



REGULATORY STRATEGY
AUDITING & CORPORATE REPORTING

2007

Consultation Document

The Accounting & Corporate Regulatory Authority (ACRA) is Singapore's corporate regulator as well as the independent regulator for public accountants. It was formed from the merger of the Registry of Companies and Businesses (RCB) and the Public Accountants Board (PAB) on 1st April 2004.

ACRA's primary role is that of the regulator of businesses and public accountants. Its secondary role is that of a facilitator of businesses.

ACRA plays an important role in facilitating the doing of business in Singapore but our main role remains that of a regulator. In line with the need to create a responsive and trusted regulatory environment, ACRA seeks to facilitate a pro-enterprise environment. ACRA is committed to continually reviewing the legislation and reducing the regulatory burden to be in tune with business needs and international developments and to help promote entrepreneurship and enterprise. To this end, ACRA sees confidence in corporate reporting and governance as vital to the healthy functioning of businesses and the market, and making a significant contribution to the overall economy and Singapore's competitiveness in international markets.

Executive Summary

1. ACRA's mission is to provide a responsive and trusted regulatory environment for businesses and public accountants. Essential to achieving this mission is the continual strengthening of the integrity of our regulatory framework through constant review and refinement of our legislation and policies.

2. High quality auditing and corporate financial reporting form the foundation of market confidence which leads to a climate that promotes international investment and growth. They also form the very foundation upon which Singapore could position itself as the hub for providing regional and international auditing and corporate reporting professional services. ACRA's strategic outcomes vis-à-vis auditing and corporate financial reporting are:

- (a) *High Quality Audit and Corporate Financial Reporting;*
- (b) *High Degree of Voluntary Compliance; and*
- (c) *Trusted Regulatory Framework.*

3. ACRA is undertaking this consultation on its regulatory strategy vis-à-vis the auditing and corporate financial environment, in the interests of transparency and greater collaboration with those who play an important role in auditing and corporate reporting, in particular, directors, audit committees, auditors, professional bodies, and preparers and users of financial information.

4. The core elements of ACRA's regulatory strategy are encapsulated in the six regulatory pillars, as follows:

Pillar One: Internationally Reputable Policy & Legislative Framework

An internationally reputable policy and legislative framework that promotes confidence in Singapore as a trusted international financial centre.

Formatted: Indent: Left: 0.5", Numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 0.25" + Tab after: 0.5" + Indent at: 0.5", Tab stops: Not at 0.5"

Pillar Two: High Quality Audit

ACRA's promotion of high quality audit is important as the investing public cannot directly monitor the audit process. This includes developing a framework which encourages auditors, directors and investors to be vigilant in ensuring that their actions promote audit quality.

Pillar Three: Effective and Efficient Regulation

ACRA achieves effective and efficient regulation by focusing on present and future risks. ACRA believes in regulating with a light touch, complemented with swift and just enforcement that provides certainty to those under its purview and confidence to the market.

Pillar Four: Transparent and Informed Market

Market confidence and efficiency is best achieved when all stakeholders are well informed and respond intelligently to accurate information. ACRA contributes to this through reporting on its oversight activities and giving clear signals about the standards to be expected of public accountants.

Pillar Five: Strong Professional Environment

The continued growth of professional bodies is a positive and essential element of enhancing the talent pool of public accountants and in promoting continual improvement in the audit profession. A strong and dynamic professional environment underpins the sustainability and long-term health of financial reporting and auditing.

Pillar Six: Competitive Audit Market

ACRA believes in providing a facilitative regulatory environment that enables audit firms to develop and grow as high quality entities that meet the evolving needs of the market.

5. This consultation paper invites public views on ACRA's regulatory framework, especially in the following areas of regulatory interest:

- (a) ACRA's regulatory objectives, strategic outcomes, and the key pillars that support the achievement of the strategic outcomes;
- (b) ACRA's Practice Monitoring Programme;
- (c) ACRA's Financial Reporting Surveillance Programme;
- (d) ACRA's approach to policy formulation and consultation; and
- (e) Key areas directed towards the promotion of confidence in auditing and corporate reporting.

Formatted: Indent: Left: 0.5", Hanging: 0.5", Numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 0.5" + Tab after: 0.75" + Indent at: 0.75", Tab stops: Not at 0.75"

CONTENTS

		Page
One	Introduction	1
Two	The Regulatory Environment	3
Three	ACRA's Regulatory Objectives	10
Four	Practice Monitoring Programme	20
Five	Financial Reporting Surveillance Programme	23
Six	Policy Formulation and Consultation	26
Seven	Major Projects & Activities	29
Eight	How to Respond	32
Appendix	Regulation of Public Accountants: The Accountants Act	34

ONE – INTRODUCTION

1.1 The Accounting & Corporate Regulatory Authority (ACRA) is Singapore’s independent regulator for auditors,¹ and also the regulator for corporate financial reporting.

1.2 ACRA believes that having a robust and high quality auditing and corporate reporting environment is crucial as Singapore pursues international investment and local entrepreneurship.

1.3 In pursuing its desired regulatory outcomes, ACRA has embarked on this strategic project to publish its regulatory strategy for auditing and corporate reporting in Singapore. ACRA is undertaking this initiative to promote greater transparency, to better leverage on consultation and to embrace closer collaboration with the stakeholders of the regulation of auditing and corporate reporting in Singapore.

1.4 ACRA believes in engaging with our stakeholders to establish a trusted regulatory framework. In particular, directors, audit committees, auditors, professional bodies, and preparers and users of financial information are regarded as strategic stakeholders in the regulation of corporate financial reporting and auditing. ACRA sees each stakeholder as playing an important role in achieving the regulatory objective of establishing a high quality corporate financial reporting and auditing environment in Singapore.

1.5 This document invites views on ACRA’s regulatory strategy for the promotion of high quality auditing and corporate reporting in Singapore. This

¹ Refer to the Appendix for further information on the Accountants Act, public accountants and public accountancy services.

inaugural issue places a specific emphasis on auditing as a key instrument in achieving our desired outcome of high quality corporate reporting.

1.6 This document sets out:

- The auditing market and regulatory environment in which ACRA works;
- ACRA's regulatory objectives, strategic outcomes, and the key pillars that support the achievement of the strategic outcomes;
- ACRA's Practice Monitoring Programme (PMP);
- ACRA's Financial Reporting Surveillance Programme;
- ACRA's approach to policy formulation and consultation; and
- Key areas directed towards promotion of confidence in auditing and corporate reporting.

Formatted: Bulleted + Level: 1 + Aligned at: 0.25" + Tab after: 0.5" + Indent at: 0.5"

1.7 ACRA would like to invite views on the overall policy framework, our strategy towards specific regulatory programmes, as well as the areas of regulatory focus. Additionally, ACRA would welcome suggestions about initiatives that ACRA could consider in promoting confidence in auditing and corporate financial reporting in Singapore.

1.8 Further details on responding to this paper can be found in Section Eight. Comments may be sent, by **24 September 2007**, to:

ACRA

Strategy & Planning Unit

10 Anson Road, #05-01/15

International Plaza

Singapore 079903

E-mail: [HTTP://WWW.ACRA.GOV.SG/FEEDBACK](http://www.acra.gov.sg/feedback)

TWO – THE REGULATORY ENVIRONMENT

2.1 This section sets out a broad overview on the environment in which the audit profession operates, with a particular emphasis on the interplay between the local and international developments that have an influence on audit quality in Singapore.

Consultation Point 1: ACRA would like to invite comments on whether there are other notable trends in the audit, business and regulatory environments which may have an impact on audit quality in Singapore.

International Developments

2.2 Regulation of auditing and financial reporting is no longer localised but carries a global perspective. International issuers in Singapore’s capital markets are increasingly significant in both market and strategic value. At the same time, Singapore companies are crossing over to international markets in pursuing growth opportunities in the global marketplace.

2.3 Moving in tandem with global entrepreneurship and capital flows is the preparation of financial reports, which now operates in a global environment that extends well beyond Singapore’s shores. ACRA believes that it is a win-win proposition for both the audit regulator and the audit profession to ensure that Singapore’s investors receive high quality financial and audit reports, regardless of where the issuer is incorporated. This is vital for Singapore’s reputation as a trusted international financial hub.

2.4 As international markets continue to develop rapidly, so do international efforts to preserve their stability, efficiency and integrity. International organisations such as the Financial Stability Forum (FSF), the International Organisation of Securities Commissions (IOSCO), and the Basel Committee on Banking Supervision recognise the importance of high quality audit and corporate financial reporting to the efficient and stable operation of international markets. ACRA notes that these international organisations have taken a particularly keen interest in the development of the accounting and auditing regulatory framework internationally in recent years.

2.5 International efforts have focused on ensuring that global standards are developed in line with the public interest. A key initiative was the establishment in 2005 of the Public Interest Oversight Board (PIOB). The PIOB oversees the public interest activities of the International Federation of Accountants (IFAC), including the development of auditing and professional standards. This development has significance from the Singapore perspective, as ACRA adopts auditing and professional standards from IFAC.

2.6 The move towards independent audit regulation has taken on a certain intensity especially in the United States of America (US) and the European Union (EU). Both the US (through the Sarbanes-Oxley Act) and the EU (through the Eighth Company Law Directive on Statutory Audit), are extending their regulatory oversight to cover auditors located outside of their borders.

2.7 A notable development in 2006 was the establishment of the International Forum of Independent Audit Regulators (IFIAR). This is a strategic move by the international audit regulators in response to the increasingly global auditing environment, and in recognition of the benefit of taking a coordinated global approach towards audit oversight.

2.8 IFIAR provides a platform for audit regulators to share insights on matters close to the heart of the audit regulators internationally. It has a three-pronged objective:

- a. To share knowledge of the audit market environment and practical experience of independent audit regulatory activity;
- b. To promote collaboration in regulatory activity;
- c. To provide a focus for contacts with other international organisations which have an interest in audit quality.

Formatted: Numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 0.25" + Tab after: 0.75" + Indent at: 0.75"

2.9 ACRA became a founding member of IFIAR in September 2006. Through ACRA's membership, Singapore was the first South-East Asian country to join IFIAR, together with 21 other independent audit regulatory organisations from Australia, Austria, Brazil, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, Norway, South Africa, Korea, Spain, Sri Lanka, Sweden, Switzerland, the United Kingdom and the United States of America.

2.10 ACRA's participation in IFIAR aligns with our desired outcome for ACRA's audit regulatory framework to be internationally reputable. Through international platforms such as IFIAR and participation at audit inspection workshops held by the international audit regulators, we seek to achieve a strategic calibration of our audit oversight mechanism such that it has the necessary rigor, robustness and reputation when benchmarked against those from the leading jurisdictions.

2.11 As with the rest of the world, Singapore's audit market is concentrated amongst the Big 4: Deloitte & Touche, Ernst and Young, KPMG and PricewaterhouseCoopers. Globally, concerns have been raised over the possible failure of an internationally networked firm, especially in a major foreign

jurisdiction such as the US, where it could result in a spill-over impact on sustained market confidence and viability on the rest of the internationally networked audit firms. On this, ACRA will work with its peer regulators so that ACRA, audit firms, and the market would be ready to respond appropriately to this risk.

Consultation Point 2: ACRA would like to invite views on the international developments, especially on how these developments should be factored into the regulation of audit in Singapore. In particular, are there specific issues of public interest that could benefit from a more considered deliberation in Singapore?

Singapore Context

2.12 Singapore's environment has evolved through a transition period occasioned by the adoption of international financial reporting and auditing standards, and the increased expectations on the audit profession that arose internationally from the accounting scandals at the turn of the century.

2.13 ACRA was formed against this backdrop in 2004 with the objective of building an integrated approach towards the development of a robust environment for auditing and corporate financial reporting. From a broad perspective, the challenges for key stakeholders, including auditors and preparers of financial statements, are in upholding professionalism and high standards.

Profile of the audit profession

2.14 Singapore's audit industry appears to be one which is segmented, with the Big 4, medium sized firms and small firms each serving quite a distinct set of markets and stakeholders. The Big 4 audit most of Singapore's public listed companies. At the same time, ACRA also observes that the medium sized firms are making forward looking steps into this market in recent years. A large proportion of the auditors serve the smaller businesses audit market.

2.15 ACRA recognises that the Big 4, medium sized and smaller firms work under different business conditions with different sets of challenges and risks. ACRA has noted the unique aspects of the Singapore audit industry as it strives to promote a market that delivers high quality audit to the various segments of the market, from complex multi-national corporations, to entities of public interest.

Recruitment and Retention

2.16 ACRA notes that recruitment and retention is a priority concern for the profession, both locally and internationally. A key driver of audit quality is the availability of talented people with the requisite competence and integrity to produce high quality audits. The challenge is for the profession to remain an attractive career proposition not only at the partner-level but also at levels below that, as the audit firms face strong competition for talent from other industries.

2.17 The ability to attract and retain talent is very much an issue for the audit entities and the profession as a whole to address. On this note, ACRA observes that the profession has made a deliberate attempt to attract young talents into the profession through benchmarking its remuneration package with other industries such as the finance sector.

2.18 ACRA has a continuing interest in identifying regulatory requirements that may inhibit career development and attractiveness of the profession in so far as they would have an impact on audit quality. In this context, ACRA will work towards regulations which facilitate the growth of a strong profession and a healthy flow of talent into the profession.

2.19 ACRA has embarked on a policy review of the registration requirements for auditors, including the possibility of opening up alternative pathways for former public accountants to return to the profession, for professionals with the requisite skill-sets from other disciplines to enter into the audit profession, and for facilitating the entry of foreign auditors to practise in Singapore. *For further information, please refer to the ACRA consultation paper entitled “Registration Framework For Public Accountants - Path To Becoming a Public Accountant”.*

Big 4

2.20 The sustainable supply of high quality audit is a key priority in a concentrated audit market, where the rare event of an audit firm facing difficulty could significantly dent market confidence. Assessing the strength of Singapore’s audit firms requires an appreciation of both international and local factors. Within Singapore, ACRA will continue to monitor the quality of the profession through regulatory efforts targeted at sustaining public confidence.

Medium Sized Firms

2.21 In Singapore, ACRA sees an opportunity for the medium sized firms to firmly establish themselves as viable alternatives to the Big 4 and to operate as high quality niche players in the market. This would promote a wider choice in the audit market and, ideally, increased availability of high quality audit services

that will meet market needs. Taking reference from the developments of their peers in leading jurisdiction like the US and the UK, the medium sized firms in Singapore could work towards having more opportunities to participate in the public interest entities segment of the audit market. Together with such opportunities come the more stringent professional requirements and higher public expectations in that segment of the market. ACRA will continue to monitor and facilitate the growth and development of the medium sized firms into the public interest entities segment of the market in Singapore.

Smaller Firms

2.22 Smaller firms operate in a challenging environment. Many of these firms face constraints such as limited resource capacity. Many in this segment have adapted through a period of rapid and intense adjustments vis-a-vis the changes to the international financial reporting standards and auditing standards. While many are providing services in the traditional area of auditing, some within the segment have successfully carved out niches in other professional services like the provision of internal audit services. ACRA will continue to work with the Institute of Certified Public Accountants of Singapore (ICPAS) and the other professional bodies on the developments and progression of the smaller firms within the profession.

Consultation Point 3: Do you have any comments on the issues highlighted in relation to the audit environment in Singapore? Are there any other issues relating to Singapore's auditing environment that ACRA should take note of as it develops its regulatory framework?

THREE - ACRA'S REGULATORY OBJECTIVES

3.1 ACRA believes that trusted and high quality corporate financial reporting and auditing provide the foundation for sustained market confidence and a healthy investment climate that promotes international investment and economic growth.

3.2 Corporate financial reporting and auditing must not only be of high quality, it must be credible and command confidence. To this end, ACRA's strategic outcomes in relation to auditing and corporate financial reporting are:

I. High Quality Audit and Corporate Financial Reporting

ACRA will promote high quality audit and corporate financial reporting to build confidence in Singapore's corporate financial reports.

II. High Degree of Voluntary Compliance

ACRA will strengthen our policies to promote voluntary compliance but will not hesitate to take swift and just enforcement action to preserve confidence in Singapore's business environment.

III. Trusted Regulatory Framework

ACRA will strengthen the integrity of our business and public accounting regulatory framework through constant review and refinement of our legislative and policy framework.

The Six Supporting Pillars

3.3 ACRA's ability to achieve its strategic outcomes rests on its ability to independently and effectively set standards, promote a high standard of quality and compliance, and facilitate efficient information flow in the market. These core elements are encapsulated in the six pillars that support the achievement of ACRA's strategic outcomes:

SUPPORTING PILLARS

Pillar One: Internationally Reputable Policy & Legislative Framework

Pillar Two: High Quality Audit

Pillar Three: Effective and Efficient Regulation

Pillar Four: Transparent and Informed Market

Pillar Five: Strong Professional Environment

Pillar Six: Competitive Audit Market

Consultation Point 4: ACRA is particularly keen to hear your views with regards to the six supporting pillars identified by ACRA as instrumental to achieving the strategic outcomes for ACRA's regulation. In particular, is there any particular pillar(s) that you feel should be given priority to strengthen or any additional pillar which could be added to complement the strength of the existing range?

Pillar One: Internationally Reputable Policy & Legislative Framework

3.4 To promote market confidence and sustain Singapore's reputation as a trusted international financial centre, ACRA is committed to having an

internationally reputable policy and legislative framework, including the adoption and enforcement of international standards.

3.5 ACRA pursues a robust policy and legislative framework that ensures directors and auditors can efficiently and effectively deliver financial and audit reports that meet market needs, and which apportions the responsibilities and risks associated with financial reporting in a way that best promotes the efficiency, integrity and quality of financial reporting in Singapore.

3.6 ACRA will continue to provide thought leadership in terms of the direction financial reporting and auditing should take and the standards Singapore should aspire to. In particular, ACRA will continue to strengthen its regulatory framework through relevant and timely adoption of international standards as well as undertaking robust and targeted enforcement of compliance with standards.

3.7 ACRA recognises that adoption of international standards presents challenges. Specifically, adopting international standards can have a significant bearing on business practices, ideally for the better, in Singapore. There is an expectation for standards to be relevant and workable in Singapore. At the same time, ACRA is also mindful that the reporting and auditing communities need to be given sufficient lead time to progress in terms of their respective capacities to adapt to developments in international standards.

Consultation Point 5: ACRA is keen to have your views on the relevance and usefulness of this particular pillar in achieving our desired outcome. In particular, how would you rate this in terms of its ability to influence the desired outcomes as identified earlier in this section of the report?

Pillar Two: High Quality Audit

3.8 To maintain market confidence, audit quality must be consistently high. Yet in practice, insufficient priority is given to audit quality. ACRA has a vital role in promoting high quality audit through its regulatory oversight activities. This is particularly important since the investing public cannot directly monitor or assess the audit process. This role includes developing a framework which encourages auditors, directors and investors to be vigilant in ensuring that their actions promote audit quality.

3.9 ACRA pursues a targeted regulatory approach, with a specific emphasis on promoting factors which drive audit quality in Singapore. To this end, ACRA is studying the factors which drive audit quality in conjunction with IFIAR. Broadly categorised, the drivers of audit quality are:²

- (a) The culture within an audit firm;
- (b) The skills and personal qualities of audit partners and staff;
- (c) The effectiveness of the audit process; and
- (d) The reliability and usefulness of audit reporting.

3.10 One of the key desired outcomes from ACRA's participation in this study is to explore the interaction between the key drivers of audit quality and an effective practice monitoring programme. ACRA also intends to leverage on this international study in the following regulatory activities:

² As elucidated in the UK Financial Reporting Council's discussion paper 'Promoting Audit Quality,' November 2006.

Formatted: Numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 0.25" + Tab after: 0.5" + Indent at: 0.5"

- (a) setting registration standards which promote a skilled, professional and competitive profession;
- (b) setting professional and audit standards and monitoring adherence to these standards on behalf of the market; and
- (c) taking corrective or preventative action where necessary and communicating these actions to provide signals to the profession and the market.

Formatted: Numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 0.25" + Tab after: 0.5" + Indent at: 0.5"

3.11 We envisage that these regulatory activities will work in an integrated manner to achieve our desired outcome of a market that has consistent and reliable access to good quality public accountants who provide high quality audits.

Consultation Point 6: ACRA is keen to have your views on the relevance and usefulness of this particular pillar in achieving our desired outcome. In particular, how would you rate this in terms of its ability to influence the desired outcomes as identified earlier in this section of the report?

Pillar Three: Effective and Efficient Regulation

3.12 ACRA achieves effective and efficient regulation by focusing our resources on present and future risks to the quality of corporate financial reporting and auditing.

3.13 ACRA believes in regulating with a light touch, complemented with a swift and just system for enforcing regulatory requirements that provides certainty to

those under its purview and confidence to the market.

3.14 In line with its objective of promoting market confidence, ACRA's oversight is rigorous and measures work against the highest standards. If weaknesses are identified, ACRA will respond proportionately and constructively. ACRA will take stronger preventive action where it is necessary to safeguard the public interest and to maintain the profession's integrity. We believe this approach will lead to sustained promotion of a strong high quality corporate financial reporting and auditing environment.

Review of the effectiveness of our regulatory powers

3.15 The existing legislation provides ACRA with sufficient flexibility to respond proportionately and appropriately to issues. ACRA will continue to review the effectiveness of our regulatory powers to ensure that it can draw on a sufficiently wide range of options to promote compliance with standards and audit quality, and to respond to future challenges.

3.16 Our review process includes assessing the benefits and effectiveness of our current regulatory efforts. In this regard, ACRA has seen real improvements in audit quality as a result of the Practice Monitoring Programme. This observation is also made by our peer audit regulators overseas with regards to their respective audit inspection programmes.³

3.17 ACRA will continue to monitor the results and engage with the profession and the stakeholders in the capital market to ensure that the expected benefits accrue to all stakeholders.

³ Practice Monitoring Programme is also known as audit inspection programmes internationally.

Consultation Point 7: ACRA is keen to have your views on the relevance and usefulness of this particular pillar in achieving our desired outcome. In particular, how would you rate this in terms of its ability to influence the desired outcomes as identified earlier in this section of the report?

Pillar Four : Transparent and Informed Market

3.18 ACRA believes that market confidence and efficiency is best achieved when stakeholders are well informed and have a level playing field in terms of access to information. The market is then able to respond swiftly and intelligently to clear and accurate market information.

3.19 ACRA contributes to this through reporting on its oversight activities as to audit quality and compliance with accounting standards, and through giving clear signals about the standards that should be expected of public accountants and accounting entities.

3.20 ACRA is alert to the market environment and the importance of ensuring that the market is sufficiently informed about our regulatory activity so that it can respond appropriately.

3.21 Promoting a transparent market will include looking at the transparency around the quality of audit services and also the factors that companies tend to consider when appointing and re-appointing auditors.

Consultation Point 8: ACRA is keen to have your views on the relevance and usefulness of this particular pillar in achieving our desired outcome. In particular, how would you rate this in terms of its ability to influence the desired outcomes as identified earlier in this section of the report?

Pillar Five: Strong Professional Environment

3.22 ACRA believes that the continued growth of professional bodies in Singapore is a positive and essential element of enhancing the talent pool of public accountants in Singapore, and in contributing to a competitive environment that promotes continual improvement in the audit profession.

3.23 A strong and dynamic professional environment underpins the sustainability and long term health of financial reporting and auditing. No-one is in a better position to drive innovation and improvement in the quality of auditing than the auditors themselves. As such, ACRA believes in the critical importance of the profession continuing to be pro-active and responsible for its development and ensuring that it serves the public interest. This includes upholding the profession's integrity and promoting professional ethics.

3.24 The Institute of Certified Public Accountants of Singapore (ICPAS) is the only professional body currently recognised for the purposes of public accountant registration. ICPAS plays a critical role in continually developing the profession so that it keeps pace with developments in accounting, auditing and ethical

standards and the business environment. ICPAS's support is particularly important for the smaller practitioners.

3.25 Internationally, strong professional bodies play a crucial role in ensuring high quality audit. In most jurisdictions, professional bodies continue to play a pro-active role in acting as the link between the regulator, stakeholders and the profession.

Consultation Point 9: ACRA is keen to have your views on the relevance and usefulness of this particular pillar in achieving our desired outcome. In particular, how would you rate this in terms of its ability to influence the desired outcomes as identified earlier in this section of the report?

Pillar Six: Competitive Audit Market

3.26 ACRA believes in providing a facilitative regulatory environment that enables audit firms to develop and grow as high quality businesses that meet the evolving needs of the market. Ideally, this will lead to effective choice at all levels of the market, from listed companies, to start ups, to smaller institutions of public character, for example.

3.27 A competitive market that provides effective choice and is responsive to changing consumer demands is desirable, and this is no less so for the audit market. Although statutory requirements and uniform standards largely drive the provision of audit services, the profession needs to tailor these services to a diverse range of clients. Furthermore, the need for an audit firm to uphold its

reputation provides a strong incentive for firms to maintain quality.

3.28 A competitive audit market with sufficient depth in quality and number is also necessary to reinforce the audit market's sustainability and capacity to withstand sudden or significant market developments while still maintaining market confidence.

3.29 To these ends, a key challenge is for the medium sized firms to continue to develop into a highly regarded choice for listed companies and entities operating in niche markets.

3.30 Two corresponding and essential elements to this are, on one side, transparency and understanding about the quality and capacity of audit firms, and on the other, transparency in the appointment of auditors by client entities.

Consultation Point 10: ACRA is keen to have your views on the relevance and usefulness of this particular pillar in achieving our desired outcome. In particular, how would you rate this in terms of its ability to influence the desired outcomes as identified earlier in this section of the report?

FOUR - PRACTICE MONITORING PROGRAMME

4.1 ACRA regards the Practice Monitoring Programme (PMP) as a key regulatory instrument in promoting audit quality and aims for the PMP to be a constructive exercise for the profession.

4.2 As an independent review programme, the PMP is a crucial tool in promoting confidence in auditing. To promote confidence, the PMP provides quality assurance to the market through ascertaining whether public accountants have complied with the prescribed standards, methods, procedures and other requirements necessary for good quality audits. This assurance gives users of financial reports increased confidence in the opinions expressed in audit reports.

4.3 The PMP is administered under the oversight of the Public Accountants Oversight Committee (PAOC), which is a committee of the ACRA Board and comprises qualified members independent of the profession, as well as experienced public accountants.

4.4 The PAOC appoints the Practice Monitoring Sub-Committee (PMSC), which is mainly comprised of experienced public accountants, to assist the PAOC in its work. The PMP is performed by reviewers appointed by the PAOC. The PMSC objectively assesses the reviewers' findings and reports to the PAOC. All final assessments and decisions are made by the PAOC. The review process is consultative and transparent.

4.5 ACRA's PMP programme covers all public accountants. ACRA selects the public accountants and engagement files with a specific targeted emphasis on

identified risks, especially with regard to audits of public interest entities.⁴

4.6 Overall, ACRA believes the practice monitoring programme has improved the quality of audits in Singapore. This is consistent with the conclusion drawn by our peer audit regulators with regard to their respective audit inspection programmes.⁵

Consequences of Failure to Pass PMP Review

4.7 The Accountants Act sets out a comprehensive range of consequences arising from failure of a PMP review. In particular, the orders from the PAOC fall under two broad categories:

- (a) orders which include subjecting the public accountant to a further PMP review, prohibiting the public accountant from auditing public interest entities for a certain period, or requiring the public accountant’s audit work to be reviewed by another suitably qualified person (known as ‘hot review’); and
- (b) orders which may be made in order to protect the interests of the public or the profession of public accountancy, which include suspending or cancelling the public accountant’s registration.

Formatted: Numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 0" + Tab after: 0.25" + Indent at: 0.25"

Formatted: Numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 0" + Tab after: 0.25" + Indent at: 0.25"

4.8 For a more detailed overview of the PMP and its findings, please refer to

⁴ Public interest entities include:

- a) Companies listed on the Singapore Stock Exchange (the “Exchange”) and companies wishing to list on the Exchange by way of an initial public offering;
- b) Companies in regulated industries such as banks and insurance companies; and
- c) Other entities which raise funds from the public, such as charities.

Formatted: Numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 0.25" + Tab after: 0.5" + Indent at: 0.5"

⁵ The PMP is also known as audit inspection programme in certain overseas jurisdictions.

the ACRA publication entitled “*ACRA Practice Monitoring Programme Public Report July 2007*”.

FIVE - FINANCIAL REPORTING SURVEILLANCE PROGRAMME

5.1 ACRA believes that compliance with accounting standards promotes confidence in Singapore's corporate financial reports and facilitates a transparent and informed market. High quality corporate financial reporting by directors is vital to maintaining a trusted business environment.

5.2 The financial surveillance programme aims to ensure that the financial statements of Singapore incorporated companies comply with the requirements as to the form and contents of the accounts as specified in the Companies Act (Cap. 50) and Singapore Financial Reporting Standards (FRSs).

5.3 ACRA's financial surveillance programme is carried out on a risk-based approach to its surveillance and emphasises the importance of directors taking ownership of the quality of corporate financial reporting.

Role of Directors as set out under the Companies Act

5.4 Directors assume the stewardship role of their companies' financial statements. The Companies Act requires directors to present a balance-sheet and profit and loss statement that complies with the requirements of the Companies Act and accounting standards at the company's annual general meeting. The Companies Act also requires that the accounts give a true and fair view of the state of affairs of the company for the relevant accounting period to which it relates.

5.5 Directors are legally responsible for the financial statements of their companies and they are required to take all reasonable steps to comply with their statutory and fiduciary duties as stipulated in the Companies Act with regards to the company's accounts.

Current monitoring approach

5.6 ACRA's financial surveillance adopts a risk-based approach in its surveillance and focuses on 'public-interest' entities, which include:

- (i) Listed companies on the Singapore Exchange;
- (ii) Companies in regulated industries such as banks and insurance companies; and
- (iii) Other companies which raise public funds such as charities.

Formatted: Numbered + Level: 1 + Numbering Style: i, ii, iii, ... + Start at: 1 + Alignment: Right + Aligned at: 0.5" + Tab after: 0.75" + Indent at: 0.75"

5.7 ACRA also reviews financial statements brought to its attention in a number of ways, including complaints from the general public, qualified auditors' reports and publicly reported information.

Long term monitoring approach

5.8 In the longer term, ACRA aims to introduce a more proactive financial surveillance programme by carrying out thematic reviews of financial statements of public interest companies. The focus would generally be on areas where there would be concern that there is a higher risk of a lower level of compliance in the corporate financial reporting. ACRA would identify these 'risk areas' through its intelligence, liaison sources and other ACRA's regulatory activities.

5.9 Selection of companies in a thematic review would be based on a risk assessment, which could be as illustrated:

- (a) ACRA would conduct its financial surveillance programme based on identified sectors of the economy that are under strain. For example, if there are pressing concerns relating to certain accounting practices in

Formatted: Numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 0.25" + Tab after: 0.5" + Indent at: 0.5"

specific industries, ACRA may review the financial statements of companies in those industries.

(b) ACRA would review specific aspects of the financial statements of all listed Singapore incorporated companies from time to time. In particular, the focus of the review could be on the application of new accounting standards.

Formatted: Numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 0.25" + Tab after: 0.5" + Indent at: 0.5"

Consultation Point 11: Do you have views on ACRA's current and proposed approach to monitoring compliance with corporate financial reporting requirements? Do you have any other views on how ACRA should promote compliance with corporate financial reporting requirements?

SIX – POLICY FORMULATION AND CONSULTATION

Trusted Regulatory Framework

6.1 ACRA’s mission is to provide a responsive and trusted regulatory environment for businesses and public accountants. Essential to achieving this mission is the continual strengthening of the integrity of our regulatory framework through constant review and refinement of our legislation and policies.

6.2 As ACRA reviews its regulations, ACRA will adhere to key regulatory principles, which include:

- (a) **Ownership:** ACRA will strengthen our policies to promote voluntary compliance, and will take swift and just enforcement action to preserve confidence in Singapore’s business environment.
- (b) **Proportionality:** ACRA will calibrate our regulatory activities so that they are both appropriate to the risk posed and cost efficient.
- (c) **Accountability:** ACRA will be clear about the reasons behind our decisions, while safeguarding confidentiality.
- (d) **Consistency:** ACRA’s rules will be in alignment with each other and be implemented fairly.
- (e) **Clarity and transparency:** ACRA will be open and keep our regulations simple, clear and user-friendly.
- (f) **Targeting:** ACRA will target our resources towards identified risks and problems, and minimise regulatory burdens and unintended side-effects.

Formatted: Numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 0" + Tab after: 0.25" + Indent at: 0.25"

Engagement with Stakeholders

6.3 ACRA will continue to pursue its principle of regulation by collaboration through deliberate consultations with stakeholders. ACRA believes that

stakeholder engagement makes our regulatory activities more effective and efficient, and is essential in building a trusted regulatory framework. For stakeholder engagement to be meaningful and fulfil these purposes, ACRA needs to understand the views of all interested parties and also be able to convey our views clearly to our stakeholders.

6.4 ACRA will maintain points of engagement throughout the policy development process. ACRA builds the foundation for this engagement through regular dialogues with groups from the business and professional communities. Experts from the business and professional communities also contribute to regulatory development through ACRA's specialist committees, such as the PAOC and its sub-committees on Ethics, Admission and Accreditation, and Practice Monitoring as well as through focus groups. On top of this ACRA seeks broader public consultation for policy projects involving issues of greater significance to the public interest.

ACRA Annual Public Accountants Conference

6.5 ACRA holds an annual flagship event on audit regulation, the ***ACRA Public Accountants Conference***, at which matters of public interest and issues close to the heart of the profession can be discussed in an open forum.

Regulatory Impact Assessment

6.6 As part of its strategy to be an effective and efficient regulator, ACRA will also embark on a regulatory impact assessment of the auditing and corporate reporting landscape, to better assess market confidence in the robustness of audit quality and corporate financial reporting in Singapore; and to harness this knowledge to develop better regulations and programmes.

Consultation Point 12: Do you have any suggestions on how ACRA can improve its policies and regulations in line with principles of good regulation?

SEVEN - MAJOR PROJECTS AND ACTIVITIES

7.1 Through internal reviews and earlier smaller focus group consultations and dialogues, the following are some of the possible areas of projects and activities vis-à-vis regulation of auditing and corporate financial reporting that have been identified in our regulatory roadmap. These projects are cast within the six supporting pillars of our strategic outcomes as reference of areas that ACRA could focus on for purposes for gathering feedback for this consultation. With the feedback from the public consultation, ACRA will then consolidate and consider the lists of items to prioritise them in ACRA's future regulatory workplan:

Pillar One: Internationally Reputable Policy & Legislative Framework (Thought Leadership)	
<input type="checkbox"/> Review of the Code of Ethics to ensure its continued alignment with international standards.	Formatted: Bulleted + Level: 1 + Aligned at: 0.25" + Tab after: 0.5" + Indent at: 0.5"
<input type="checkbox"/> Review of the Audit and Professional Standards setting process in Singapore.	Formatted: Bulleted + Level: 1 + Aligned at: 0.25" + Tab after: 0.5" + Indent at: 0.5"
<input type="checkbox"/> Study on the oversight of foreign auditors of foreign public interest entities in Singapore, and enhanced international cooperation on the oversight of transnational auditing.	Formatted: Bulleted + Level: 1 + Aligned at: 0.25" + Tab after: 0.5" + Indent at: 0.5"
Pillar Two: High Quality of Audit (Competence & Professionalism)	
<input type="checkbox"/> Study on Areas to Improve Quality of Audits via ACRA's membership with the International Forum of Independent Audit Regulators (IFIAR).	Formatted: Bulleted + Level: 1 + Aligned at: 0.25" + Tab after: 0.5" + Indent at: 0.5"
<input type="checkbox"/> Review of the Registration Requirements for Public Accountants:	Formatted: Bulleted + Level: 1 + Aligned at: 0.25" + Tab after: 0.5" + Indent at: 0.5"

- (a) To strengthen the quality and supply of public accountants;
- (b) To facilitate the entry of international auditors and mid-career professionals with expertise that is relevant to audit;
- (c) To facilitate the re-entry of former public accountants who wish to return to the profession.

Formatted: Numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 0.5" + Tab after: 0.75" + Indent at: 0.75"

- Study on the merits of extending ACRA's oversight at the accounting entity level as well as to associated persons in the audit process.

Formatted: Bulleted + Level: 1 + Aligned at: 0.25" + Tab after: 0.5" + Indent at: 0.5"

- Study on factors which drive audit quality: Developing a policy framework to guide the regulation of auditors

Formatted: Bulleted + Level: 1 + Aligned at: 0.25" + Tab after: 0.5" + Indent at: 0.5"

Pillar Three: Effective & Efficient Regulation (Enlightened Regulatory Approach)

- Regulatory Impact Assessment of the auditing and corporate reporting landscape, with the following objectives:
 - Assessing market confidence in the robustness of audit quality and corporate reporting in Singapore;
 - Assessing the impact the regulation efforts on audit quality and profession developments; and
 - Harnessing the results of the survey to develop better regulations and programmes.
- Review of Financial Reporting Surveillance Programme with regard to developing a pro-active regulatory strategy targeted at companies' compliance with Financial Reporting Standards, and on how ACRA should respond to identified concerns.

Formatted: Bulleted + Level: 1 + Aligned at: 0.25" + Tab after: 0.5" + Indent at: 0.5"

Formatted: Indent: Left: 0.5", Hanging: 0.5", Bulleted + Level: 1 + Aligned at: 0.25" + Tab after: 0.5" + Indent at: 0.5", Tab stops: Not at 0.5"

Formatted: Bulleted + Level: 1 + Aligned at: 0.25" + Tab after: 0.5" + Indent at: 0.5"

Pillar Four: Transparent & Informed Market (Efficient Market)

- Publication of ACRA's regulatory strategy relating to public accountants and corporate reporting.
- Publication of PMP findings.
- Holding of Annual ACRA Public Accountants Conference.

Formatted: Bulleted + Level: 1 + Aligned at: 0.25" + Tab after: 0.5" + Indent at: 0.5"

Pillar Five: Strong Professional Environment (Role of Professional Bodies)

- Study on enhancing the role of professional bodies.

Formatted: Bulleted + Level: 1 + Aligned at: 0.25" + Tab after: 0.5" + Indent at: 0.5"

Pillar Six: Competitive Audit Market (Growth & Development of Profession)

- Study on the provision of a facilitative regulatory environment that enables the public accounting profession to grow in terms of quantity and quality of public accountants who are able to perform audits of public interest entities.

Formatted: Bulleted + Level: 1 + Aligned at: 0.25" + Tab after: 0.5" + Indent at: 0.5"

Consultation Point 13: ACRA would like to hear your views on the scope or relevance of the major projects and activities. In particular, are there any additional issues/areas which you think ACRA should consider in its regulatory roadmap?

EIGHT - HOW TO RESPOND

ACRA invites views on the specific questions posed in the document as well as views on any other matters relevant to regulation of financial reporting and auditing. To assist us in giving due consideration to your feedback, we would appreciate it if you provide reasons for your views and suggestions. Unless otherwise indicated the submissions received will be regarded as public documents.

For ease of reference, the specific consultation points are:

Consultation Point 1: ACRA would like to invite comments on whether there are other notable trends aside from those noted in this document which may have an impact on audit quality in Singapore.

Consultation Point 2: ACRA would like to invite views on the international developments, especially on how these developments should be factored into the regulation of audit in Singapore. In particular, are there specific issues of public interest that could benefit from a more considered deliberation in Singapore?

Consultation Point 3: Do you have any comments on the issues highlighted in relation to the audit environment in Singapore? Are there any other issues relating to Singapore's auditing environment that ACRA should take note of as it develops its regulatory framework?

Consultation Point 4: ACRA is particularly keen to hear your views with regards to the six supporting pillars identified by ACRA as instrumental to achieving our strategic outcomes. In particular, is there any additional pillar which could be added to complement the strength of the existing range?

Consultation Points 5-10: ACRA is keen to have your views on the relevance and usefulness of each of the six pillars in achieving our desired outcome. In particular, how would you rate each pillar in terms of its ability to influence the desired outcomes as identified earlier in this section of the report?

Consultation Points 11: Do you have views on ACRA's current and proposed approach to monitoring compliance with corporate financial reporting requirements? Do you have any other views on how ACRA should promote compliance with corporate financial reporting requirements?

Consultation Point 12: Do you have any suggestions on how ACRA can improve its policies and regulations in line with principles of good regulation?

Consultation Point 13: ACRA would like to hear your views on the scope or relevance of the major projects and activities. In particular, are there any additional issues which you think ACRA should consider in its regulatory roadmap?

Comments on the Draft Regulatory Strategy for Auditing and Corporate Reporting may be sent, by 24 September 2007, to:

ACRA
Strategy & Planning Unit
10 Anson Road, #05-01/15
International Plaza
Singapore 079903

E-mail: [HTTP://WWW.ACRA.GOV.SG/FEEDBACK](http://www.acra.gov.sg/feedback)

For general information about ACRA, please see our website at:
www.acra.gov.sg

APPENDIX

REGULATION OF PUBLIC ACCOUNTANTS: THE ACCOUNTANTS ACT

Public accountants are regulated under the Accountants Act (Cap. 2) and the regulations made thereunder.

Companies incorporated in Singapore are required to have their financial statements audited under section 205 of the Companies Act unless they are exempted from the auditing requirements under section 205B or 205C of the Accountants Act.

Public accountants (registered under the Accountants Act) and accounting firms, accounting corporations and accounting limited liability partnerships (approved under the Accountants Act) are entitled to provide public accountancy services in Singapore. In particular, only a public accountant, accounting firm, accounting corporation or accounting limited liability partnership ("accounting LLP") may be appointed as a company auditor under the Companies Act.

While only a person registered as a public accountant under the Accountants Act may call and hold him or herself to be a "public accountant", the use of the title of "accountant" is not regulated. Any person with the requisite educational or professional qualifications may justifiably use the term "accountant". While many "accountants" in Singapore are members of ICPAS (the Institute of Certified Public Accountants of Singapore) and membership of ICPAS is a condition for registration as a public accountant under the Accountants Act, membership with ICPAS is not compulsory before a person may describe him or herself as an "accountant".

Up to one-third of the owners of an accounting firm, accounting corporation or accounting LLP (or at least one partner where the partnership or LLP consists of only 2 partners) may be non-public accountants and such accounting entities may, in addition to public accountancy services, provide other services, for example liquidation, bookkeeping, corporate finance and tax consultancy services.



Accounting and Corporate Regulatory Authority

10 Anson Road

#05-01/15, International Plaza

Singapore 079903

Website: www.acra.gov.sg