

Improving audit quality still a major challenge: Minister

Josephine Teo also urges partners to be more involved in audit engagements

By LYNN KAN

BETTERING audit quality remains a major challenge for Singapore's accountancy profession, said Minister of State for Finance Josephine Teo yesterday.

Ms Teo said it was a "cause for concern" that in a majority of audit engagements inspected by the Accounting and Corporate Regulatory Authority (Acra) in its yearly independent audit checks, partners were involved less than 5 per cent of the time. Acra sets 5 per cent of total engagement time as a reasonable target for a low-risk engagement and up to 10 per cent as ideal for higher-risk cases.

Ms Teo urged partners to be more involved as partner supervision and oversight is a key factor affect-

ing the quality of audits.

"When the quality of audits is in question, the real and perceived value of audit is diminished. It leads to audit being thought of as merely a statutory obligation, and an expense to be kept as low as possible," said Ms Teo, who is also the Minister of State for Transport. "Such an attitude would be inconsistent with the goal of developing Singapore as a global accountancy hub."

Ms Teo's comments echoed Acra's observations in a Practice Monitoring Programme (PMP) report that audit deficiencies "would have been prevented by 'getting things right from the start'", such as having upfront partner supervision of engagements, more relevant training for staff and better internal quality reviews.

Acra said these features will not only improve the quality of their audits but also help with the firm's



Ms Teo: Says some firms have chosen to merge in order to raise productivity

productivity – another major priority for the accountancy sector. Yet, to achieve both high audit quality and productivity, accountancy practices may face some stark choices down the road.

For instance, prioritising partner involvement in engagements may require firms to overhaul their business models completely, said Paul Lee, managing

partner of RSM Chio Lim. "If the partner-hours are to increase for each engagement, the number of clients each partner can handle will naturally go down, and this will have an impact on revenue and returns, unless fees per engagement increase," he said. "Is this a cost clients are prepared to pay?"

Ms Teo noted that some firms had chosen to merge in order to raise productivity. The latest example is HT Khoo & Associates with PKF-CAP. "A merger carries some risk. However, many partners now find it's an opportunity to consolidate their resources, to build niches of capabilities that will enable them to serve their clients better."

At the same time, if productivity improvements are the end goals, firms may end up compromising audit quality, according to a new guidebook on accounting and productivity by CPA Australia and the Singa-

pore Management University's School of Accountancy.

"Having less staff, paying less attention to service levels and auditing standards, taking shortcuts with professional duties and ethics, and not investing in training and continuous professional development, would increase short-term productivity but at the cost of audit quality," said one of the authors, Themis Suwardy of the SMU.

One way Mr Lee says his firm balances audit quality with productivity is by taking on only those clients who fit with the firm's capabilities and strengths.

"By having a clear target market segment in mind, the mid-market in our case, we are able to organise ourselves and streamline processes to serve this chosen market segment well. It is not unlike some airlines that choose to use a certain aircraft fleet, and not a mix bag, to increase efficiencies," he said.