

SINGAPORE CA QUALIFICATION EXAMINER'S REPORT

MODULE: Assurance (AS)

EXAMINATION DATE: 9 December 2024

Section 1

General comments

The overall performance for the December 2024 exam was better than the past examinations.

Candidates performed better on more common and less complex topics such as (i) audit procedures for revenue, cash and bank balances, inventories and borrowings, (ii) payroll data reliability tests, (iii) subsequent event audit procedures, and (iv) evaluation of case facts that lead to an adverse audit opinion.

Similar to previous exams, Candidates did not perform well on questions that require critical thinking, such as evaluation of risks using the 3-point response scale, providing audit procedures for impairment assessment and capitalisation of intangible assets, and describing audit procedures to challenge and collaborate management's assumptions used in the value-in-use assessment.

Candidates are advised to read the case facts and question requirements carefully before attempting each question to avoid losing unnecessary marks due to misinterpretation or missing out important facts.

Furthermore, Candidates are advised to read through all the questions at the beginning and plan out how you want to allocate your time. Time should not be wasted on stating lengthy paragraphs from the standards or the case facts, which will lead to no additional marks awarded. Focus on addressing those questions that you can do quickly as the four exam questions are further divided into smaller parts and some of them are independent from each other with sufficient facts in the sub-question itself.

Section 2

Analysis of individual questions

Question 1

For **Part (a)**, Candidates were required to identify and rate one financial statement level risk and provide their justification.

Most of the Candidates could identify that there was a heightened risk in financial reporting given the management's motivation to manipulate the financial results for higher performance bonuses. However, majority of the Candidates could not correctly identify an appropriate financial statements level risk. Instead, they identified risks at assertion level, e.g. overstatement of revenue.

For **Part (b)**, Candidates were asked to rate two assertion level risks, i.e. occurrence and completeness, for revenue and provide their justification based on the five inherent risk factors.

Candidates generally performed well and were able to make good use of the table format given to structure their answers.

Some of the Candidates failed to see that completeness assertion is not subject to heightened risk given the facts shared in the case (management wanted to manipulate the financial results for higher performance bonuses).

Some of the Candidates failed to understand that when assessing the likelihood and magnitude using the 3-point response scale, there should only be one set of response for each assertion. Instead, these Candidates applied the 3-point response scale for each of the five inherent risk factors, showing their lack of understanding of the risk concept at assertion level.

For **Part (c)**, Candidates were asked to indicate control objectives and test of control procedures for three revenue assertions, i.e. occurrence, accuracy and cut-off.

Most of the Candidates were able to indicate the appropriate control procedures for occurrence and cut-off assertions. However, a majority of them were not able to properly state the control objectives or failed to distinguish between control procedures vs control objectives.

For accuracy of revenue, most of the Candidates referred only to the mathematical accuracy and hence re-calculation of price formula but failed to make reference to the approved price and discount list for verification of inputs.

For **Part (d)**, Candidates were asked to describe two subsequent events procedures.

Majority of the Candidates were able to describe two subsequent events procedures. However, there were also Candidates who went on to discuss the difference between adjusting and non-adjusting events after balance sheet date.

Question 2

For **Question 2**, Candidates were asked to explain one audit procedure on the appropriateness of the change in the functional currency and two audit procedures on accurate conversion of the balances as of 1 January 2024.

Most of the Candidates were able to assess what the new functional currency of Teophys should be and how they should verify the supporting documents to support their assessment. However, most of them failed to name an audit procedure to ascertain the appropriateness of the change in the functional currency and only a small percentage of Candidates mentioned that they would evaluate management's rationale behind the change in functional currency.

As to the two audit procedures on the accurate conversion of the balances as of 1 January 2024, most of the Candidates indicated exchange rate reasonableness test and recomputation of the balances. There were lesser Candidates who were able to point out clearly the rates applicable for different balances/amounts, e.g. closing rate for assets and liabilities, the historical rate for share capital and dividends etc.

Additionally, it was noted that many Candidates quoted lengthy paragraphs from the accounting standards, leading to unnecessary time spent with no additional marks awarded for these responses.

Question 3

In **Question 3**, Candidates were asked to describe audit procedures for the following items:

- Cash and bank balances, inventories, long-term borrowings [**Part I(a)**],
- Impairment charge against PPE and ECL for other receivables [**Part I(b)**],
- Classification of preferred shares and recognition of intangible assets (certification cost) [**Part II(a)**], and
- Reliability of data for new joiners, resignees and existing employees [**Part III(a)**].

In general, Candidates did very well on **Part I(a)** and **Part III(a)**, which were questions that involved less complex accounts/areas. However, some Candidates still gave the answer of reviewing predecessor auditor workpapers for **Part I(a)**, even though it was stated in the question paper that it would be unable to do so.

Candidates did poorly on more complex accounts/areas, for example, for **Part II(a)**, instead of responding on whether the certification fee should be deemed as part of the intangible assets, some Candidates perceived the question to be asking whether the intangible asset is properly valued and hence their answer revolved around the amortisation, fair value means and impairment loss. In **Part I(b)**, it was also evident that Candidates had little knowledge on how to properly test impairment charge against PPE and ECL. Even those who scored some marks for this question, their answers given were generic answers and not customised to the case facts.

Question 4

Overall, time management could be improved as there were quite some Candidates who had not attempted this question or parts of this question.

For **Part I(a)**, Candidates were required to explain three management assumptions used in management's value-in-use assessment and describe one audit procedure each to address their scepticism of those assumptions.

Candidates were able to identify the assumptions where further examination was required. When answering the question, less non-relevant quoting references from the standards was noted as compared to past examinations. Candidates generally had approached this question directly.

However, Candidates' ability to analyse and synthesize information provided in the case varied across the cohort. While many demonstrated a basic understanding of the value-in-use assessment, there was a clear divide between those who could critically evaluate the details and those who relied on surface-level assessments.

For **Part II(a)**, Candidates were required to propose an appropriate audit opinion.

This question was well-attempted, with the majority of Candidates correctly identifying that an adverse opinion would be appropriate due to the materiality of the subsidiary to the group and pervasiveness of the accounts impacted. A minority, however, did not adequately explain the rationale behind their choice, suggesting a gap in fully articulating the implications of the facts on audit conclusions.

For **Part III**, Candidates were asked to **(a)** explain two unusual observations from the test of details for occurrence of revenue table and thereafter **(b)** describe three appropriate courses of actions arising from the observations.

Most of the Candidates were able to explain two unusual observations from the test of details for occurrence of revenue table, i.e. customer's acknowledgement on the Delivery Order was signed off post year end for 2 out of the 5 samples. Candidates who failed to answer correctly focused their explanations on the materiality of individual transactions relative to the overall materiality threshold.

Candidates did extremely badly in describing the appropriate courses of actions arising from the observations. Most of them can only provide one course of action which was to reperform the test of detail and were not familiar with other common courses of action like quantification/adjustment of errors by management and communication of potential significant deficiencies (given material errors identified) to those charged with governance.

For **Part IV(a)**, Candidates were required to outline three specific areas that should be included in the going concern disclosure note.

Most of the Candidates were able to list out the specific areas that should be included in the going concern disclosure note, i.e. current going concern uncertainties, impact of geopolitical and economic conditions, and mitigating factors (collateralised loan and long-term loan). Few Candidates commented on the financial forecasts and assumptions.

For **Part IV(b)**, Candidates were required to propose an appropriate audit opinion based on facts given in relation to the appropriate use of going concern basis.

Many Candidates incorrectly stated that an unmodified opinion with an Emphasis of Matter paragraph or Material Uncertainty related to Going Concern (MUGC) paragraph would be appropriate. This suggested a notable knowledge gap in grasping the nuances of MUGC disclosures and appropriate audit opinions to be rendered.