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BOOSTING SME PRODUCTIVITY

£ million

Income

PBT

CAGR (03 – 08)

13%

7%



By
PHIL COWPERTHWAIT



WITH ADDITIONAL REPORTING BY
JASON PANG & JOELLE LOY

Boosting the Quality and Efficiency of Smaller Entity Audits

With Automation and Streamlined Processes including Quality Control



The pace of change and increased complexity in audit and financial reporting standards over the past few years has been dramatic and may weigh disproportionately on smaller accounting practices which typically audit smaller entities. This burden is being exacerbated by the difficult economic environment, which is prompting clients to put pressure on their accountants to lower fees. As a result, it is getting harder for practices to maintain sufficient profitability from audit work.

The good news is that automation, made possible by recent developments in technology and by process improvements, can help practices simultaneously boost the quality and efficiency of their audit work, in turn lowering costs and ensuring profitability.

INCREASING AUDIT QUALITY

Automating your small entity audit practice provides an opportunity to improve audit quality at both firm-wide and individual engagement levels. At the firm level, setting up standardised templates helps ensure that all phases are completed in every audit. Customised checklists can be updated as needed and incorporated into individual engagement files at the beginning of every engagement. For example, your firm can adopt the standardised templates and checklists from the Institute of Singapore Chartered Accountants (ISCA)'s Audit Manual for Small Companies. These templates and checklists as well as the audit programmes in the Manual can also be digitised for efficient documentation.

File automation can significantly increase quality at the engagement level as well. If you import data from one application programme to another, you should identify any data conversion errors and resolve them. With effective data importing mechanism, grouping and arithmetical errors can be minimised.

A word of caution though. As every

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audit is unique, make sure you customise each and every file. The generic firm template is a great place to start but it is only a start. Customisation for things such as industry characteristics and internal controls are as essential as fully automating the underlying file structure.

Besides improving audit quality through automation, it would be essential to establish the quality control policies and procedures through adopting the right work processes.

When implementing automation, you should incorporate the quality control policies and procedures into your firm's processes or operations as part of the automation process. Those policies and procedures should be aligned with the requirements of Singapore Standard on Quality Control 1¹ (SSQC 1). To support you in implementing SSQC 1, ISCA has issued the SSQC 1 Practice Guides which focus on the major components of the six elements of SSQC 1. The Guides also contain numerous forms and templates which can be embedded into a software, with proper customisation if necessary.

More firms have now realised the importance and benefits of SSQC 1 and have embarked on implementing SSQC 1, either by preparing the Quality Control Manual (QCM) themselves or engaging third-party consultants to do so. However, some smaller firms such as sole proprietorships may not have implemented SSQC 1 due to resource constraints in their firms.



Your firm can adopt the standardised templates and checklists from ISCA's Audit Manual for Small Companies. These templates and checklists as well as the audit programmes in the Manual can also be digitised for efficient documentation.



To further support the smaller firms in implementing SSQC 1, ISCA is planning to tap on a new government incentive called Collaborative Industry Project (CIP). Launched in June 2013, CIP supports productivity solutions that have the potential for mass adoption. These solutions need to be market-ready and scalable with the potential to lead to more productive processes for small and medium-sized enterprises (SMEs), which include the smaller accounting practices. ISCA is working with SPRING Singapore with the aim to

roll out this CIP initiative to encourage you to tap on the services of an external consultant in order to help you develop the process manual for your firm, including QCM. Under the initiative, you can adopt SSQC 1 without significant additional financial burden on your firm as you can leverage on government funding of up to 70% of the consultancy and training costs. With quality control in place, you can expect to reap many benefits; notably, there would be less time spent on re-work, and there will also be better quality work.

¹ Singapore Standard on Quality Control 1 (SSQC 1) *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* is related to requirements on quality control policies and procedures in a public accounting firm.

BOOSTING ENGAGEMENT EFFICIENCY

Much of the tangible output of auditing is very similar from file to file, and individual practitioners typically use common file structures and similar checklists and forms. In addition, commercial audit file, spreadsheet, word processing, and database platforms often allow for seamless and rapid data sharing between applications and client files. None of these features are new, but are you using them to maximum advantage?

There are many easy-to-implement ways to increase the efficiency of every small entity audit. The trick is to be creative and use your imagination. Here are a few suggestions (box below).

The procedures assume you have taken the time to standardise data fields across all your client files. Client names and address fields, year-end and other dates, and other standard documentation can all be programmed into a master file containing individual templates for correspondence, planning lists etc. Firm-wide standardisation is essential if you want to maximise efficiency with automation.

BE SMART ABOUT THE AUTOMATION PROCESS

There are a number of precautions to heed before embarking on even a modest automation project.

- **BE REALISTIC** The initial automation process will likely take longer than

you think;

- **SPEND TIME UPFRONT TO GET THE TEMPLATES RIGHT** If you have an error in your template, you will have to fix it each time you use it. Fixing of errors may significantly increase the cost of automation, and
- **AIM FOR CONSISTENCY ACROSS CLIENTS** Using standardised templates for analytical schedules, financial statements, statement coding and file indexing avoids having to reinvent the wheel on every small entity audit engagement.

AUTOMATION LEVERAGING ON CLOUD COMPUTING

Very often, the smaller accounting practices are aware of their weaknesses

A. PRE-ENGAGEMENT PHASE

When using commercially-available software for small entity audit engagements, you can:

- Roll forward last year's electronic file almost instantly;
- Call the client, or send an email, to discuss timing, and ask if there were significant events/changes over the past year, and
- Assuming no significant events/changes over the past year, email an engagement letter, an audit strategy letter, and a list of the materials you will need when you visit the client to begin the audit. All these documents should have already been prepared as part of the file update.

B. ENGAGEMENT PROCESSING AND ASSEMBLY

Following the pre-engagement phase, ask your client to email you a trial balance in a format you can import into the audit file.

C. FIELDWORK PHASE

An efficient automated audit of a small entity might progress as follows:

- Arrive at the client's office with the rolled-forward audit file. After

an initial discussion with the client, update your rolled-forward schedules, documenting your knowledge of the client's business for any industry, environment, and entity control changes since last year;

- Programme the engagement and performance materiality calculations and sample size calculations, based on the imported trial balance (Note: The required inputs, for example, population, risk of material misstatement, sampling method etc for the sample size calculations, should be carefully checked to ensure relevance and accuracy);
- Review the multi-year account analyses (for example, key ratio analysis such as gross profit percentage), all of which can be pre-programmed;
- Print confirmations required and have them signed at your client's office;
- Review for relevance and complete the rolled-forward audit programmes including the templates and checklists. (Again, a word of caution - avoid falling into the trap of simply repeating last year's procedures without having first used your professional judgement), and

- Draft key points for communication to management and those charged with governance as required by Singapore Standards on Auditing (SSA) 260 *Communication with Those Charged with Governance*, and SSA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, at the client's office as they arise and review them with the client to ensure you have your facts right.

D. FORMING AN OPINION PHASE

- Review the post-fieldwork analytical review automatically updated for your audit adjustment;
- Email the adjusted trial balance and proposed audit adjustments to your client;
- Email the client the Letter of Representation and an updated ISA 260 audit summary document, and
- Email/Mail a copy of the signed auditor's report and an invoice once appropriate personnel have accepted responsibility for the statements.

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and where they should improve. However, it all boils down to allocating resources and their ability to commit to an improvement project. Last year, ISCA facilitated the formation of two consortia, namely Evvolab's LiveSMP and CCH's iFirm, to help the smaller accounting practices implement practice management solutions effectively for higher productivity. Firms can enrol with either of the two consortia to enjoy up to 70% funding of adoption cost for a period of up to

24 months, under the cloud computing Call for Collaboration (CFC) by the Infocomm Development Authority (IDA) of Singapore.

Practice management solutions based on cloud computing are advocated as there are lower setup costs and less time is required. They also have other benefits such as increased accessibility of engagement files by you and your staff, and better management of manpower resources through the visibility of assignment of your staff for different engagements. Due to their web-based nature and homogeneous solutions, there is no need for a practitioner to commit a lot of resources; this compares well against undergoing an extensive customisation project with an external specialist. However, when adopting such solutions, you should establish security safeguards such as user-authentication tools to prevent unauthorised data access.

Besides the above practice management solutions, ISCA has also helped to raise awareness of audit

automation software by organising technology roadshows, for example, Technology Showcase on Enhancing Financial Productivity of Small and Medium-sized Practices and Small and Medium-sized Enterprises in July 2013; more similar roadshows are in the pipeline.

SUMMARY

Automation of your practice is an exacting process requiring project management skills and a significant time commitment from senior members of the firm. If you have the discipline to make it happen, automation will pay off over the long term many times over.

Automation alone will not bring the productivity of your firm to greater heights. It is automation combined with streamlined processes and quality control that will bring greater synergies to boost the quality and efficiency of your firm. **ISCA**

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