

SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

MODULE: Assurance (ASF)

EXAMINATION DATE: 6 December 2019

Section 1

General comments

The overall performance was similar to that of June 2019 exam. Generally, quality of answers was maintained. However, a couple of questions on less frequently examined topics were not well answered. Candidates should be more thorough in their preparation instead of just focusing on popular topics.

Section 2

Analysis of individual questions

Question 1

Part (a) of this question is based on *SSA 210 – Agreeing The Terms of Audit Engagements* which requires auditors to establish whether the preconditions for an audit are present when accepting audit appointment.

Candidates were asked to describe ONE of the preconditions required in *SSA 210*. This question was poorly answered. Most answers demonstrated the lack of awareness of preconditions.

Part (b) required Candidates to describe SIX matters, other than the preconditions, that auditors should consider when deciding whether to accept an audit appointment. Generally, the answers were satisfactory with many Candidates discussing factors such as competence and resources of the firm, the level of audit risk and audit fee, ethical consideration and any conflict of interest. A minority of the Candidates listed six different ethical issues and did not score well.

In **Part (c)**, the prospective client requested the audit firm to exclude the revenue and inventory from the scope of audit. The requirement was for Candidates to explain why the exclusion of the audit of revenue and inventories was likely to lead to a disclaimer of opinion.

Most Candidates identified the scenario as a limitation on scope of audit and that the potential impact was material and pervasive. However, some Candidates wrongly stated that the revenue and inventories were misstated.

Part (d) required Candidates to explain why the audit engagement should not be accepted. Very few Candidates made use of the pertinent information provided in the case, i.e. the existence of management-imposed limitation that was likely to lead a disclaimer of opinion. This could be due to the lack of knowledge of *SSA 210* which stated (in paragraph 7) "If management or those charged with governance impose a limitation on the scope of the auditor's work in the terms of a proposed audit

engagement such that the auditor believes the limitation will result in the auditor disclaiming an opinion on the financial statements, the auditor shall not accept such a limited engagement as an audit engagement, unless required by law or regulation to do so.”

In **Part (e)**, Candidates were required to discuss the ethical threats arising from the audit fee arrangement proposed by the management. Few Candidates identified the fee arrangement as a contingent fee arrangement even though many correctly identified that self-interest threat may arise from such arrangement. Some Candidates suggested that the audit firm should withdraw from the engagement. This was not possible because the auditor could not possibly withdraw from an engagement that has not yet been accepted.

Question 2

Part (a) provided easy marks for Candidates to briefly explain factual misstatement and judgmental misstatement. Surprisingly, very few Candidates were able to answer correctly. This reflected that this subject area was neglected in the Candidates’ preparation.

Part (b) required Candidates to describe ONE audit procedure to detect the misstatement in revenue from delay in goods delivery to customers, the assertion affected by the misstatement and to identify the type of misstatement. The answers for **part (b)** were generally satisfactory.

Part (c) required Candidates to explain why impairment loss should be recognised even though the company was notified that the receivable was irrecoverable after year end. Not many Candidates were able to describe the event as an adjusting post balance sheet event. Many Candidates also did not get the assertion correct. Instead of the “accuracy, valuation and allocation” assertion, many Candidates wrongly identified “rights and obligation” as the assertion affected by the bad debt.

Part (d) required Candidates to explain how materiality should be applied when evaluating misstatements. Many Candidates did not answer according to the requirement. Instead, the definition of materiality was provided, which scored no marks. Candidates did well in determining whether the two misstatements provided in the case were material.

The answers in **Part (e)** reflected the lack of understanding of how materiality, once determined by auditor, was used. If misstatements were larger than materiality, the misstatements were material. Instead of using the materiality provided in the case, Candidates went on to calculate the misstatements as a percentage of profit or asset and then assessed whether they were material.

Question 3

The case centred around a change in audit appointment. **Part (a)** required Candidates to explain why a prospective auditor wrote to the incumbent auditor prior to accepting audit appointment. This part was generally well answered.

Part (b) provided two scenarios. In the first scenario, Candidates were asked about how the incumbent auditor should reply the prospective auditor if the entity management permitted full communication. This part was well answered. In the second scenario, the entity management refused to give permission for the incumbent auditor to communicate with the prospective auditor. Many Candidates used common sense or best effort to answer this question and stated that the auditor should still provide complete information to the prospective auditor despite the restriction of the entity management. The answer demonstrated the lack of technical knowledge of the Code of Professional Conduct and Ethics.

Paragraph SG210.11B of the Code of Professional Conduct and Ethics states that “If there is any such reason or other matter which should be disclosed to the proposed accountant, the existing accountant shall ensure that he or she has the permission of the client to give details of this information to the proposed accountant. If-(a) permission is not given by the client to the existing accountant, the existing accountant shall convey this fact to the proposed accountant...”

Part (c) required Candidates to describe the ethical threat and an appropriate safeguard in relation to the threat from management to change auditor. The answers for this requirement were generally satisfactory.

Part (d) tested Candidates’ knowledge on the auditor’s report and specifically asked Candidates to suggest an appropriate way to inform shareholders that prior year’s financial statements were audited by another audit firm. Many Candidates failed to use the “Other Matter” paragraph to draw shareholders’ attention to the matter.

Part (e) required Candidates to suggest three possible reasons why expenditure on new product development should not be capitalised as intangible assets. The answers to this requirement were satisfactory.

Question 4

The case provided a narrative description on a purchases and payable system which had several deficiencies. In **Parts (a) to (c)**, Candidates were required to identify the risk of misstatement in purchases and payables at assertion level, suggest improvements to the system and describe the test of details in response to the risk of misstatements. Overall, the answers for this part were satisfactory.

Given how the company updated the payable ledger as describe in the narrative note in **Part (d)**, Candidates were asked to explain whether “cash in transit” was expected to be a reconciling item when reconciling the payable ledger balance and the balance in circularisation replies. The quality of the answers was mixed. Quite a few Candidates’ answers showed that the Candidates did not know what “cash in transit” referred to.