Accountants fail numbers test ...

As Acra conducts first public review of auditing standards

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THEY go through the books of the biggest companies with a fine-tooth comb. Charities come under their microscope, too.

Now, the shoe is on the other foot as Singapore's public accountants come under the public spotlight for the first time — and the warts are glaring.

In the first review on auditing standards by the Accounting & Corporate Regulatory Authority (Acra), 37 per cent of those who have received their report cards so far have been given a failing grade.

Those who fared the worst — five public accountants — have had their registration suspended or cancelled under the Accountants Act.

The other 36 who missed the mark have been asked to take remedial action. This includes having their audit work reviewed by a suitably qualified person, known as a hot review. Of the 36, five have had restrictions imposed on the type of entities they can audit.

More practitioners could fall by the wayside in the next two years, when the review ends.

Out of the 790 public accountants who are registered here, Acra has scrutinised the practices of 110 of them.

So far, the statutory board has completed one cycle of inspections on the Big Four accounting firms and has commenced its review of medium-sized and small accounting firms.

Yesterday, it released the interim findings at its annual event for public accountants, for whom it acts as an independent regulator.

Besides the passing rates, Acra also revealed in detail a long list of concerns about audit practices in the profession.

One is in the area of documentation, which the authority highlighted as "particularly important" in understanding how a public accountant arrives at an audit opinion about the financial statements of an organisation.

One common lapse is when an auditor's report is dated prior to the completion of work papers.

Another finding is that auditors either do not document discussions with their clients about subsequent events that may affect the financial statements, or they do not document why a review of such events is not performed.

"Documentation also affects the ability of the public accountant, if challenged subsequently, to justify the conclusions reached," the report stated.

This is not the first time the profession has gone through an inspection. Before Acra was formed in 2004 through the merger of the Registry of Companies & Businesses and the Public Accountants Board, the latter used to exercise oversight for the industry. However, the current review is part of an enhanced Practice Monitoring Programme (PMP), formalised by law three years ago as a key provision to strengthen the regulatory framework.
One key difference in the programme launched by Acra in April 2005 is that it covers not only the inspection of audits, but also focuses on the quality controls of accounting firms.

Despite the shortcomings listed in the report, Acra believes that “conclusions about the overall quality of auditing in Singapore” should not be inferred, as “the focus is on improvements”.

The public report is similar in style to reports in other countries such as the United Kingdom and Canada. The latter, for example, reported this year that it found 57 deficiencies out of 241 audit engagements. It also placed restrictions on three firms and deregistered one firm.

While the two countries have made public such reports since 2004, this is Singapore’s first stab at doing so.

Addressing some 500 public accountants yesterday, Acra chief executive Juthika Ramanathan said: “The objectives of PMP are to promote audit quality and to foster market confidence in the work of the profession. In publishing the PMP public report, Acra seeks to make PMP a transparent and constructive exercise for the profession.”

Acra felt the scorecard for the profession was still a positive one.

When contacted, Singapore Management University accountancy dean Pang Yang Hoong said she was “not surprised” by the review’s findings, but was “concerned” and “disappointed”.

“When these small firms audit clients for many years and develop a sense of familiarity, there’s a danger of accepting their word too much,” she told TODAY.