



Singapore CA Qualification (Foundation) Examination

19 June 2020

Assurance

INSTRUCTIONS TO CANDIDATES:

1. The time allowed for this examination paper is **3 hours 15 minutes**.
2. This examination paper has **FOUR (4)** questions and comprises **TWENTY-EIGHT (28)** pages (including this instruction sheet, Appendix A and Appendix B). Each question may have **MULTIPLE** parts and **ALL** questions are examinable.
3. This is a restricted open book examination. You are allowed to have only the following materials with you at your exam location:
 - One A4-sized double-sided cheat sheet
 - One A4-sized double-sided blank scratch paper
4. During the examination, you are allowed to use your laptop and any calculators that comply with the SAC's regulations. Please note that watches, mobile phones, tablets, and all other electronic devices **MUST NOT** be used during the examination and **MUST NOT** be within reach or sight or hearing from where you are seated to write the exam. Use of these devices, or, the sight or hearing of these devices, will be flagged as integrity breaches and investigated, unless it is for the purpose as stated under paragraph 6 below.
5. During the examination, videos of you and your computer screen will be recorded for the purpose of ensuring examination integrity and you have consented to these recordings.
6. Should you encounter any issues during the examination, please contact any of these four (4) hotlines for an invigilator to assist you. The hotlines will be operational from one hour before the scheduled start time of the examination to one hour after the scheduled end time of the examination.

Name of invigilator	Hotline number
N.A.	N.A.
N.A.	N.A.
N.A.	N.A.
N.A.	N.A.

7. This examination paper and all video recordings of this exam are the property of the Singapore Accountancy Commission.

MODULE-SPECIFIC INSTRUCTIONS:

8. Assume that all dollar amounts are in Singapore dollar (S\$) unless otherwise stated.
9. Unless specified otherwise, assume that all the reporting entities in all the questions adopt, for all the relevant years, the Singapore Financial Reporting Standards (International) (SFRS(I)) that were issued by the Accounting Standards Council as at 1 January 2020 and the Singapore Standards on Auditing (SSA) issued by the Institute of Singapore Chartered Accountants (ISCA) as at 1 January 2020.

**Exemplify
Question
Number**

1

Compulsory pre-exam steps to be recorded in video

Before you begin this exam, you are to perform a 360 degrees environment scan (via webcam), including a view of your table top, so that the location where you are taking the exam is being recorded in the video.

Next, show each side of your A4-sized double-sided cheat sheet to the webcam so that your cheat sheet is being recorded in the video.

Lastly, if you are using a calculator and a blank sheet of A4-sized scratch paper, show the calculator and both sides of the blank scratch paper to the webcam so that these items will be recorded in the video.

Should you encounter any issues during the examination, please contact any of these four (4) hotlines for an invigilator to assist you.

Name of invigilator	Hotline number
N.A.	N.A.
N.A.	N.A.
N.A.	N.A.
N.A.	N.A.

Question 1 – (a), (b) and (c)

The audit of Tiemens Ltd, a listed company, is close to completion. Extracts of the final draft Statement of Financial Position and Income Statement are shown as follows:

	1.1.2019 – 31.12.2019	1.1.2018 – 31.12.2018
	\$'000	\$'000
Revenue	47,000	98,000
Cost of sales	(34,000)	(65,000)
Gross profit	13,000	33,000
Operating expenses	(28,000)	(34,000)
Operating Profit/(Loss)	(15,000)	(1,000)
Finance cost	(3,000)	(2,000)
Profit/(Loss) before tax	(18,000)	(3,000)

	31.12.2019	31.12.2018
	\$'000	\$'000
Current Assets		
Cash	0	100
Trade receivables	22,000	16,000
Inventory	20,000	19,000
	42,000	35,100
Non-Current Assets		
Property, plant & equipment	1,200	5,000
Intangible assets	0	100
	1,200	5,100
Total Assets	43,200	40,200

	31.12.2019	31.12.2018
	\$'000	\$'000
Current Liabilities		
Bank overdraft	10,000	0
Trade payables	20,000	12,000
Bank loan payable	18,000	0
	48,000	12,000
Non-Current Liabilities		
Bank loan payable	10,000	28,000
Shareholders' Equity		
Share capital	2,000	2,000
Accumulated profit/(loss)	(16,800)	(1,800)
	(14,800)	200
Shareholders' Equity and Liabilities	43,200	40,200

The audit working papers documented the following information:

- Revenue has been badly affected by the trade war between the United States and China. Customers' orders have reduced significantly.
- Customers are experiencing financial difficulty.
- The reasons for reduction in property, plant and equipment (PPE) are mainly due to:
 - Some machinery was being sold to raise cash.
 - Some PPE is fully depreciated but not replaced to conserve cash.
- Intangible assets are fully amortised.
- Management of Tiemens Ltd is in discussions with the bank to extend the loan repayment date.

- A legal letter of demand has been served on Tiemens Ltd by a major supplier to recover an outstanding payment.

**Exemplify
Question
Number**

Question 1 required:

2

- (a)** Using the financial figures provided above, calculate FIVE accounting ratios (for both years) that could help an auditor to identify going concern issues.

(5 marks)

3

- (b)** Using the information provided and the accounting ratios calculated in **(a)** above, identify and explain SIX indicators that Tiemens Ltd is facing significant doubt affecting its ability to continue as a going concern.

(12 marks)

4

- (c)** For each of the statements below, describe the implications on the auditor's opinion as well as the auditor's report:

- (i)** The material going concern uncertainty is appropriately reflected in the financial statements.

(4 marks)

- (ii)** The material going concern uncertainty is not appropriately reflected in the financial statements.

(4 marks)

(Total: 25 marks)

Question 2 – (a) and (b)

The audit planning for Boris Pte Ltd (Boris) for the year ended 31 December 2019 has just been completed. On 1 January 2019, Boris purchased a warehouse for \$20 million which was paid to the seller. On 18 January 2020, Boris engaged a property valuer to value the warehouse and a fair value gain of \$500,000 was recognised in the Statement of Other Comprehensive Income for the year ended 31 December 2019.

Exemplify Question Number

Question 2 required:

5

(a) For each of the following audit objectives (unless otherwise stated), describe ONE audit procedure to be performed and for each audit procedure, state ONE assertion verified by performing the audit procedure:

(i) To confirm the purchase price of the warehouse.

(2 marks)

(ii) To assess whether the useful life used by management for depreciating the warehouse is reasonable.

(3 marks)

6

(iii) To confirm that the cost and details of the warehouse are recorded in the accounting records.

(2 marks)

(iv) To confirm that the depreciation charge is correctly calculated by the accounting staff of Boris.

(2 marks)

**Exemplify
Question
Number**

Question 2 required:

7

- (v)** To confirm that the fair value of the warehouse is correctly recorded in the accounting records.

(3 marks)

- (vi)** To confirm that the fair value gain is correctly calculated and recorded in the accounting records. There should be one audit procedure to ensure correct calculation and one audit procedure to ensure correct recording. Please state the assertion associated with ensuring correct calculation.

(3 marks)

An auditor is required to evaluate the competence, capability and objectivity of the expert engaged by management (known as a management expert) to determine the extent of reliance to be placed on the work by the management expert.

**Exemplify
Question
Number**

Question 2 required:

8

(b) In the case of the management expert engaged by Boris:

(i) Describe ONE factor to assess the competence of the property valuer and ONE factor to assess the capability of the property valuer. **(4 marks)**

(ii) Describe ONE factor to assess the objectivity of the property valuer. **(2 marks)**

(iii) Describe ONE audit procedure to assess the competence of the property valuer and ONE audit procedure to assess the capability of the property valuer.

(4 marks)

(Total: 25 marks)

Question 3 – (a), (b) and (c)

You are a second-year audit associate in an audit firm and you have been assigned to mentor an intern during an audit engagement. The intern read through the audit programme and raised a few questions regarding the planned audit procedures as follows:

- i. For selected trade receivables at year end, agree the outstanding invoice balances to post year-end cash book and bank statement.
- ii. For selected deposits in post year-end bank statements, agree the details to sales invoices and trade receivable ledgers.
- iii. For selected machines in the fixed asset register, sight the machines in the factory.
- iv. Sight machines in the factory, note the fixed asset number and details, and agree these details to the fixed asset register.

**Exemplify
Question
Number**

9

Question 3 required:

- (a)** For each of FOUR procedures above, explain the purpose of the audit procedures, including the assertions verified.

(10 marks)

The intern had documented the following working papers after completing the audit procedures on trade receivables:

Company	<u>XYX Pte Ltd</u>
Objective	To confirm trade receivables are not materially misstated
Audit Procedures Performed	For samples documented in the other pages of this working paper, perform substantive procedures on trade receivables.

SSA 230 – *Audit Documentation* requires the auditor to prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:

- (a) The nature, timing, and extent of the audit procedures performed to comply with the SSAs and applicable legal and regulatory requirements;
- (b) The results of the audit procedures performed, and the audit evidence obtained; and
- (c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

The documentation produced by the intern (as shown above), did not meet the requirement in SSA 230. For example, the working paper was not dated. Hence, it was unclear when the audit procedures were completed.

**Exemplify
Question
Number**

10

Question 3 required:

- (b) In addition to the date deficiency, identify and explain FIVE deficiencies in the audit working papers.

(10 marks)

The intern is also confused about the selection of samples for the following audit procedures:

- i. Test of details to confirm the completeness of the sales invoices that are recorded in the trade receivables ledgers;
- ii. Test of details to confirm the occurrence of sales invoices recorded in the trade receivables ledgers;
- iii. Test of details to confirm that there are no errors in the sales invoices;
- iv. Test of details to confirm that goods delivered to customers before year end are recorded in the trade receivable ledger before year end; and
- v. Test of details to confirm that goods delivered to customers after year end are recorded in the trade receivable ledger after year end.

The intern is not sure if he/she should select the samples from (i) the sales orders file, (ii) the trade receivables ledgers, (iii) the sales invoices file or (iv) the goods despatch notes file.

**Exemplify
Question
Number**

11

Question 3 required:

- (c)** For each of the FIVE audit procedures, explain if the intern should select the samples from (i) the sales orders file, (ii) the trade receivable ledgers, (iii) the sales invoices file or (iv) the goods despatch notes file.

(5 marks)

(Total: 25 marks)

Question 4 – (a) to (f)

Donatmore is a large charity organisation that is considered a public interest entity. Your firm is auditing Donatmore's financial statements for the year ended 31 March 2020. Donatmore's financial statements are prepared based on the Singapore Financial Reporting Standards (SFRS). The audit fee for Donatmore's financial statements for year ended 31 March 2019 amounted to \$80,000. The audit fee for the current year's financial statements, i.e. for the year ended 31 March 2020 has been agreed to be \$90,000. The audit firm's total fee income for 2019 was \$501,000 and \$559,000 for 2020.

Exemplify Question Number	Question 4 required:
12	<p>(a) Identify and explain the ethical issues faced by the audit firm in relation to the above situation. Describe the appropriate safeguards to be applied by the audit firm to reduce the ethical threats to an acceptable level.</p> <p style="text-align: right;">(5 marks)</p>

During the course of the current year audit, it was discovered that some of the restricted funds raised by Donatemoore was put to unauthorised use. The Board of Donatemoore is not aware of the irregularity.

**Exemplify
Question
Number**

Question 4 required:

13

(b) Discuss whether the audit firm should communicate the discovery of the unauthorised use of restricted funds:

(i) With the Board of Donatemoore; **(4 marks)**

(ii) In the auditor's report. **(3 marks)**

The bank reconciliation statement for the year ended 31 March 2020 had only one reconciling item; an unpresented cheque of \$28,000 paid to a contractor which provided repair services to the main building of Donatemoore from April to May 2020. According to the payment voucher, the invoice for the repair had been posted to an expense account in the Income Statement for the year ended 31 March 2020.

**Exemplify
Question
Number**

Question 4 required:

- | | |
|-----------|---|
| 14 | <p>(c) Describe TWO audit procedures to be performed on the unpresented cheque. Your answer should include the objective of each audit procedure. (4 marks)</p> |
| 15 | <p>(d) Discuss the misstatement in the accounting treatment of the repair expense. Your answer should state the correct accounting treatment, the accounts that are overstated or understated and the journal entries to correct the misstatements. (3 marks)</p> |

It was later confirmed that the contractor is a firm owned by the Chief Executive Officer of Donatemore.

**Exemplify
Question
Number**

Question 4 required:

16

- (e)** Explain TWO reasons why the auditor should review the minutes of the Board of Donatemore in relation to the repair service. **(4 marks)**

17

- (f)** Explain why the repair service is considered as a related party transaction (RPT) and how this RPT should be reflected in the financial statements. **(2 marks)**

(Total: 25 marks)

END OF PAPER

Appendix A
Standardised Common Content Reference Material
Assurance

(For Jun 2020 Exam, last updated: 20 May 2020)

Important notes

1. This Standardised Common Content Reference Material (Reference Material) was first published on the SAC website on 4 May 2020.
2. The Reference Material was updated and published on SAC website on:
 - 20 May 2020 - Principle of Objectivity
3. The latest Reference Material will be incorporated into the examination question paper as an Appendix, and will be uploaded within your Exam in the e-exam software, Exemplify.

Considerations for the professional accountants
Code of Professional Conduct and Ethics

Ethics Pronouncement (EP) 100 *Code of Professional Conduct and Ethics*

Fundamental Principles

A professional accountant shall comply with the following fundamental principles:

- (a) Integrity – to be straightforward and honest in all professional and business relationships.
- (b) Objectivity – to not allow bias, conflict of interest or undue influence of others to override professional or business judgements.
- (c) Professional Competence and Due Care – to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional services based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.
- (d) Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.
- (e) Professional Behaviour – to comply with relevant laws and regulations and avoid any conduct that discredits the profession.

Threats and Safeguards

Threats may be created by a broad range of relationships and circumstances. When a relationship or circumstance creates a threat, such a threat could compromise, or could be perceived to compromise, a professional accountant's compliance with the fundamental principles. A circumstance or relationship may create more than one threat, and a threat may affect compliance with more than one fundamental principle. Threats fall into one or more of the following categories:

- (a) Self-interest threat – the threat that a financial or other interest will inappropriately influence the professional accountant's judgement or behaviour;
- (b) Self-review threat – the threat that a professional accountant will not appropriately evaluate the results of a previous judgement made, or activity or service performed by the professional accountant, or by another individual within the professional accountant's firm or employing organisation, on which the accountant will rely when forming a judgement as part of performing a current activity or providing a current service;
- (c) Advocacy threat – the threat that a professional accountant will promote a client's or employer's position to the point that the professional accountant's objectivity is compromised;
- (d) Familiarity threat – the threat that due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work;
- (e) Intimidation threat – the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the professional accountant.

Parts B and C of this Code explain how these categories of threats may be created for professional accountants in public practice and professional accountants in business, respectively. Professional accountants in public practice may also find Part C relevant to their particular circumstances.

Fraud and Error

Responsibilities of management and auditors:

- Management and those charged with governance in an entity are primarily responsible for preventing and detecting fraud. It is up to them to put a strong emphasis within the company on fraud prevention. This will include establishing a strong control environment, with an emphasis on the principles of good corporate governance.
- An auditor conducting an audit in accordance with SSAs is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement whether caused by fraud or error.

Matters to be considered and procedures to be carried out in response to risks of misstatements

- In accordance with SSA 330 the auditor shall determine overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level.
- (SSA 240) When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of

fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

- The auditor shall treat those assessed risks of material misstatement due to fraud as significant risks and accordingly, to the extent not already done so, the auditor shall obtain an understanding of the entity's related controls, including control activities, relevant to such risks.
- In determining overall responses to address the risks of material misstatement due to fraud at the financial statement level the auditor should:
 - (a) Consider the assignment and supervision of personnel
 - (b) Consider the accounting policies used by the entity
 - (c) Incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures

Professional Responsibility

To succeed in an action for negligence, an injured party must prove three things:

- A duty of care which is enforceable by law existed.
- This duty of care was breached.
- The breach caused the injured party loss. In the case of negligence in relation to financial advisers/auditors, this loss must be pecuniary (i.e. financial) loss.

Some ways to restrict liability include:

- Professional indemnity insurance. In accordance with the Accountants Act, all Limited Liability Partnerships must be covered by professional indemnity insurance.
- Incorporation have been used to reduce personal liability for partners (i.e. incorporation as a company or incorporation as a limited liability partnership).

Practice Management

Quality control

The objective of the firm is to establish and maintain a system of quality control to provide it with reasonable assurance that:

- The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and
- Reports issued by the firm or engagement partners are appropriate in the circumstances

The engagement partner shall take responsibility for the overall quality on each audit engagement to which that partner is assigned. This includes:

- Leadership responsibilities
- Ethical requirements
- Acceptance/ continuance of client relationships and specific audit engagements
- Assignment of engagement teams
- Engagement performance
 - Direction
 - Supervision
 - Review
 - Consultation
 - Engagement quality control review
 - Disputes

- Monitoring

Appointment and re-appointment of auditors

The firm shall establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that it will only undertake or continue relationships and engagements where the firm:

- (a) Is competent to perform the engagement and has the capabilities, including time and resources, to do so
- (b) Can comply with relevant ethical requirements, and
- (c) Has considered the integrity of the client, and does not have information that would lead it to conclude that the client lacks integrity.

Auditors will outline the basis for the audit agreement in their tender to provide services. The engagement clarifies:

- Scope of the audit
- Objective of the audit
- Auditor's and Management's Responsibilities
- Applicable financial reporting framework
- Form and content of reports to be issued

Performing the audit

Planning, materiality and assessing the risk of misstatement

Understanding the entity and its environment

- Methods of understanding
 - Inquiries of appropriate individuals within the entity
 - Analytical procedures (financial and non-financial data)
 - Observation and inspection
 - Audit team discussion of the susceptibility of financial statements to material misstatement
 - Prior period knowledge
- For each risk identified:
 - (a) Identify risks throughout the process of obtaining an understanding of the entity and its environment.
 - (b) Assess whether the identified risks relate more pervasively to the financial statements as a whole and potentially affect assertions.
 - (c) Relate identified risk to what can go wrong at the assertion level, and assess the controls that the auditor intends to test.
 - (d) Consider the likelihood of misstatement and whether the potential misstatement is of a magnitude that could result in a material misstatement.

Materiality in planning and performing an audit

Application of materiality to an audit:

- Make a preliminary judgement about materiality.
- Determine performance materiality.
- Accumulate non-trivial misstatements identified during the audit and compare totals to the preliminary judgement about materiality. The initial determination

of materiality should be reviewed during the course of the audit and revised where necessary.

The determination of performance materiality is not a simple mechanical calculation and involves the exercise of professional judgment. It is affected by:

- The auditor's understanding of the entity, updated during the performance of the risk assessment procedures.
- The nature and extent of misstatements identified in previous audits and thereby the auditor's expectations in relation to misstatements in the current period.

Risk assessment

Audit risk is the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated.

Risk of material misstatement is risk that the financial statements are materially misstated prior to audit. This consists of two components: inherent risk and control risk

$\text{Audit risk} = \text{Inherent risk} \times \text{Control risk} \times \text{Detection risk}$

Business risk is split into three components

- Financial risks
- Operational risks
- Compliance risks

Analytical procedures are a useful tool in performing risk assessments. Analytical procedures commonly used by auditors include:

- Standard ratio calculations
 - Gross profit margins
 - Receivables ratio
 - Inventory turnover ratio
 - Current ratio
 - Quick or acid test ratio
 - Gearing ratio
 - Return on capital employed
- Trend analysis
- Comparisons of financial information
- Examining related accounts
- Reasonableness tests
- Scanning analytics

Responses to risk of material misstatement at the assertion level

- The auditor must carry out substantive procedures on material items. As you know, substantive procedures fall into two categories:
 - Substantive analytical procedures and
 - Tests of details.
- The auditor's substantive procedures shall include the following audit procedures related to the financial statement closing process:
 - Agreeing the financial statements to the underlying accounting records

- Examining material journal entries
 - Examining other adjustments made in preparing the financial statements
- For significant risks, the auditor must perform substantive procedures that are specifically responsive to that risk.

Evidence

Assertions about classes of transactions and events, and related disclosures, for the period under audit:

- Occurrence—transactions and events that have been recorded or disclosed, have occurred, and such transactions and events pertain to the entity.
- Completeness—all transactions and events that should have been recorded have been recorded, and all related disclosures that should have been included in the financial statements have been included.
- Accuracy—amounts and other data relating to recorded transactions and events have been recorded appropriately, and related disclosures have been appropriately measured and described.
- Cutoff—transactions and events have been recorded in the correct accounting period.
- Classification—transactions and events have been recorded in the proper accounts.
- Presentation—transactions and events are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework.

Assertions about account balances, and related disclosures at the period end:

- Existence — assets, liabilities, and equity interests exist.
- Rights and obligations—the entity holds or controls the rights to assets, and liabilities are the obligations of the entity.
- Completeness — all assets, liabilities, and equity interests that should have been recorded have been recorded, and all related disclosures that should have been included in the financial statements have been included.
- Accuracy, valuation and allocation — assets, liabilities, and equity interests have been included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments have been appropriately recorded, and related disclosures have been appropriately measured and described.
- Classification — assets, liabilities, and equity interests have been recorded in the proper accounts.
- Presentation — assets, liabilities, and equity interests are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework.

Common audit procedures used by auditors in obtaining audit evidence are:

- Observation
- Confirmation
- Inquiry

- Recalculation
- Re-performance
- Inspection of documents
- Inspection of assets
- Analytical procedures

Auditors need to obtain sufficient and appropriate audit evidence to support the audit opinion. When assessing the sufficiency and appropriateness of audit evidence, auditors must consider the following:

- Risk of misstatement related to the assertion
- Source and nature of evidence
- Contradictory or corroborative evidence

Auditors have sole responsibility for their opinion, but may use the work of an expert in order to obtain sufficient audit evidence regarding certain financial statement assertions.

- Auditor's expert - An individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence.
- Management's expert - An individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements.

When using an auditor's expert, the auditors should:

- (a) Evaluate whether the auditor's expert has the necessary competence, capabilities and objectivity for the auditor's purposes. In the case of an auditor's external expert, the evaluation of objectivity shall include inquiry regarding interests and relationships that may create a threat to that expert's objectivity.
- (b) Agree, in writing when appropriate, on the nature, scope and objectives of that expert's work.
- (c) Evaluate the adequacy of the auditor's expert's work for the auditor's purposes including the relevance and reasonableness of that expert's findings or conclusions

If information to be used as audit evidence has been prepared using the work of a management's expert, the auditor shall, to the extent necessary, having regard to the significance of that expert's work for the auditor's purposes:

- (a) Evaluate the competence, capabilities and objectivity of that expert;
- (b) Obtain an understanding of the work of that expert;
- (c) Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertions.

Evaluation and review

Once the bulk of the substantive procedures have been carried out, the auditors will have a draft set of financial statements which should be supported by appropriate and sufficient audit evidence. It is a requirement of SSA 220 *Quality Control for an Audit of Financial Statements* that the auditor conducts an overall review of the audit evidence obtained in relation to the financial statements.

The auditors need to consider whether:

- (a) The financial statements are in compliance with statutory requirements and accounting standards
 - The information presented in the financial statements is in accordance with the relevant financial reporting framework
 - The accounting policies employed are in accordance with accounting standards, properly disclosed, consistently applied and appropriate to the entity
- (b) The financial statements are consistent with their knowledge of the entity's business and with the results of other audit procedures, and the manner of disclosure is reasonable.

At the end of the audit, auditors would undertake the following:

- Analytical procedures are used as part of the overall review procedures at the end of an audit.
- Summarise the uncorrected misstatements
- Evaluate the effect of misstatements and communicating misstatements to management and those charged with governance
 - If the auditors consider that the aggregate of misstatements may be material, they must consider reducing audit risk by extending audit procedures or requesting management to adjust the financial statements
- Completion checklists
- Audit clearance meeting

Subsequent events

Events occurring after the end of the reporting period may affect the results and the position of the company at that date. Auditors have a responsibility to review subsequent events before they sign the auditor's report. Subsequent events include:

- Events occurring between the period end and the date of the auditor's report
- Facts discovered after the date of the auditor's report

The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified. Procedures to identify subsequent events include, inquiries of management on subsequent events as well as other procedures such as reading minutes of meetings, review latest accounting records, etc.

Going concern

When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

The auditor must obtain sufficient, appropriate audit evidence to support the management's conclusions. The auditors may evaluate:

- The process management followed to make its assessment
- The assumptions on which management's assessment is based

- Management's plans for future action and whether these are feasible in the circumstances

When events or conditions are identified which cast doubt on the appropriateness of the going concern basis of accounting, auditors may also have to carry out additional procedures. The SSA 570 lists various procedures which the auditors may carry out in this context, including:

- Analysing and discussing cash flow, profit and other relevant forecasts with management;
- Analysing and discussing the entity's latest available interim financial statements;
- Reading the terms of debentures and loan agreements and determining whether any have been breached;
- Reading minutes of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties;
- Enquiring of the entity's legal counsel regarding litigation and claims;
- Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with related and third parties and assessing the financial ability of such parties to provide additional funds.

Reporting

Auditor's reports

Auditor's reports are addressed to the members or shareholders of the company, however, there are many different users of financial statements and they use them for many differing reasons. The standard auditor's report for listed companies would contain the following content:

- Audit opinion
- Basis for opinion
- Key audit matters
- Responsibilities of management and directors for the financial statements
- Auditor's responsibilities for the audit of the financial statements
- Report on other legal and regulatory requirements

Emphasis of matter and Other matter paragraphs

Paragraphs	Definition	Must be used in the following circumstances
Emphasis of matter paragraph	A paragraph included in the Auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the financial statements.	<p>(a) When the auditors have determined that the financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation.</p> <p>(b) To alert users that the financial statements are prepared in accordance with a special purpose framework.</p> <p>(c) When facts become known to the auditor after the date of the auditor's</p>

		report and the auditor provides a new or amended auditor's report (i.e. re-issuance of report due to subsequent events).
Other matter paragraph	A paragraph included in the Auditor's report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.	<p>(a) Where prior period financial statements were audited by predecessor auditors</p> <p>(b) Where prior period financial statements were not audited (Note: This does not relieve the auditors of the requirement of obtaining sufficient appropriate audit evidence on opening balances.)</p> <p>(c) When reporting on prior period financial statements in connection with the current period's audit, if the auditors' opinion on such prior period financial statements differs from the opinion the auditors previously expressed</p>

Modified opinions

The three types of modified opinions are:

- A qualified opinion (material misstatement or an inability to obtain sufficient appropriate audit evidence)
- An adverse opinion
- A disclaimer of opinion

Nature of matter giving rise to the modification	Auditor's judgement about the pervasiveness of the effects or possible effects on the financial statements	
	Material but not pervasive	Material and pervasive
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

Key audit matters

Key audit matters should represent the issues which have required the most audit attention during the audit. These are the most significant matters, and are more significant than the other matters communicated to those charged with governance. In determining the key audit matters, the auditor takes into account:

- Areas of higher risk of material misstatement, or significant risks.
- Significant auditor judgements in relation to areas where significant management judgements are involved.
- The effect of significant events or transactions.

Key audit matters are communicated in a separate subsection of the auditor's report. The description of each key audit matter would contain (1) why the matter was considered to be one of most significant in the audit and (2) how the matter was addressed in the audit.

Other Reports

There are many similarities between the auditor's report and other reports for assurance engagements. The key difference is with respect to the opinion itself. With an audit, the opinion will be expressed in a positive form and the matters which are reported on are set down in law. For other assurance engagements the opinion may be expressed in negative terms and the matters on which the opinion is expressed will depend on the nature of the engagement.

Appendix B – Common verbs used by the Examiners

Verb	Description
Calculate / Compute	Do the number crunching and derive the correct answer? Make sure that you write down your workings and crosscheck your numbers. Candidates often underperform because of careless mistakes.
Describe	Describe requires you to provide the characteristics and features of an item or situation. For instance, " Describe the audit procedures to verify ..." requires you to state the specific audit procedure/s that you would use without going into step-by-step detail of how to perform that procedure.
Discuss	Discuss requires you to provide the 'for' and 'against' arguments, you cannot have a discussion without opposing views otherwise it would be just a conversation. If discuss is placed near the front of the instruction, then it requires you to provide an answer that is similar to explain , but addresses both the for and against arguments.
Evaluate	Pass judgment on or provide your opinion based on the facts at hand. When making an evaluation , there are often predetermined criteria that you will use to base your opinion on. The key here is to give your opinion or make a judgment of the facts, but providing just a description of the facts is insufficient. Professional judgment and scepticism (a questioning mind) are called for when making an evaluation . Examine and Evaluate have similarities.
Explain	Explain requires you to write at least several sentences conveying how you have analysed the information in a way that a layperson can easily understand the concept or grasp the technical issue at hand.
Identify	Identify is similar to list , but requires you to also provide an explanation as to why the item/s that you have identified is/are relevant to the facts given in the question.
State	State is similar to list , but the items require your professional judgement. For instance, " State any restrictions that apply". One of the easiest ways to make sure that you state comprehensively is to think, " list and justify ". You will note that state appears in many of the verb descriptions given.