ACCOUNTING AND CORPORATE REGULATORY AUTHORITY

PRACTICE MONITORING PROGRAMME

14th PUBLIC REPORT

October 2020

Contents

Glossary of Terms

ACRA	Accounting and Corporate Regulatory Authority
AARG	ASEAN Audit Regulators Group
AOB	Malaysia's Audit Oversight Board
COVID-19	Coronavirus Disease 2019
FRS	Financial Reporting Standard in Singapore
GAQ WG	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
IOS WG	IFIAR's Investor and Other Stakeholders Working Group
ISCA	Institute of Singapore Chartered Accountants
ISQM	International Standard on Quality Management
PAOC	Public Accountants Oversight Committee
Philippines SEC	The Philippines Securities and Exchange Commission
PMP	Practice Monitoring Programme
PMSC	Practice Monitoring Sub-Committee
PPPK	Indonesia's Finance Professions Supervisory Center
SMP	Small and Medium-sized Practice
SSA	Singapore Standard on Auditing
SSQC 1	Singapore Standard on Quality Control 1 - *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*
Thailand SEC	Thailand's Securities and Exchange Commission

Section 1: Executive Summary

1.1 ACRA's Practice Monitoring Programme (PMP) is an important regulatory instrument that provides assurance to the market on the quality of work of the public accountants, in particular, whether they have complied with the prescribed auditing standards, methods, procedures and other requirements.

1.2 This annual report on the key inspection findings of ACRA's PMP seeks to help auditors and audit firms improve audit quality. This report highlights the findings from inspections carried out from 1 April 2019 to 31 March 2020.

1.3 The inspection findings pertaining to the six elements of the Singapore Standard on Quality Control 1 (SSQC 1) are discussed in Section 3 of this report. Certain SSQC 1 elements (particularly in human resources and monitoring) are further supplemented with firm-level audit quality indicators (AQIs) to provide a combination of metrics which may be helpful in enhancing audit firms' appreciation of markers that correlate closely to audit quality. AQIs can be used by audit firms in monitoring audit quality and deepening conversations with stakeholders.

1.4 ACRA regularly monitors the effectiveness of our AQIs Disclosure Framework and its relevance to audit committees. In January 2020, ACRA revised its AQI Disclosure Framework to ensure that the indicators can better meet the needs of audit committees.

1.5 The common audit deficiencies noted during engagement inspections fall under the following broad themes, some of which relate to the implementation of new accounting standards that became effective during the periods of audits covered under the inspections:

(i) accounting estimates, including fair value measurement;
(ii) group audits;
(iii) revenue recognition;
(iv) risk assessment and audit evidence; and
(v) audit reports.

Section 4 of this report illustrates some of the audit deficiencies noted in these areas and shares some best practices, some of which were observed during our inspections.

1.6 The outbreak of COVID-19 pandemic has brought about unprecedented disruptions and uncertainties, the impact of which has far-reaching consequences on businesses, as the long-term business and economic consequences remain unknown.

1.7 The COVID-19 crisis and related economic uncertainty present a unique set of challenges to the audit profession in Singapore and globally – moving away from the traditional way of auditing amidst an emerging situation, without compromising on audit quality. The aftermath of high-profile corporate failures often, if not always, spotlights onto the roles and responsibilities of auditors in the audit of financials statements, bringing to the fore concerns over audit quality.

1.8 In light of the unprecedented challenges brought about by the COVID-19 pandemic, the report this year attempts to highlight some emerging trends that auditors should be cognizant of in order to deliver high quality audits in these challenging times and move into the new norm. Auditors in the new norm will increasingly leverage technology to innovate their audit practices and to transform the way they work, so that audit continues to be a valued service. Auditors may have to adjust how they execute their audits without compromising audit quality, bearing in mind the need to exercise professional skepticism and judgement when performing the audit procedures to address the identified risk areas.

1.9 ACRA is encouraged that audit firms have continued to develop and employ technological tools including data analytics techniques in various phases of the audit – from planning and risk assessment to the execution of audit procedures. Such a trend is essential to keep audit as a valued service and our young talents engaged in the profession. During ACRA's firm-level inspections, we have continued to engage audit firms to obtain an understanding of their digital transformation journeys and understand their concerns around the deployment of technology in audits.

1.10 When high profile corporate failures make the headlines, the concept of "expectation gap" which has existed for decades, rears its head. This is when commentators/analysts challenge the auditor's role and responsibility in relation to fraud. Each participant in the financial reporting ecosystem has an important role to play in contributing towards high quality financial reporting and reliable financial statements. The stakeholders of the financial reporting ecosystem including management, those charged with governance, investors, auditors, regulators, standard setters and others each has its own responsibilities and should support and reinforce one another to effectively address this expectation gap.

1.11 Accordingly, the responsibility for fraud detection is not solely that of the auditor. In fact, the primary responsibility for the prevention and detection of fraud rests with management and those charged with governance. Auditors have a role in identifying and assessing the risk of material misstatement due to fraud and in designing procedures to detect such misstatement. This is given their responsibility to provide reasonable assurance whether the financial statements are free from material misstatement as stipulated in the auditing standards. The role and responsibility of auditors in relation to fraud is currently subject of a consultation by the International Auditing and Assurance Standards Board. This is a complex matter involving a fine balance of responsibilities to be assumed by the different stakeholders of the financial reporting ecosystem.

Section 2: Scope of ACRA's Audit Regulatory Work

The Public Accountancy Landscape in Singapore

2.1 ACRA regulates 701 public accounting entities and 1,155 public accountants providing public accountancy services in Singapore as of 31 March 2020.

2.2 Audits of listed companies are concentrated in 15 larger audit firms, comprising the Big-Four and medium-sized firms. The other audit firms (mainly consisting of smaller partnerships and sole proprietorships) audit non-listed entities.

ACRA's Inspection Activities under the PMP

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

(i) **Engagement Inspection**

An engagement inspection is a detailed 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).

(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. A firm-level inspection is performed based on the SSQC 1. Presently, firm-level inspections are conducted on an advisory basis on audit firms that perform audits of listed companies. As part of inspections, ACRA also evaluates the remediation actions carried out by firms in respect of the firm-level findings raised in earlier inspections. In addition, with the aim to ensure consistency of high audit quality across all audit engagements performed by the firms, regardless of size or complexity of each engagement, ACRA has also incorporated thematic reviews of selected engagements as part of our firm-level inspections. Thematic areas of focus include audits involving application of new accounting standards and those involving emerging topics such as commodity trading companies.

ACRA's Calibrated Inspection Approach

2.4 For a more effective and efficient use of resources, ACRA's inspection approach is differentiated between the two segments of public accountants and audit firms.

(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.

2.5 As at 31 March 2020, the number of public accounting entities and public accountants in the two segments is as shown in Table 1 below.

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

As at 31 March	Listed companies' segment		Non-listed companies' segment		Total	
	2020	2019	**2020**	2019	**2020**	2019
Number of public accounting entities	**15**	16	**686**	705	**701**	721
Number of public accountants	**362**	352	**793**	770	**1,155**	1,122

2.6 The Big-Four audit firms collectively audit about 55% (2018: 58%) of the companies listed on the Singapore Exchange as of 31 December 2019.

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

2.8 Inspectors from the Institute of Singapore Chartered Accountants (ISCA) review the audits in the non-listed companies' segment under ACRA's oversight. In this respect, oversight includes the determination of the public accountants to be reviewed, the selection of the engagements and a review of the findings before communication to the public accountant. In this segment, the inspectors carry out only engagement inspections.

2.9 Findings from the engagement inspections of both the listed and non-listed companies' segments are submitted to the Practice Monitoring Sub-Committee (PMSC)[1]. 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)[2] 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.

2.10 Although the audit firms in the non-listed companies' segment have yet to be subjected to firm-level inspections, ACRA strongly urges the firms in this segment to ensure that they have in place an effective system of quality control in accordance with SSQC 1. Once legislated, firm-level inspections will apply to all firms. A robust system of quality controls establishes the foundation for firms to ensure consistency in the delivery of high-quality audits.

2.11 ACRA wishes to remind the profession that in time to come, the extant SSQC 1 will be replaced by the new International Standard of Quality Management (ISQM) 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*. Recognising that the systems of quality controls at many small and medium-sized practices (SMPs) may be less formal and extensive as compared to those of larger firms, the ISQM 1 promotes scalability in its application to cater for firms of varying size, complexity and circumstances.

Contributing towards Global Audit Regulatory Initiatives

2.12 ACRA continues to actively contribute towards international 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).

2.13 In particular, ACRA continues to serve on the Board of IFIAR, an international organisation of independent audit regulators comprising 55 members. ACRA is a member of the Human Resources and Governance Committee (HRGC) of the IFIAR Board, which assists the Board on matters relating to human resources and governance.

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

2.14 Besides serving on the IFIAR Board, ACRA has also been a member of the Global Audit Quality Working Group (GAQWG) and the Investor and Other Stakeholders Working Group (IOSWG) since 2011 and 2014, respectively. The GAQWG engages in ongoing dialogues with the leadership of the six largest global audit firm networks (Global Public Policy Committee or GPPC[3] network) with the objective of improving audit quality globally. Arising from the COVID-19 pandemic, one pressing issue discussed at the GAQWG relates to addressing stakeholders' concerns due to the pandemic. Whilst the GAQWG engages with the GPPC network, the IOSWG facilitates IFIAR's dialogue on audit quality-related matters with investor representatives and other stakeholders, in particular. audit committees.

2.15 Furthermore, ACRA is a member of the IFIAR Technology Task Force (IFIAR TTF) which was newly set up in June 2020. IFIAR TTF's objective is to focus on the audit quality impact of technology audit tools used widely around the world by the GPPC audit firms. ACRA seeks to support the IFIAR TTF's objective through our continuous engagement with audit firms to seek a wider understanding of the technology and tools used by the firms.

2.16 Such international engagements allow us to work with other audit regulators across the globe to share best practices to help ACRA stay abreast of global audit trends and developments in supporting regional and international efforts in raising audit quality. ACRA's ongoing involvement in dialogues also allow us to benchmark our regulatory regime against other leading audit regulators to keep Singapore's audit regulatory regime robust and relevant.

2.17 On 17 February 2020, IFIAR published the results of its 8th annual survey of inspection findings[4] which provides information about the results of its members' inspection activities relating to both firm-wide systems of quality controls and individual audit engagements. IFIAR highlighted that the findings rate remains high and emphasised the need for continued efforts to achieve high quality audits. The top findings noted from ACRA's PMP in the areas of accounting estimates, including fair value measurement and revenue recognition are consistent with top areas with the highest frequency of inspection findings noted from the results of IFIAR.

2.18 In relation to firm-wide systems of quality controls, the survey results concluded that the area of "Engagement Performance" had the highest percentage of member firms inspected with

[3] The six firms in the GPPC networks are BDO, Deloitte, EY, Grant Thornton, KPMG and PwC. In Singapore, as at 31 March 2020, Grant Thornton does not perform audits of listed entities.
[4] IFIAR's 2019 Survey of Inspection Findings published on 17 February 2020

at least one finding, followed by “Independence and Ethical Requirements” and “Human Resources”.

Promoting Audit Quality in the Region

2.19 At the regional level, ACRA is part of the AARG, which comprises Indonesia’s Finance Professional Supervisory Center (PPPK[5]), Malaysia’s Audit Oversight Board (AOB), Thailand’s Securities and Exchange Commission (Thailand SEC) and The Philippines’ Securities Exchange Commission (Philippines SEC).

2.20 The AARG aims to foster closer collaboration, promote audit quality and achieve greater alignment in audit regulatory practices amongst audit regulators in the ASEAN region. To achieve this, one of the AARG’s key activities is the annual inspection workshops where delegates discuss topics covering inspection findings, best practices as well as emerging topics of significant impact on audit firms.

2.21 Through AARG members’ engagement with the international audit firms at a regional level, the AARG activities complement IFIAR’s efforts in upholding the standards of audit quality by focusing on common issues relating to audit regulation specific to the region. Since the outbreak of COVID-19 in 2020, AARG members have held regular dialogues to exchange ideas and share learning points covering topics such as challenges experienced and trends observed from the conduct of remote inspections due to COVID-19, in addition to the periodic sharing of observations from inspections conducted.

[5] Also known as Pusat Pembinaan Profesi Keuangan

Section 3: Firm-level Inspection Findings

Introduction

3.1 The SSQC 1 deals with an audit firm's system of quality control for audits and reviews of financial statements, and other assurance and related services engagements. ACRA performs firm-level inspections to assess whether an audit firm has put in place an effective system of quality control in accordance with SSQC 1. SSQC 1 is applicable to all firms and requires that the firm "*establish and maintain a system of quality control to provide it with reasonable assurance that: (a) The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and (b) Reports issued by the firm or engagement partners are appropriate in the circumstances.*"

3.2 SSA 220 *Quality Control for an Audit of Financial Statements* deals with specific responsibilities of the auditor regarding quality control procedures for an audit of financial statements and addresses the responsibilities of the engagement quality control reviewer.

3.3 Whilst ACRA recognises the remediation efforts of the audit firms, ACRA continues to have recurring findings in certain areas. Audit firms should review the effectiveness of their existing initiatives, processes or policies by closely examining the root causes of recurring findings in order to devise more targeted action plans to address these findings. This should be followed by implementation of processes to monitor compliance with these policies.

3.4 This section highlights some areas for improvements as well as some best practices observed during ACRA's firm-level inspections.

Leadership – High Audit Quality is Non-Negotiable

3.5 The leadership of an audit firm is the principal driver of audit quality. Leadership sets the tone by holding themselves accountable and clearly demonstrating their commitment to audit quality, and thus embedding the culture of quality within the firm.

3.6 In certain audit firms, ACRA was unable to see the linkage between audit quality and performance evaluation and compensation of partners and staff. Quality should be built into the performance standards of all partners and staff, against which the overall performance evaluations are measured and bear impact on compensation. Firms that have not done so, should revisit their existing framework to include a clear set of assessment criteria based on drivers of audit quality which signals a strong and clearly-communicated linkage between audit quality and performance evaluations and compensation. Firms should consider incorporating "quality"-related factors such as lapses related to archival of audit workpapers, breach of independence requirements, results of internal and external reviews as part of the audit quality benchmark. Performance ratings of staffs' individual engagement appraisals should be supported by proper justifications and there should also be a clear linkage between these individual engagement appraisals to the staff's overall performance appraisals.

3.7 To demonstrate the firm's overriding commitment to quality, audit quality drivers should have clear prominent weightages such that when there are shortfalls in quality, there is invariably a negative impact on performance evaluation and reward. Accountability of leadership, either in functional roles or the quality role, becomes all the more important when quality fails and this should be taken into account as firms review the existing framework. The effective use of a wide range of audit quality measures would drive a firm's audit quality agenda and align behaviours towards achieving quality objectives.

Compliance with Independence Requirements

3.8 Firms have taken measures to address non-compliance with independence requirements, including imposing higher financial penalties on errant personnel. However, ACRA continues to observe breaches relating to inaccurate or untimely independence declarations. The monitoring of the firms' policies and processes on a timely basis is crucial and the effective implementation of these policies lies in the behaviour of these personnel.

3.9 Non-compliance with independence requirements should be taken very seriously by the firms and any violations to the independence requirements should attract severe penalties, financial or otherwise, to deter independence violations by audit personnel, especially the partners.

Acceptance and Continuance – Robustness of Policies and Procedures

3.10 Given the number of audit tenders and movements of audit clients amongst audit firms, it is critical to have in place a robust risk assessment on client acceptance and continuance. This serves as an important pillar to an effective audit quality framework.

3.11 Many small and medium-sized business entities or family-owned business have no or limited qualified accountants in their finance functions or in leading their finance teams. Hence, for many SMPs whose clienteles consist of such clients, auditors may have to invest additional effort, beyond the capacity of the firms, in hand-holding these clients in producing the financial information in preparation of the audits, Ultimately, the responsibility for the preparation of high-quality financial information rests with management.

3.12 When taking over audit engagements from other auditors, some auditors also encounter difficulties reaching out to the predecessor auditors to understand and review the work performed by the predecessor auditors whilst they try to fulfil their responsibilities relating to opening balances, as required by SSA 510 *Initial Audit Engagements - Opening Balances*.

3.13 Firms should not treat their client acceptance and continuance processes as merely administrative in nature. A robust client acceptance and continuance evaluation process serves as a first line of defence against:

- accepting clients with integrity issues;
- engagements that may pose independence concerns;
- accepting or continuing with clients or engagements with higher risks of money laundering or terrorist financing occurring;
- engagements that are potentially beyond the capacity or expertise of the firm as noted recently with cryptocurrency engagements; or
- unnecessary limitations placed upon the auditor's scope of work.

3.14 Firms should adequately document their risk assessments and conclusions reached for acceptance, continuance and discontinuations of clients, where applicable. The process should in itself give sufficient prominence to the assessment of the potential impact on the firm's brand and reputation and particularly, the resources required by the firm to undertake the engagement. The assessment performed would also serve as useful inputs in the formulation of the audit strategy.

Human Resources – Staff Retention and Leverage Ratios

3.15 Staff attrition is part and parcel of the audit industry, but staff turnover beyond normal levels is disruptive to ensuring consistent execution of high-quality audits. High staff attrition is often associated with loss of knowledge and experience. Coupled with the inability to recruit suitably qualified replacements, especially experienced audit-trained personnel or subject matter experts amidst a tight labour market, this becomes a real challenge to the audit firms. Even if firms do manage to recruit suitable replacements, the next challenge would be to equip the new staff with the necessary skills and knowledge in the firm's audit methodology and of the clients and their business models in order to execute the audits efficiently and effectively.

3.16 ACRA has observed that audit firms in general have introduced many initiatives and incentives to retain their staff, especially the high-performing staff. Audit firms should continue to review their human resource management policies to remain relevant, attractive and effective in improving staff retention rates. Firms' commitment to ensure healthy staff leverage ratios (such as staff-to-partner or staff-to-manager) would also ensure there is adequate supervision by more senior audit personnel to sustain audit quality.

3.17 As part of ACRA's revisions to the Audit Quality Indicators (AQIs) Disclosure Framework[6] in January 2020, ACRA has started to provide relevant information on industry average and ranges for the audit firms in the listed companies' segment (categorised by Big 4 and non-Big 4 firms) to better facilitate industry comparison. The industry information published focuses on staff oversight[7], staff experience[8] and overall staff attrition rate to provide insights on trends and indications where follow-up action is needed.

Human Resources – Continuing Professional Development

3.18 Continuing professional development has been a primary means used by audit firms to continuously upskill their audit personnel in keeping abreast with the developments and changes in the accounting and auditing standards and relevant related practical issues in those topics. With remote working arrangements largely brought about by the COVID-19 situation, firms should implement effective continuous learning to enable staff to develop and maintain the required competence and capabilities to cope with the evolving challenges faced in the environment. In the current climate, essential training topics include going concern assessments, audits of accounting estimates and professional scepticism. As we move away from the traditional forms of auditing, traditional ways of obtaining audit evidence and traditional types of audit evidence, it remains crucial to maintain professional scepticism throughout the audit.

[6] For more information on ACRA's 2020 revisions to the AQI Disclosure Framework, please refer to www.acra.gov.sg/public-accountants/audit-quality-indicators-disclosure-framework. Please also refer to section 3.31 of this report for more details on the revised AQI Disclosure Framework.

[7] Relates to: (i) Partner to Audit professional staff and manager leverage ratio; and (ii) Manager to Audit professional staff leverage ratio

[8] Relates to average years of experience by staff grade

3.19 Besides the more structured classroom- or webinar-style training sessions and equipping staff with relevant updates through audit guidance or circulars, audit firms and senior audit personnel should also prioritize on-the-job coaching to provide effective mentoring to staff. This is to ensure staff are appropriately guided in carrying out their responsibilities, especially under the current remote working environment.

Engagement Performance – Repeated Lapses in Archival of Audit Working Papers

3.20 Archival lapses are recurring observations found in both the listed and non-listed companies' segments and include both the late archival of audit working papers and incomplete assembly of audit working papers.

3.21 Late archival of working papers continue to be observed by ACRA, and in certain cases, there were repeated lapses by the same engagement partners. Notwithstanding the remedial efforts taken by certain firms to reduce the instances of late archival, firms should continue to monitor closely in this area to ensure strict adherence with the auditing standards in terms of assembly and archival requirements.

3.22 ACRA continues to come across instances, particularly in the non-listed companies' segment, of incomplete assembly of audit workpapers where public accountants have failed to include the relevant workpapers in the final assembled audit files. Today, most SMPs still maintain their audit documentation in physical files (hard copy files), wholly or partially even though ACRA has observed a move towards gradual adoption of electronic audit tools in recent years. However, we noted that some firms have either not utilised or not utilised properly the in-built archival functions of some tools to properly lock down audit evidence. Consequently, there would not be a proper audit trail for the completion date of the assembly of audit files.

3.23 Audit workpapers provide a record for the basis of the auditor's report and evidence that the audit was planned and performed in accordance with the relevant standards and applicable legal and regulatory requirements. Hence, incomplete or missing workpapers and non-timely archival raise questions on the credibility of the audit performed and the audit opinion issued.

3.24 ACRA wishes to commend firms who have resolutely instituted full "paperless" modes in relation to audit engagements by mandating the use of the firm's audit software to house all audit evidence. This has not only eradicated the instances of late archival relating to paper files but also preserved the integrity of the audit evidence.

3.25 More firms have implemented firm-wide policies of shorter archival timeframes which are stricter than the requirements of *"not more than 60 days after the date of the auditor's report"*[9] under SSQC 1 and SSA 230 *Audit Documentation*. In line with the firms' stricter policy of shorter archival timeframes, some firms have accordingly configured their proprietary audit tools to send timely reminders for archival. Other firms have further integrated the more stringent archival deadlines into the auto-archival functions of their electronic audit tools. ACRA is heartened to see that firms are leveraging technology to monitor the status of electronic audit files.

3.26 ACRA urges audit firms to keep monitoring the timeliness and completeness of assembly of final audit working papers to preserve the integrity of audit evidence. Partners should be held accountable for assembly and timely archival of the engagement files and any archival lapses especially repeated lapses should be considered as part of the performance evaluation criteria of the partners.

Monitoring – Root Cause Analysis

3.27 A thorough and robust root cause analysis (RCA) framework is the key to addressing audit deficiencies. The RCA process should be designed to identify the underlying causes of findings, in order to prevent them from recurring. It should be part of a continuous improvement cycle. Recurring findings suggest that the RCA performed and action plans devised previously were not effective at addressing the root causes. The RCA should be granular enough to establish the underlying root causes to recurring issues so as to tailor a more effective and targeted remediation plan.

3.28 Firms should assign personnel with the appropriate experience and authority, preferably centrally led, to the RCA function. A centrally led RCA process ensures consistency, improves the quality of the causes identified and the firm's resulting actions.

3.29 Apart from the above, setting deadlines on the RCA process on individual audits ensures that the RCA is performed on a timely basis. The RCA investigations should also involve staff

[9] SSQC 1 paragraph A54 and SSA 230 paragraph A21

of all levels and if appropriate, include the engagement quality control reviewer and other members of the quality team.

3.30 ACRA will continue to monitor the RCA undertaken by the firms and public accountants and the remediation actions taken. Through regular engagements with the profession, ACRA will also continue to identify the drivers that contribute to consistent high quality audits and to help firms continuously review and refine their processes and procedures to achieve continuous improvement.

Audit Quality Indicators

3.31 ACRA first introduced its AQI Disclosure Framework in 2015, with the aim of equipping audit committees with information that allows them to exercise their professional judgements on elements that contribute to or are indicative of audit quality where such information can be used to enhance discussions between audit committees and audit firms on audit quality matters during the selection or reappointment of auditors.

3.32 As part of our ongoing efforts to raise audit quality, ACRA took into account feedback from audit firms and audit committees and revised its AQIs Disclosure Framework[10] in January 2020. The revisions relate to (i) refinements to track audit hours based on milestones and to assess the timeliness of auditor involvement, (ii) measurement of headcount in quality control functions in relative terms as a ratio of total audit staff strength; and (iii) the removal of compliance with independence requirements from the AQI Disclosure Framework given that declarations of independence are being instituted under the relevant professional standards (such as ACRA's Code of Professional Conduct and Ethics).

3.33 Whilst the adoption of the AQI Disclosure Framework by audit firms is voluntary, firms are encouraged to share AQI data with audit committees to allow for meaningful analysis and discussions. Audit committees, on the other hand, should also endeavour to request AQI data from audit firms for use as a means to assess the firms' quality and to facilitate meaningful conversations with auditors on audit quality matters and monitoring over the auditors' work.

[10] Please refer to footnote 6.

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 An inspection finding is raised when there has been non-compliance with the auditing standards. Such non-compliance can either be a deficiency in audit procedure[11] or an inappropriate professional judgement[12] applied by the public accountant. However, **an inspection finding does not necessarily mean that the financial statements were misstated or that an audit failure has occurred**.

Analysis of Engagement Inspection Findings

4.3 The nature of our findings from the PMP is consistent with those of audit regulators in other jurisdictions as reflected in the inspection findings survey results published by IFIAR[13]. The areas with the highest frequency of findings observed from the ACRA's inspections on audit engagements over a 3-year period are illustrated in Figures 4A (listed companies' segment) and 4B (non-listed companies' segment). The recurrence of findings in the areas noted below continue to indicate that the remediation efforts need to be more targeted as there appears to be a lack of consistency in the execution of high-quality audits. ACRA encourages audit firms to continuously improve audit quality.

[11] Deficiency may stem from inadequate work done or non-performance of necessary audit procedures.
[12] It has to be obvious to a reasonable auditor that the public accountants' application of professional judgment is fundamentally flawed.
[13] Refer to section 2.17

Figure 4A: Common inspection findings by themes in the listed companies' segment from 2018 to 2020

Figure 4B: Common inspection findings by themes in the non-listed companies' segment from 2018 to 2020

4.4 Notably, the **top themes** common to both segments are as follows:

(i) Accounting estimates, including fair value measurement;

(ii) Group audits; and

(iii) Revenue recognition.

Theme 1: Accounting estimates, including fair value measurement

4.5 It is hardly surprising that accounting estimates, including fair value measurement remained the top theme, consistent with that of IFIAR's annual survey results. This theme is broad, as evidenced by the sheer number of different areas that could involve accounting estimates. An analysis of the findings involving accounting estimates shows the following financial statement line items affected by findings on accounting estimates:

(i) Receivables. For example, there was inadequate work performed to assess the recoverability of receivables, especially in cases when balances had increased but no subsequent repayments were noted;

(ii) Investment in subsidiaries, associates and joint ventures. There were recurring deficiencies in audit procedures performed over impairment assessment for investments in subsidiaries, associates and/or joint ventures where indicators of impairment (such as recurring losses, declining revenues, or where the share of net assets in investees were significantly lower than costs of investment) were noted. In particular, inadequate work was performed in assessing the recoverable amounts of these investments to address the valuation assertion;

(iii) Construction contracts. Repeated findings were observed on the lack of appropriate audit procedures performed to assess the completeness and accuracy of estimated costs to complete projects, which would have a consequential and pervasive impact on contract revenues, attributable profits and contract assets and liabilities recognised;

(iv) Goodwill and other intangible assets. Common deficiencies relate to inadequate work performed in ascertaining that the identifiable assets acquired and liabilities assumed in business acquisitions were measured at fair values; and inadequate work performed in corroborating management's assumptions used in arriving at the recoverable amounts of goodwill for purpose of impairment assessment; and

(v) Inventories. Common findings surfaced over the inadequate assessment on the appropriateness of management's basis and assumptions for provision of slow-moving/obsolete inventories.

4.6 Accounting estimates vary widely in nature and often involve management's (including experts employed by the entity) judgements and significant assumptions and may involve complex models. In auditing accounting estimates, auditors face challenges when evaluating whether significant judgments and assumptions made by management are indicative of possible management bias, whether intentional or unintentional.

4.7 Auditors should use the procedures as prescribed in the revised SSA 540 *Auditing Accounting Estimates and Related Disclosures*[14] issued in 2018 which take into consideration the developments in the business environment in recent years. The procedures should include how management has assessed the effect of estimation uncertainty and the risk assessment and audit evidence required in supporting the accounting estimates. Auditors should also now be considering the impact of COVID-19 on the business of the entity when assessing significant estimates.

4.8 Possible best practices include:

(i) Performing a robust qualitative risk assessment in designing further audit procedures in responding to the assessed levels of risks relating to key accounting estimates, taking into consideration the nature, complexity and subjectivity involved in making those estimates;

(ii) Strong challenge on management regarding the appropriateness of assumptions used, leading to changes where assumptions were assessed as not reasonable. Such robust challenge is especially critical in assessing the appropriateness of the going concern assumption, in light of uncertainties in the current climate.

(iii) In the use of firm's specialists (as part of the audit team) and experts (reporting to audit team) in fields of expertise other than accounting or auditing, e.g. property or actuarial valuations, engagement teams demonstrated close involvement in benchmarking key assumptions and the extent and clarity of scope of work of those specialists or experts.

[14] Effective for audits of financial statements for periods beginning on or after 15 December 2019

(iv) Requests to management to delay the reporting timetable or deferring the signing of the auditor's report until the auditor has obtained and reviewed key audit evidence and ensured that robust quality control procedures had been completed.

Theme 2: Group audits

4.9 Generally, public accountants in both segments continue to face challenges in assessing the adequacy of the component auditor's work as part of a group audit engagement. This is especially prevalent in the non-listed companies' segment. With the growth of businesses, group structures are becoming more complex, and in the non-listed companies' segment, there has been an increasing trend of public accountants taking on larger engagements involving group audits.

4.10 ACRA observed repeated instances where the group auditor had not performed adequate work to obtain sufficient appropriate audit evidence regarding the component auditor's work over the financial information of significant components of the group. In some cases where the group auditor had prepared a group auditor's summary on the review of the component auditor's audit working papers, it was sometimes deemed inadequate as it did not include sufficient detail of the component auditor's work, in areas that were identified as significant risks or that would have a material impact on the financial statements.

4.11 In some cases, the group auditor had placed reliance on the components' audited financial statements and group reporting deliverables from the component auditors and did not perform further evaluation as to the sufficiency and appropriateness of audit evidence obtained by the component auditors, especially in those areas identified to have significant risks of material misstatement or areas involving management's judgement or estimates.

4.12 Good practices observed include:

(i) Well-evidenced risk assessment and scoping of procedures at a component level to focus on where it matters the most;

(ii) Close involvement of group auditors in the direction and review of component auditors' work, as evidenced by the extent of ongoing interactions with the component auditors in respect of the significant risk areas identified and documentation of minutes of discussions with the component auditors;

(iii) Robust documentation on the matters that the group auditor considered in evaluating the adequacy of the component auditors' work and how he had challenged the component auditor's basis for any conclusions made.

4.13 The PMP Report 2018 highlighted certain best practices adopted by some audit firms with respect to group audits. Public accountants are encouraged to take reference from those best practices. Public accountants may also refer to ACRA's Audit Practice Bulletin No. 1 of 2015 *Audits of Group Financial Statements (Including the Work of Component Auditors)*[15] for further guidance and clarity on the audit procedures necessary prior to placing reliance on the work performed by component auditors and to increase the level of rigour and professional scepticism expected when acting as the group auditor.

Theme 3: Revenue Recognition

4.14 Findings under the theme of revenue recognition include the failure (i) to sufficiently understand the terms and conditions of contracts/arrangements and the impact on the accounting of revenue; (ii) to perform adequate/effective cut-off procedures to determine whether revenue was recorded in the appropriate period; and (iii) to adequately design and perform audit procedures to respond to the risk of fraud related to revenue recognition.

4.15 In particular, findings relating to fundamental cut-off procedures is a recurring finding in the non-listed companies' segment. For example:

(i) In respect of overseas sales, the scope of cut-off testing cannot just be limited to the last and first few sales invoices before and after year end respectively as it needs to consider the international commercial terms and delivery lead times;

(ii) In certain cases where cut-off errors were noted from the samples tested, the auditor did not perform further work to assess the potential impact on the financial statements.

4.16 Other examples of findings relating to revenue recognition include:

(i) In respect of a company that was involved in software development and programming projects, projects were negotiated as a package to include the issuance of software licences till implementation of the software. The management recognised, prior to the commencement of the projects, a certain percentage of the total project revenue upon

[15] Please refer to the link https://www.acra.gov.sg/training-and-resources/publications/bulletins-and-guidance/audit-practice-bulletin to view the Audit Practice Bulletin No.1 of 2015.

the issuance of software licenses. The auditor did not assess the appropriateness of management's identification of performance obligations promised in the contracts in order to determine whether the revenue recognised upon license issuance represented the fair value of the stand-alone selling price (relative to the total project revenue) of the license issued. Accordingly, there was inadequate assessment performed as to the appropriateness of management's basis for the revenue recognition policy adopted. In the absence of a proper assessment, there was insufficient appropriate audit evidence obtained to address the financial statement assertions relating to revenue, accrued revenue and advanced billings to customers.

(ii) A company that was in the business of distribution of alcohol and tobacco recognised its revenue on transactions entered based on a gross basis, i.e. the company was a principal. The company had a significant proportion of the company's sales transacted on a back-to-back basis and earning zero margin. Its trade debtors made payments directly to a related party and unpaid balances were being offset against related party balances. Given the above indications that the company was acting as an agent for its related company on these transactions, there was a failure by the auditor to obtain sufficient appropriate evidence to support that the company's revenue recognition policy on a gross basis was appropriate, in accordance with FRS 18 *Revenue.*

4.17 The effective use of data analytic techniques in the audit of revenue could enhance audit quality, for example, in analysing discrepancies in price and quantity between source documents such as invoices, sales orders and shipping documents.

4.18 Auditors should continue to ensure that a detailed assessment on the impact of implementing the Singapore Financial Reporting Standard (FRS) 115 *Revenue from Contracts with Customers* is prepared by management. The auditor's role is to evaluate the appropriateness of management's assessment and ascertain if the financial statements have been prepared in accordance with the requirements of the accounting standard.

Findings relating to Auditors' Reports

4.19 Findings relating to auditors' reports are mainly from the non-listed companies' segment and include the following:

(i) omission to opine on the group financial statement for a consolidated set of accounts. For example, there was omission to identify in the audit opinion paragraph, the consolidated statements of financial position, comprehensive income, changes in equity and/or cash flows which the auditor was engaged to audit and provide an opinion on and the related statements attached to the opinion;

(ii) basis for opinion paragraph being unclear such that the users of the financial statements might not understand how the auditor's conclusion was reached. Examples include a lack of description of matters giving rise to an "except for" opinion and the lack of quantification of the financial effects of misstatements to the financial statements;

(iii) lack of assessment by the auditor on the type of 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 would be material and pervasive.

4.20 In cases of omissions of certain responsibilities of the auditor in the auditor's report, this would not diminish the auditor's fundamental responsibility.

4.21 Considering that the auditor's report is the ultimate deliverable "owned" by public accountants, it is therefore critical for public accountants to take due care and ensure the accuracy and completeness of the report that is issued.

Section 5: Trends Moving into the New Norm

Introduction

5.1 The public accountancy profession has traditionally faced many challenges, but the COVID-19 pandemic has thrusted the audit profession, both globally and locally, into unprecedented uncertainties. In this section, we highlight some key areas for auditors to pay attention to and measures that some auditors have adopted in responding to the disruptions brought about by the pandemic as well as trends emerging from the onset of the pandemic.

Old Wine in New Bottles

5.2 The two auditing standards that the profession is very familiar with are SSA 500 *Audit Evidence* and SSA 230 *Audit Documentation*. These two SSAs respectively (i) explains what constitutes audit evidence and deals with the auditor's responsibility to design and perform audit procedures to obtain sufficient appropriate audit evidence. Audit procedures can include inspection, observation, confirmation, recalculation, reperformance and analytical procedures, often in some combination, in addition to inquiry; and (ii) deals with auditor's responsibility to prepare audit documentation to provide evidence of the auditor's basis for a conclusion.

5.3 The two SSAs mentioned above are considered fundamental and well-ingrained in auditors' minds, along with traditional methods of auditing, which have served the profession well. However, auditors need to be more agile in adapting to the rapid changes in the macroenvironment and moving with the times. Whenever new or technology-enabled means emerge, the auditing profession experiences some uncertainty as to **whether they should**, **whether they could** and **how they could** change their traditional ways of doing audits. ACRA wishes to emphasise that SSAs are principles-based and do not prescribe exactly how an audit should be performed, what evidence and how much evidence is required, how to go about gathering evidence, or how much needs to be documented. In this regard, the SSAs requires the auditor to exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit.

5.4 In response to these challenges, today, more than ever, auditors are starting to rely on technology in conducting their audits.

Embracing Technology and Use of Data Analytics

5.5 Whilst ACRA strongly encourages firms to transition to technology-based audits, auditors should ensure that audit quality is not compromised.

5.6 Data analytics is the most familiar form of automated tools and techniques deployed in audits today. Data analytics has changed the fundamentals of the conduct and delivery of audits as technological developments have made it easier for auditors to capture, transform, store and analyse entire datasets within a population and to perform procedures and analysis on large or complex datasets where a manual approach would not have been feasible.

5.7 In this regard, data analytics being used in risk assessment allows for more informed judgement to be made, for instance, data analytics results showing anomalies in data could cause the initial risk assessment to be elevated, vis-à-vis traditional risk assessment encompassing understanding of the environment and internal controls. In turn, auditors could focus their efforts on outliers and exceptions and higher-risk areas where it matter most.

5.8 Notwithstanding its potential, data analytics is largely used in journal entry testing and audit of revenue or to identify outliers for closer audit attention but less so in other areas. Even when data analytics were used in other audit areas, this has often been used more to supplement audit evidence obtained through traditional procedures rather than integrated into the audit process to replace conventional audit procedures, as many auditors hold the view that the auditing standards are silent on the acceptance of new techniques as audit evidence.

5.9 When it comes to the use of technological tools in audits, common challenges frequently raised by the profession include difficulties in accessing reliable and relevant data, ensuring operating effectiveness of the tools used, acquiring specialised skillsets needed, defining exceptions, evaluating and documenting results and instituting mindset changes.

5.10 ACRA strongly believes that through greater use of technological tools and techniques such as data analytics, audit efficiency and effectiveness can be improved. However, this is on the premise that audit teams are clear as to the objective of the data analytics tests (i.e. whether they are directly responsive to the identified risk of material misstatement), that the data used for analysis is accurate, complete and relevant and the auditor also needs to understand the tools used and the audit evidence obtained can be relied upon for purposes of audit in contributing to audit quality. It is also imperative to understand what the technological tool can achieve vis-à-vis what it cannot do. Ultimately, the use of technological tools does not replace the professional evaluation, judgement and scepticism expected of an auditor.

Risks Associated with Cybersecurity

5.11 With advancements in technology, more businesses increase their online presence and digital exposure while audit firms continuously expand their use of technology-based tools to plan and perform their audits. As much as technology presents opportunities, it also presents cybersecurity threats whereby any cybersecurity breach could have far-reaching impact such as data theft, financial losses, reputational damage and litigious processes.

5.12 As part of risk assessment in a financial statement audit, cybersecurity risk cannot be ignored: auditors should obtain a robust understanding of the entity and its environment, including the entity's cyber environment for every audit. Depending on the extent an entity uses technology, the auditor should exercise professional judgement in determining whether any risks identified are significant risks that require special audit consideration and determine appropriate audit responses to address the specific risks identified. For entities that operate in highly complex cyber environments, auditors should further consider involving subject matter experts. Auditors are reminded that risk assessment is iterative and continues to be updated throughout the audit.

5.13 With massive volumes of electronic data exchanged between clients and their stakeholders and auditors with clients, one key concern of auditors is in the area of data confidentiality and data protection – how respective parties ensure data security during data transmission and what safeguards are put in place when clients' data is in the hands of the auditor to guard against data loss.

5.14 Auditors should be cognisant that breaches may have occurred but remain undetected. As such, auditors should be adequately equipped with the knowledge and skills to identify and appropriately deal with cybersecurity issues when they do arise.

Going Concern Assessment

5.15 FRS 1 *Presentation of Financial Statements* requires management to make an assessment of an entity's ability to continue as a going concern and SSA 570 *Going Concern* requires the auditor (i) to obtain sufficient appropriate audit evidence regarding, and conclude on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and (ii) to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern.

5.16 Financial statements are normally prepared based on the assumption that the entity is a going concern and will continue its operations for the foreseeable future, unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. The overarching going concern assumption therefore drives the basis of accounting.

5.17 In the wake of the COVID-19 pandemic, many companies have experienced significant deterioration in economic conditions, such as decreasing revenue, operating losses, delayed payments from debtors and difficulty in obtaining financing. Some businesses have since shut down their operations while others saw increasing economic uncertainty. Now, more so than ever, the disruptions and uncertainties about the impact of COVID-19 create significant heightened public interest and scrutiny over around companies' abilities to continue as a going concern should those conditions persist.

5.18 It is however important to recognise that the existence of material uncertainties that cast significant doubt over an entity's ability to continue as a going concern does not necessarily mean that the entity is not a going concern. In light of the COVID-19 situation, users of financial statements generally understand that the level of uncertainty is unprecedented and largely beyond the entity's control and therefore, expect an entity to report many areas of uncertainty and estimation.

5.19 Against the current economic backdrop of uncertainty caused by COVID-19 and government-imposed lockdowns and restrictions, there is immense challenge on the auditor's ability to perform going concern assessments. In this regard, ACRA expects auditors to exercise due care and heightened professional scepticism when executing audit procedures over going concern assessments. The auditor should consider both negative and possible factors in the assessments and critically challenge the assumptions made by management about the future, the projected impact on business activities, the use of government funding or support measures or access to other sources of financing and assess whether sufficient appropriate audit evidence has been obtained to support the underlying assumptions.

5.20 The COVID-19 situation could result in events or conditions that trigger the need for management to extend its going concern assessment beyond 12 months from the date of the financial statements. As such, the auditors should 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.

5.21 The responsibility to evaluate management's going concern assessments also includes reviewing the adequacy of disclosures made by management about the impact of COVID-19, including any significant judgements exercised. Auditors should remind management of their disclosure obligations on going concern and ensure that disclosures are not boilerplate but specific to circumstances based on available facts.

5.22 The going concern assumption is a fundamental principle in the preparation of financial statements and appropriateness of its use should be meticulously assessed and appropriately disclosed in line with improved transparency. When potential issues over going concern assessments are noted, auditors should consider seeking independent consultations on those issues and engaging experts (for instance, valuation specialists) as necessary. Firms should also communicate updates about COVID-19 and provide additional support to audit teams to upskill them on how to approach going concern assessments, given the high degree of uncertainty, level of judgement and heightened risks involved. Regular guidance and engagement with audit teams help ensure consistency in the audit of going concern.

Fraud and Professional Scepticism

5.23 Professional scepticism[16] is defined as an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.

5.24 Professional scepticism is a fundamental concept under the auditing standards and core to audit quality. In conducting an audit, the auditor is required to apply professional scepticism throughout the entire audit process, from planning and risk assessment through to the critical assessment of audit evidence in forming conclusions. Professional scepticism includes being alert to, for example, audit evidence that contradicts other audit evidence obtained, information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence, conditions that may indicate possible fraud or circumstances that suggest the need for audit procedures in addition to those required by the SSAs.

[16] SSA 200 paragraph 13(l)

5.25 As professional scepticism is a mindset and an attitude, it will be most effective when audit firms inculcate such mindset and attitude into the firm's values and culture.

5.26 When evaluating the audit evidence obtained, the auditor needs to apply professional scepticism in identifying whether any circumstances or conditions warrant further audit procedures to be performed, and in determining the nature, timing and extent of those procedures. The elements of professional scepticism, audit evidence, management bias and fraud are closely related.

5.27 The auditor is required to consider all information obtained in forming his conclusion about whether sufficient appropriate audit evidence has been obtained - regardless whether such information is internally- or externally-sourced, corroborative or contradictory in nature – and ensure that one is not biased towards one information source over others. It is particularly important that auditors do not dismiss any contradictory information simply because corroborative information is deemed more reliable, especially if such contradictory information comes from external independent sources vis-à-vis corroborative information that is internally-generated by the entity. Owing to the uncertainties caused by the COVID-19 pandemic, the auditor's evaluation of management bias may be even more critical than before. For example, management's business objective before the pandemic and in current time of crisis may have shifted from a profit-oriented one to that of economic survival. Due to the economic uncertainty brought about by the pandemic, management may become biased (unintentionally or intentionally) by a need to qualify for government funding or support schemes.

5.28 The auditing standards prescribe specific audit procedures targeted at identifying and assessing risks of material misstatement including procedures to respond to these risks. There are however inherent limitations of an audit that some risks of material misstatement of the financial statements may not be identified even though the audit is well-planned and performed in accordance with the auditing standards, because fraud schemes can be carefully-planned and well-concealed and audit evidence is generally persuasive rather than conclusive.

5.29 Remote work arrangements arising from the COVID-19 situation has made it difficult for auditors to verify company's financial statements. The volatile market conditions exacerbated by pandemic could give rise to greater manipulation of financial information which result in potential material misstatement to the financial statements. These factors call for the auditor's heightened caution to uphold audit quality and the auditor's exercise of professional scepticism is especially important and more challenging than before. In addition, auditors face the challenge of assessing whether companies' financial projections, such as performing valuations and estimating potential asset impairments, are viable amid the economic uncertainty.

Collective Responsibility in the Financial Reporting Value Chain

5.30 ACRA wishes to emphasise that high audit quality requires the participation of all stakeholders in the financial reporting ecosystem: each of the independent auditor, preparers, management, board directors, audit committee members and shareholders have their respective roles to play.

5.31 Until today, there still exists misconceptions that the responsibility for drafting of financial statements lies with the auditors. Such misconceptions are more prevalent amongst the small and medium-sized companies, which are largely audited by the SMPs. As the responsibilities of preparers/management get deflected to the auditors, potential threats to the proper functioning of the financial reporting value chain could arise. Most importantly, such practices pose a critical threat on auditors' independence in the form of self-review threats which would inevitably compromise audit quality.

5.32 It is therefore timely to clarify individuals' responsibilities, to reinforce the right perceptions and attitudes. Whilst client service may be important, it is important for auditors to get the balance of responsibilities right by establishing clear boundaries to properly demarcate the roles and responsibilities between preparers and auditors.

5.33 Companies' management and preparers, who should best appreciate the business rationale behind significant transactions, will need to take greater ownership of their financial reporting and accounting judgements to ensure that financial information reported are reflective of the companies' business models and activities and are relevant to users. Such responsibilities should never be deflected to the auditors. This is all the more crucial under the current challenging economic climate as companies are called to meet the increasing demands to provide clearer and relevant financial information to a wide range of stakeholders.

5.34 This way, auditors' resources can be channelled away from mere compliance and into providing more value through their audit process. Value of audits may be demonstrated through providing recommendations for improving of internal controls, active sharing of international and industrial best practices and timely updates on developments relating to financial reporting.

5.35 Notwithstanding the distinct responsibilities, 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.

Conclusion

5.36 In May 2020, ACRA issued its Audit Practice Bulletin No. 1 of 2020 *Key Audit Considerations – COVID-19* to guide public accountants in the conduct of audits during the COVID-19 situation. The bulletin covered key areas of audit that may be impacted arising from the COVID-19 outbreak. Notwithstanding the challenges faced, public accountants should ensure that audit quality is not compromised. Audit firms and public accountants should continue to monitor the evolving situation, brace themselves to confront new challenges that lie ahead and assess how new circumstances that arise would impact audits.

5.37 Whilst ACRA strongly encourages auditors to employ technology in carrying out audits, auditors are reminded to ensure compliance with the auditing standards when doing so. The key is remembering that, while the auditing standards outline the performance requirements for obtaining reasonable assurance that the financial statements are free from material misstatement, the auditing standards do not prescribe the means or mode through which auditors might obtain that assurance.

5.38 Considering the rapidly evolving environment and the impact of technology, perceptions and expectations of stakeholders regarding the role of auditors have also evolved. Most notably, an "expectation gap", i.e. what the public perceive of an auditor's role and responsibilities vis-à-vis what the auditor's responsibilities really are under the auditing standards bearing in mind inherent limitations in an audit, has further widened, particularly in the areas of fraud and going concern in audits of financial statements. To this end, the IAASB's Discussion Paper[17] issued in September 2020, which seeks to gather perspectives from stakeholders about the role of the auditor in relation to fraud and going concern in an audit of financial statements, and to obtain input on matters about the related extant auditing standards, could

[17] Discussion Paper titled "*Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit"* issued by the IAASB on 15 September 2020

not be timelier. All participants in the financial reporting ecosystem should endeavour to work together in bringing about meaningful improvements in financial reporting and audit quality to narrow the expectation gap.

Section 6: Sector Driven Initiatives to Improve 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 of firms to achieve operational efficiency, enhance value delivery and increase agility and innovation

6.2 Pushing forward to build digital capabilities has become even more critical in current pandemic as technology will play a key role in business continuity and successful post-crisis recovery.

6.3 ISCA launched the SMP Programme this year to drive digitalisation, upskilling & diversification and internationalisation of the SMPs in Singapore. This programme is supported by Enterprise Singapore under its Local Enterprise and Association Development (LEAD) Programme.

6.4 ISCA has existing initiatives, guided by its Quality Assurance Framework, to support the audit profession. In particular, the virtual SMP Centre, a one-stop portal with information to support SMPs on their digitalisation journey, was launched in 2019 under the Accountancy Industry Digital Plan. The SMP Centre is complemented by this new SMP Programme that will further boost ISCA's efforts to reach out and help SMPs in the areas of building digital capabilities, upskilling and internationalisation.

6.5 Under the Programme, ISCA worked with a number of solutions providers to run a series of tech talks to promote understanding of how sector-specific tools can address some of the pain points of the profession, and how these technologies can lead to more efficient and effective work processes, and/or enhance audit quality and service delivery to companies. Some of the tools also facilitate greater collaboration and engagement within teams and with clients. ISCA also continues to advise SMPs on digitalisation through the virtual SMP Centre. In addition to existing funding schemes, ISCA also works closely with government agencies to help SMPs defray costs when adopting new digital solutions. Other initiatives to promote digital transformation of firms to increase agility and innovation will also be launched over the next 2 years under the SMP Programme and SMP Centre.

Supporting the implementation of system of quality management that underpins consistent engagement quality

6.6 ISCA, through its Auditing and Assurance Standards Committee is committed to support the profession in the implementation of the new quality management standards, which will bring important changes to the way audit firms are expected to manage quality. The Committee will organise focus group sessions to hear from the profession on implementation challenges faced and deliberate on outreach or guidance required to prepare the profession for these changes. In addition, ISCA will revise its existing Illustrative Quality Control Manual in line with the new quality management standards and workshops will be conducted to support the profession in understanding the changes and implementing the new requirements, to enhance the robustness of the firm's system of quality management.

Driving technical excellence and best practices through publications

6.7 COVID-19 has raised challenges for the sector, ranging from disruptions in the execution of basic audit procedures such as sighting of original documents and fixed assets to making complex judgments over the impact of this pandemic on going concern assessments. To support the profession on this front, ISCA has issued a number of publications, including Audit Guidance Statement 12 on *Group Audits – Inaccessibility of Component Auditors' Work Papers and Other Considerations* as well as a number of Financial Reporting Bulletins. A joint COVID-19 working group was also formed to address the challenges faced by the accountancy profession. Guidance are published in the form of Frequently Asked Questions to share the working group's deliberations on the accounting and auditing issues faced. In addition, ISCA also produced an Addendum to the Illustrative Financial Statements 2019 to provide guidance to entities with a 31 December 2019 financial reporting date on the subsequent events disclosures that may be required arising from the COVID-19 outbreak.