Chartered Accountant SINGAPORE

SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

MODULE: Assurance (ASF)

EXAMINATION DATE: 22 June 2023

Section 1
General comments

The overall performance for this exam is comparable to the previous exam in December 2022.

Questions for the following areas/topics were not done well:

- Audit Procedures and Assertions - Not satisfactorily performed despite being one of the common topics that is tested in almost every examination.

- Audit of bank reconciliation – From the answers, it seems that some Candidates did not understand the purpose of a bank reconciliation.

- Computer Assisted Audit Techniques – Some Candidates did not attempt this question, suggesting a lack of preparation in the topic.

Section 2
Analysis of individual questions

Question 1

The overall performance of this question was unsatisfactory.

Part (a) tested Candidates' knowledge on assertions. Candidates were asked to explain the four assertions affecting sales transactions, namely, completeness, occurrence, cutoff and accuracy.

We observed that Candidates did not perform well in relation to the completeness assertion and the cutoff assertion. Some did not know that completeness assertion referred to the completeness of recording of the sales transactions in accounting ledgers. Cutoff assertion is concerned with whether the transactions are recorded using dates which are in the financial year when the transactions occurred. Some did not know that cutoff error could lead to either overstatement or understatement of sales transactions.

Part (b) required Candidates to, based on the sales system in the case, identify and explain the assertion that is the most susceptible to misstatement. This question part was poorly attempted. Some Candidates who correctly identified the cutoff assertion as the most susceptible to misstatements lost marks in not providing clear explanations. Candidates who did not know the assertions well were unable to provide sound explanations, with many receiving zero marks. For example, Candidates suggested completeness as the main issue and explained that sales could be recorded before it is earned.

Part (c) required Candidates to design TWO tests of details (TOD) of transactions to be performed in relation to the four assertions, namely, completeness, occurrence, cutoff and accuracy. This question part was also poorly performed.

Majority of Candidates wrote only one TOD. They did not design the TOD base on the case's information. For example, in the case's information it was stated that the sales were self-collected by the customers from the shop and the company did not use delivery notes. A few Candidates provided answers regurgitated from study materials and wrote about delivery notes as the source documents to be tested.

Part (d) required Candidates to describe the audit procedures to be performed to confirm that all the cash collected from the sales were fully deposited into the bank account.

Candidates lost marks because they did not read the case carefully. Most Candidates wrote about tracing the daily sales in the sales journal to the bank deposit slips. However, the sales journal includes sales invoices that were not yet collected. Thus, their selected source of selection was inappropriate.

Part (e) asked Candidates to suggest how a copy of the Microsoft Excel containing the sales order details could be used to automate some of the TOD. A number of Candidates did not attempt this question suggesting a lack of knowledge of the audit software approach in Computer Assisted Audit Techniques.

Question 2

Question 2 tested Candidates' knowledge on the audit of bank reconciliation prepared by the audit client. Candidates were provided with a bank reconciliation and were asked to describe the audit procedures to be performed on specific elements of the bank reconciliation and explain whether adjustments should be made to the cash book and income statement.

Generally, Candidates could correctly describe most of the audit procedures to be performed except for the audit procedure relating to deposit directly credited into the entity's bank account. Candidates wrongly treated this as uncleared cheque deposits. It appeared that Candidates did not know how direct deposit could be a source of reconciling difference.

In terms of adjustments to be made, some did not realise that cash on hand should not be a reconciling item in the bank reconciliation. Some could not differentiate between bank statement and cash book and stated if an item is included in both the bank statement and the cash book, then the item is double counted.

Candidates were also required to explain whether certain items, such as cash-in-transit, in the payable reconciliation and receivables should also be included in the bank reconciliation. Some Candidates could not establish the linkage.

Part (e) asked Candidates to consider the implications if the casting of the bank reconciliation showed that the numbers did not add up. This question was very poorly answered suggesting the lack of understanding of why auditors cast the bank reconciliation.

Question 3

Three issues were given in the case information:

- Ordinary shares issued after year end;
- Subsequent settlement of a legal claim which existed at year end; and
- Inventory's net realisable value (NRV) issues relating to a defective product.

Candidates were asked to discuss how the above issues should be reflected in the financial statements. Some Candidates were unfamiliar with the difference between "disclosed" and "recognised". Some stated that the legal claim should both be disclosed as a contingent liability and recognised as a provision. Some were confused with the financial statements and the auditor's report and suggested that the legal claim should be disclosed in the auditor's report as an Emphasis of Matter (EOM).

Candidates were also asked to describe TWO audit procedures in relation to existence of the legal claim and the final amount of the settlement. Candidates lost marks if they only provided one audit procedure.

Lastly, Candidates were required to recommend an appropriate audit opinion if the legal claim was appropriately reflected in the financial statements and explain whether it was necessary to include an EOM to reflect the issue. Most Candidates suggested the opinion correctly but wrongly suggested that an EOM should be added. Candidates did not understand that the legal claim is not a matter of fundamental importance to users' understanding of the financial statements.

Question 4

Part (a) required Candidates to explain THREE advantages for companies exempted from audit to have their financial statements audited. Most answers focused on the added creditability provided by an independent audit but did not identify improvements in controls arising from the auditor's observation of control deficiencies and recommended improvements.

Part (b) tested Candidates' knowledge on how the PMP contributes to the high quality of an audit. Most Candidates were able to describe the PMP process but not many could explain how this leads to high quality of an audit.

Part (c) provided information on a potential new audit client and asked Candidates to evaluate various factors and conclude whether the audit engagement should be accepted.

Candidates did well for this question part and many Candidates scored full marks, if not near to full marks. For the rest, marks were lost when Candidates failed to explain how a lack of experience of the client's industry could affect the effectiveness of an audit.

Part (d) tested the Candidates' knowledge on the purpose of the professional clearance process. Most Candidates were able to answer this question well.

Part (e) asked about how the outgoing audit firm should handle a professional clearance letter from the incoming audit firm in two different scenarios:

i. The entity management gave permission for the outgoing audit firm to communicate with the incoming audit firm.
ii. The entity management refuses to give permission for the outgoing audit firm to communicate with the incoming audit firm.

Some Candidates provided answers from the perspective of the incoming audit firm.

Generally, this question was fairly answered.