Chartered Accountant SINGAPORE

SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

MODULE: Assurance (ASF)

EXAMINATION DATE: 9 December 2020

Section 1
General comments

The overall performance is comparable to the previous exam in June 2020.

However, the performance in the following questions is below expectation, possibly because these topics were not frequently tested in the previous years' papers:

(i) Part of question 1 which requires Candidates to differentiate the responsibility of management from the responsibility of auditor.

(ii) The question in relation to EP 200 and auditor's responsibility in relation to anti-money laundering.

(iii) The question in relation to auditor's responsibility in relation to opening balances in an initial audit engagement, i.e. new audit client.

It is important that Candidates do not spot exam questions and ignore the other parts of the syllabus. Candidates should have a strong foundation in the responsibilities of auditor and management in relation to the financial statements. Accounting knowledge is important for audit as common misstatements in the financial statements are accounting related.

Section 2
Analysis of individual questions

Question 1

The objective of this question was to assess Candidates' knowledge of the difference between the responsibility of management and auditor in relation to the audit of financial statements. Surprisingly, the Candidates' performance was less than satisfactory.

For **part (a)**, most Candidates appreciated that the responsibility of management was to prepare true and fair financial statements in accordance with Singapore Financial Reporting Standards, and the responsibility of an auditor was to provide an opinion on the truth and fairness of the financial statements based on an audit that is conducted in accordance with Singapore Standard on Auditing.

However, Candidates' knowledge of their detailed responsibilities was lacking as demonstrated by the answers submitted.

Accounting policies

Many Candidates were unable to describe management's responsibility in relation to accounting policies. Management's responsibility was to select appropriate accounting policies.

In fact, many Candidates demonstrated their lack of understanding of what an accounting policy was (as evidenced by their answers to question **part (b)**). For example, *FRS 16 Property, Plant and Equipment* allows an entity to choose the cost model or the revaluation model to measure the office building used by the entity. So, there is a policy choice. Management's responsibility was to decide whether the cost model or the revaluation model was more appropriate. This was a decision to be made by management, not by the accountant or the auditor.

Accounting estimates

Similarly, Candidates did not demonstrate clear understanding of accounting estimates and management's responsibility in relation to accounting estimates.

Estimating the useful life of a fixed asset was an example of accounting estimate.

Management's responsibility was to develop reasonable accounting estimates.

Stating in the answer that the management's responsibility was to ensure that reasonable accounting estimates are used to prepare financial statements, would not be given full marks because:

- Ensuring reasonable accounting estimates were used implies that someone else was responsible for developing accounting estimates; and
- The statement was misleading as it implied that financial statements were prepared based on accounting estimates.

Correction of misstatements

Some answers suggested that Candidates had the wrong idea that it was the auditor's responsibility to ensure misstatements were corrected in the financial statements. It was the management's responsibility to prepare true and fair financial statements and thus it was the management's responsibility to correct misstatements in the financial statements.

A small number of Candidates even suggested that misstatements should be corrected in the audit report if management did not correct the misstatements in the financial statements. This showed the lack of understanding of the purpose and content of the auditor's report.

Disclosure of material going concern uncertainty

Most Candidates correctly pointed out the management's responsibility in disclosing material going concern uncertainty. However, marks were lost due to the lack of description on what needed to be disclosed.

Determine the use of going concern basis to prepare financial statements

Candidates were less clear about management's responsibility to determine if it was appropriate to use going concern basis to prepare the financial statements. Management had to decide whether going concern basis was the appropriate basis to prepare the financial statements.

Compliance with laws and regulations

In terms of compliance with law and regulations, Candidates should know that there were differences between:

- Laws and regulations that have direct impact in the determination of the figures in the financial statements, such as tax regulations and CPF regulations. For such laws and regulations. Many Candidates did not know that an auditor has responsibility to perform audit procedures to ensure the financial statements figures are determined in accordance with such laws and regulations.

- Laws and regulations that do not have direct impact on the determination of the figures in the financial statements, such as those relating to COVD-19 social distancing measures. For such laws and regulations, an auditor does not have responsibility to ensure compliance.

Subsequent events – adjusting events and non-adjusting events

Some Candidates did not know the difference between adjusting subsequent events and non-adjusting subsequent events. Thus, these Candidates failed to differentiate the management's responsibility in relation to these two types of subsequent events.

Assessing the company's ability to continue as a going concern

In relation to assessing the company's ability to continue as a going concern, many Candidates failed to appreciate that it was the management's responsibility to perform the assessment for a period of at least 12 months from the reporting period.

Candidates must remember that the question was in the context of management's duty in relation to financial statements, and not in the context of management's duty in running the business.

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Internal controls

In relation to internal controls, a common mistake was to state that an auditor had the responsibility to perform test of controls to ensure controls were operating effectively. This was not the responsibility of the auditor. The auditor's responsibility was to consider the entity's internal controls in risk assessment and in designing audit procedures, which might include test of controls. If the auditor did not plan to place any reliance on internal controls, there would not be a need for him/her to perform test of controls.

Question 2

In general, this question was the best performed question for this paper. The objective of this question was to assess Candidates' knowledge on audit procedures on payroll expenses and the associated assertions.

Some Candidates failed to differentiate assertions for transactions and events and assertions for account balances. For the audit of payroll expenses, the following assertions for transactions and events were applicable:

- Completeness
- Occurrence
- Cut-off
- Accuracy
- Classification
- Presentation

As a result, some Candidates wrongly associated audit procedures confirming employees are bona fide as existence instead of occurrence. Some were confused between accuracy (which is an assertion for transactions and events) with accuracy, valuation and allocation (which is an assertion for account balances).

The common mistake of confusion between completeness and occurrence was repeated. Audit procedures tracing employees from payroll report to bank transfer list was to ensure all employees were included in the payment, which was related to the completeness assertion.

Vouching employees in the payroll report to the personnel records in the HR department was to ensure employees were included in payroll, i.e. occurrence assertion.

Question 3

In general, this question was the worst-performed question for this paper. This question was divided into two parts. The first part focused on quality control in audit engagements and the second part focused on procedures and reporting relating to the change in audit appointment.

The answer to **part (a)** on quality control was generally satisfactory. A small number of Candidates demonstrated a lack of knowledge in the quality controls aspect of an audit engagement and wrote answers based on common sense. Some clearly did not know what “direction”, “supervision” and “review” meant.

Part (b) was the worst in terms of the quality of answers submitted. Many did not realise the main purpose of reviewing predecessor’s working paper was to assess the extent of reliance that could be placed on the work of the predecessor auditor on opening balances and then determine the extent of audit procedures to be performed on the opening balances.

For **part (c)**, it was pleasing to see many Candidates rightly used the “Other Matter” section to highlight the fact that prior year’s financial statements were audited by another audit firm. However, some wrongly suggested the use of “Other Information” section or the “Key Audit Matters” section.

For **part (e)**, majority of Candidates did not know that the auditor’s working papers belonged to the audit firm and thus the firm had the legal right to refuse access by the prospective auditor.

Question 4

Question 4 was divided into two parts; sub-requirements (a), (b) and (c) were related to EP200 on anti-money laundering. Part (d) was related to audit report.

The performance on **part (a)** was not satisfactory. Many Candidates were unable to identify “proceeds of crime” from the short scenarios given. For example, tax evasion is a crime. The proceeds of crime in tax evasion would be the illegal “tax savings” from tax evasion. Some Candidates did not understand the term “proceeds of crime”.

The lack of familiarity with EP 200 was further demonstrated by the answers to **part (b)** and **part (c)**. The case already stated that the auditor had reasonable ground to suspect the transactions were money laundering transactions. According to the legal requirements as stated in EP 200, the auditor should file suspicious transaction report to the authority. This legal duty conflicted with the auditor’s duty not to disclose the audit client’s confidential information to third party. Another legal requirement stated in EP 200 prohibited auditor from disclosing information that could prejudice the investigation of suspicious money laundering transaction by the authority. Thus, the auditor should refrain from seeking confirmation from the audit client if the suspected transaction was money laundering. This is known as avoiding tipping off, which itself is an offence. Many answers wrongly suggested that the auditor should seek to confirm with management if the transaction was indeed money laundering, leading to a tipping off offence.

In relation to the sub-questions on audit report, the performance was generally satisfactory. However, a handful of Candidates had problems with the concept of modified opinion. Some suggested that the appropriate opinion would be to issue a modified opinion without specifying which modified opinion was appropriate. Some confused modified opinion with emphasis of matter. Several Candidates did not understand the concept of “pervasive” impact of misstatements or limitation on scope.

