

SINGAPORE ACCOUNTANCY AND AUDIT CONVENTION 2017

Gearing Up for the Accountancy Futurescape



Jointly Organised by:



Addressing the Common Pitfalls of Key Inspection Findings

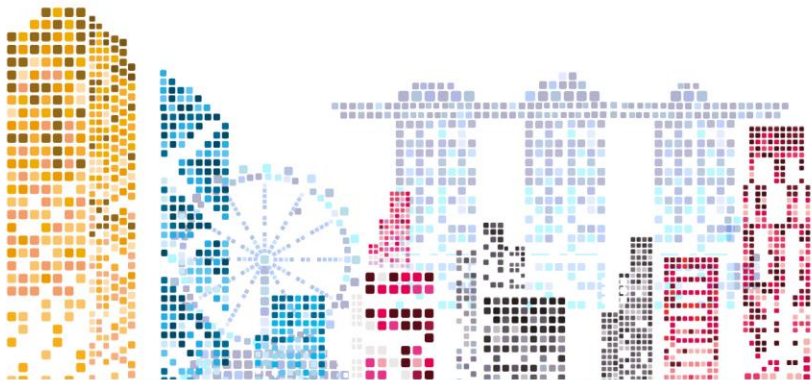
Singapore Accountancy And Audit Convention 2017
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Agenda

1. Scope of Practice Monitoring Programme
 2. Illustrative Audited Entity 1
 - Case Study 1 : Audit of Opening Balances
 - Case Study 2 : Change in Functional Currency
 - Case Study 3 : Audit of Inventories
 3. Illustrative Audited Entity 2
 - Case Study 4 : Valuation of Investment in a Subsidiary
 - Case Study 5 : Valuation of Trade Receivables
 - Case Study 6 : Valuation of Deferred Tax Assets
 4. Key Messages
- 

Scope of Practice Monitoring Programme

Firm-level Inspections	Engagement Inspections
<ul style="list-style-type: none">Inspect audit firms' quality controls	<ul style="list-style-type: none">Inspect audit engagements performed by public accountants (PAs)
<ul style="list-style-type: none">Applies to firms that audit listed companies	<ul style="list-style-type: none">Applies to PAs who audit:<ul style="list-style-type: none">- Listed companies- Non-listed companies
<ul style="list-style-type: none">Assessed based on Singapore Standard of Quality Control (SSQC) 1	<ul style="list-style-type: none">Assessed based on Singapore Standards of Auditing (SSAs)
<ul style="list-style-type: none">Advisory basis	<ul style="list-style-type: none">Mandatory under Accountants Act

Illustrative Audited Entity 1



Illustrative Audited Entity 1

Principal activities of Company A (holding company)

- Investment holding company
- Holds investment properties in United States of America

Principal activities of Subsidiary S1

- Manufactures and sells wafer machines
- Machines manufactured/assembled upon orders from customers

Other information on Company A and S1:

- Financial year-end : 31 Dec 2016
- Group audit opinion : Unqualified ¹
- Overall group materiality : USD300,000

¹Included in other matter paragraph that *“the financial statements of the company for the year ended 31 Dec 2015 were audited by another auditor who expressed an unmodified opinion”*

Case Study 1

Audit of Opening Balances



Case Facts:

- Initial audit engagement
- Prior year financial statements are audited by another firm

Work Performed

- Obtained current year's opening trial balance and agreed all opening balances to GL as at 1 Jan 2016
- Confirmed that prior year's closing balances have been correctly brought forward or restated if necessary



What should have been done



Consider reviewing predecessor auditor's working papers **(SSA 510.6)**



Consider the need to perform specific audit procedures to obtain evidence on opening balances **(SSA 510.6)**

Case Study 2

Change in Functional Currency



Case Facts:



- Company A changed its functional and presentation currency from SGD to USD during the financial year ended 31 Dec 2016
- No change in underlying transactions
- Change was due to incorrect assessment of SGD as functional currency in prior year
- Accounting policy: accounted for change **prospectively**
- Certain comparative figures from statement of financial position as at 31 Dec 2016 (**translated at year end rate of USD1: SGD1.4**) are as follows:

	31 Dec 2015 (USD m)	Remarks
Investment properties, at cost	6	Acquired 3 years ago when exchange rate was USD1: SGD1.2
Investment in subsidiary, S1	4	Incorporated in 2011 when exchange rate was USD1: SGD1.3

Case Study 2

Change in Functional Currency

Work Performed

- Merely completed a checklist to determine functional currency
- Documented that *“As discussed with director, Mr X, the Company has adopted USD as the functional currency **from 2016 onwards**”*



What should have been done

- PA should challenged management’s accounting policy of accounting for the change of functional currency prospectively since :
- No change in underlying transactions
 - Change in functional currency was due to incorrect assessment in prior year

Case Study 3

Audit of Inventories - #1 Unit Cost Testing



Case Facts:

- Raw materials amounted to USD5 m
- Total inventories amounted to USD15 m
- Significant fluctuations in raw material prices
- Disclosed in accounting policy note that *“Inventories were stated at the lower of cost and NRV.....**Cost is determined on weighted average basis..”***

Work Performed

Selected 20 raw materials samples:

- Traced the unit cost to the latest purchase invoices
- Differences noted (ranging from 3% to 7%) were not identified as exceptions



What should have been done

- Check if the inventories costing are properly done in accordance with the Group’s policy, i.e. weighted average
- Consider investigating the variances noted

Case Study 3

Audit of Inventories - #2 NRV Testing



Case Facts:

- Work-in-progress amounted to USD6 m
- Total inventories amounted to USD15 m
- Significant fluctuations in raw material prices
- Gross profit margins (“GPMs”) for the machines are thin (5% to 8%)

Work Performed

Selected 17 partially completed machines:

- Traced material and labour costs to supporting documents
- Compared budgeted costs to latest transacted sales price (certain samples compared against latest sales made during the year or prior years)



What should have been done

- Assess that budgeted costs approximate actual costs given the fluctuations in raw material prices and thin GPMs
- Where there are no sales subsequent to y/e, consider using latest sales order price agreed with customer for NRV testing

Case Study 3

Audit of Inventories - #3 Consignment stocks



Case Facts:

- Consignment stocks of USD1.5 m included in inventories
- Reversed via audit adjustment

Work Performed

Filed in the following



Inventory listing @
31/5/2016 from vendor



What should have been done

- Obtain confirmation from vendors on inventories held as at 31 Dec 2016 to ensure existence and completeness of the consignment stocks

Case Study 3

Audit of Inventories - #4 Inventory obsolescence



Case Facts:

- Total inventories USD15 m
- Aging of inventories not available

Work Performed

- Merely obtained management's representation that slow moving items can be sold



What should have been done

- Corroborate management's representation that the slow moving items can be sold. For example, obtain evidence of such sales

Illustrative Audited Entity 2



Illustrative Audited Entity 2

Company B
(Holding company)

Principal activities of Company B

- Distributes electrical appliances to both local departmental stores and retail customers

Subsidiary S2
(100% owned subsidiary)

Principal activities of Subsidiary S2

- Manufacturing and trading of electrical appliances

Other information on Company B and S2:

- Financial year-end : 31 Dec 2016
- Group audit opinion : Unqualified
- Group materiality : \$2,000,000

Case Study 4

Valuation of Investment in a Subsidiary



Case Facts:

Holding company	31 Dec 2016 \$m	
Investment in subsidiary, S2	50	
Subsidiary S2	31 Dec 2016 \$m	31 Dec 2015 \$m
Revenue	1	1.2
Loss after tax	(2)	(1)
Net total assets (NTA)	40	45
Net operating cash flows	(5)	(4)

Indicators of Impairment



Continuing trend of losses for both 2015 and 2016



Cost of investment > NTA by \$10 m



Negative operating cash flows

Case Study 4

Valuation of Investment in a Subsidiary

Work Performed

- Documented that based on discussion with management, no impairment required:
 - S2 is in final negotiation with potential new customer to secure huge sales



What should have been done



Obtain management's assessment of recoverable amount (higher of VIU vs FVLCS)



Obtain corroborative evidence that the potential huge sales orders would materialise

Case Study 5

Valuation of Trade Receivables



Case Facts:



Company B	31 Dec 2016 \$m
Trade receivables	15

Overdue by	Outstanding balance, net of subsequent receipts \$m	%
0 to 30 days	0.9	8
31 to 60 days	0.8	7
61 to 90 days	0.7	6
> 90 days	9.2	79
Total	11.6	100

Credit terms : Payment on delivery

Case Study 5

Valuation of Trade Receivables

Work Performed

- Selected 15 samples of trade receivables, totalling \$11.25 m and checked to subsequent receipts of \$3.4 m
- Discussed and management represented that no impairment necessary since no history of bad debts



What should have been done

- Investigate on the long outstanding receivables overdue > 90 days
- Corroborate management's representation that there is no bad debts historically

Case Study 6

Valuation of Deferred Tax Assets



Case Facts:



Deferred tax assets of \$27.5m recorded (11% of total assets)

Case Study 6

Valuation of Deferred Tax Assets

Work Performed

- Performed arithmetical computation of deductible and taxable temporary differences
- Documented that management represented that Company had been profitable historically and would be profitable in future



What should have been done

- Challenge management's assumption that Company would remain profitable and there will be sufficient taxable profits against which deductible temporary differences can be utilized - obtain evidence to corroborate

Key Messages



Audit evidence

- Sufficient
- Appropriate
- Adequate and timely documentation



- Robust root cause analysis

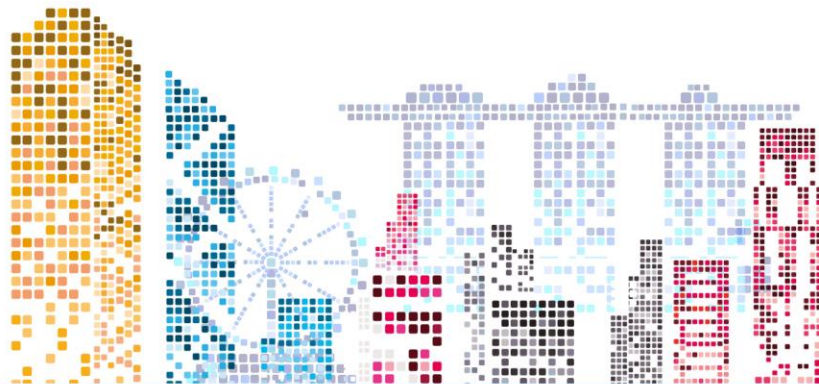


- Effective remediation plans

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Thank you!



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