Section 1
General comments

There has been an observable improvement in the quality of the answers this semester, and this improvement resulted in an increase in the number of Candidates who successfully completed the AS module this semester. Furthermore, two Candidates’ achieved pass with merit.

As in past semesters, Candidates are required to frame their answers in accordance with the Singapore Standards on Auditing (SSA) and demonstrate application of the Singapore Financial Reporting Standards (SFRS) to explain, express an opinion on, propose audit procedures, and/or identify/rectify audit issues posed. To achieve a pass with merit or better, Candidates must display a deeper understanding of business processes and demonstrate an elevated level of knowledge and techniques, with synthesis and evaluation of the facts presented and emphasise the critical points, as well as communicate their answers using professional terminology.

Section 2
Analysis of individual questions

Question 1

This question focused on a disputed legal claim between two companies that engaged the same public accounting firm for their statutory audits. In addition to auditing the legal claim, Candidates were also required to consider the application of Ethics Pronouncement (EP) 100 the ISCA Code of Professional Conduct and Ethics and the audit engagement partner’s responsibility to each client and to his/her firm.

Part (a) required Candidates to describe appropriate audit evidence relating to the legal dispute between the two audit clients. This part was generally well answered. However, some answers focused on discussions with management and obtaining management representations. While both actions provide relevant evidence, there is more reliable evidence, such as legal correspondence, that should be obtained by the auditor.

Part (b) required Candidates to apply EP 100 to identify two ethical principles affected by the conflicts of interest raised in the case. Many Candidates focused on the ethical threats rather than the ethical principles. These types of answers did not address the question posed therefore they earned no marks.

After identifying the relevant fundamental principles in Part (b), Candidates were required for Part (c) to recommend an action that the audit engagement partner could
take to resolve the conflict of interest. Most Candidates did well for this part and scored full marks.

**Parts (d), (e), and (f) focused on auditing the legal claim and counter claim. In Part (d), Candidates were asked to explain two potential misstatements in the way one client accounted for the legal claim and the counter claim. This part was generally well answered although some Candidates were not able to explain the misstatements using the principles from SFRS 37 Provisions, Contingent Liabilities, and Contingent Assets.**

Given the potential misstatements in the way the legal claim and counter claim were accounted for, **Part (e) required Candidates to recommend three further audit procedures to be performed prior to the audit report date. This situation was essentially a subsequent events audit, and was generally well answered. However, some answers lacked details, for example, ‘to perform subsequent events procedures’ but without justification, and so were insufficient to earn high marks.**

Candidates were then asked in **Part (f) to comment on the impact on the audit opinion and audit report if the legal claim i) was correctly accounted for and ii) if the legal claim was not correctly accounted for. This part of Question 1 was generally well answered.**

**Question 2**

This question focused on internal controls relating to purchasing and the payments cycle of a new audit client. Narrative description was written up by an audit associate after interviewing the client’s personnel.

**Part (a) required Candidates to instruct the audit associate on the audit procedures to confirm the accuracy of the narrative description they had documented - this essentially was a walkthrough test.**

Most Candidates answered correctly, but some Candidates recommended interviewing the client’s personnel. This action had already been performed in preparing the narrative description. Some answers also showed a lack of understanding of the purpose and process of a walkthrough test.

Candidates were then required to identify and explain one control procedure from the purchasing system and describe a test of control to confirm its operating effectiveness for **Part (b). Most Candidates did well for this part. However, a handful of Candidates identified matching of supplier invoices to the respective goods received notes as a control procedure to prevent payment of goods not received. This answer did not attract high marks because the company still made payment on supplier invoices for which goods had not been received.**

In **Part (c), Candidates needed to identify a control deficiency that allowed invoicing errors, such as excessive quantities and prices in supplier invoices, to occur. Some Candidates were unable to identify the deficiencies in the case and mentioned other potential deficiencies, such as the purchasing department did not negotiate and agree a price with suppliers prior to delivery. Future AS Candidates are reminded to focus**
on the facts given in the case when making recommendations or expressing an opinion.

**Part (d)** validated the Candidates to ability to use Tests of Details, and most Candidates did well by recommending a three-way match of supplier invoices, purchase orders, and goods received notes to detect misstatements.

**Part (e)** referred to supplier statements showing a balance due from suppliers instead of balance due to suppliers, i.e. the company was in credit with the suppliers - over-payment to suppliers had occurred. Candidates were required to identify from the case the control deficiency that allowed over-payments to occur. The main deficiency was given in the case, i.e. processing supplier invoices even when there were no goods received notes as prepayment was made without monitoring whether the goods were subsequently received. This practice allowed the potential for suppliers to send (e.g. re-send) the same invoice when the goods were delivered resulting in the invoice being processed twice and duplicate payment. Quite a number of Candidates correctly identified this deficiency.

In relation to the deficiencies noted in Part (e), Candidates then needed to explain whether these deficiencies should be reported to both management and those charged with governance for **Part (f)**. Most Candidates correctly applied the criteria in SSA 265 *Communicating Deficiencies in Internal Control to those Charged with Governance and Management* to conclude the deficiency was significant and thus should be reported to both management and those charged with governance. Future AS Candidates should take heed from this type of reasoning, as the approach taken to answering this question part is what is expected of a technically competent Singapore CA Qualification Candidate.

**Question 3**

This question, although based on a single client, was presented in two parts.

**Part I** tested the Candidates’ knowledge on sampling and accounts receivable.

Initially for **Part (a)**, Candidates were required to calculate sample size using the sampling formula provided in the case. Quite a number of Candidates calculated the sample size correctly and earned full marks. Unfortunately, some Candidates neglected to exclude from the population the two largest accounts receivable that were individually larger than the performance materiality set, and thus did not earn full marks.

In **Part (b)**, Candidates were asked to explain why the total number of accounts receivable selected for circularisation was higher than the sample size calculated in Part (a). Most Candidates correctly explained the two largest receivables that were not subject to standard sampling, would still be selected because they were individually larger than the performance materiality set.

For **Part (c)**, one of the two largest accounts receivable had a legal dispute with the company (the audit client). There was a request from management that circularisation
for this customer not be performed. This question part required Candidates to explain whether another accounts receivable should be selected for circularisation to replace this accounts receivable that was in dispute. Very few Candidates correctly pointed out that this receivable was not part of the sample selected from the standard sampling process. This accounts receivable was selected because it was larger than the performance materiality level set and hence should not be replaced.

**Part (d)** continued with the disputed accounts receivable and required Candidates to describe three further procedures to be performed in relation to the accounts receivable mentioned in Part (c). As the issue related to a legal dispute, the main procedures would be to review legal correspondence and obtain legal opinion. Most Candidates did well for this question part.

Still continuing with the legal claim, the objective of **Part (e)** was to test the Candidates’ knowledge on the potential liability arising from the legal claim. Most Candidates correctly identified legal expenses needed to be accrued. However, a small number of Candidates wrongly considered a provision for bad debt as a liability.

**Part II**

This was a follow on from Part I. Candidates were required to evaluate the results of the accounts receivable circularisation and perform audit procedures on the reconciling items.

**Part (a)** focused on cash-in-transit, with most Candidates being able to describe the appropriate audit procedures adequately.

For **Part (b)**, where sales invoices were not recorded by the customer, the most important issue was likely to be goods-in-transit and this question part was generally well answered.

**Part (c)** tested Candidates understanding of a cut-off error, but quite a number of Candidates were not able to correctly identify this.

For **Part (d)** Candidates were expected to describe the audit procedures for sales returns that appeared in the reconciliation as a reconciling item. This meant that the company had not recorded the sales return and some Candidates answers were to trace the items to sales return entries, which did not exist. Again, this could have been a goods-in-transit issue.

**Question 4**

This case involved a new audit appointment. Shortly after signing the engagement letter, events occurred that expanded the terms of the audit engagement and therefore the audit engagement letter needed to be revised. The auditor was initially appointed to audit the group’s financial statements for the year ended 20x7. However, in compliance with regulatory requirements, the group will be re-issuing its financial statements for the year ended 20x6.
Part (a) required Candidates to outline whether the engagement letter should be revised in light of the need to re-issue the financial statements for the year ended 20x6. This question part was generally well answered.

Following on from Part (a), Part (b) required Candidates to evaluate the impact of re-issuing the 20x6 group financial statements on the upcoming audit. The case stated both the re-issued 20x6 financial statements and the 20x7 financial statements would be tabled at the upcoming annual general meeting. The main impact would be auditing two years of group financial statements instead of the originally planned one. This means additional resources should be deployed. The reason for re-issuing the 20x6 financial statements was because the financial statements were wrongly prepared and this increased the inherent risk of the audit, as management may not be competent in the financial reporting framework.

Overall, Part (b) was poorly answered with Candidates focusing on auditing the opening balances for 20x7 financial statements, ignoring the fact that 20x7 financial statements could only be prepared after the 20x6 financial statements were re-prepared and re-issued. This situation expanded the scope of the auditor’s role to include auditing the re-prepared 20x6 financial statements. As the new auditor will audit the re-prepared 20x6 financial statements, auditing the opening balances for 20x7 as part of initial engagement becomes irrelevant.

Part (c) was generally well answered as the Candidates were able to adequately explain how the audit report should reflect the audit of a new audit client.

Similarly, Part (d) was generally well answered as the Candidates were able to appropriately explain how the audit report should reflect the re-issuance of 20x6 financial statements.

In light of the requirements of SSA 701 Communicating Key Audit Matters in the Independent Auditor’s Report, Part (e) required Candidates to consider whether the audit of the re-prepared 20x6 financial statements should be included in the Key Audit Matters section in the audit report. Many Candidates did not recognise that the company was not a listed company and thus the requirements of SSA 701 did not apply.

Part (f) questioned Candidates on how the planned reliance on the component auditor would be affected given that the component auditor had failed to detect material misstatements in the prior year’s financial statements that led to the regulatory action. Most Candidates correctly pointed out that the level of reliance should be reduced from the originally planned level. Stronger Candidates were able to explain the additional procedures to be performed by the group auditor in view of the reduction in reliance on the work performed by the component auditor.

The last part of Question 4 (Part (g)) required Candidates to consider the impact on the audit report for the consolidated financial statements given that the component auditor issued a disclaimer of opinion on the component financial statements. Part (g) was generally well answered.