

SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

MODULE: Assurance (ASF)

EXAMINATION DATE: 21 June 2018

Section 1

General comments

The ASF examination continues to be a restricted open book format with Candidates being able to bring in a double-sided A4 page of personal notes for reference.

Generally, the quality of the answers shows remarkable improvement over prior examination sessions. There were also fewer uncompleted scripts, indicative of better time management.

The answers were also generally better organised and structured, which reflects improved pre-examination preparation and careful attention to detail.

For this examination, unless specified otherwise, Candidates were to assume that all the reporting entities in all the questions adopted, for all the relevant years, the Singapore Financial Reporting Standards (SFRS) that were issued by the Accounting Standards Council as at 1 January 2018 and the Singapore Standards on Auditing issued by the Institute of Singapore Chartered Accountants as at 1 January 2018.

Moving forward, all ASF examinations will apply the Singapore Financial Reporting Standards (International) (SFRS(I)) that are issued by the Accounting Standards Council for the relevant year, regardless of the entity type and the Singapore Standards on Auditing issued by the Institute of Singapore Chartered Accountants for the corresponding year.

Section 2

Analysis of individual questions

Question 1

This question focused on the payroll cycle of a local private company and tested the Candidates' knowledge on the difference between internal control procedures, control objectives, the auditor's test of controls, and the auditor's test of details, as well as ethical threats by applying Ethics Pronouncement (EP) 100 the *ISCA Code of Professional Conduct and Ethics*.

Generally, the performance for this question was good. Weaker Candidates had the following common problems:

- Not sure what 'control objectives' meant and tended to repeat the procedures stated in the case;

- Wrote about test of details instead of test of controls and showed a lack of understanding between the two types of tests; and
- Used reperformance as a test of controls. Future Candidates should note that having the auditor re-approve the payroll report is not an acceptable test of controls.

Most Candidates dealt with the ethical issue satisfactorily. Weaker answers identified a familiarity threat correctly but without explaining why, i.e. the Finance Director had become too accepting of the accountant's work and thus did not review their work carefully. Such answers failed to secure the full marks available.

Question 2

This question focused on audit issues relating to inventories and the impact on the audit report for a local perfume manufacturing company.

Many Candidates correctly:

- Identified the lack of access to costing documents as a **limitation on the scope** of the audit, i.e. the auditor was not able to obtain **sufficient appropriate evidence** on the manufactured inventories; and
- Determined the possible impact as **material**.

However, quite a number of Candidates wrongly concluded that the possible effects were pervasive. This incorrect conclusion led to the wrong audit opinion being proposed by these Candidates. Pervasiveness refers to the possible effects as affecting a substantial proportion of the financial statements, e.g. 90% of total assets, or the possible effects may cause the financial statements to be misleading. In the case facts presented, the possible effects were material but not pervasive.

In relation to the proposed seeking of a second opinion, Candidates were generally able to correctly identify that the incumbent auditor was faced with an intimidation threat and the larger audit firm was facing a self-interest threat. However, many Candidates were unable to clearly identify the fundamental principles affected by these ethical threats. It is imperative that all Candidates cultivate a strong working knowledge of Ethics Pronouncement (EP) 100 the *ISCA Code of Professional Conduct and Ethics*.

In relation to the sales returns due to a defect in the inventory sold, most Candidates correctly assessed the potential impact of the reversal of sales revenue and net realisable value of inventory. However, some Candidates wrongly concluded that the post year-end sales returns were non-adjusting subsequent events and thus did not affect the year-end figures.

There were varying degrees of quality for the answers on whether an inclusion of an emphasis of matter (EOM) paragraph in the audit report was appropriate. The

strong answers explained why it was not appropriate to have an EOM whilst the weaker Candidates merely stated it was inappropriate without explaining why.

Question 3

This question focused on the link between audit procedures and assertions, using the purchasing of inventories and fixed assets (PPE) for a local stationery company as exemplars.

There was some confusion between assertions relating to transactions and events (T&E) and assertions between account balances. For example, occurrence relates to T&E and existence relates to assets and liabilities. Some Candidates were not up-to-date with the auditing standards and were using the old convention of valuation instead of accuracy, valuation, and allocation. Candidates are reminded that it is their responsibility to ensure they apply the correct Singapore Standards on Auditing and the Singapore Financial Reporting Standards, which can be downloaded from <https://isca.org.sg/tkc/aa/standards/standards/ssas/> and www.asc.gov.sg respectively free of charge.

Some answers reflected a lack of understanding between accounts payable and accruals. Some Candidates said no accruals should be recorded as this would overstate liabilities.

In relation to the suggestion by the accountant to provide a written statement to confirm existence of the computers sent for repair, some Candidates did not realise that this written statement would be a form of management representation and, as a rule, would be considered a weak form of evidence. Some Candidates even concluded that as the statement would be written, it would be reliable and, therefore, sufficient appropriate audit evidence.

In relation to the change in useful life, many Candidates correctly assessed this issue as a change in an accounting estimate. However, some Candidates wrongly suggested the change should be retrospectively applied, which suggests they had incorrectly concluded the change as a prior year error or a change in accounting policy.

Question 4

This question provided a list of control procedures in an inventory purchasing system. Candidates were required to describe the auditor's test of controls to be performed to confirm these controls were operating effectively. The answers for this question were generally of good quality.

However, when asked about the business implications if some controls were not operating effectively, the answers focused on the impact on the audit, rather than the impact on the company which was required in the question.

Some Candidates were also not able to differentiate between a control deficiency and a significant control deficiency, indicating a lack of depth of knowledge in this area.