to continue as a going concern.
- 3.22 Where the situation results in events or conditions that trigger the need for an assessment by management beyond twelve months from the end of the reporting period, the auditor will need to critically evaluate the quality of any audit evidence obtained in support of management's assessment as the degree of uncertainty associated with the outcome of an event or condition increases as the event or condition is further into the future.
- 3.23 Public accountants are reminded of the following:
- (a) "Emphasis of Matter" is not a substitute for "Material Uncertainty Related to Going Concern"; and
  - (b) Not to include "Material Uncertainty Related to Going Concern" when there is no such material uncertainty.

3.24 The following provides a guide to public accountants in situations where there are identified events or conditions which may cast significant doubt on the audited entity’s ability to continue as a going concern:



3.25 Separately, it is not uncommon for audited entities to obtain letters of financial support and/or undertaking to support the use of the going concern basis of accounting. Under such circumstances, auditors ought to obtain sufficient appropriate audit evidence on the **intent** and **ability** of the party/parties providing the financial support and/or undertaking, even if any of these parties is an individual.

### Audit Documentation and Workpapers

3.26 Audit documentation and workpapers form an important part of an audit as they provide, amongst others, (i) evidence that the audit was planned and performed in accordance with the professional standards and applicable legal and regulatory requirements; and (ii) an appropriate record of the basis for the auditor’s report.

3.27 In this regard, public accountants are required to “carry forward” audit documentation and workpapers from an earlier audit and update them as necessary, if they are required to meet the objectives mentioned above, for the current audit.

3.28 Ensuring the integrity and availability of audit documentation and workpapers are the responsibility of the public accountant and accounting entity issuing the audit opinion. This

responsibility remains unchanged even in cases where a third-party has been engaged to provide the platform to house the audit documentation and workpapers.

## **Fair Value of Unquoted Investments**

- 3.29 Another emerging area of concern is that of relying on confirmations as audit evidence when auditing the valuation of unquoted investments. Public accountants are reminded of the need to be satisfied with the appropriateness of the approach, key assumptions and input used in arriving at the value being confirmed, and that the value derived was in accordance with FRS 113 *Fair Value Measurement*.
- 3.30 The auditor should also evaluate the need to perform further audit procedures, including, amongst others, reviewing the audited financial statements/information of the unquoted investments and engaging an auditor's expert.
- 3.31 ACRA will similarly be collaborating with ISCA AASC on the issuance of a guidance in due course.

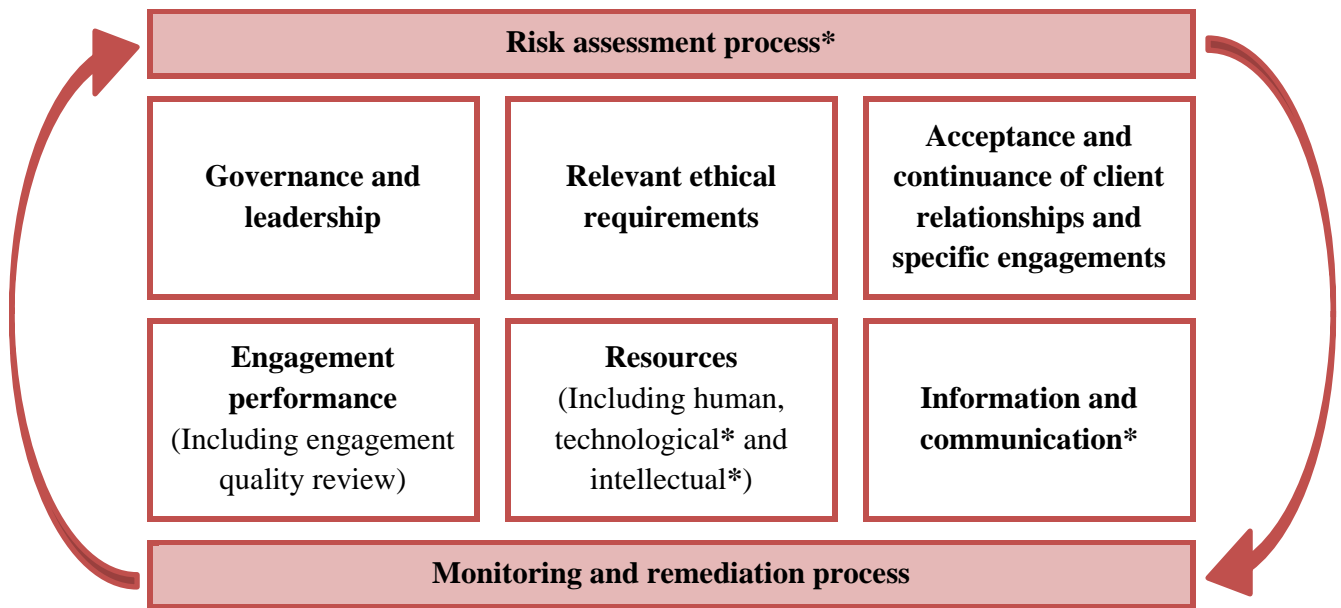
## Section 4: Audit Quality through Quality Management

### Introduction

- 4.1 SSQM 1 and SSQM 2 have been effective since 15 December 2022. A robust SoQM generates multiple benefits, including:
- (a) Improving and supporting the consistent performance of quality engagements, leading to efficiency and effectiveness gains;
  - (b) Facilitating a proactive response to changing circumstances and pre-emptively managing or mitigating risks, and promoting continual improvement and responsiveness; and
  - (c) Aligning the objectives of the firm's personnel with the firm's quality objectives can lead to a more committed and motivated workforce.
- 4.2 Against the backdrop of rapid technological advancements, certain audit firms have been investing in technological tools and increasing their deployment, both in performing engagements and in facilitating the operation of their system of quality management. Further, technological resource is a key component of SSQM 1.
- 4.3 In the past year, ACRA engaged several firms to understand their journey in implementing SSQM and in the adoption of technological tools. We are pleased to share notable observations in this section and trust that these will be of immense benefit to the profession. Specifically, the firms' implementation of SSQM are covered in Sections 4.4 to 4.37, whilst the firms' journey in adoption of technological tools are covered in Sections 4.38 to 4.64.

### Implementation of SSQM

- 4.4 ACRA had engaged the Big Four firms, certain medium-sized firms in the listed companies' segment, as well as SMPs on their SSQM journey. The thematic review covers how these firms had transitioned from a procedures-based system of quality control to that of a risk-based system of quality management. This includes the new SoQM components being introduced in SSQM 1, as set out in the diagram below, with overall emphases on risk assessment process and monitoring and remediation process.



\* New components in SSQM 1 (versus SSQC 1)

4.5 The thematic review also discusses difficulties faced by the firms, as well as possible solutions to overcome these challenges. ACRA encourages firms to view each challenge as an opportunity to enhance its SoQM. The following sections highlight key expectations/reminders and good practices to support firms in their SoQM journey.

## Risk Assessment Process

### Key Expectations/Reminders

#### Iterative Process

4.6 It is important to apply a risk-based approach in designing the SoQM, taking into consideration the nature and circumstances of the firm and the engagements performed.<sup>14</sup> Factors to be taken into account should include, but not limited to:

- Size, complexity, and business units/processes;
- Strategic decisions and key priorities;
- Profile of clients;

<sup>14</sup> SSQM 1 paragraphs 10 and 25(a).

- Type of engagements;
- Professional standards, legal and regulatory requirements;
- Network requirements and network services (discussed in Sections 4.24 to 4.29);
- Results of monitoring activities (discussed in Sections 4.13 to 4.23); and
- Effectiveness of remedial actions.

4.7 Each SoQM is unique as it is tailored to the firm and will evolve over time. Firms are reminded that risk assessment is an iterative process. When there are changes in the nature and circumstances of the firms or the engagements that were undertaken, firms should evaluate whether additional or modified quality objectives, quality risks and/or responses are required.<sup>15</sup>

### **Designing the Responses**

4.8 ACRA observed that the granularity and the number of responses varied significantly across different firms. Whilst the extent of risks and responses may vary according to the size, complexity and business model of the firms, the following factors can help firms design responses that are specific and effective in addressing quality risks.

<b>Objective</b>	Why	Identify the quality risk(s) and quality objective(s) that the response aims to address, taking into consideration the reasons for the quality risk(s) (discussed in Sections 4.9 to 4.12).  It is a good practice to include cross references to mandatory quality objectives and specified responses in SSQM 1 paragraphs 28 to 34 (where applicable) to ensure that firms have included the minimum stipulated in the quality management standard. <sup>16</sup>
<b>Type</b>	What	Identify preventive, detective, or corrective control.
<b>Nature</b>		Identify manual or automated control.

<sup>15</sup> SSQM 1 paragraph 27.

<sup>16</sup> SSQM 1 paragraph 26.

<b>Frequency</b>	When	Operate daily, weekly, monthly, quarterly, semi-annually, or annually.
<b>Location</b>	Where	Operate at business unit, offshore office, firm-wide, or network level.
<b>Operator</b>	Who	Assign individual(s), who has the appropriate competence, capabilities, time, objectivity, and authority, to perform the control activities below. <sup>17</sup>
<b>Activity</b>	How	<p>Detail specific steps to guide the operator in performing the control. This may include a combination of (i) policies and (ii) procedures to implement and comply with these policies.<sup>18</sup></p> <p>It is a good practice to develop flowcharts for complex processes. It facilitates the understanding of the flow of activities and how various conditions, actions or inactions may give rise to quality risks. Furthermore, it illustrates how different responses work together to address the quality risks holistically.</p>

### **Mapping the Responses**

4.9 Some quality risks may require multiple responses to reduce the risks to an acceptably low level. On the other hand, some responses may address multiple quality risks across different SoQM components. As the components within the SoQM operate in an interconnected manner, all quality objectives, quality risks and responses will interact with each other.<sup>19</sup>

4.10 A comprehensive mapping of responses to the relevant quality objectives and quality risks will facilitate timely evaluation of findings<sup>20</sup>, deficiencies<sup>21</sup> and their consequential impact

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<sup>17</sup> SSQM 1 paragraphs 32(e) and 39.

<sup>18</sup> SSQM 1 paragraph 16(u).

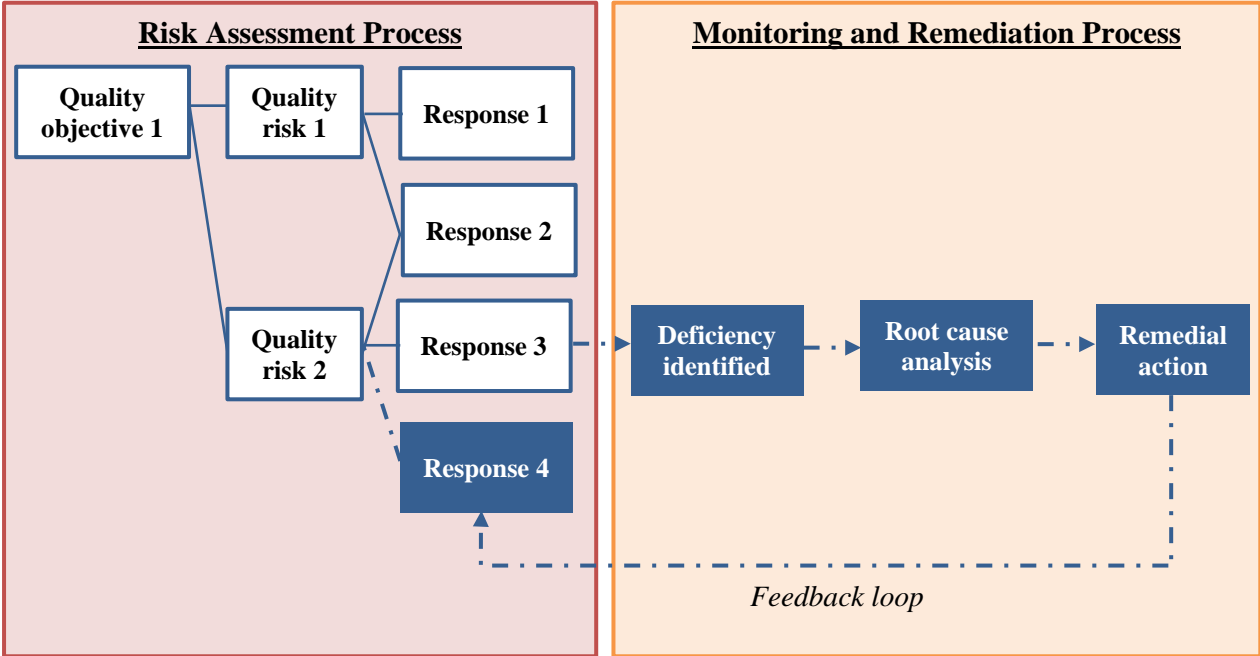
<sup>19</sup> SSQM 1 paragraph A4.

<sup>20</sup> SSQM 1 paragraph 16(h).

<sup>21</sup> SSQM 1 paragraph 16(a).

on the SoQM. This will provide sufficient basis to conclude whether the objectives of SoQM are being achieved.

- For quality risks that are mapped to a single response, firms should assess whether this response is adequate to reduce the quality risk to an acceptably low level. There could be a risk that quality objectives are impacted if this sole response fails to operate effectively, without any corresponding response in place that could collectively mitigate the risk in a timely manner; and
- For quality risks that are mapped to an extensive list of responses, firms should identify what are the key responses to address these quality risks. This will facilitate the design of monitoring activities, which will be discussed in Section 4.13.





## Good Practices

### Assessment of Risk Ratings

- 4.11 Whilst SSQM requires firms to adopt a risk-based approach, the standard does not mandate firms to establish tiered risk ratings. Nonetheless, most firms have utilised a risk heat map or risk scoring matrix to assess the degree to which a quality risk adversely affects the achievement of a quality objective. Assessment criteria may include likelihood (e.g. whether there has been history of occurrences) and impact (e.g. whether there will be a significant and/or prolonged effect).<sup>22</sup>
- 4.12 A tiered risk rating has helped firms to determine the nature, timing and extent of responses required to address the relatively higher quality risks (as compared to lower risks). In addition, it has helped firms to calibrate the testing approach, such as sample size. This is further elaborated in Section 4.13.

## Monitoring and Remediation Process

### Key Expectations/Reminders

#### Planning for Test of Operating Effectiveness of Responses

- 4.13 A robust testing plan sets the foundation for an effective monitoring mechanism over the SoQM. As firms develop the plan to test operating effectiveness of responses, firms should consider the scope, nature, timing, and extent of test procedures to be performed.

<b>Scope</b>	<p>With the risk-based approach (discussed in Section 4.6), firms may test responses on a rotational basis. However, firms should test the following responses, at minimum, on an annual basis.</p> <ul style="list-style-type: none"><li>• Key responses (i.e. relative importance of responses in addressing each quality risk);</li><li>• Responses that address higher risks (i.e. for firms with tiered risk ratings);</li><li>• Responses where exceptions were observed in prior year's testing; and</li><li>• Responses that are newly added or modified during the year.</li></ul>
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<sup>22</sup> SSQM 1 paragraph A48.

	<p>In determining whether a rotational plan is appropriate, firms should ensure results of monitoring activities in prior year continue to be relevant in current year. For example, changes in frequency, location, operator, policy, or procedure of the response activity may not provide a basis for relevance and reliance in current year.</p>
<b>Nature</b>	<p>Testing procedures should include inspection, reperformance or observation, in addition to inquiries with respective operators.</p> <p>It is important to note that inspection of documents does not simply mean checking for evidence of reviews or approvals. Testers should evaluate whether the inputs, judgements and assessments made by the operators were appropriate.</p>
<b>Timing</b>	<p>Testing procedures should be performed on an ongoing or periodic basis (e.g. interim date and year end) to provide timely information on the SoQM. A proactive monitoring and remediation process encourages early identification of findings and timely remedial actions. It provides firms the opportunity to implement corrective actions and remedial actions during the year, as well as evaluate whether these new or modified responses are operating effectively as at year end.<sup>23</sup></p> <p>In addition, firms should ensure that testers are allocated sufficient time to perform these monitoring activities effectively.</p>
<b>Extent</b>	<p>Firms should devise a sampling methodology to determine the extent of testing. The sample size may be affected by nature of response (i.e. manual or automated), number of occurrences, and risk ratings.</p>

<sup>23</sup> SSQM 1 paragraphs A190 and A191.

## **Forming a Testing Team**

4.14 Having a competent and dedicated team is key to drive an effective SoQM. However, firms face a common challenge - getting adequate talent with the right skillsets/attributes to embark on its SSQM journey. In particular, firms may not have personnel who have the competence, capabilities, time or objectivity to test the operating effectiveness of responses.<sup>24</sup>

4.15 ACRA observed varied practices to overcome this challenge.

- Some firms have assigned operators of a component to test the responses in another SoQM component. Given that components of SoQM operate in an interconnected manner, firms should exercise due care to ensure that testers are independent from the assigned monitoring activity.
- Some firms have assigned personnel from other service lines (e.g. advisory, tax, consulting) to test certain responses. This includes IT specialists who have the expertise to test technological resources component and automated controls. Again, firms should be reminded that testers should remain independent from the assigned monitoring activity.
- Some network firms have engaged another member firm to perform “peer review” on its SoQM. This approach can drive efficiencies as these network firms have a consistent understanding of global methodologies and policies.
- Some SMPs have tapped on programmes and initiatives run by professional bodies.

## **Timeliness of Root Cause Analysis**

4.16 Findings refer to information about the design, implementation and operation of the SoQM, which are identified through ongoing activities built in the firms’ processes and responses carried out by respective operators (e.g. engagement inspections, compliance checks). Findings are also identified through the firms’ and networks’ test of operating effectiveness of responses (discussed in Sections 4.13 to 4.15 and 4.28 to 4.29 respectively). Lastly, findings include results from external inspections. Therefore, firms should establish a process

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<sup>24</sup> SSQM 1 paragraph 39.

that allows timely reporting of findings from the various sources to the firm's leadership team.<sup>25</sup>

- 4.17 Timely reporting of findings enables the timely commencement of a root cause analysis. The objective of root cause analysis is to understand the underlying circumstances that have caused the deficiencies. For example, firms may identify systemic issues, trends or similar circumstances that correlates with other findings. It is important to evaluate whether these findings, individually or in combination with other findings, can give rise to a deficiency. Consequently, this will affect firms' evaluation of severity and pervasiveness of these identified deficiencies.<sup>26</sup>
- 4.18 A prompt root cause analysis will enable firms to design and implement remedial actions by appropriate personnel in a timely manner. As discussed in Section 4.6 to 4.7, results of monitoring activities should form a feedback loop in the iterative risk assessment process, in particular, whether additional or modified responses are required in view of the remedial actions undertaken by the firm.

### **Offshore Centres**

- 4.19 There has been an increasing demand in the use of offshore centres, delivery centres or shared service centres. Setup and/or use of offshore centres are business decisions undertaken by accounting entities, taking into consideration their business strategies, business models and business needs. The risk assessment process is critical in ensuring policies and procedures are put in place to deliver high-quality audits on a sustained basis.
- 4.20 There are varied practices in the setup of offshore centres to perform engagements or activities that support the SoQM. For example, firms may hire audit staff based in other countries to perform vouching work. On the other hand, firms may use offshore delivery centres of network firms to perform audit engagements or centralised activities relating to practice management. Regardless of the offshoring models, firms remain responsible for their SoQM.

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<sup>25</sup> SSQM 1 paragraph 16(h).

<sup>26</sup> SSQM 1 paragraphs 159, 161 and 165.

If the offshore centres are set up to support the Singapore firm only	If the offshore centres are network services that support the network
<b>Risk assessment process</b>	
<p>Identify quality risks and design responses arising from the use of offshore centres. For example, firms should consider the impact on relevant ethical requirements (e.g. independence requirements), engagement performance (e.g. direction, supervision and review), human resources (e.g. training curriculum), technological resources (e.g. data security), information and communication (e.g. confidentiality of information), as well as applicable laws and regulations.</p>	
<p><b>Communicate</b> the <b>offshore centres’ responsibilities</b> in implementing the relevant responses.</p>	<p><b>Understand</b> the <b>firms’ responsibilities</b> in implementing the network services.</p> <p>Evaluate how the network services are incorporated, adapted, or supplemented by the firms to be appropriate for use in its SoQM (discussed in Sections 4.24 to 4.27).</p>
<b>Monitoring and remediation process</b>	
<p><b>Determine</b> the scope, nature, timing, and extent of monitoring activities <b>performed by the firms.</b></p>	<p><b>Understand</b> the scope, nature, timing, and extent of monitoring activities <b>performed by the networks, the firms, or a combination of both.</b></p> <p>Evaluate whether the monitoring activities need to be supplemented by the firms (discussed in Sections 4.28 to 4.29).</p>
<p>Evaluate the results of monitoring activities and its impact on the SoQM.</p>	

## Good Practices

### **Monitoring of Key Indicators**

- 4.21 Some firms have developed a set of indicators that are monitored and presented to the firms' leadership on an ongoing basis. This allows the firms' leadership to make informed decisions and focus on its key priorities. Indicators may be in the form of audit quality indicators<sup>27</sup>, key performance indicators or key risk indicators. Examples of indicators include percentage of non-compliance with firms' policies (e.g. archival lapses, independence breaches), staff attrition, staff survey results, audit hours spent by senior audit personnel, training hours etc.
- 4.22 A year-on-year comparison or graphical presentation facilitates analysis as to whether responses are designed effectively and operating as intended. For example, a reduced number of independence breaches may indicate that the firms' remedial actions are effective. On the other hand, unexpected trends may indicate changes in the firms' internal or external environment.<sup>28</sup> These changes are potential areas that may require heightened attention, which are important inputs to the risk assessment process.
- 4.23 Similarly, an industry comparison provides information on the firms' performance of its peers. ACRA has been publishing industry averages and ranges on certain audit quality indicators, which are categorised by Big Four firms and non-Big Four firms in the listed companies' segment.<sup>29</sup> ACRA believes that these audit quality indicators will provide meaningful insights to both the Audit Committees and the firms' leadership to ensure high audit quality is achieved and upkept.

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<sup>27</sup> <https://www.acra.gov.sg/accountancy/public-accountants/audit-quality-indicators-and-industry-average>

<sup>28</sup> SSQM 1 paragraph A52.

<sup>29</sup> <https://www.acra.gov.sg/accountancy/public-accountants/audit-quality-indicators-and-industry-average>

## Network Requirements and Network Services

### Key Expectations/Reminders

#### Risk Assessment Process

- 4.24 Firms that belong to a network may be required to comply with network requirements or use network services. Some networks have prescribed quality objectives, quality risks and/or responses that are consistently applied across member firms, whereas other networks have provided illustrative examples for consideration by member firms. Whilst the extent of (mandatory) network requirements may vary, member firms remain responsible for its SoQM.<sup>30</sup>
- 4.25 The quality objectives, quality risks and/or responses suggested by networks comprise common processes operating at network level (e.g. global training curriculum), as well as specific processes operating at local level (e.g. locally developed courses). As discussed, risk assessment and design factors should be tailored to the nature and circumstances of the firms and the engagements. For example, a history of findings may require firms to increase the quality risk rating, the frequency of response, or the level of authority involved.
- 4.26 With the use of network services, additional quality risks and/or additional responses may become necessary. Perhaps the firm's IT infrastructure does not support the use of a global tool, or the firm may not be ready to onboard a regional delivery centre.
- 4.27 On the other hand, firms may choose not to use some of the network services that are optional (e.g. technological tools discussed in Section 4.41). Whilst the corresponding quality risks and/or responses are not applicable in current year, circumstances may change as firms adopt these network services in phases or in subsequent years. Therefore, it is important that firms maintain a record of these quality risks and/or responses and revisit them as part of the iterative process as discussed earlier.

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<sup>30</sup> SSQM 1 paragraph 11.

## **Monitoring and Remediation Process**

4.28 Network requirements and network services may be monitored by the networks, the firms, or a combination of both. Firms need to understand the scope, nature, timing, and extent of monitoring activities performed at global or regional levels. These considerations have an impact on the firms' testing plan (discussed in Section 4.13).<sup>31</sup> For example, firms may have determined certain quality risks to be "higher risks", with responses operating at both network and local levels (e.g. global IT application used to monitor independence compliance by local team). However, the scope of network testing may not have included this global IT application. In such situations, firms should determine whether additional procedures are required.

4.29 In addition, firms need to obtain and evaluate the results of network monitoring activities. The following considerations are crucial in forming conclusion on the SoQM<sup>32</sup>:

- What are the identified network findings;
- Whether the network findings, individually or in combination with local findings, result in deficiencies;
- What are the root causes identified;
- What are the corrective and remedial actions carried out at network level;
- What are the corrective and remedial actions required at local level; and
- What is the assessed impact on its SoQM and its quality objectives.

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<sup>31</sup> SSQM 1 paragraphs 50 and 51.

<sup>32</sup> SSQM 1 paragraphs A181, A182 and A186.



## Documentation

### Key Expectations/Reminders

#### Documentation Requirements

4.30 It is the responsibility of firms to prepare documentation of their SoQM<sup>33</sup>, which should include, but not limited to:

- Identification of individuals assigned ultimate and operational responsibilities of the SoQM;
- Design and mapping of all quality objectives, quality risks and responses operated by the firm and the network;
- Tests of implementation and operating effectiveness performed by the firm;
- Results of monitoring activities undertaken by the firm and the network;
- Results of other monitoring activities, including external inspections and other relevant sources, that relate to the SoQM;
- Evaluation of findings, deficiencies, root causes and remedial actions; and
- Basis for concluding on the SoQM.

### Good Practices

#### Central Platform

4.31 A central platform promotes a consistent understanding of the SoQM, including individuals' responsibilities in performing activities that support the SoQM. This encourages individuals to take ownership, which is fundamental to a successful implementation of the SoQM.

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<sup>33</sup> SSQM 1 paragraphs 57, 58 and 59.

4.32 Firms' existing audit software may be a useful and cost-effective platform for SMPs. Whilst there is an array of tools available in the marketplace, firms should evaluate whether these off-the-shelf software packages are appropriate for use in its SoQM. ACRA is heartened that some firms have taken the initiative to develop in-house platforms with features such as:

- Automated workflows to ensure users follow a consistent approach and approval process;
- Dashboard views that facilitate project management, such as tracking the status of completion or the number of findings;
- Electronic notifications and reminders to ensure timely completion;
- Electronic signoffs to ensure reviews by the appropriate personnel have taken place at the appropriate time; and
- File set up with auto population of prior year findings to provide a feedback loop for continuous improvement.

### Lead the Change

4.33 ACRA urges firms, as the SoQM is being implemented, to not view this as a compliance exercise. A risk-based SoQM is most meaningful when it is tailored to the firm. The SoQM reflects an iterative process that is responsive to findings and changes in the internal and external environments. As the SoQM evolves over time, firms' leadership should drive the change as these are opportunities to strengthen the system and elevate audit quality.

4.34 SSQM 1 paragraph 20 requires firms to assign individual(s) with:

- a) Ultimate responsibility and accountability for the SoQM (e.g. chief executive officer, managing partner, managing board of partners);
- b) Operational responsibility for the SoQM; and
- c) Operational responsibility for specific aspects or components of the SoQM.

4.35 In a larger firm with multiple levels of leadership, these individuals may further delegate specific tasks to others. Whereas in a smaller firm, each leader may need to undertake several operational responsibilities.

- 4.36 It is important that all personnel understand their roles and responsibilities, which are clearly defined and communicated in the performance evaluation framework. Accordingly, individuals are recognised for fulfilling their responsibilities and achieving the key indicators. On the other hand, individuals will be held accountable for findings and/or deficiencies that have a negative impact on the SoQM.
- 4.37 ACRA wishes to highlight that in the event where there are serious breaches of aspects of the SoQM and where there is evidence that an individual with ultimate responsibility or accountability was responsible for the failure of the firm's SoQM, the PAOC may order the firm, under section 38H(1)(d) or section 38H(2)(b)(vi) of the Accountants Act, to take action against the individual.

## Adoption of technological tools

### Introduction

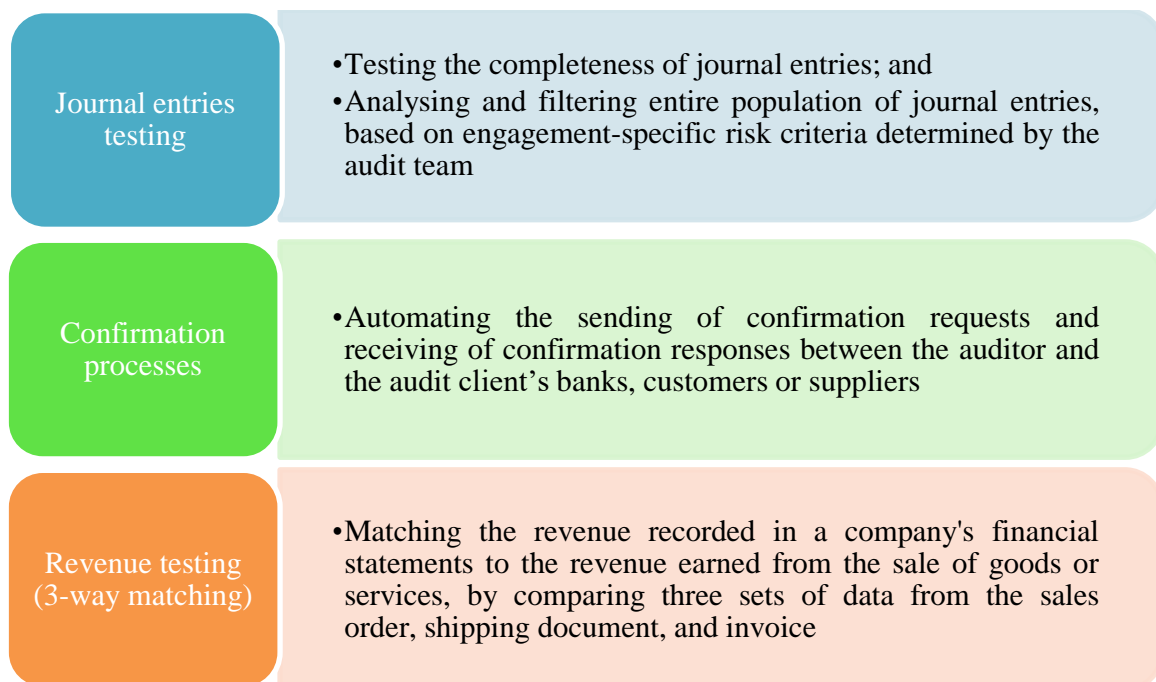
- 4.38 The world is rapidly changing, and we are seeing significant advances in new and emerging technologies e.g. in the field of artificial intelligence. In previous years, ACRA noted that auditors are increasingly using technological tools, with data analytics being the most commonly deployed technology in financial statement (FS) audits. Noting that the larger firms had started this digital transformation journey some years back, ACRA has been encouraging SMPs to accelerate their own digital journey. Based on a 2023 questionnaire, ACRA noted only about 24% of SMPs indicated that they engaged service providers for purpose of technological resources including audit software and tools.
- 4.39 Similar to the thematic review conducted on implementation of SSQM, ACRA conducted a thematic review through engaging the Big Four firms, certain medium-sized firms in the listed companies' segment, as well as SMPs to obtain a deeper understanding of the opportunities, challenges, and concerns in the adoption of technological tools in FS audits. Other than sharing the aforementioned in this segment, ACRA wishes to share certain baseline expectations and good practices for firms to consider when rolling out technological tools. Lastly, we will take a glimpse into the future of audit, reinforcing certain key messages to the profession.
- 4.40 The technological tools in scope for this segment include data analytics, robotic process automation, artificial intelligence and blockchain related tools used in FS audits, for purposes of obtaining assurance and generating insights as a means of adding value to audit clients. The scope will however exclude applications and software used for the preparation, compilation, and retention of audit documentation, which are tools typically seen at the early stages of firms' digital transformation journey.

### Technological Tools used in FS Audits

- 4.41 ACRA observed that there are numerous off-the-shelf technological tools which firms (including the larger firms) are currently applying in their FS audits. That said, most of the technological tools used by the larger firms are proprietary and are usually developed by their global teams through significant cost of investments. There are also instances where the larger firms developed tools for purposes of the firm's own requirements and needs.

4.42 Most firms that embrace the use of technological tools in FS audits are driven by a tone-at-the-top approach. An example is where the firm’s leadership team mandated for technological tools to be applied on a pilot list of suitable audit engagements. Leadership also determined criteria of suitable engagements for technological tools to be applied in the respective audits. Firms considered various factors such as the complexity of the industry, volume of transactions, nature of the businesses and activities including potential fraud risks, availability of clean and structured data etc.

4.43 Technological tools involving data analytics and robotic process automation (RPA) are most commonly applied in the following areas of FS audits:



4.44 In the larger firms, more advanced technological tools are also being applied in the following areas of FS audits:

Risk assessment	<ul style="list-style-type: none"><li>•Using data analytics to analyse large volumes of data and identify higher risk areas as part of audit risk assessment</li></ul>
Detection of fraud or error	<ul style="list-style-type: none"><li>•Using data analytics and applying Benford's law<sup>Note 1</sup> to analyse transactions and detect potential manipulated data which may indicate fraudulent financial reporting</li></ul>
Substantive audit procedures	<ul style="list-style-type: none"><li>•Using Optical Character Recognition (OCR)<sup>Note 2</sup> technology to search through documents and extract key data fields with cross-references into audit working papers for purposes of test of details</li></ul>
Review of financial statements	<ul style="list-style-type: none"><li>•Using machine learning techniques to review financial statements which include checking the mathematical accuracy, consistency across different disclosure items and completeness of disclosure requirements</li></ul>

Note 1: Benford's law describes the expected distribution of leading digits of numbers in datasets.

Note 2: OCR is the conversion of images of handwritten/printed text into machine-readable text format.

## Benefits and Opportunities of using Technological Tools in FS Audits

4.45 ACRA believes that the way forward for the audit industry in this digital world is to increasingly incorporate technological tools in FS audits in a cautious manner. Without doing so, firms may risk being abandoned as the entire financial ecosystem continues to evolve with the rapid advancement of technology.

4.46 The use of technological tools is perceived to improve audit efficiency and more importantly, uplift audit quality. In turn, clients derive much higher audit value through the insights and the efficiency gains in the audit process. To achieve these, firms would need to invest significantly into developing or acquiring the technological tools as well as to train and upskill their employees adequately to operate the tools.

4.47 Through our interactions with the firms, ACRA gathered numerous views on how the use of technological tools has improved audit quality.

- Technological tools help to automate repetitive and time-consuming tasks (such as data entry), hence freeing up time for auditors to focus on more complex and value-adding tasks which require professional judgement, ultimately contributing to a higher quality audit. For example, a combination of RPA tool and OCR technology could be used to accurately extract key data fields from a large number of or voluminous documents in a complete manner and reduced timeframe for auditors to assess the audit evidence.
- Technological tools allow auditors to perform an analysis on the entire population of client data which helps to reveal unseen trends and patterns in client's data and identify anomalies in client's business processes and controls. For risk assessment purposes, these could point to higher risk areas which may be overlooked if manual analysis is used and allow auditors to focus on the critical areas that would have a material impact on the financial statements. When deployed in journal entry testing, firms shared that they are able to gain additional comfort on the population before selecting targeted samples based on deliberated parameters for testing. Another example is when analysing the full population of sale transactions based on independently determined criteria, auditors could investigate into all the exceptions and outliers given that each exception or outlier may be indicative of a misstatement.
- Technological tools ensure that audit procedures are carried out in a standardised and structured format by providing an audit trail. For example, any changes to the source data or any updates to audit documentation in the analysis would be captured via the audit trail functionality in data analytical tools. Another example is in inventory count testing where the auditor is guided by a tool to perform audit procedures in line with the firm's audit methodology. There is also more transparency and efficiency in the inventory count process as the auditor can prepare timely documentation including photos and videos to facilitate real-time review, and where necessary, escalate issues for further investigation.
- Technological tools could assist the auditors to generate audit and other insights which may be of interest and value to the audit clients. By sharing these insights with their audit clients, auditors could deliver higher audit value as some of these insights may help improve the client's business processes.

4.48 On a separate note, by increasingly leveraging on technological tools in FS audits, there is potentially a huge opportunity for the audit industry to attract and retain talent, thereby alleviating the talent crunch issue faced by the industry. It could enhance the profession's attractiveness to the younger generation, with technology being part of their day-to-day activities. Also, auditors are more likely to stay in the industry if they feel excited about deploying the latest technological tools to perform their work and thereby derive higher job satisfaction.

### **Challenges and Concerns of using Technological Tools in FS Audits**

4.49 Whilst there are perceived benefits and opportunities in using technological tools in FS audits, auditors should also be cognisant of the challenges and ethical issues that may arise. It is important that auditors understand the intended use of each technological tool and possess the technical know-how to operate those tools and ensure that the outputs generated by the technology are reliable and explainable. Auditors should also be prepared to carry out alternative procedures to overcome these potential pitfalls and constantly apply professional scepticism in their work.

4.50 Firstly, as much as the auditor wishes to deploy technological tools in the FS audits, the clients may not always be ready for the auditor to do so. One common challenge relates to the data integrity of the client's financial information. Other than the usual data cleansing procedures to allow proper application of the technological tools, auditors would also need to perform sufficient procedures to ascertain the completeness, accuracy, and reliability of the data sets. Such procedures could be time-consuming for both the clients and auditors and may even create a deterrent for deploying technological tools.

4.51 Next, whilst data analytical tool has the capability to analyse the full population of client's data, auditors should be mindful that this does not necessarily equate to the entire population has been tested or audited by the tool. For example, in revenue testing (via 3-way matching) for certain industries and business models, a match of the documents would not necessarily mean that revenue is earned.

4.52 Lastly, whilst technological tools allow auditors to easily extract data fields from documents, auditors should always exercise professional scepticism in ascertaining the reliability and authenticity of the documents, especially for documents that are generated electronically. Auditors should check and review the documents for any red flags, before using the technological tools on the documents to populate audit evidence.



## Good Practices in the deployment of Technological Tools in FS Audits

4.53 It is important to ensure that technological tools are deployed in a way that maximises the positive impact on audit quality and minimises the risk of misuse. In this regard, ACRA has observed several good practices when firms deploy technological tools in FS audits. The successful deployment of technological tools typically depends on firms having effective processes and controls relating to the certification of the tool, audit methodology and implementation measures.

4.54 These good practices are categorised into the (a) pre-deployment and planning phase, (b) deployment and implementation phase, and (c) post-deployment and maintenance phase, as follows:

### Pre-deployment Phase (Planning and Preparation)

- Ensure technological tools operate reliably by subjecting the tools to user/functionality testing in addition to obtaining in-house or third party certification(s), certified control report(s) etc
- Develop audit methodology (including documentation requirements and template working papers) that guides the use of technological tool in accordance with Singapore Standards on Auditing (SSAs)
- Equip auditors with the necessary data skills through specialised trainings and workshops
- Identify and appoint "data champions" or "innovation ambassadors" within the firm's audit function to assist with facilitating and promoting the use of technological tools
- Set up a data analytics specialist team to support the audit teams including planning discussion on the nature and extent of use of technological tools on specific areas of the audit engagement
- Create a firm-wide culture on the use of technological tools e.g. through innovation roadshows, hackathons, frequent bite-sized communications
- Conduct pilot-testing on selected engagements prior to full deployment of the tools

### Deployment Phase (Execution and Implementation)

- Conduct parallel run for first time implementation of technological tools in audit engagements, alongside the traditional suite of audit procedures.
- Ensure there is proper support structure in place once a technological tool is deployed. This includes technical helpdesk, self-help guides, frequently-asked-questions etc.
- Establish a mechanism and set performance measures to monitor the adoption/usage rates of the technological tool.
- Engage users actively and solicit feedback and concerns (e.g. via survey) to fix issues or enhance the performance of the tool

### Post-deployment Phase (Monitoring and Maintenance)

- When obtaining periodic confirmation from tools' owners that the tools are operating as intended, the process would include an assessment of user feedback gathered and technical issues encountered during the deployment.
- Monitor the compliance with relevant training requirements that are integral to operating the technological tool, especially for tools that are more complex and require specialised training.
- Obtain annual independent certification relating to information security and data protection (for cloud-based systems).
- Share success stories with firm's staff to encourage higher adoption rates e.g. relevant audit teams can showcase their use cases and experiences.
- Empower firm's staff to lead innovation initiative including recommending tools for firm's use or continually improving functionalities of existing tools.

## **Audit Methodology to guide the use of Technological Tools in FS Audits**

4.55 One key aspect of implementing technological tools in FS audits is the development of firm's audit methodology that serves to guide the use of technological tool in accordance with SSAs. This includes establishing documentation requirements, working paper templates and guidance materials.

4.56 Whenever technological tools are used, it is necessary that the nature and extent of documentation are sufficient to enable an experienced auditor, having no previous connection to the FS audit, to understand the nature, timing and extent of audit procedures performed and the results of procedures and evidence obtained. Other than the documentation requirements in the respective SSAs, firms should also refer to paragraph 127 of AGS13 – *Data Analytics in a Financial Statements Audit* for additional documentation considerations, including:

- Objective of the technological tool;
- Source of the underlying data used in the technological tool;
- The design of the technological tool;
- Procedures performed to determine the reliability of the tool;
- Results of use of technological tool, which may include a screenshot; and
- Analysis of the results, which include evaluation of outliers and exceptions.

## Future of FS Audits

- 4.57 The future of audit will likely see artificial intelligence (AI) playing a bigger role. But what exactly is AI? AI generally refers to computer systems or machines that can perform tasks associated with human intelligence. Technically, AI is a lot more sophisticated than just machine learning. AI represents probabilistic, pattern recognition functions that can be used for visual perception, understanding language and speech, prediction and data-problem solving. “Generative AI” is a type of AI which leverages on a range of deep learning techniques combining natural language processing with generative capabilities for text, imagery or audio data. An example is Chat Generative Pre-trained Transformer (ChatGPT) which is an AI-powered language model capable of generating human-like text based on context and past conversation.
- 4.58 At this juncture, firms generally prohibit the use of third-party generative AI tools e.g. ChatGPT on FS audits due to concerns over data confidentiality and information security. That said, given the hype about the benefits which AI could bring to FS audits (e.g. enhancing data analytics capabilities, supporting auditor judgement), larger firms with the support of their global network have already committed to invest into the development of AI capabilities for their audit practice. Accordingly, ACRA may start to see the use of AI-related tools in FS audits in the near future. Firms should be mindful about the reliability of the technology including how the AI works its algorithms and reaches its conclusion. From an ethical perspective, there may also be inherent bias and inequity in AI due to the use of flawed/incomplete data sets.
- 4.59 The future of audit will also likely see more systems and tools becoming cloud-based. Most larger firms have already shifted to cloud-based audit platforms and tools. Cloud-based systems allows better management of data security and data privacy, which is a highly challenging area for on-premise systems. The use of cloud-based systems also allows faster and more efficient deployment of technological tools and provides firms with the opportunity to monitor the usage of the tools and set performance measures to evaluate the audit quality impact. To manage the risk associated with cloud-based systems and tools, firms would need to implement a suite of controls including data encryption, vulnerability assessment, intrusion detection and periodic testing of business continuity plan.

## Conclusion, including Key Messages and Reminders

- 4.60 ACRA strongly encourages all audit firms to increase the adoption of technological tools in FS audits. Having considered the benefits of using technological tools and looking ahead into the new opportunities which future technologies could present to the audit profession, ACRA firmly believes that this is the right direction for the profession and an opportune time to elevate the sophistication and attractiveness of the profession. The observed good practices shared earlier aim to help firms in successfully deploying technological tools.
- 4.61 One key reminder for firms is to always understand the intended use of a technological tool before deploying it. Furthermore, firms should always bear in mind that professional judgement and profession scepticism remain integral to an auditor's work and can never be replaced by the use of technological tools.
- 4.62 Separately, ACRA is also aware of the concerns that SMPs may have in charting their digital transformation journey. Without a doubt, the firm's leadership would require strong commitment and perhaps an adjustment in mindset in order to embrace the use of technological tools in FS audits.
- 4.63 If there are cost-related concerns, SMPs<sup>34</sup> could explore the available grants and support schemes currently offered by ACRA:
- [Productivity Solutions Grant for the Accountancy Sector](#) - provides up to 50% funding capped at \$30,000 per SMP. There is a curated and approved list of digital solutions in the areas including external audit management and data analytics; and
  - [RPA Adoption Support Scheme](#) - provides 70% funding up to \$2,500 per SMP. The scheme matches the firm with one polytechnic lecturer to assist in the implementation of RPA scripts in areas such as audit and accounting and to train their staff.

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<sup>34</sup> Primary or Secondary SSIC code to start from 692; annual revenue of not more than S\$100M or not more than 200 employees.

4.64 SMPs could also consider schemes offered by other government agencies. The relevant schemes are as follows:

- [Enterprise Development Grant](#) (by Enterprise Singapore) – provides up to 50% funding support on projects in the areas including innovation and productivity.
- [Accountancy Job Redesign Initiative](#) (by Workforce Singapore) – provides up to 70% funding for Job Redesign consultancy costs capped at \$30,000 per firm. The consultancy support includes redesign of work processes and improving productivity.
- [CTO-as-a-Service](#) (by Infocomm Media Development Authority) – engage digital transformation consultants for advisory service from appointed operators at no cost for first-timers. Firms would also receive recommendations of digital solutions based on their business needs and profile.

## Section 5: Non-compliance with PAOC Orders and CPE Requirements

### Introduction

5.1 ACRA has increased the level of punitive measures meted to public accountants for non-compliance with PAOC orders and CPE requirements, taking into account the egregious nature of such non-compliances.

### Non-compliance with PAOC Orders

5.2 PAOC orders are meted out to public accountants who fail<sup>35</sup> or who obtain either<sup>36</sup> (i) Partially Satisfactory or (ii) Not Satisfactory outcomes on their PMP. The range of possible outcomes and orders can be found on ACRA's website<sup>37</sup>.

5.3 ACRA continues to take a serious view of non-compliance with PAOC orders and, as part of raising the audit quality bar, will also raise the bar in ensuring that public accountants comply with PAOC orders. In doing so, severe actions will be taken on any form of non-compliance (including late completion) with PAOC orders, comprising suspension, cancellation or not renewing the registration of public accountants<sup>38</sup>, even in situations where PAOC had only issued warning letters in the past.

### Non-compliance with CPE Requirements

5.4 Meeting the CPE requirement is a condition for the renewal of certificate of registration by public accountants. This serves to ensure that public accountants continuously upgrade their professional knowledge and skills to stay relevant and maintain the highest standards of professional competence and expertise.

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<sup>35</sup> For the version of the Accountants Act that was in force prior to 1 July 2023, in which the outcome of PMP was either pass or fail.

<sup>36</sup> For the version of the Accountants Act that is in force from 1 July 2023, in which the outcome of the PMP is either (i) Satisfactory (with or without findings), (ii) Partially Satisfactory or (iii) Not Satisfactory.

<sup>37</sup> Refer to <https://www.acra.gov.sg/public-accountants/practice-monitoring-programme-pmp/pmp-process> and <https://www.acra.gov.sg/public-accountants/practice-monitoring-programme-pmp/pmp-orders>.

<sup>38</sup> Provided for in sections 38(5) and 38(6) of the Accountants Act.

- 5.5 Public accountants are required to undertake CPE in accordance with the CPE syllabus approved by the PAOC and provide details of the CPE courses undertaken for each year in their annual renewal applications.
- 5.6 ACRA continues to note non-compliance with CPE requirements, arising from (i) poor planning to meet the CPE requirements; or (ii) lacking awareness of CPE requirements<sup>39</sup>.
- 5.7 ACRA would like to remind public accountants to exercise due care to ensure compliance with CPE requirements and the accuracy of the information provided during renewal. Where warranted, ACRA will not hesitate to take disciplinary action against public accountants who make false declarations and wilfully not comply with the requirements, amongst others.

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<sup>39</sup> Refer to Practice Direction 1 of 2021 for the CPE syllabus and requirements for registration as a public accountant and renewal of certificate of registration.



## Section 6: Upcoming Developments – Sustainability Reporting and Assurance

### Sustainability Reporting and Assurance on Sustainability Reports

- 6.1 In 2022, Singapore announced that it would raise its national climate target to achieve net zero emissions by 2050.<sup>40</sup> Today, 88% of global emissions are covered by national net zero targets.<sup>41</sup> To steer the global economy towards net zero, investors and lenders require credible, decision-useful climate data and transition plans from companies.<sup>42</sup>
- 6.2 Responding to market calls, ACRA and SGX RegCo set up the Sustainability Reporting Advisory Committee (SRAC), an industry-led committee, to advise on a roadmap to advance sustainability reporting in Singapore and launched a public consultation on the SRAC's recommendations that ended on 30<sup>th</sup> Sept 2023. The key recommendations were:
- (a) Listed issuers should make climate-related disclosures using prescribed standards aligned with the ISSB requirements from FY2025. Large non-listed companies with an annual revenue of at least \$1 billion should follow suit from FY2027. A review will be conducted in 2027 with the view to mandate climate reporting on non-listed companies with revenue of at least \$100 million, by around FY2030.
  - (b) Companies should obtain external limited assurance on Scope 1 and Scope 2 greenhouse gas emissions two years after mandatory reporting. Assurance should be provided by registered climate auditors and conducted using a Singapore standard equivalent to ISSA 5000 or SS ISO 14064-3. The registration criteria for firms should include requirements on quality management.

If implemented, Singapore will be amongst the first in Asia to mandate climate reporting for non-listed companies.

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<sup>40</sup> Prime Minister's Office Singapore: [Singapore's Climate Targets – Overview](#), September 2023.

<sup>41</sup> Net Zero Tracker: [Global Net Zero Coverage](#), September 2023.

<sup>42</sup> GFANZ: [2022 Progress Report](#), November 2022.

- 6.3 To support the consistent performance of quality sustainability assurance engagements, the IAASB issued an exposure draft of the proposed ISSA 5000 for public consultation in August 2023. This is a new overarching standard for sustainability assurance engagements that is suitable across all sustainability topics, information disclosed about those topics, and reporting frameworks. The standard is profession agnostic and applies to both limited and reasonable assurance. Whilst the new standard is built upon existing IAASB material, it aims to address areas where challenges have been identified in the past, and more specificity is required.
- 6.4 Studies benchmarking the state of play of sustainability assurance found that globally<sup>43</sup>, 64% of companies obtained some level of assurance on ESG information. In Asia Pacific<sup>44</sup>, the rate of assurance dropped to 49% and in Singapore<sup>45</sup>, it was a mere 10%. As Singapore moves towards mandatory climate reporting, the appetite for sustainability assurance is likely to grow as it would boost the confidence and trust in the information reported. Thus, the time is now ripe for firms to evaluate their strategy and decide if (and how) they plan to meet the expected increase in demand.
- 6.5 To grow adequate pool of climate auditors, the SRAC recommended for one-off transition of professionals with applicable or adjacent competencies, including public accountants that have passed the recognised sustainability reporting and assurance bridging course(s), to be able to register as climate auditors.
- 6.6 Whilst public accountants may be eager to seize this new opportunity, they would benefit from finding the right time to register as climate auditors. Ideally, this would be when their firms are prepared to invest in quality management systems and compelling multi-disciplinary teams equipped with the right mix of competencies.

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<sup>43</sup> International Federation of Accountants: [The State of Play: Sustainability Disclosure & Assurance](#), February 2023. The report covered 1,350 companies across 21 jurisdictions globally for 2021.

<sup>44</sup> PwC and NUS Centre for Governance and Sustainability: [Sustainability Counts II](#), June 2023. The review covered 700 listed companies in Asia Pacific which includes the top 50 listed companies in Singapore. Assessment was done based on the latest sustainability reports and annual reports available until January 2023.

<sup>45</sup> EY and CPA Australia: [Transparency in focus – State of climate reporting in Singapore](#), July 2023. The analysis focused on 240 SGX-listed issuers' that have commenced their climate reporting efforts. Assessment was done based on sustainability reports that were published as at 31 May 2023.

- 6.7 With the above-mentioned shifts, audit professionals will require additional skills in sustainability reporting (e.g. carbon accounting, climate scenario analysis) and assurance. As sustainability reporting becomes a regular feature for businesses, companies will come to rely on sustainability assurance to affirm or challenge the views expressed by their sustainability and finance teams. This will enhance, improve and complement internal processes, as well as the credibility of information for stakeholders.<sup>46</sup>
- 6.8 Whilst the SRAC's recommendations present a step up from Task Force on Climate-Related Financial Disclosures (TCFD) to ISSB for listed issuers, it is not entirely new as SGX RegCo's TCFD-aligned climate reporting requirements has been in place since 2022<sup>47</sup>. Therefore, firms auditing listed companies should already have embarked on this journey – at the minimum, ensuring that the necessary guidance and resources are made available to engagement teams as they would have to be cognisant of and address climate-related risks in their FS audits.

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<sup>46</sup> ISCA-SMU-EY-SAC: [Sustainability: Jobs and Skills for the Accountancy Profession](#), 2022.

<sup>47</sup> SGX: [Sustainability Reporting](#), 2022.

## Section 7: Other Initiatives to Improve Audit Quality

### Sector Driven Initiatives to Support the Audit Profession and Improve Audit Quality

- 7.1 Recognising the importance of high audit quality, ISCA identifies and develops initiatives to support the audit profession to raise audit quality. ACRA actively provides input to ISCA on certain of such initiatives, including, where applicable, vetting of the frameworks, workplans etc, to ensure the rigour of the initiatives.

#### SMP Centre of Excellence

- 7.2 The SMP Centre of Excellence (SCOE) is a platform for audit firms looking to improve their audit quality, build digital capabilities, and enhance overall business practices. It is a one-stop portal that provides support, guidance, and training to SMPs in various aspects of their practice.

The SCOE aims to support SMPs in improving audit quality through, amongst others, the Voluntary Compliance Programme (VCP). The VCP aims to enhance and promote audit quality, and to encourage and support audit firms' compliance with the quality management standards.