Chartered Accountant SINGAPORE

SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

MODULE: Assurance (ASF)

EXAMINATION DATE: 19 June 2020

Section 1
General comments

The overall performance was similar to that of the December 2019 exam. Generally, the quality of answers is maintained. However, it was noted that a few answers provided were based on outdated auditing standards. The details are described below. Candidates and training providers are urged to use updated materials in preparation for the examination.

Section 2
Analysis of individual questions

Question 1

This question was based on a company that was facing going concern problems. The main driver affecting the company's going concern was cash flow and liquidity issues.

Part (a) of this question required Candidates to calculate accounting ratios that could be used to identify indicators of going concern issues. The relevant ratios highlighting liquidity issues include trade receivables collection days, trade payables payment days, inventory turnover, current ratio and quick ratio. The relevant ratios pertaining to cash flow issues include interest cover and gearing.

Generally, Candidates included the above-mentioned ratios in their answers. However, there were some careless mistakes such as calculation errors. There were also some answers which were not accounting ratios, strictly speaking, such as net working capital.

Part (b) required Candidates to use the qualitative information provided in the case and the accounting ratios calculated in **part (a)**, to identify and explain six indicators that the entity was facing significant doubt affecting its ability to continue as a going concern.

Some Candidates restricted their answers to the five accounting ratios they calculated in **part (a)** and thus were not able to identify the sixth indicator.

Part (c) was designed to test Candidates' understanding of the going concern issue's implication on the auditor's opinion and audit report. Several Candidates demonstrated a lack of understanding on the difference between auditor's opinion and audit report. An issue's implication on auditor's opinion is the consideration of whether the issue might result in a modified opinion, i.e. qualified opinion or adverse opinion or disclaimer of opinion. Implication on audit report refers to whether the unmodified audit report should be amended, e.g. by describing the misstatements in the Basis for Qualified Opinion section, or by adding a "Material Uncertainty Relating to Going Concern" section.

Some Candidates only indicated the implications on the auditor's opinion but did not indicate the implications on the auditor's report.

Some Candidates discussed the implications on auditor's opinion if the entity inappropriately used the going concern basis to prepare the financial statements. These answers were irrelevant because the questions are purely focusing on the disclosure or lack of disclosure of material going concern uncertainty.

Quite a few Candidates used outdated concept in their answers. They stated that an emphasis of matter paragraph should be added to the audit report to draw users' attention to the notes in the financial statements that adequately disclosed the significant going concern uncertainty. The use of emphasis of matter for such purpose is obsoleted. *SSA 570 (Revised), Going Concern* which is effective for audits of financial statements for periods ended on or after 15 December 2016 requires an inclusion of *"Material Uncertainty Related to Going Concern" section for this purpose, [SSA 570.22]*. Candidates need to ensure they are using up-to-date materials in their preparation for examinations.

Question 2

Part (a) was designed to assess Candidates' competence in designing audit procedures that were linked to specific assertions.

Again, it is found that quite a few Candidates used the assertions from outdated auditing standards in their answers and were not awarded full marks. *SSA 315 (Revised)* effective from 15 December 2016 provides an updated list of assertions for transactions and events and for account balances. For example, the valuation assertion for account balance is superseded by "accuracy, valuation and allocation" assertion.

Some mixed up the assertions for transactions and event with the assertions for account balances and wrote the wrong assertions in the answer.

Part (b) required Candidates to consider the factors that could influence the level of reliance on an expert in valuation. Candidates were then required to describe the audit procedures to be performed in relation to those factors. This was generally well answered except for a handful of Candidates who mixed up the factors and the audit procedures.

Question 3

Part (a) required the Candidates to state the objectives of the various audit procedures described in the case. Candidates did well for this question. A small number of Candidates were confused between the audit procedures in verifying the completeness of recording trade receivables and the audit procedures in verifying the existence of trade receivables. Generally, an audit procedure that traced the transaction from source documents to the recording of the transactions in accounting records would ensure completeness. An audit procedure to vouch a transaction recorded in the ledger to the source documents would confirm that the transaction occurred, or a recorded asset existed.

Part (b) provided Candidates with an extract of audit working papers on substantive procedures performed on trade receivables. Candidates were required to identify the areas in the working papers where the documentation was not sufficient, i.e. was deficient. Many Candidates correctly identified that the substantive procedures were not detailed enough, and the audit objectives was not stated with sufficient clarity.

The commonly made errors are summarised as follows:

- Some missed out easy marks in relation to the lack of indexing, cross referencing of the work papers.
- Some wrote that the nature of the business was not included in the working papers and that there was a lack in documentation on how materiality was determined. These areas should be documented in other sections of the audit working paper file and were not expected to be in the working paper relating to the substantive procedures on trade receivables.

Part (c) was designed to find out whether Candidates have the competency in identifying the correct population from which the samples are picked.

For the test of completeness, samples should be picked from the initial source documents, i.e. sales orders. Quite a few Candidates stated that they would select the samples from the sales invoices. Sales invoices was not an appropriate population as there could be cases whereby the goods were delivered and revenue earned, but the associated sales invoices were not yet generated. These sales revenue would not be recorded, i.e. incomplete, because there were no sales invoices to post to the revenue account in the general ledger.

The other common mistake was the selection of samples to ensure accuracy of sales invoices. The appropriate population would be the sales invoices. Many answers stated the population should be the sales orders. These Candidates' answers showed that they have mistaken the population and the source documents used to verify accuracy. Sales orders details could be used to verify whether the prices in the sales invoices were correct. However, we should select the samples from the sales invoices file.

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Question 4

Candidates performed the poorest for Question 4 out of the entire paper.

Part (a) provides an ethical situation where the audit firm had a larger audit client and the total fee income generated from this client exceeded 15% of the firm's total revenue for 2 consecutive years. Candidates were required to discuss the ethical threat arising from this and recommend appropriate safeguards to reduce the threat to an acceptable level.

This scenario was included in both the following ethical codes:

- Ethics Pronouncement (EP) 100 *Code of Professional Conduct and Ethics* issued by ISCA (ISCA Code); and

- The Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities issued by ACRA (ACRA Code)

Thus, it was surprising that many Candidates did not answer this question satisfactorily, particularly on the safeguards to be applied. Some suggested that the audit firm should withdraw from the audit engagement to avoid the self-interest threat. The situation was not severe enough that the firm should resign, and both the above Codes recommended sensible safeguards instead of withdrawal from the engagement. Some suggested the rotation of audit partner as a safeguard, but this did not address the concern of large fee from this client.

Part (b) tested Candidates' knowledge on discovery of non-compliance with law and regulation during an audit. Some Candidates did not realise that the entity in the case was a charity and thus did not know that the unauthorised use of restricted funds was a non-compliance of law and regulation. Most Candidates did well in explaining the need to report the irregularity to those charged with governance. However, the answers in reporting the irregularities in audit report were poor. Quite a few Candidates stated that the irregularities should be included and described in the Key Audit Matters section (KAM) of the audit report. In Singapore, KAM is required in audit reports for listed entities. The entity in the case was a charity and not a listed entity and hence KAM is not applicable. Some wrongly suggested that the irregularity should be included in an Emphasis of Matter section (EOM). This showed the lack of understanding of the purpose of the EOM and when the EOM should be used. EOM should only be used to highlight an accounting matter that is both fundamentally important and is accounted for correctly.

Part (c) required Candidates to describe two audit procedures relating to unpresented cheques in a bank reconciliation. It was surprising to find that whilst Candidates could describe the correct audit procedures, they could not state the objective/purpose of the procedures correctly. For example, the audit procedure of verifying the payment vouchers relating to the unpresented cheque was not just to agree the figure. More importantly, it was used to verify that the payment voucher was approved just before year end and that triggered the timing difference.

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Part (d) was about a prepayment of repair expense that was wrongly recorded as repair expense. The case clearly stated the payment was made before year end and the service will be provided after year end. Some Candidates did not read the case carefully, particularly on the fact that payment was already made and thus wrongly suggested reverse the expense and the payable.

Part (e) and **(f)** focused on the Candidates' competence in recognising related party transactions, the audit procedures to be performed and the disclosure requirements. Candidates listed audit procedures that were generally adequate but the same weakness of not articulating the purpose of the audit procedure was evident. For example, an audit procedure was to review the minutes of the Board meeting in relation to the related party transaction with a key management personnel. Besides ensuring that the Board had approved the transaction, it was also to ensure that the Board had considered the potential conflict of interest. Many Candidates did not identify this purpose. Some answers relating to the disclosure of the related party transaction in the financial statements were too general. For example, some merely stated that it should be disclosed.

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