

SINGAPORE CA QUALIFICATION EXAMINER'S REPORT

MODULE: Assurance (AS)

EXAMINATION DATE: 5 December 2019

Section 1

General comments

Generally, the performance is consistent with the previous exam. It is pleasing to see that Candidates were able to handle a new type of exam requirement, which require the use of data analytics to identify transactions for further analysis. Candidates did not perform well for Question 4, which is on the provision of compilation service.

Section 2

Analysis of individual questions

Question 1

This question provided Candidates with a Microsoft excel spreadsheet containing data related to two months of purchase orders. For **part (b)**, Candidates are required to analyse the data to identify specific transactions for further investigation. Most Candidates were able to identify transactions, such as transactions with goods received dates earlier than purchase order dates and purchase orders of large value were split into smaller value purchase orders to circumvent stricter approval. Very few Candidates identified purchase orders on the same items with significant variance in order prices. A small number of Candidates were analysing the data manually instead of using formulae to automate their analysis. This resulted in incomplete analysis and thus lost marks for this question part.

Part (c) required Candidates to explain why it is necessary for the auditor to communicate the findings to those charged with governance in accordance with Singapore Standard on Auditing (SSA) 265 *Communicating Deficiencies in Internal Control to those Charged with Governance and Management*. The requirement specifically referred to "those charged with governance" (TCWG) instead of "management". SSA 265 requires auditors to report significant control deficiencies to those charged with governance. Deficiencies that are not significant are not required to be communicated to TCWG. Thus, the key to the requirement is to explain why the specific transactions identified through data analytics could arise from control deficiencies and why these control deficiencies are significant. Most Candidates did not explain why the control deficiencies are significant.

Question 2

This question focused on the going concern review section of the audit. Selected financial figures were provided and Candidates were required to calculate accounting ratios that are useful to identify any going concern issues. Most

Candidates did well in the selection and calculation of relevant ratios. However, a handful of Candidates calculated current ratio and quick ratio even though current assets and current liabilities were not given in the case. It is a concern that these Candidates equate trade receivables and cash as current assets and trade payables as current liabilities.

Candidates did not perform well when using the ratios and other information in the case to explain why there were going concern issues. For example, cash from operating activities as a percentage of revenue has been negative for several years. This means the company is not generating cash from operations and thus relies on financing for cash flow. This needs to be explained in conjunction with the high gearing of 1.5 and the going concern issue, which may result in the bank's reluctance to continue with the financing given the high gearing and the low cash position. Candidates tended to discuss the ratios and their associated going concern issues in isolation.

Despite the presence of multiple indicators that the company is facing significant going concern uncertainty, the case stated that the directors do not believe that there was going concern problem and the directors have offered their explanation. Candidates are required to explain why the auditor should be sceptical about the directors' explanation, i.e. why the explanation provided by the directors may be invalid. However, many Candidates wrote in their answers why the directors may not be willing to disclose going concern problem in the financial statements. Not reading the requirement correctly and not answering to the requirement of the question resulted in the loss of marks.

Question 3

This question focused on auditor's report. The company in this case is a public listed company and an extract of the draft audit report is provided. Candidates are required to critique the draft audit report by evaluating the appropriateness of the proposed audit opinion, the Key Audit Matters (KAM) disclosed, the Emphasis Of Matter (EOM) paragraph and the "Other Information" (OI) section.

Generally, Candidates did well in discussing why the proposed disclaimer of opinion is inappropriate. However, some Candidates were unable to differentiate "material" vs "pervasive" impacts and thus did not evaluate the proposed opinion well.

Candidates' performance in analysing KAM was mixed. Candidates did well to identify the deficiencies in the disclosure of KAM, such as explaining why the matter is considered a KAM. However, Candidates were not as proficient in explaining whether the inclusion of the KAM is appropriate or not. For example, the case provided a small legal claim which was settled shortly after the company's financial year end. This should not be included in the KAM because it is immaterial and there is no significant judgment needed.

Candidates seemed to be less conversant with the use of EOM. Their answers were general and did not identify the core issue of the EOM. In this case, the use of EOM

was not appropriate because the related party transaction with the Executive Chairman is material, but it was not disclosed in the financial statements. Thus, it is a material misstatement. EOM should not be used to highlight a misstatement.

Very few Candidates tackled the requirement on “Other Information” (OI) well. Many Candidates mistaken the OI with the “Other Matter” section of the audit report. It suggested that Candidates were not aware of the OI section in the audit report or are not familiar with the use of OI section.

Question 4

This question is about the provision of compilation service to a non-audit client, which is a small company that qualifies for audit exemption.

Part (a)

Candidates are required to discuss the professional issues and ethical issues to be considered when the basis of preparation of financial statements was wrong. Many Candidates discussed the ethical issues without discussing the professional issues.

Part (b)

Candidates are required to describe the steps to withdraw the compilation engagement since the firm found that the basis of preparation of financial statements was not acceptable. Instead of describing the steps the firm should take, some Candidates discussed why the firm should withdraw from the engagement. This did not answer the requirement of the question and hence no mark was not awarded.

Part (c)

Candidates are required to discuss whether a compilation report is necessary if the engagement continued. Many Candidates wrote about the importance of compilation report without applying to the case and did not conclude whether a compilation report is necessary in this case.