

SINGAPORE CA QUALIFICATION EXAMINER'S REPORT

MODULE: Assurance (AS)

EXAMINATION DATE: 12 December 2018

Section 1

General comments

The overall performance has deteriorated as compared to the previous exam in June 2018.

Possible contributing factors to decline in average pass rate are:

- (i) Poor performance for Question 2 which covered the use of computer assisted audit techniques (CAAT), a subject matter that was not extensively examined in previous examinations.
- (ii) Candidates also did not perform well on questions relating to warranty and self-collection revenue, which requires technical knowledge of the FRS 115 – Revenue from Contracts with Customers.

Two suggestions that could be useful to Candidates based on the above observations are:

- Revise the entire syllabus and not based on what were examined in previous exams; and
- Keep updated with changes in Singapore Financial Reporting Standards (International) (SFRS(I)), Singapore Standards on Auditing (SSA) and the Ethics Pronouncement (EP) 100 (the *ISCA Code of Professional Conduct and Ethics*).

Section 2

Analysis of individual questions

Question 1

This question focused on the planning task of assessing risk of material misstatements. Candidates' performance is satisfactory, except for the following:

- The explanation of the risk of material misstatements lacked the necessary details, such as which account balance may be misstated and whether the misstatement is an overstatement or understatement. For example, many Candidates correctly identified potential receivables impairment as a risk of material misstatement. However, some Candidates failed to state that receivables and profit may be an overstatement due to insufficient impairment allowance of receivables. Therefore, these answers missed out on receiving the full marks.

- Many Candidates failed to differentiate between standard warranty and extended warranty and their accounting implications, which resulted in the inability to explain for the risk of material misstatements arising from the extended warranty. Candidates will do well if they understand SFRS(I) 15 *Revenue from Contracts with Customers* as this standard provides specific guidance for the accounting treatment of standard warranty and extended warranty.

Question 2

This question focused on the use of the computer assisted audit techniques (CAATs) in the audit of trade payables. The question did not require practical skill of using audit software. It tested Candidates' ability to consider the automation of audit procedures. Audit software approach typically offers automation in recalculation of accounting data, sampling, identifying data that meet specific selection criteria. Candidates who did well were able to apply these features to the case, for example sorting the trade payable transactions by supplier name to arrive at the total per supplier.

Part (c) of this question was poorly attempted. The question asked for an explanation on how the effectiveness of the audit is enhanced by using CAATs. Instead of focusing on how examining real data (instead of printout) increases the reliability of the audit, most answers suggested that the audit procedure can be performed faster, i.e. efficiency.

On average, this question was the lowest scoring in the entire paper.

Question 3

The case centred on a young company that was previously small enough to be exempted from audit. Thus, this was the first year for the company's financial statements to be audited mandatorily.

Part (a) tested Candidates' knowledge on the opening balances of an initial audit engagement. **Part (a)(i)** required Candidates to describe the impact on audit report if sufficient and appropriate evidence was obtained in relation to the opening balances. This question was well answered by the Candidates.

Part (a)(ii) required Candidates to describe the impact on the audit report if the auditor was unable to obtain sufficient appropriate evidence on the opening balances. Generally, Candidates' answers were satisfactory. Most Candidates recognised that there was a limitation on scope and suggested modifying audit opinion to a qualified opinion or a disclaimer of opinion. However, some Candidates were wrong to state that the Key Audit Matter (KAM) section in the audit report can be used to inform users of the problem. KAM is required only if the company is a listed company. However, it was stated in the case that the company has been in operation for 3 years and was small enough to be exempted for audit for its first 2 years. Therefore, the company in this case is not a listed company.

Part (b) tested Candidates on their ability to differentiate between two different revenue streams that have a different timing of revenue recognition. Generally, most Candidates did well for the revenue related to delivery of goods to customers. However, most Candidates did not realise that the revenue related to self-collection by customers may meet the criteria in SFRS(I) 15 *Revenue from Contracts with Customers* as a “bill-and-hold” revenue and thus did not attain the marks available.

Part (c)(i) required Candidates to answer the question from the perspective of an audit associate. However, a few Candidates wrote from the perspective of the audit partner. For example, Candidates suggested that the auditor should resign from the audit engagement. Such decisions and actions are that of an audit partner, not an audit associate. Some answers suggested that the audit associate should discuss the issue with the management without realising that the requirement was about what the audit associate should do after discussing the issue with the general manager who is a management personnel.

Part (c)(ii) has multiple requirements, requiring Candidates to discuss the issue of non-GST registration’s implication on:

- Financial statements
- Auditor’s report
- Auditor’s reporting responsibilities besides that of audit report

Some Candidates did not see these multiple requirements and missed out on attaining the marks. For example, some Candidates did not discuss if the auditor should consider whether there is a legal duty to communicate client’s non-compliance with GST regulation to the authority.

Question 4

This question is about a non-audit assignment for an audit client, i.e. examination of prospective financial information.

Part (a) required Candidates to discuss the ethical issue in helping the audit client to prepare a business plan and forecasts in support of a loan application. Most Candidates correctly identified advocacy threat as the main ethical issue. Some Candidates identified self-review threat as well. However, few Candidates discussed the most important ethical issue which was on the auditor who would be performing a management role if the auditor is preparing the business plan. Audit firms are prohibited from performing management duties and thus the client’s request should be declined.

Part (b) required Candidates to critique a draft assurance report on the forecast. Generally, the answers provided were satisfactory. Many Candidates correctly identified the deficiencies in address, but have made the wrong reference to auditing standards and the wrong positive assurance conclusion. Some Candidates were not prepared for such a question and wrote irrelevant answers. Some Candidates wrongly stated that this was a compilation engagement.

Part (c) required Candidates to critique a cash flow forecast prepared by management. Candidates did not perform well for this question as some Candidates did not realise the major deficiency of the draft cash flow forecast provided was a profit and loss forecast and not a cash flow forecast. Those Candidates who answered correctly were able to identify specific deficiencies such as:

- non-cash items like depreciation should be excluded in a cash flow forecast.
- Cash items such as paying for fixture and fittings for the new retail outlet should be included.