ACRA Regulatory Updates and Initiatives
[Harnessing the benefits of Audit Quality Indicators]

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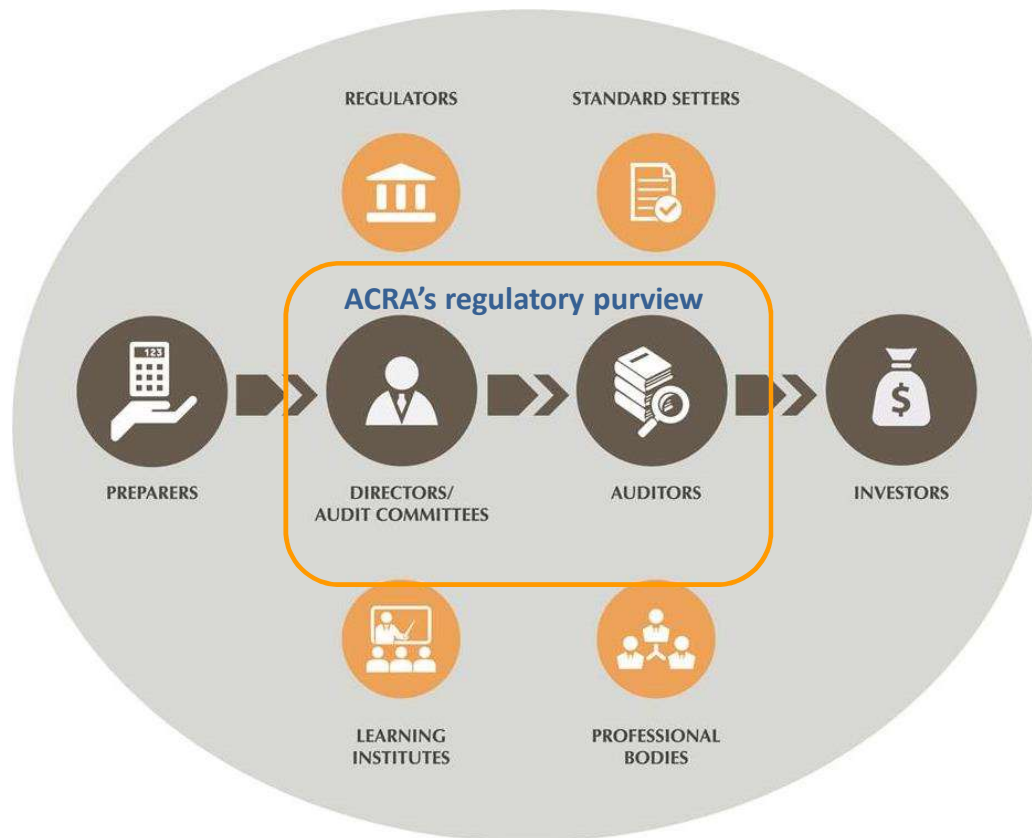
Chief Inspector, Practice Monitoring Department, ACRA

Agenda

1. Overview of ACRA's AQI Disclosure Framework

2. Feedback received from stakeholders

3. Changes to the AQI Disclosure Framework

4. How should ACs interpret AQI information

Overview of ACRA's AQI Disclosure Framework

Role and importance of Audit Committees

REGULATORS

STANDARD SETTERS

ACRA's regulatory purview

PREPARERS

DIRECTORS/
AUDIT COMMITTEES

AUDITORS

INVESTORS

LEARNING
INSTITUTES

PROFESSIONAL
BODIES

ACs have a dual oversight role:

- Ensure effective **oversight over** financial reporting by **management**; and

- Enhance interaction **and** oversight over **external auditors** to ensure high quality and reliable financial reports for the investors

High Audit Quality Requires Collective Efforts from All Stakeholders
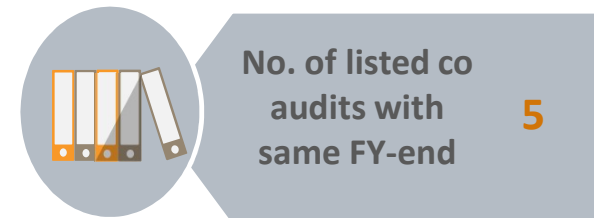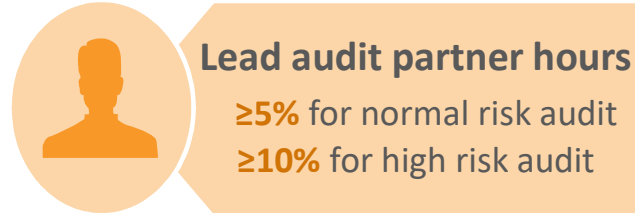
Overview of AQI Disclosure Framework

- First launched in Oct 2015 and available for voluntary adoption by audit committees of listed entities in Singapore from 1 January 2016

- Comprised 8 indicators and 6 targets that correlate closely with audit quality, to facilitate meaningful conversations between ACs and their auditors

- ACRA conducted a post implementation review and some changes were made

Overview of AQI Disclosure Framework

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Firm-Level Targets

- Staff retention rate — **75% to 80%**
- Staff per partner **< 15** | Staff per manager **< 5**
- No. of listed co audits with same FY-end — **5**

Engagement-Level Targets

- Lead audit partner hours
  - **≥5%** for normal risk audit
  - **≥10%** for high risk audit
- Concurring partner hours **≥ 13 hours**
- Partner and mgr hours **≥ 20%** of total hours

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Feedback received from stakeholders

Feedback received from audit firms

1 **Further outreach to Audit Committees (ACs) on AQIs needed**

- Some ACs remain more interested in <u>audit fees</u> and not AQIs despite significant resources by firms to prepare and discuss AQI information
- AQIs requested by ACs (or by corporate secretaries) merely for formality. There may not necessarily be any discussions on AQIs

2 **Qualitative context critical for analysis of AQIs**

- AQIs require qualitative explanation to provide the right context and to avoid misinterpretation

Feedback received from audit firms

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3 | **Preference for Project Management Indicators**

- Allow more focus to be placed on the audit work itself
- Useful for recurring audits
- Can help to improve quality of both auditor and company's financial reporting

4 | **Having a "one size fit all" target may not be appropriate**

- AQI targets may not have taken into consideration the different operating environment/business models of the firms
  - Even amongst mid-tier firms, the scale, complexity and quality of financial reporting of the audit clients may differ
- May lead ACs to form the wrong impressions/conclusions when targets are not met

Changes made to the AQI Disclosure Framework

Changes made to the AQI Disclosure Framework

Change #1: Remove AQI targets and replace with disclosure of industry data (range and average)

Firm-Level Targets

Engagement-Level Targets

Audit firms in the listed companies segment (segregated into Big 4/ non-Big 4):

	Range	Average
Attrition rate	X1% to Y1%	A1%
Partner to manager and audit professional staff	1: X2 to Y2	1: A2
Manager to audit professional staff	1: X3 to Y3	1: A3
Average years of experience - Partner - Manager - Professional staff	X4 to Y4 years X5 to Y5 years X6 to Y6 years	A4 years A5 years A6 years

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

Changes made to the AQI Disclosure Framework

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Change #2: Amendment to certain AQIs

Existing indicator to amend	Changes to be made	After amendment
Audit hours (Time spent by senior audit team members)	1) To include breakdown of hours incurred by all engagement team members by grade 2) To show hours incurred during the various audit phases (e.g. planning, fieldwork, completion, etc) Rationale for change: - To incorporate elements of project management into this indicator - ACs will be able to decide if adequate hours have been incurred at each phase (expectation is for more hours to be incurred at the planning phase, so that issues can be identified early)	**Audit hours** (Audit hours incurred by audit team members during each audit phase)

Changes made to the AQI Disclosure Framework

Change #2: Amendment to certain AQIs

Existing indicator to amend	Changes to be made	After amendment
Quality control (Headcount in quality control function)	To include total headcount of quality control personnel and to present in relative terms (i.e. quality control headcount per 100 audit headcount) Rationale for change: To better reflect the overall resources dedicated to this function	**Quality control** (Headcount in quality control vis-à-vis staff strength)
Independence (Compliance with independence requirements)	To remove this indicator Rationale for change: Auditors are already required to declare their independence to those charged with governance under the professional standards – included in the auditor's report submitted to the Audit Committee	-

Revised AQI Disclosure Framework

Audit hours – involvement of audit team members during each audit phase

Quality control – Headcount of partners, managers and professional staff in quality control functions and comparison vis-à-vis audit staff strength

Staff oversight – Staff per partner / manager ratios

Attrition rate – Degree of personnel losses

GUIDANCE TO AUDIT COMMITTEES
ON ACRA'S AUDIT QUALITY INDICATORS
DISCLOSURE FRAMEWORK
(2020 REVISED)

Experience – Years of audit experience and industry specialisation

Inspections – Results of External and Internal Inspections

Training – Average training hours and industry specific training

How should you interpret AQI information?

How should ACs interpret AQI information

AQIs are not meant to be a "tick the box" exercise

Understand

- **Relevance** of AQIs and their **relation to audit quality**

- **Context** in which they are presented and facts of the information

Evaluate

- AQIs as a **whole**, not in **isolation**

- Use of **judgement**

- **Historical trends** of AQIs / **Comparison** across firms

Engage

- Starting point on **audit quality conversations**

- **Ask questions** and **set expectations** for audit
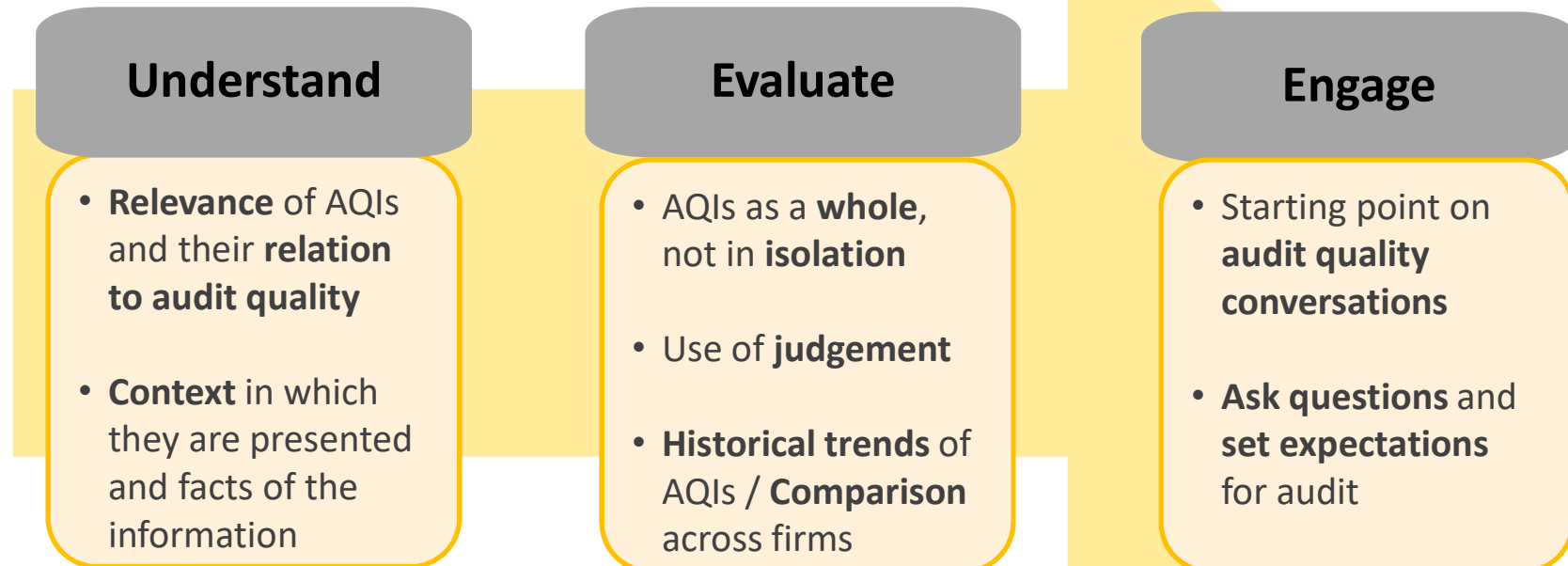
How should ACs interpret AQI information

ATTRITION RATE 🏢

	20X9		20X8	
	Firm	Industry average/ range	Firm	Industry average/ range
Staff retention rate	60%	Average: 71% Range: 60% to 80%	78%	Average: 76% Range: 67% to 80%

> **Decline in firm's retention rate**

Ask
- Is the firm's attrition rate reflective of the turnover rate at engagement level?
- Is there a resultant impact on staff availability/ capacity of competent audit resources serving the audit engagement?

STAFF OVERSIGHT 🏢

	20X9		20X8	
	Firm	Industry average/ range	Firm	Industry average/ range
Partners to manager and audit professional staff	24.4	Average: 19.9 Range: 17 to 24.4	21.9	Average: 19.8 Range: 17 to 21.9
Managers to audit professional staff	3.8	Average: 3.4 Range: 2.9 to 3.8	4.2	Average: 3.5 Range: 3 to 4.2

> **Staff to P/M ratio is highest in the industry**

Ask
How does partner and manager ensure adequate supervision?

How should ACs interpret AQI information

AUDIT HOURS

Ask
- What is the reason for the decrease in partner's involvement at the planning stage?

Involvement by audit phase	FY2019				FY2018			
	Partner	Manager	Staff	Total	Partner	Manager	Staff	Total
Planning	[22] [1%]	[184] [4%]	[1,130] [25%]	[1,336] [30%]	[77] [2%]	[174] [4%]	[951] [24%]	[1,202] [30%]
Fieldwork	[137] [3%]	[307] [7%]	[1,784] [40%]	[2,227] [50%]	[128] [3%]	[290] [7%]	[1,585] [40%]	[2.003] [50%]
Completion	[155] [3%]	[123] [3%]	[613] [14%]	[891] [20%]	[51] [1%]	[116] [3%]	[634] [16%]	[801] [20%]
Overall	[314] [7%]	[614] [14%]	[3,527] [79%]	[4,454] 100%	[256] [6%]	[58] [14%]	[3,169] [80%]	[4,005] 100%

Ask
- What led to the increase in partner's hours incurred at the completion stage?

Ask
- Based on the size and complexity of the engagement, had sufficient hours been spent on the various phases of the audit?

Thank You!