



# **PRACTICE MONITORING PROGRAMME**

**13<sup>th</sup> PUBLIC REPORT 2019**

**October 2019**

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## Glossary of Terms

ACRA	Accounting and Corporate Regulatory Authority
AOB	Malaysia's Audit Oversight Board
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
IOS WG	IFIAR's Investor and Other Stakeholders Working Group
ISCA	Institute of Singapore Chartered Accountants
PAOC	Public Accountants Oversight Committee
Philippines SEC	The Philippines Securities and Exchange Commission
PMP	Practice Monitoring Programme
PPPK	Indonesia's Finance Professions Supervisory Center
SAC	Singapore Accountancy Commission
SMP	Small and Medium-sized Practice
SSA	Singapore Standard on Auditing
SSQC 1	Singapore Standard on Quality Control 1 - <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements</i>
Thailand SEC	Thailand's Securities and Exchange Commission

## Section 1: Executive Summary

- 1.1 Audit quality is the cornerstone of market confidence in the reliability of financial information upon which market makes capital allocation decisions. The Practice Monitoring Programme (PMP) is an important regulatory instrument for ACRA to provide 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. ACRA issues an annual report on the key inspection findings of its PMP, to help auditors and audit firms improve audit quality. This report highlights the findings from inspections carried out from 1 April 2018 to 31 March 2019.
- 1.2 The inspection findings pertaining to the elements of the Singapore Standard on Quality Control 1 (SSQC 1) are:
- (i) linkage between audit quality and partner performance evaluation and compensation;
  - (ii) compliance with independence requirements by audit personnel;
  - (iii) compliance with policies and procedures pertaining to acceptance and continuance;
  - (iv) staff retention rates and staff-to-partner and staff-to-manager ratios;
  - (v) adequacy of training for all audit personnel;
  - (vi) compliance with requirements to archive audit working papers; and
  - (vii) robustness and timeliness of pre-issuance and post-issuance review programmes.
- 1.3 The common audit deficiencies noted during engagement inspections are mainly in relation to insufficient audit procedures performed and inadequate audit evidence obtained in the following areas:
- (i) recoverability of amounts due from related parties;
  - (ii) impairment assessment for investment in subsidiary;
  - (iii) group audits;
  - (iv) construction contracts;
  - (v) opening balances;
  - (vi) revenue recognition; and
  - (vii) valuation of inventories.

Case studies in Section 4 of this report illustrate some of the audit deficiencies noted in these areas.

- 1.4 This report also highlights common pitfalls in key audit areas, such as going concern, provisions and risk assessment. Audit firms should pay attention to the findings in these areas and ensure that their audit methodology includes appropriate guidance and audit procedures to address these deficiencies.
- 1.5 Audit firms have continued to develop, and use audit software including data analytics tools in various phases of the audit – from planning and risk assessment to the execution of audit procedures. These tools are typically deployed to analyse large volumes of transactions, such as revenue and journal entry testing, and to identify outliers for closer audit attention.
- 1.6 During our firm-level inspections, we will also obtain an understanding of audit firms' responses to risks associated with audits involving digital assets such as cryptocurrencies and initial coin offerings.
- 1.7 We will continue to monitor the use of audit software tools by audit firms and assess if the firms are effectively using these tools and are applying professional scepticism to ensure that the audit evidence obtained can be relied upon for purposes of audit. On this front, we will work with audit firms and the Institute of Singapore Chartered Accountants (ISCA) to understand and address the challenges faced by the firms in using these tools to meet the various audit objectives. We would like to remind the audit profession that whilst technological advancements allow firms to improve the efficiency and effectiveness of audits, they do not replace the professional evaluation, judgement and scepticism expected of an auditor.
- 1.8 Whilst management is primarily responsible for the implementation of the new accounting standards, such as Singapore Financial Reporting Standard (FRS) 115 *Revenue from Contracts with Customers*, FRS 116 *Leases* and FRS 109 *Financial Instruments*, including assessing whether their accounting processes and related controls need to be updated, the auditor's role is to evaluate the appropriateness of management's assessment, in ascertaining if the financial statements have been prepared in accordance with new accounting standards. In this respect, we will also continue to monitor the impact of new and revised accounting standards on audit firms' methodology and audit procedures and evaluate how firms have audited the implementation of these new accounting standards.
- 1.9 Audit firms' leadership commitment to upholding the system of quality control is the most important factor in creating and sustaining high quality audits. In this regard, ACRA will be amending the Accountants Act to introduce statutory quality control inspection of audit

firms. This will allow ACRA to mandate audit firms to remediate lapses uncovered during inspections and sanction firms for breaches, where necessary.

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

### The Public Accountancy Landscape in Singapore

- 2.1 ACRA regulates 721 audit firms and 1,122 public accountants providing public accountancy services in Singapore.
- 2.2 16 larger audit firms, comprising the Big-Four and medium-sized firms, audit the listed companies while the other audit firms (mainly the smaller partnerships and sole proprietorships) audit only non-listed entities.

### Audit Inspections under the PMP

- 2.3 ACRA carries out two key audit inspection activities under the PMP.

- (i) **Engagement Inspection**

An engagement inspection is a detailed review of an audit 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 (SSA).

- (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, that is, such inspections are not required by law. As part of inspections, ACRA also evaluates the remediation efforts carried out by firms in respect of the firm-level findings raised in earlier inspections.

### ACRA's Calibrated Inspection Approach

- 2.4 For a more effective and efficient use of limited 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 companies; and

- (ii) Non-listed companies' segment - those practising in audit firms that perform audits of only non-listed companies.

2.5 As at 31 March 2019, the number of audit firms and public accountants in the two segments is as shown in Table 1 below.

*Table 1: Number of audit firms and public accountants in the listed and non-listed companies' segments*

<b>As at 31 March 2019</b>	<b>Listed companies' segment</b>	<b>Non-listed companies' segment</b>	<b>Total</b>
Number of audit firms	16	705	721
Number of public accountants	352	770	1,122

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

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

2.8 Inspectors from ISCA review the audits in the non-listed companies' segment under ACRA's oversight. In this segment, the inspectors carry out only engagement inspections. This arrangement enables ACRA to focus its limited resources on audits with higher public interest.

2.9 Findings from the engagement inspections of both listed and non-listed companies' segments are presented to the Public Accountants Oversight Committee (PAOC)<sup>1</sup> for its 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.

## **Contributing towards Global Audit Regulatory Efforts**

2.10 ACRA is actively involved in the International Forum of Independent Audit Regulators (IFIAR) and the ASEAN Audit Regulators Group (AARG). This helps ACRA stay abreast of international developments in audit regulation. We participate in dialogues on global audit

<sup>1</sup> 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.



trends and developments to support regional and international efforts in raising audit quality. These international engagements help us benchmark our regulatory regime against other leading audit regulators to keep Singapore's audit regulatory regime robust and relevant.

- 2.11 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, remuneration, and governance.
- 2.12 ACRA has also been a member of the Global Audit Quality Working Group (GAQ WG) and the Investor and Other Stakeholders Working Group (IOS WG) since 2011 and 2014 respectively. The GAQ WG actively engages the leadership of the six largest global audit firm networks (GPPC networks) with the objective of improving audit quality globally. The IOS WG organizes IFIAR's dialogue on audit quality related matters with investor representatives and other stakeholders, in particular audit committees.
- 2.13 One of IFIAR's key initiatives has been its annual survey that aims to highlight common inspections findings of regulators. The IFIAR 7<sup>th</sup> annual survey issued on 16 May 2019 highlighted that despite the downward trend in inspection finding rates, the recurrence and level of findings indicate a lack of consistency in the execution of high-quality audits and the need for a sustained focus on continuing improvement. IFIAR noted the highest frequency of deficiencies in the following categories:
- (i) Accounting estimates, including fair value measurement;
  - (ii) Internal control testing;
  - (iii) Adequacy of financial statement presentation and disclosure;
  - (iv) Revenue recognition; and
  - (v) Audit Sampling.

### **Regional Collaboration to Raise Audit Quality**

- 2.14 At the regional level, ACRA is part of the AARG, which comprises Indonesia's Finance Professions Supervisory Center (PPPK<sup>2</sup>), Malaysia's Audit Oversight Board (AOB), Thailand's Securities and Exchange Commission (Thailand SEC) and The Philippines'

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<sup>2</sup> Also known as Pusat Pembinaan Profesi Keuangan

Securities Exchange Commission (Philippines SEC)<sup>3</sup>. The AARG aims to foster closer collaboration, promote audit quality and achieve greater alignment in audit regulatory practices among ASEAN members.

2.15 The AARG activities complement the IFIAR efforts to uphold the standards of audit quality by focusing on audit quality issues specific to this region. Some of the key initiatives are:

- (i) **Annual Inspection Workshops** – these workshops are aimed at building capacity amongst the five AARG member jurisdictions and other audit regulators in Southeast Asia. The topics discussed at these workshops include inspection findings and best practices as well as emerging topics of significant impact on audit firms, e.g. challenges faced by firms in the deployment of technology and data analytics and steps taken to address these challenges. The 7<sup>th</sup> annual inspection workshop hosted by ACRA in April 2019 was attended by participants from 10 other jurisdictions, comprising audit regulators from AARG member jurisdictions as well as regulators from China, Cambodia, Laos, Hong Kong, Japan and Sri Lanka.
- (ii) **Annual Meetings** – these meetings are held with the regional leadership of the GPPC audit firms to discuss current and emerging topics affecting audit quality in the region. This year’s meeting was hosted by Malaysia’s AOB. Such periodic dialogues with the audit firms mirror IFIAR’s GAQ WG meetings and are beneficial in achieving a collaborative approach towards addressing common audit quality challenges.

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<sup>3</sup> Philippines SEC joined AARG in April 2019

## 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 audit quality controls in accordance with SSQC 1. Despite audit firms' remediation efforts, ACRA noted recurring findings in some areas. Audit firms should review the effectiveness of their existing initiatives and consider alternative ways to address recurring findings.
- 3.2 This section highlights some areas for improvements based on ACRA's firm-level inspections.

### Leadership – Factors Reflective of Audit Quality

- 3.3 The leadership of an audit firm is the most important driver of audit quality. ACRA expects the leadership to actively promote and uphold the quality culture in the firm. One of the effective ways to embed quality culture in the firm is to establish a strong and well-integrated performance management system that links audit quality to the performance evaluation and compensation of audit personnel and partners.
- 3.4 ACRA has noted that in several leading audit firms, the appraisal system for partners takes into consideration quality components such as regulatory compliance and results of internal and external reviews. However, in certain audit firms, factors that define "Quality" are not clearly spelt out in the appraisal system for partners. For transparency and certainty, audit firms should develop a structured performance appraisal system and consider defining key criteria relating to quality in the appraisal system for partners. Audit firms could also consider assigning assessment weightage to quality-related factors in the evaluation system for partners. Below are some examples of quality-related factors that firms may consider including in their appraisal system:
- (i) Lapses related to archival of audit working papers;
  - (ii) Breach of independence requirements;
  - (iii) Results of internal/external quality reviews; and
  - (iv) Contribution to functional roles such as quality control, independence, risk management, learning and development, etc.

## **Compliance with Independence Requirements**

- 3.5 In establishing policies and procedures to comply with relevant ethical (including independence) requirements, some audit firms have adopted their global network's independence policies which may be more stringent than the requirements under the Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (the Code). Despite internal monitoring and sanction systems implemented by firms to ascertain and ensure compliance with independence requirements, ACRA observed instances of independence violations by staff, including partners, continued to be surfaced during the firms' independence testing. These independence violations mainly pertained to late or inaccurate updates of investment portfolios by the partners and their spouses. While these violations did not result in non-compliance with the Code, they were in breach of the audit firm's global independence policies. Such independence violations suggest that either the partners do not sufficiently understand independence requirements or that firms do not have proper controls in place to ensure compliance with the requirements.
- 3.6 To ensure audit firms remain independent of their audit clients, audit firms should develop practice aids to assist engagement teams in assessing relative sizes of audit and non-audit fees and ensuring that they communicate the necessary to those charged with governance. ACRA wishes to highlight that in addition to meeting the requirements of the Code, audit firms should ensure compliance with the independence related requirements and considerations in other legal and regulatory frameworks such as Singapore Standards on Auditing, Companies Act and Code of Corporate Governance.
- 3.7 Besides regular communication with the audit personnel, including partners, on ethical requirements, audit firms should also act on non-compliance of ethical requirements. Non-compliance of such requirements should be taken seriously, and severe financial penalties should be meted out to deter independence violations by audit personnel, especially the partners.

## **Acceptance and Continuance – Policies and Procedures**

- 3.8 Audit firms should ensure that they only undertake or continue relationships and engagements where the firm has the capabilities, including time and resources to perform the engagement and that policies and procedures with respect to acceptance and continuance have been properly adhered to.

3.9 However, ACRA noted several cases of lapses in the execution of these policies and procedures by audit firms. There were instances where the acceptance or continuance forms were not dated by the firms and consequently, it was not possible to assess if the audit firm had obtained the necessary information prior to acceptance or continuance of the audit engagement. In other cases, the forms were not approved by the authorised personnel prior to the commencement of the engagement. ACRA further noted in these cases, the audit firm issued the Consent to Act as auditor prior to obtaining due internal approvals. Such lapses might result in the audit firm accepting or continuing with an audit client with ethical or independence issues, a clear indication of non-compliance with policies and procedures pertaining to acceptance and continuance of engagements. ACRA expects firms to remediate such lapses and ensure a strict compliance to acceptance and continuance policies and procedures. It is also in the audit firms' interest to do so as it contributes to a more effective risk assessment in the performance of the audit engagements.

### **Human Resources – Staff Turnover and Leverage Ratios**

3.10 An audit firm's ability to deliver high quality service and work hinges upon the quality and competency of its staff. The ability to recruit and retain suitable and qualified personnel is thus important.

3.11 High staff turnover leads to loss of knowledge and experience and is disruptive to efficient and effective audits. Audit firms should ensure that their human resource management policies and systems remain relevant and effective in improving staff retention rate.

3.12 Heavy workload and dissatisfaction among staff due to lack of adequate guidance and supervision by experienced engagement team members are some common reasons for high staff turnover. ACRA continues to see notably high staff-to-partner ratio among some audit firms. Audit firms should ensure adequate level of supervision by experienced members of the engagement team, as there are close linkages between their involvement in engagements and the quality of audit work.

3.13 While audit firms may introduce initiatives and incentives to retain their staff, given the competitive labour market, some level of staff attrition is inevitable. Audit firms should standardise their audit workflow and processes, and engagement partners and managers should also always remain actively involved in the audit engagements so as to ensure a smooth transition in the event of staff attrition.

## **Human Resources – Training**

3.14 Continuing professional development of staff is vital in ensuring that audit personnel deliver quality audits. In today's dynamic environment where technology, accounting and auditing standards are evolving at a rapid pace, audit firms should strive to continuously improve the skills and competency of their staff. Training programmes should be updated, keeping in view the latest developments and changes in the accounting and auditing standards as well as topics relevant to auditing and audit quality. Audit firms should, through the performance appraisal system, identify staff's learning and developmental needs and direct the staff to appropriate training programmes.

## **Engagement Performance – Repeated Lapses in Archival of Audit Working Papers**

3.15 ACRA continues to note several cases of repeated late archival of audit working papers and in certain cases, by the same engagement partners. While prompt remediation actions by certain firms have contributed to a reduction in the instances of late archival, this remains a recurring finding.

3.16 ACRA also noted, particularly in audit firms from the non-listed companies' segment, incomplete archival of audit working papers. There were several instances where public accountants claimed to have performed the audit work but failed to include the working paper in the final assembled audit files. Audit working papers provide evidence that an effective audit has been carried out by the public accountant. Hence, incomplete or missing working papers raise questions on the credibility of the audit performed and the audit opinion issued.

3.17 At the same time, ACRA continues to observe certain good practices implemented by audit firms to address the issue of late archival. For example, audit firms are strengthening their internal control mechanisms by having more frequent reviews on archival statistics and including sampling of audit engagements to ascertain whether the working papers have been assembled and archived. In addition, some audit firms even introduced a firm-wide policy of shorter archival time (less than 60 days) for all engagements. Some audit firms are also using their audit software to trigger automated emails to remind the engagement teams to archive their audit working papers. ACRA also noted that a few audit firms are gradually instituting paperless processes for all audit engagements and mandating the use of the firm's audit software to house all audit evidence. This helps the firms effectively use technology to

monitor the status of electronic audit files and to send timely reminders for archival. Several firms now have central monitoring mechanisms to prevent and detect any late archival. Some audit firms have also included late archival of working papers as one of the factors that determine the quality rating of the partner, and consequently, the partner's overall performance rating and compensation.

- 3.18 ACRA urges audit firms to ensure there are processes and controls in place for timely and proper audit documentation and archival of engagement files so as to preserve the integrity and confidentiality of audit working papers. Partners should be held accountable for timely archival of the engagement files and any archival lapses especially repeated lapses should be severely dealt with by the audit firm.

### **Monitoring – Robustness and Timeliness of Completion of Pre-issuance and Post-issuance Reviews**

- 3.19 A robust monitoring system is one of the cornerstones of an effective system of quality control. ACRA noted that certain engagements selected for inspection by ACRA had been included in the audit firms' pre-issuance and post-issuance reviews. In instances where findings arising from ACRA's review relate to risk areas that would have existed when pre-issuance and post-issuance reviews were performed, ACRA believes that this indicates that the firms' internal reviews may not be robust. In addition, ACRA noted a few instances where these reviews were not completed on a timely basis. The lack of timely completion of the reviews may compromise the expediency and effectiveness of the remediation process.
- 3.20 ACRA recommends audit firms to develop a robust framework for such internal reviews. Audit firms should also consider disseminating, on a periodic basis, or at least annually, the findings from these reviews to all engagement partners and staff. Robustness and effectiveness of an audit firm's internal monitoring mechanism are factors that ACRA takes into account in determining the frequency and intensity of its inspections. Hence, a healthy and effective internal monitoring by the firm would reduce the need for continuous monitoring by ACRA.

### **Monitoring – Root cause analysis**

- 3.21 A robust root cause analysis and implementation of appropriate responsive actions is fundamental to improving audit quality. The root cause analysis should be performed on a timely basis to ensure that prompt and appropriate remediation actions can be undertaken

before the commencement of the next audit and to avoid any recurring findings. Audit firms should also assess the effectiveness of its root cause analysis.

3.22 The recurrence of findings arising from external and internal reviews indicate an absence of robust root cause analysis and the need for a sustained focus on continual improvement. Audit firms should undertake a post-implementation review at an appropriate time to evaluate the effectiveness of its root cause analysis framework and identify possible areas of improvement. For instance, recurring findings in the area of SSA 620 *Using the Work of an Auditor's Expert* during the current year's inspection could have been addressed had the audit firms performed a robust and effective root cause analysis. ACRA would like to remind audit firms and public accountants that an auditor is required to evaluate the adequacy of the auditor's expert's work, including evaluation of the source data, methods and assumptions used by the expert in the work. Such details, together with the auditor's conclusion on the expert's work should form part of the audit working papers to support the auditor's opinion on the financial statements.



## Section 4: Engagement Inspection Findings

### Introduction

4.1 This year's report highlights the inspection findings on the following topics:

- (i) Going Concern;
- (ii) Provisions;
- (iii) Risk Assessment;
- (iv) Amount due from Related Parties (Case Study 1);
- (v) Assessment of Impairment of Investment in Subsidiary (Case Study 2);
- (vi) Group Audits (Case Study 3);
- (vii) Construction Contracts (Case Study 4);
- (viii) Opening Balances (Case Study 5);
- (ix) Revenue Recognition (Case Study 6); and
- (x) Valuation of Inventories (Case Study 7).

Some of the engagement inspection findings are presented in the form of case studies to mirror the observations noted during the inspections. This is to make it easier for public accountants to understand how such findings could have been avoided.

4.2 The case studies are presented in the following format:

- (i) Background information;
- (ii) Work performed by the engagement team;
- (iii) Work not performed by the engagement team; and
- (iv) Findings.

### (a) Going Concern

4.3 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 to evaluate management's assessment of the entity's ability to continue as a going concern. Such evaluation should be based on auditors' knowledge of relevant conditions or events that existed as at or have occurred prior to the date of auditor's report. The auditor should also reflect whether the results of audit procedures performed in planning, execution and completion stage of the audit indicate that there could be substantial doubt on the entity's ability to continue as a going concern.

- 4.4 If the auditor identifies events or conditions that may cast significant doubt on an entity's ability to continue as a going concern, the auditor is required to obtain sufficient appropriate audit evidence, through performing additional procedures, to determine whether a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern. These procedures include reviewing the cash flow forecast prepared by management, obtaining written representations from management regarding their plans for future actions and the feasibility of these plans, reviewing letters of financial support obtained by the entity from its related corporation and assessing the related corporation's financial health and ability to provide financial support to the entity. Management's assessment of the entity's ability to continue as going concern should cover a period of at least twelve months from the date of the financial statements. Auditor should also consider engaging management, directors and those charged with governance at an early stage as this would allow the management adequate time to prepare its assessment and action plan to address any potential going concern issue.
- 4.5 SSA 700 *Forming an Opinion and Reporting on Financial Statements* requires auditors to include a section on going concern in the auditor's report to conclude on the appropriateness of management's use of the going concern basis of accounting. If events or conditions exist that may cast significant doubt on the entity's ability to continue as going concern, and there are no or inadequate disclosures made in the entity's financial statements, the public accountant should consider the implication for the auditor's report, including modifying the audit opinion where necessary. 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 by the auditors in line with improved transparency.

## **(b) Provisions**

- 4.6 FRS 37 *Provision, Contingent Liabilities and Contingent Assets* defines provision as a liability of uncertain timing or amount. Provisions involve some uncertainty over either how much will be paid or the timing of such payment. Such uncertainties can be dealt with by various means according to the circumstances. For example, provision for one-off events such as restructuring are measured at the most likely amount while provisions for large population of events such as warranties are measured at a probability-weighted expected value. In arriving at the best estimate of the provision, the risks and uncertainties that surround the underlying events should be duly taken into consideration.

4.7 Recurring findings in the area of provisions have been identified during ACRA's inspections. ACRA noted audit engagements where inadequate audit evidence was obtained to ascertain the completeness of provisions recognised by the entity as at the end of the financial year. For one engagement, the public accountant merely relied on management's computation and representation on completeness of provision for claims by the customer and did not perform any audit procedures to quantitatively corroborate management's representations. In this regard, the public accountant did not: (a) review the agreement or arrangement between the entity and the customer that formed the basis of provision but instead, relied on management's computation on the premise of continued business relationship with the customer; and (b) verify the inputs or source data used in the computation of provision as at year-end.

4.8 An auditor should make an independent assessment with regard to completeness of provisions to ensure that all liabilities have been duly recognised as at year-end. The audit procedures that an auditor may perform to ascertain completeness of provision would vary depending on several factors including the nature of the provision. Below are examples of audit procedures to ascertain completeness of provision as at year-end:

- (i) Vouching to subsequent settlement of the provision after year-end;
- (ii) Review of past trend or history of payment for similar provision;
- (iii) Review of agreement and other relevant documents relating to provision;
- (iv) Discussion with management to obtain a detailed understanding of the nature of provision and management's basis in arriving at the amount of provision;
- (v) Inquiry with internal and external legal counsel of the entity, as appropriate; and
- (vi) Seeking written confirmation or representation from management on terms and conditions of arrangement forming basis of the provision.

4.9 A combination of such audit procedures would provide adequate appropriate audit evidence with respect to completeness of provision. Depending on the nature of the provision, the auditor should use his judgement to assess and identify effective audit procedures to be performed to address completeness of provisions.

### **(c) Risk Assessment**

4.10 Proper risk assessment forms the foundation of an efficient and effective audit. The identification and assessment of the risks of material misstatement in the financial statements

during the planning stage of an audit affects the nature, timing and extent of the audit work to be performed to gather sufficient appropriate audit evidence.

4.11 It is therefore extremely important to obtain an understanding of the entity's nature including its operations and its ownership and governance structure to modify the approach for every audit according to entity's risks and changes during the financial year.

4.12 ACRA noted instances where the public accountant designed and performed audit procedures to test significant account balances without understanding how the entity conducts its operations. As a result, the work performed did not provide appropriate audit evidence. For example:

(i) In an engagement with multiple streams of revenue (revenue from contracts to design and build customised software systems, sale of goods and maintenance support services), the engagement team identified a risk of fraud related to revenue recognition, based only on a presumption that there were risks of fraud in revenue recognition in accordance with SSA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*. However, it was not evident how it had evaluated which types of revenue or revenue transactions might give rise to such risks, in order for the team to appropriately tailor audit procedures responsive to the risks specific to the entity.

(ii) At the audit planning stage for the audit of a contract manufacturer, the engagement team noted from the interim management accounts that the entity was profit-making. Revenue recognition and recoverability of trade receivables were identified as significant risks. During the audit, it was noted that subsequent to year-end, one major customer has discontinued the sale of Product X. Specialised machinery and specific raw materials were required to be maintained by the contract manufacturer for the manufacture of Product X. However, the engagement team did not perform a re-assessment of the risks (pertaining to inventories obsolescence and plant and equipment) arising from the discontinuation of Product X. As a result, the engagement team did not carry out an impairment assessment on the plant and equipment and did not perform adequate review of obsolete inventories.

4.13 With emerging technologies (such as artificial intelligence, robotic process automation and blockchain), the financial reporting environment is undergoing accelerated change, and bringing with it, technology risks. Auditors therefore need to transform their own processes and build capabilities to holistically understand changes in the industry; understand how new

technologies impact management's processes and the flow of transactions; consider the risks arising from the implementation of new technologies and differentiate those risks from the more traditional systems; assess if specialised skills are necessary to evaluate the impact of new technologies and how to respond to those risks and controls.

- 4.14 There are several ways to gather information in order to perform an effective risk assessment. These include inquiries with management and performing analytical procedures at the planning stage as well as gathering information on background of the client, the industry in which the client is operating, its business model and the laws and regulations relevant to that industry. ACRA noted that some audit firms are deploying data analytics tools to enhance its risk assessment processes. The auditor should re-assess the risks of material misstatement accordingly to reflect new or any inconsistent information obtained during audit, which may lead to the identification of conditions and events that may indicate a significant risk of material misstatement. In such cases, the auditor should also re-assess and consider upgrading the risk (say, from a normal risk to a significant risk) which may warrant further audit procedures to be performed to address the elevated/additional risks identified.
- 4.15 The identified and assessed risks of material misstatement, including discussions held within the engagement team and significant decisions made should be duly documented in the audit working papers. This will ensure that the engagement team is fully cognisant of the factors leading to the risk assessment to work towards obtaining sufficient and appropriate audit evidence to address the underlying assertions.
- 4.16 ACRA continues to advocate the need for proper audit planning and risk assessment to ensure that key risks are properly identified, and fundamental audit procedures are performed, for any potential problems to be identified and resolved on a timely basis. Public accountants may refer to ACRA's Audit Practice Bulletin No. 1 of 2016 *Identifying, Assessing and Responding to Risks of Material Misstatement in the Financial Statements* for further guidance on performing risk assessments. The bulletin also includes illustrative examples in applying the three key steps of risk assessment, namely, (a) understanding the entity and its environment, (b) identifying and assessing risks and (c) responding to identified risks. The risk assessment continues throughout the audit and the audit plan and/or procedures are revised whenever necessary.

## Section 5: Sector Driven Initiatives to Improve Audit Quality

### Introduction

5.1 The Accountancy Industry Digital Plan (IDP), jointly developed by the Singapore Accountancy Commission (SAC), ISCA, the national accountancy body of Singapore, and the Infocomm Media Development Authority, was launched this year to accelerate the sector's digital transformation. The plan aims at helping small and medium-sized practices (SMPs), which make up 98% of the accountancy industry, adopt technology for greater productivity and competitiveness.

### Embracing technology to improve audit quality

5.2 When technology is used to streamline and automate audit processes, auditors can concentrate on more complex and higher risk areas that require judgement and professional scepticism. Technology can also be used to redesign audit work to deliver higher quality audits and provide relevant business insights. The IDP provides a structured roadmap to guide and support audit firms, especially the SMPs, in assessing their digital readiness, and recommends the relevant solutions depending on their stage of digital readiness. SMPs are eligible for funding support of up to 70% grant for the adoption of audit, practice management, tax and internal audit digital solutions.

5.3 Technology also impacts the skills required of auditors. The IDP also focuses on enhancing the digital skills and knowledge of auditors, providing guidance on the trainings that they should undergo, ranging from data analytics and robotic process automation to artificial intelligence.

5.4 ISCA, with the support of SAC, has set up the SMP Centre to provide a one-stop platform of information, tools and services to help SMPs build productive and competitive businesses. SMPs can visit the SMP Centre (<https://www.smpcentre.org.sg>) for a business diagnosis and obtain advice on digital solutions for their firms.

## APPENDIX 1: CASE STUDIES

### Note:

- (i) ACRA would like to stress that the case studies in this report **only serve as guidance and are not meant to set any standard on the nature and extent of the audit work**. Public accountants and their audit engagement teams are **cautioned to consider the application of the principles and guidance**, based on the distinct characteristics of each engagement.
- (ii) As the case studies are also meant to be focused on specific areas of the audit and deficiencies noted, the audit procedures listed in the case studies may **not be exhaustive** for purposes of addressing all the audit assertions relating to any particular account balance or transaction. Public accountants and their engagement teams need to **exercise sound professional judgement and knowledge** in ensuring that the necessary procedures are performed to cover all related audit assertions.

### ILLUSTRATIVE AUDITED ENTITY 1

#### BACKGROUND INFORMATION:

Company A is engaged in the business of trading of electronic products, parts and accessories. Company A has two subsidiaries, namely Subsidiary S1 (incorporated in Singapore) and Subsidiary S2 (incorporated in Malaysia). Company A and Subsidiary S1 are audited by the public accountant in Singapore and Subsidiary S2 is audited by an audit firm in Malaysia.

#### OTHER INFORMATION ON COMPANY A WAS AS FOLLOWS:

- Financial year end: 31 December 2017
- Audit opinion: Unmodified
- Overall materiality: \$600,000 (company level)
- Significant risks identified at group level: Revenue – Cut-off, Inventories – Valuation and Amount due from Related Parties – Valuation
- Significant risks identified at company level: Revenue – Cut-off, Inventories – Valuation, Amount due from Related Parties – Valuation and Impairment of investment in subsidiaries

## CASE STUDY 1

### AMOUNT DUE FROM RELATED PARTIES

**Case Facts:**

Company A recognised receivable (both trade and non-trade) from related parties amounting to \$4,300,000 as at 31 December 2017.

### WORK PERFORMED BY THE ENGAGEMENT TEAM

The engagement team verified subsequent receipts amounting to \$400,000 from the related parties. For the unpaid balance as at the date of audit, the engagement team documented that the related parties have been repaying the outstanding balance at infrequent intervals. The engagement team further documented that some of the balances due from related parties were pending assignment to other related parties and assessed the recoverability of the remaining outstanding balances by referring to the net assets balances of those related parties as at year-end.

Below is a summary of outstanding balances and the audit documentation by the engagement team:

<b>Related Party</b>	<b>Outstanding Balance</b>	<b>Notes by engagement team</b>
Related Party A	\$1,500,000	Verified subsequent receipts amounting to \$300,000; pending assignment of remaining outstanding balance to Related Party E
Related Party B	\$800,000	Pending assignment of outstanding balance to Related Party F
Related Party C	\$1,150,000	Related Party C in net assets position as at year-end
Related Party D	\$850,000	Verified subsequent receipts amounting to \$100,000; Related Party D in net liabilities position as at year-end but in view of subsequent receipts after year-end, no issue on recoverability of debt
<b>TOTAL</b>	<b>\$4,300,000</b>	



## **WORK NOT PERFORMED BY THE ENGAGEMENT TEAM**

In the absence of information pertaining to the basis of assigning outstanding debts from related parties A and B as at year-end to other related parties E and F and no work was performed to assess the abilities of E and F to repay the outstanding balance, it is unclear how the public accountant concluded that there were no indicators of impairment on the amount due from related parties A and B.

On the basis that the Related Party D with outstanding balance amounting to \$850,000 had made some repayment after year-end, the engagement team concluded that there was no impairment of amount due from Related Party D regardless of its capital deficiency position. It is unclear how the engagement team concluded that Related Party D was in a position to repay the outstanding balance and there was no impairment on the amount due from Related Party D.

### **Finding:**

There was inadequate work performed to address the valuation assertion of amounts due from related parties.

## CASE STUDY 2

### ASSESSMENT OF IMPAIRMENT OF INVESTMENT IN SUBSISIARY

**Case Facts (Please see Illustrative Audited Entity 1 for background information on Company A and Subsidiary S1):**

Company A's cost of investment in its Subsidiary S1 amounted to \$2,900,000 as at 31 December 2017. Subsidiary S1 had external debt amounting to \$800,000 as at 31 December 2017.

#### WORK PERFORMED BY THE ENGAGEMENT TEAM

Subsidiary S1 incurred net losses during the financial year and was in net liabilities position as at 31 December 2017. The public accountant concurred with management that these were impairment indicators on the investment in subsidiary. Management prepared discounted cash flow (DCF) of the subsidiary and determined the recoverable amount of the subsidiary as \$5,000,000, resulting in a headroom of \$2,100,000.

The engagement team:

- Assessed and concluded that the assumptions of revenue growth, gross profit margin and operating expenses used in the DCF were reasonable
- Compared the weighted average cost of capital (WACC) used in the DCF to the Group's WACC obtained from an external website and concluded that the WACC used by management was reasonable. The external website is a provider of financial information and data that contains historical charts on WACC of listed entities.

#### WORK NOT PERFORMED BY THE ENGAGEMENT TEAM

The public accountant had not performed sufficient appropriate work in the following areas as required by FRS 36 *Impairment of Assets*:

- No work was performed to obtain an understanding of and independently verify the various inputs used by the external website to arrive at the Group's WACC

- No comparison of the debt-equity ratio used in the external website was made against comparable entities in similar industry
- No work was performed to assess the appropriateness of non-adjustment of net debt of the Subsidiary S1 in determining the recoverable amount of the subsidiary prior to comparison against the cost of investment
- No work was performed to assess the appropriateness of the exclusion of working capital changes in deriving the free cash flows in DCF

**Finding:**

The public accountant had not adequately challenged the appropriateness of the key inputs/significant assumptions used in the DCF workings.

ACRA also wishes to highlight that public accountants should consider external and internal sources of information that may indicate that an existing impairment loss recognised for an asset, other than goodwill, may no longer be required and assess therefrom, if any reversal of provision for impairment is deemed necessary.

## CASE STUDY 3

### SSA 600 SPECIAL CONSIDERATIONS – AUDITS OF GROUP FINANCIAL STATEMENTS

**Case Facts (Please see Illustrative Audited Entity 1 for background information on Company A and Subsidiary S2):**

The public accountant sent group audit instructions to the overseas component auditor in Malaysia for full scope reporting on Subsidiary S2 for the financial year ended 31 December 2017.

#### WORK PERFORMED BY THE ENGAGEMENT TEAM

The group engagement team received reporting deliverables (acknowledgement of audit instructions, independence confirmation, audit clearance memorandum and subsequent events review memorandum) from the component auditor together with the signed financial statements for the financial year ended 31 December 2017.

The group engagement team reviewed the audit working papers of the component auditor and documented a brief summary of the audit procedures by the latter in the following areas in its Audit Working Paper Review Memorandum:

- Revenue
- Costs of sales
- Receivables
- Inventories

#### WORK NOT PERFORMED BY THE ENGAGEMENT TEAM

Below are areas where inadequate work was performed by the public accountant with respect to compliance with SSA 600:

- The group engagement team did not set a materiality threshold for group audit and hence did not determine allocated component materiality. This is not in accordance with the requirements of paragraph 21 of SSA 600.

- The Audit Working Paper Review Memorandum did not include any details on the nature, timing and extent of work performed by the component auditor. In the absence of such details, it is unclear how the public accountant, as the group engagement partner, had assessed the sufficiency and appropriateness of audit evidence obtained by the component auditor to address significant risks identified pertaining to cut-off of revenue and valuation of inventories as at year-end as required by paragraph 44 of SSA 600.

**Finding:**

The public accountant did not adequately evaluate the sufficiency of the work performed by the component auditor of the subsidiary to support the group audit opinion on the consolidated financial statements for the financial year ended 31 December 2017.

Public accountants may refer to ACRA's Audit Practice Bulletin No. 1 of 2015 *Audits of Group Financial Statements (Including the Work of Component Auditors)* for further guidance on group audits.

## ILLUSTRATIVE AUDITED ENTITY 2

### BACKGROUND INFORMATION:

Company B's principal activities are those of piping, fabrication, installation, equipment erection and other specialised construction.

### OTHER INFORMATION ON COMPANY B WAS AS FOLLOWS:

- Financial year end: 31 December 2017
- Audit opinion: Unmodified

## CASE STUDY 4

### CONSTRUCTION CONTRACTS

**Case Facts (Please see Illustrative Audited Entity 2 for background information on Company B):**

As at 31 December 2017, Company B had 6 on-going projects with contract sums totalling \$40 million and amount due from customers for contract works amounting to \$900,000. The contract revenue and contract costs recognised in the statement of comprehensive income for the financial year ended 31 December 2017 amounted to \$24 million and \$23 million respectively.

It was disclosed in the Company's financial statements that it primarily has fixed-priced contracts and contract revenue and contract costs are recognised in the statement of comprehensive income by reference to the stage of completion of the contracts. It was further disclosed that in applying the percentage of completion method, revenue recognised correspond to the total contract revenue multiplied by actual completion rate based on the proportion of total contract costs incurred to date and estimated costs to complete.

The average duration of the construction contracts is in the range of 1 to 2 years.

## **WORK PERFORMED BY THE ENGAGEMENT TEAM**

The engagement team performed substantive test by randomly selecting samples from transactions recorded under “cost of goods sold” account in the general ledger and vouched to suppliers’ invoices, payment vouchers and bank statements for subsequent settlement. The engagement team also checked that the costs were posted to the correct project code in the general ledger.

Management made revisions to the contract sums and total estimated costs for 3 of the on-going projects as at year-end. The engagement team re-calculated the profit margins on these projects and assessed the financial impact of the revisions to the current year’s profit. The impact was assessed to be immaterial.

For one project that was loss-making, payment certificates were typically issued within two months of the period of work claimed. As of the date of the audit report (15 June 2018), the last project certification approved by the contractor was dated 20 November 2017 but no corresponding payment certificate was issued by the contractor subsequent to 20 November 2017. The engagement team documented that management was following up with the contractor for the payment certificate and did not foresee any issue in recovery of the balance due from contractor.

## **WORK NOT PERFORMED BY THE ENGAGEMENT TEAM**

There was inadequate work performed to assess the accuracy and completeness of the contract sums and estimated contract costs, both of which are components for revenue recognition of construction contracts. Without verifying the contract sums (including initial contract sum and subsequent variation orders or relevant correspondences arising from changes in the scope of construction work) and estimated costs to complete, it was also not evident how the public accountant assessed the accuracy of contract revenue and attributable profits recognised. Accordingly, the valuation and completeness of amount due from customers for contract works were also not adequately addressed. In addition, since the engagement team did not perform independent verification procedures to ascertain the reasonableness of the estimated total contract costs, the substantive tests performed to test the actual costs incurred to date would not be adequate to address the relevant existence, completeness and accuracy audit assertions pertaining to total estimated contract costs.

Despite the delay in receipt of payment certificate, there was no work performed to: (i) ascertain the status of the project and its expected completion date; (ii) assess the accuracy of management’s

estimates of the materials and labour costs to complete the project as well as (iii) determine if any provision for foreseeable losses was necessary.

**Finding:**

In respect of construction contracts, there was inadequate work performed to verify the:

- accuracy, completeness and cut-off of the contract revenue and contract costs;
- accuracy and completeness of the contract sums and estimated contract costs to complete the construction contracts;
- valuation and completeness of amount due from customers for contract works; and
- completeness of foreseeable losses for the project where the payment certificate was delayed.



## ILLUSTRATIVE AUDITED ENTITY 3

### BACKGROUND INFORMATION:

Company C's principal activities are those of container rental services and logistics services.

### OTHER INFORMATION ON COMPANY C WAS AS FOLLOWS:

- Financial year end: 31 December 2017
- Audit opinion: Unmodified

## CASE STUDY 5

### OPENING BALANCES ON INITIAL AUDIT ENGAGEMENTS

#### Case Facts:

The audit for the year ended 31 December 2017 was an initial audit engagement for the public accountant. The financial statements for the year ended 31 December 2016 was audited by another auditor ("predecessor auditor") who expressed an unmodified opinion on those statements on 8 May 2017. This was duly disclosed in the "Other Matter" paragraph of the independent auditor's report.

The engagement team was denied access by the predecessor auditor to perform a review on the audit working papers for the year ended 31 December 2016.

### WORK PERFORMED BY THE ENGAGEMENT TEAM

The engagement team obtained from management the following listings, agreed the balances to the prior year's audited financial statements and noted no exception:

- (a) listings of sales and purchases for the prior year ended 31 December 2016;
- (b) listings of debtors, creditors and bank borrowings as at 31 December 2016;
- (c) listings of operating lease commitments for premises and equipment of which \$1,200,000 were due within one year from 31 December 2016.

In respect of rental expenses for premises and equipment of \$400,000 during the current financial year ended 31 December 2017, the engagement team randomly selected 3 samples (totalling \$25,000) to verify the occurrence of those expenses.

In the other audit working papers documenting work performed for the current year's audit, the work performed to address opening balances was limited to indicating tickmarks to agree the comparative figures to trial balance and general ledgers.

### **WORK NOT PERFORMED BY THE ENGAGEMENT TEAM**

There was inadequate work performed by the public accountant on opening balances in accordance with SSA 510 *Initial Audit Engagements – Opening Balances*, particularly for significant account balances including trade and other receivables, trade and other payables and bank borrowings.

There were no cut-off testing performed on revenue and purchases for the year ended 31 December 2016.

In addition, there was no audit procedures performed to understand the nature of the material operating lease commitments of \$1,200,000 as of 31 December 2016 and that there were no corresponding rental expenses of such quantum incurred in the current year 2017.

### **Finding:**

In the absence of other work performed, the public accountant failed to perform adequate work on opening balances.

## ILLUSTRATIVE AUDITED ENTITY 4

### BACKGROUND INFORMATION:

Company D's principal activities are those of manufacture and repair of ship engines and parts.

### OTHER INFORMATION ON COMPANY D WAS AS FOLLOWS:

- Financial year end: 31 December 2017
- Audit opinion: Unmodified
- Materiality: \$450,000

## CASE STUDY 6

### REVENUE RECOGNITION

#### Case Facts:

Company D's revenue for the financial year ended 31 December 2017 amounted to \$38,000,000. The accounting policy on revenue recognition disclosed in financial statements states that "service income is recognised when the services are rendered and accepted by customer and the collectability of related receivables is reasonably assured". Based on the audit working papers, Company builds and sells engines on project basis, with project durations ranging from 2 to 3 years.

### WORK PERFORMED BY THE ENGAGEMENT TEAM

The engagement team selected and tested 40 samples of invoices pertaining to revenue and obtained a coverage of approximately 80% of the total revenue recognised during the financial year. The engagement also performed sales cut-off testing by testing 5 sales invoices issued in December 2017 and 5 sales invoices issued in January 2018 to assess if the revenue was recognised in the correct financial period. The engagement team further documented in the audit working papers that the invoice amount and timing of issuance of invoice was subject to approval by the customer.

## **WORK NOT PERFORMED BY THE ENGAGEMENT TEAM**

Despite the understanding that Company D builds and sells its products on a project basis, with project durations ranging from 2 to 3 years, there was no evidence that the engagement team assessed whether the projects would fall within the definition of construction contracts under FRS 11 *Construction Contracts*. It was also not evident that the public accountant had assessed Company D's accounting treatment for such revenue arising from rendering of services under FRS 18 *Revenue* to be appropriate.

Further, even if the Company D's accounting treatment for such project revenue under FRS 18 was deemed appropriate, there was no evidence that work was performed to assess the appropriateness of Company D's recognition of such revenue at the point of issuance of sales invoice (in view that the invoice amount and timing of issuance of invoice was subject to approval by the customer) vis-à-vis basing on the extent of work performed and services rendered.

### **Finding:**

The public accountant did not perform an assessment on the appropriateness of recognising revenue from projects based on FRS 18 vis-à-vis FRS 11. Consequently, the revenue recognition policy adopted and revenue recognised by the entity during the financial year might not be appropriate. Further, in the absence of the aforementioned assessment, it was not evident that sufficient appropriate audit evidence was obtained to address the cut-off assertion relating to project revenue for the ongoing projects as at year-end.

## ILLUSTRATIVE AUDITED ENTITY 5

### BACKGROUND INFORMATION:

Company E's principal activities are those of supply of rigging and lifting equipment.

### OTHER INFORMATION ON COMPANY E WAS AS FOLLOWS:

- Financial year end: 31 December 2017
- Audit opinion: Unmodified
- Materiality: \$700,000

## CASE STUDY 7

### VALUATION OF INVENTORIES

#### Case Facts:

Company E's inventories balance amounting to \$50,000,000 as at year-end mainly comprised of heavy lift slings, crane wires and cables. The Company recognised an allowance of \$13,000,000 to write down inventories to its net realisable value (NRV) as at financial year ended 31 December 2017. The Company identified slow-moving inventories, taking into consideration the sales of the inventory items in the last 12 months: if no sales was made in the last 12 months, inventory items was classified as slow moving; if the inventory was slow-moving for the last 3 years, it would be treated as deadstock and sold as scrap or written off. Allowance for slow-moving inventories was provided at the rates of 28%, 56% and 85% respectively for inventories that are classified as slow-moving for 1, 2 and 3 years respectively.

It was assumed that metal content (mostly steel in this case) of inventories was 30% of cost price in estimating the attributed scrap values of inventories. Scrap values were determined by reference to the cost price of new steel material.

## **WORK PERFORMED BY THE ENGAGEMENT TEAM**

The engagement team obtained understanding of the management's basis for identification of slow-moving inventories, checked computation of the provisions made and tested the key inputs included in the computation (such as cost price of new material, scrap price, quantity of inventories). (Note: Based on independent research performed, scrap steel price approximated 50% of that of new materials). The engagement team also assessed the appropriateness of management's assumption that inventories aged more than 3 years should be provided to scrap value (i.e. 15% of cost).

The engagement team further performed independent research and assessed that the allowance for obsolescence for inventories amounting to \$13,000,000 was appropriate and justifiable in view of:

- the deteriorating market conditions due to a reduction in demand by Company E's customers in the oil and gas industry;
- physical deterioration of inventory items due to environmental factors, physical stress and similar factors resulting in wear and tear or obsolescence; and
- decrease in steel prices and scrap values of steel.

## **WORK NOT PERFORMED BY THE ENGAGEMENT TEAM**

It is not evident that adequate work was performed to assess:

- the appropriateness of the assumption that metal content of inventory is at 30% of cost price to provide basis for the attributed scrap value;
- the appropriateness of rates (namely 28%, 56% and 85%) applied to make provisions for inventories classified as slow-moving inventories for 1, 2 and 3 years; and
- that inventories were stated at the lower of cost and NRV despite that certain items were sold above their written-down values during the financial year.

### **Finding:**

The public accountant did not perform adequate work to assess that inventories were stated at lower of cost and NRV as at year-end and that the provision for obsolescence for inventories was reasonable as at year-end.