

Clarified SSAs – Unclear In The Past?

TEXT / WALTER NG

The suite of clarified Singapore Standards on Auditing (SSAs) has been issued. Why was this project undertaken in the first place? Were the auditing standards deficient or unclear previously?

It is quite the opposite. The improvements in the auditing standards reflect keeping pace with and staying on top of fast-changing developments in the global and complex nature of businesses and the attendant implications to stakeholders. This article provides background information and a snapshot of this international Clarity Project.

Auditing Standard-Setting Process

The Accounting and Corporate Regulatory Authority (ACRA) is the national regulator of business entities and public accountants in Singapore. ACRA also plays the role of facilitator for the development of business entities and the public accountancy profession.

The Public Accountants Oversight Committee (PAOC) is responsible for assisting ACRA in the discharge of its duty pertaining to the control and regulation of the public accountancy profession. ACRA adopts the standards issued by ICPAS and in doing so, undertakes oversight of the process followed by ICPAS in developing and issuing the auditing standards.

ICPAS, through its Auditing and Assurance Standards Committee (AASC), reviews and recommends the issuance of Singapore Standards on Auditing (SSAs) based on the International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

The adoption of ISAs as a benchmark for auditing standards in Singapore is in line with the best practices used by major jurisdictions. This approach reflects a commitment to the continued establishment of an internationally reputed regulatory framework for auditing in Singapore, further strengthening Singapore's reputation as a trusted international business and financial hub.

ICPAS works closely with ACRA

in the due process of auditing standard-setting. The involvement of ACRA gives added assurance and serves to enhance public confidence in the standard-setting process, the auditing standards and audit reports in Singapore.

The AASC generally manages the due process of audit standard-setting in Singapore. This involves adherence to a due process that starts with the issuance of an exposure draft for comment, deliberation on feedback and finally issuance after due consideration.

Appointed jointly by ACRA and ICPAS, one of the key tasks of the AASC is to include practitioners with significant experience in auditing and other assurance services, strengthening representation from the business community, users and other stakeholders of the accountancy profession such as the Singapore Exchange, Singapore Institute of Directors and government agencies.

Clarified SSAs

The clarified SSAs are based on their international equivalents, the clarified ISAs. The basic objective of this international Clarity Project was to advance the process of global convergence and enhance the quality and uniformity of practice in audits worldwide.

The improvements arising from the Clarity Project broadly comprise the following:

- Identifying the auditor's overall objectives when conducting an audit in accordance with SSAs;
- Setting an objective in each SSA and establishing the auditor's obligation in relation to that objective;
- Clarifying the obligations imposed on auditors by the requirements of the SSAs and the language used to communicate such requirements;
- Eliminating any possible ambiguity about the requirements an auditor needs to fulfill; and
- Improving the overall readability and understandability of the SSAs through structural and drafting improvements.

The new set of clarified SSAs goes into effect for audits of financial statements for financial periods beginning on or after 15

December 2009. In practical terms, this means that they will be effective for most audits with a 31 December 2010 year-end.

Altogether, there are 36 clarified SSAs and 1 Singapore Standard on Quality Control (SSQC), details of which are as follows (please see accompanying table for a listing of the clarified SSAs):

- One new standard, addressing communication of deficiencies in internal control;
- 16 standards containing new and revised requirements (revised and redrafted); and
- 20 standards that have been redrafted to apply the new clarity conventions (redrafted).

The clarified SSAs provide enhanced guidance to strengthen audit quality, thus contributing to a more robust financial reporting process. Amongst others, improvements in the Clarity Project include:

- Communication with those charged with governance;
- The gathering and evaluation of audit evidence in relation to accounting estimates, including fair value estimates;
- The auditing of related party relationships and transactions; and
- The use of the work of others, such as an audit expert or other auditors in the context of audits of group financial statements.

Improvements

Let us take a look at what are some of the significant improvements to the auditing literature.

Communication With Those Charged With Governance

The impetus leading to a revision in this area essentially came from evolving expectations regarding communication between the auditor and those charged with governance. These primarily arise from an emphasis on corporate governance as a result of major corporate and financial scandals, and increased scrutiny on the roles and responsibilities of those charged with governance.

The main change in the clarified SSA 260 *Communication with Those Charged with Governance* is that the auditor now has specific responsibility to take steps to achieve effective two-way communication. The current SSA 260 focused on communication of audit matters arising from the audit with those charged with governance, which is essentially considered a one-way communication from auditor to those charged with governance.

The clarified SSA 260, in recognising the importance of effective two-way communication in an audit of financial statements, provides an overarching framework for the auditor's communication with those charged with governance, and identifies some specific matters to be communicated with them.

Although the clarified SSA 260 cannot mandate that those charged with governance be required to communicate with the auditor, the guidance requires the auditor to evaluate whether two-way communication has been adequate. What happens if two-way communication is not adequate? The following are relevant considerations:

- This may affect the auditor's assessment of risks of material misstatement.
- This may affect the auditor's ability to obtain sufficient appropriate audit evidence.
- The standard provides guidance on possible auditor actions, eg. modifying the auditor's opinion on the basis of a scope limitation, obtaining legal advice about the consequences of different courses of action, communicating with third parties, or withdrawing from the engagement.

In addition, a new standard, the clarified SSA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management* establishes specific requirements regarding the communication of significant deficiencies in internal control which the auditor has identified during the audit to those charged with governance.

Going forward, the term "material weakness" will not be used in the clarified SSAs. Two new terms have been introduced in SSA 265 - "deficiency in internal control" and "significant deficiency". The clarified SSA does not result in an expectation to report more matters than would have been the case with material weaknesses under the current

standards.

SSA 265 requires the timely communication of significant deficiencies in internal control in writing to those charged with governance and management. The requirement to communicate applies regardless of cost or other considerations by the entity in determining whether to take remedial action. It also applies if significant deficiencies have been communicated in prior audits but where the entity has taken no remedial action.

Auditing Accounting Estimates, Including Fair Value Estimates

The clarified SSA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* seeks to increase the rigour and scepticism to be applied in auditing accounting estimates, provides enhanced guidance on estimation uncertainty and management bias, and gels with guidance found in the risk-based approach reflected in SSAs 315 and 330.

Specifically, the application material in the clarified SSA 540 explains how particular requirements are applied in the context of both accounting estimates and fair values. There is more guidance related to fair value auditing considerations, including the use of models. It also provides expanded guidance on how SSAs 315, 330 and others are to be applied to accounting estimates:

- Through risk assessment procedures, to obtain an understanding of the entity and its environment.
- Based on the above understanding, to identify and assess the risks of material misstatement.
- Through designing and implementing appropriate responses to those risks, to obtain sufficient appropriate audit evidence regarding the assessed risks.

Auditing Of Related Party Relationships And Transactions

The audit significance of related parties and transactions includes risks from various aspects, eg. inappropriate accounting treatment, non-identification or non-disclosure of transactions, increased susceptibility to fraud, etc.

The clarified SSA 550 *Related Parties* contains a new related party definition. It recognises that frameworks that require related party disclosures generally define the meaning of a related party. The definition is not for accounting purposes but more for complying with requirements

of the SSA. The SSA requires minimum audit work with regards to related parties, even if a framework may contain no related party requirements.

For example, mandatory document inspection is limited to a few document types:

- Bank and legal confirmations obtained as part of the auditor's procedures;
- Minutes of meetings of shareholders and of those charged with governance; and
- Such other records or documents as the auditor considers necessary in the circumstances of the entity.

Although there is no specific requirement to search for significant related party transactions outside the normal course of business, the auditor has to understand how related party transactions are authorised and approved, and to probe into identified transactions.

Audits Of Group Financial Statements

The clarified SSA 600 *Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)* seeks to provide enhanced guidance to address varying group audit practice around the world, allay regulatory concerns about the rigour and consistency of practice in this area, and reflects the application of risk assessment and quality control principles in the group audit context.

The SSA explains the responsibility of the group engagement partner to direct and control the group audit even when component auditors may be involved. It states that the group engagement partner alone should be responsible for the direction, supervision, and performance of the engagement and for the group audit opinion. Practically, this means that the group engagement team will have to pay more attention to where the risks lie within the group, and component auditors may expect the group engagement team to be more involved in their work.

Some other key changes include:

- The current SSA 600 provides guidance on group audits where other auditors are involved, whereas the clarified SSA 600 covers all audits of group financial statements.
- The current SSA 600 requires assessment of the other auditor's professional competence and no further guidance is provided while the clarified SSA 600 makes reference to

risk assessments guidance of the clarified SSA 315 and discusses on its specific application in group audit situations.

- No specific communication

requirement is found in the current SSA 600, while the clarified SSA 600 requires specific items to be communicated to the component

auditor, group management and those charged with governance.

Table 1 – List of Clarified SSAs

No.	Standard	Revised and Redrafted, or Redrafted
1	SSQC 1 <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements</i>	Redrafted
2	SSA 200 <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Singapore Standards on Auditing</i>	Revised and Redrafted
3	SSA 210 <i>Agreeing the Terms of Audit Engagements</i>	Redrafted
4	SSA 220 <i>Quality Control for an Audit of Financial Statements</i>	Redrafted
5	SSA 230 <i>Audit Documentation</i>	Redrafted
6	SSA 240 <i>The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</i>	Redrafted
7	SSA 250 <i>Consideration of Laws and Regulations in an Audit of Financial Statements</i>	Redrafted
8	SSA 260 <i>Communication with Those Charged with Governance</i>	Revised and Redrafted
9	SSA 265 <i>Communicating Deficiencies in Internal Control to Those Charged with Governance and Management</i>	New
10	SSA 300 <i>Planning an Audit of Financial Statements</i>	Redrafted
11	SSA 315 <i>Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment</i>	Redrafted
12	SSA 320 <i>Materiality in Planning and Performing an Audit</i>	Revised and Redrafted
13	SSA 330 <i>The Auditor's Responses to Assessed Risks</i>	Redrafted
14	SSA 402 <i>Audit Considerations Relating to an Entity Using a Service Organisation</i>	Revised and Redrafted
15	SSA 450 <i>Evaluation of Misstatements Identified during the Audit</i>	Revised and Redrafted
16	SSA 500 <i>Audit Evidence</i>	Redrafted
17	SSA 501 <i>Audit Evidence - Specific Considerations for Selected Items</i>	Redrafted
18	SSA 505 <i>External Confirmations</i>	Revised and Redrafted
19	SSA 510 <i>Initial Audit Engagements - Opening Balances</i>	Redrafted
20	SSA 520 <i>Analytical Procedures</i>	Redrafted
21	SSA 530 <i>Audit Sampling</i>	Redrafted
22	SSA 540 <i>Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures</i>	Revised and Redrafted
23	SSA 550 <i>Related Parties</i>	Revised and Redrafted
24	SSA 560 <i>Subsequent Events</i>	Redrafted
25	SSA 570 <i>Going Concern</i>	Redrafted
26	SSA 580 <i>Written Representations</i>	Revised and Redrafted
27	SSA 600 <i>Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)</i>	Revised and Redrafted
28	SSA 610 <i>Using the Work of Internal Auditors</i>	Redrafted
29	SSA 620 <i>Using the Work of an Auditor's Expert</i>	Revised and Redrafted
30	SSA 700 <i>Forming an Opinion and Reporting on Financial Statements</i>	Redrafted
31	SSA 705 <i>Modifications to the Opinion in the Independent Auditor's Report</i>	Revised and Redrafted
32	SSA 706 <i>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report</i>	Revised and Redrafted
33	SSA 710 <i>Comparative Information - Corresponding Figures and Comparative Financial Statements</i>	Redrafted
34	SSA 720 <i>The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements</i>	Redrafted
35	SSA 800 <i>Special Considerations - Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks</i>	Revised and Redrafted
36	SSA 805 <i>Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</i>	Revised and Redrafted
37	SSA 810 <i>Engagements to Report on Summary Financial Statements</i>	Revised and Redrafted

Conclusion

Following the completion of the Clarity Project, the IAASB had indicated that it is committed to a 2-year moratorium on revisions to the ISAs. This will provide a stable platform and allow jurisdictions to work on the implementation and training aspects.

Notwithstanding that the clarified

SSAs will only have a practical effect in 2011 field audits, practitioners ought to find time to better understand the contents. Early communication with clients is also recommended and useful. In explaining to their clients, practitioners should send an on-going message that audits play an important part in the

financial reporting supply chain, and that the auditor's procedures arising from the clarity requirements are essential work to be performed to arrive at their audit opinion. SA

This article is contributed by **Walter Ng**, a former Technical Manager at ICPAS.