Chartered Accountant SINGAPORE

SINGAPORE CA QUALIFICATION EXAMINER'S REPORT

MODULE: Assurance (AS)

EXAMINATION DATE: 29 December 2020

Section 1
<u>General comments</u>

Generally, the pass rate is comparable to past exams. However, the quality of answers has deteriorated. Several Candidates did not read the requirements carefully and thus provided answers that are irrelevant to the questions. Some Candidates did not provide sufficient detail in the answers and hence lost valuable marks. For example, a single point answer was provided to a 5 marks question which displayed an obvious lack in depth and/or breath.

Section 2
<u>Analysis of individual questions</u>

Question 1

This question provides candidates with a Microsoft Excel spreadsheet containing data related to a payroll report and a bank transfer list. Candidates are required to analyse the data to identify specific transactions for further investigation. Most Candidates were able to identify transactions such as duplicate bank accounts in bank transfer list, employees in payroll report but not in bank transfer list and vice versa. However, to score high marks, there must be explanation on why these transactions should be further investigated. A small number of Candidates were analysing the data manually instead of using the formulae to automate analysis. This resulted in incomplete analysis and thus losing marks consequently.

Candidates are also required to explain why it is necessary for the auditor to communicate the findings from the analysis to the sole director of the company in a confidential meeting. Strong Candidates rightly pointed that the meeting should be confidential in the sense that management should not be in the meeting as management is suspected to be involved in suspected fraud against the company. Weaker candidates copied and pasted the requirements of Singapore Standard on Auditing (SSA) 265 “Communicating Deficiencies in Internal Control to Those Charged with Governance and Management” and missed the key point of having a confidential meeting.

Question 2

This question focuses on internal controls of the sales system of a manufacturer. The design of the sales system included several control deficiencies that allowed excessive salesmen commission, misappropriation of inventories and bribery of customers to occur. Candidates are required to explain the control deficiencies that allowed the above irregularities to occur, recommend control improvements and design test of details that could have helped to detect these irregularities.

The performance of this question is less than satisfactory. Some Candidates suggested controls that were standard in a typical sales system without addressing the deficiencies that are present in the case. This could be due to the inability to identify deficiencies or the inability to design controls in response to the deficiencies. For example:

- the excessive sales commission was paid due to the fact that sales commission was computed using a sales report that did not include the sales return. Thus, salesmen are paid commission for goods that were returned. A practical and effective control improvement will be to calculate sales commission based on sales reports that included sales return, such as a sales reports based on actual invoice value generated by the accounting system. Many Candidates identified the deficiency as lack of segregation of duties and recommended to enhance segregation of duties.

- The control deficiency that allowed bribery was due to cash refund being allowed for sales return, even before the associated trade receivables were collected. A practical and effective control improvement will be to disallow cash refund for trade receivables that were not yet collected. Many Candidates again suggested segregation of duties in the processing of cash refund.

This reflects the lack of critical thinking in designing solution to a problem.

Question 3

This question involved a retailer executing a restructuring of its operations. The restructuring was planned before financial year end and was executed after financial year end, resulting in a post balance sheet sale of its retailer outlets.

As the sale occurred after year end, it was a subsequent event. Candidates were required to describe the audit procedures that the auditor could have performed to identify that such sale occurred (if management did not inform the auditor and if the sale was not reflected in the minutes of Board meeting).

Generally, Candidates performed poorly for this question. Many Candidates did not read and understand the requirement and provided the audit procedures to confirm the subsequent event is correctly recognised, measured and disclosed. Valuable marks were lost.

Candidates were then asked to discuss whether the retailer accounted for this event correctly. Many Candidates correctly identified the relevant accounting principles included assets held for sale. Fewer Candidates also identified the sale of retail outlets should be accounted for as discontinued operations. However, many Candidates copied and pasted the relevant paragraphs in SFRS (I) 105 *Non-Current*

Assets Held for Sale and Discontinued Operations without applying them to the case. For example, to meet the recognition criteria as held for sale, management must be committed to sell. Marks will not be awarded without relevant application, i.e. is the management of retailer committed. Those who cited evidence such as Directors' approval and signing of MOU with a potential buyer to support the conclusion that management was indeed committed, scored high marks.

The quality of answer on the audit report and auditor's opinion has improved from previous exams. However, it is evident from the answers that some Candidates struggled to explain why the misstatements in the case is considered pervasive. A handful of Candidates were still not sure what Emphasis of Matter (EOM) section is and wrongly applied EOM in the answer.

Question 4

This question consists of two parts. Part 1 required Candidates to identify and explain risk of material misstatements using the information provided in the case. Generally, Candidates performed well, particularly in relation to:

- recognition of revenue before performance obligation is satisfied (i.e. before service is performed),
- not separating revenue from warranty service from revenue from cleaning service
- non-capitalisation of finance cost for the construction of a qualifying asset
- insufficient allowance for expected credit loss of trade receivables
- wrong accounting lease transaction

However, most Candidates did not identify the company's incorrect recognition of provision for warranty. Provision for warranty is appropriate only when the warranty provided by the company is not a separate performance obligation.

Part 2 of the question relates to a legal threat from the audit client accusing the audit firm of:

- Failure to detect fraud; and
- Failure to report significant control deficiencies to the Board of Directors.

Many Candidates failed to recognise that this was not yet a legal case. The audit client did not file a legal claim yet. It was a letter threatening to take legal action. Thus, the immediate action for the audit firm is to investigate the accusation, e.g. did the audit engagement team forget to communicate to the Board on the significant control deficiency in the trade payable system as alleged. Many Candidates stated just a one-point answer which is to seek legal advice. However, it is not the immediate step.

The answers relating to the auditor's exposure to legal liability in not detecting the fraud were disappointing. Many answers showed the lack of technical knowledge in this area which is well documented in SSA 240 "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements". A straightforward answer stating that the auditor is not liable as auditor's responsibility is not to detect fraud suggested a significant knowledge in this subject matter.

