

SINGAPORE CA QUALIFICATION EXAMINER'S REPORT

MODULE: Assurance (AS)

EXAMINATION DATE: 19 June 2024

Section 1

General comments

The overall performance for the June 2024 exam was comparable to the prior examination.

Candidates performed well on commonly tested topics such as audit analytics, audit procedures, and evaluation of misstatements and their implications on audit reports. While Candidates could provide standard audit procedures, they struggled to customise them based on the case to address the risk of material misstatements.

Additionally, Candidates did not perform well on questions that require critical thinking such as describing fraud scenarios and controls. Many Candidates were unable to identify controls to address risks (e.g., unauthorised changes to the vendor master file or determine the root causes or control lapses related to the identified misstatements).

Candidates are advised to read the case facts and question requirements carefully before attempting each question to avoid losing unnecessary marks. Furthermore, some Candidates provided more answers than required, leading to unnecessary time spent with no additional marks awarded for these responses.

Section 2

Analysis of individual questions

Question 1

For **Part (a)**, Candidates were required to identify and explain 5 unusual transactions and quantify the impact on the financial statements.

The majority of the Candidates identified the 5 unusual transactions and provided reasons for the investigation. However, marks were lost when they failed to provide justifications with workings. Candidates should read the question requirement carefully as no marks were awarded for identifying more than 5 transactions.

Most Candidates identified the financial impact on the income statement but not on the balance sheet when asked to quantify the impact on financial statements.

Candidates who successfully recognised the financial impact on the balance sheet were unable to identify the correct account. Many Candidates failed to identify the account which was other payables/other receivables.

Candidates provided an overall explanation when they grouped the transactions by nature. Marks were not awarded when Candidates did not elaborate specifically on the cause of the error such as sales return not being considered, or the wrong rate applied.

For **Part (b)**, Candidates were required to state the 2 underlying causes for the issues identified in part (a).

Candidates who did not perform well on this question failed to understand the question was asking for 2 root causes of the errors identified in part (a).

Among those who grasped the intent of the question, Candidates successfully identified issues such as the lack of a proper check or review/approval process, staff carelessness, or a lack of understanding of the latest approved commission tiers.

For **Part (c)**, Candidates were asked to provide audit procedures to verify whether the sales return should be considered when processing commission payments for Q4 2023.

Whilst most Candidates explained that the credit notes should be reviewed, some Candidates failed to identify the period that the credit notes should be reviewed (i.e., verify that the credit notes were issued in Q4 2023). Candidates also recognised the importance of matching the credit notes to the sales invoices, however, they overlooked the verification process of credit notes and sales invoices against the delivery documents. Additionally, most Candidates failed to recognise the necessity of verifying if the sales returns were properly authorised.

Question 2

For **Part (a)**, Candidates were asked to evaluate whether to rely on the work of Vivo's internal audit function for the purpose of its external audit.

Generally, Candidates had a good understanding of the requirements and were able to apply the case information to evaluate and support the reliance on the IA function.

For **Part (b)**, for each of the areas of Work Done by the IA team, Candidates were required to evaluate how ACE may rely on the IA team's work to reduce the extent of audit procedures. Candidates are also expected to identify 1 relevant assertion which was addressed by the Work Done.

For **Part (b)(i)**, majority of the Candidates correctly concluded that ACE could use the Internal Audit (IA) work done but failed to describe how they could leverage the IA work for the audit.

Many Candidates failed to recognise that ACE was not able to rely on the IA work done on the inventory in the Guangzhou warehouse as the judgement is required to provide the estimate and it represented a significant percentage of Vivo's total inventory.

Part (c) required Candidates to discuss the implications of the audit opinion.

Most Candidates failed to comment that the impact on profit before tax was immaterial.

For **Part (d)**, Candidates were required to discuss whether Norman could accept the BOD's invitation with reference to the Code of Corporate Governance.

Whilst Candidates concluded that Norman could not accept the BOD's invitation, some Candidates failed to identify the financial interest that Norman had in ACE as a senior advisor.

For **Part (e)**, Candidates were asked to provide 2 reasons on whether ACE can provide the assurance report.

Part (e) was the worst-performing question part of the paper. Most Candidates cited self-review threat as the reason for ACE not being able to issue the assurance report. This implied Candidates' lack of understanding of performing the test of controls for the financial statements audit and the procedures in order to issue the assurance report.

Question 3

Part (a) required Candidates to identify 3 potential ethical threats and the appropriate safeguards to AA's independence. Candidates were also required to conclude with justification whether AA could accept the request.

Generally, Candidates displayed a good grasp of the question, effectively identifying the ethical threats and safeguards associated with how the provision of payroll processing services could affect AA's independence in their responses.

Some notable areas for improvement were as follows:

- i) Candidates were not able to fully relate the familiarity threat to the context of payroll services or accurately explain the self-interest threat's financial implications. They associated the familiarity threat to a 'long-time audit client of AA and the specific issues related to payroll services were not addressed which could blur the line between the management and AA.
- ii) Most Candidates failed to apply the theoretical concepts to the question requirements. Candidates must be able to demonstrate an understanding of the issues by providing supporting explanations to the specific context.
- iii) Whilst the Candidates correctly concluded that AA could accept the request provided the safeguards could reduce the threats to an acceptable level, some Candidates failed to recognise that WL was not a public interest entity.

For **Part (b)**, Candidates were asked to discuss the appropriateness of Zena's appointment of Engagement Quality Reviewer (EQR).

Generally, Candidates did not perform well in **Part (b)**. Most Candidates concluded that Zena possessed the experience and skills to be the Engagement Quality Reviewer (EQR), though she was a newly promoted partner. Most Candidates failed to discuss that Zena was too junior and lacked the seniority and experience as well as she might feel intimidated and reluctant to raise issues relating to the quality of the senior partner's audit.

Some Candidates misinterpreted the question requirement: assessing the appropriateness as an audit engagement partner instead of EQR.

For **Part (c)**, Candidates were required to list 3 evidence that should be documented. Candidates successfully identified the audit evidence required for this audit procedure. Some Candidates failed to understand the question requirements: (i) they focused on the fraudulent payment and (ii) failed to identify the audit evidence needed for testing the relevant assertions for trade creditors or (iii) listed the audit procedures instead of identifying audit evidence.

Part (d) required Candidates to describe 2 actions to be undertaken by the Finance Manager to reduce the risk of unauthorised bank account changes.

Candidates who performed well successfully identified the controls (call back, checking to alternative/independent sources) to address the risk arising from unauthorised bank account changes.

On the other hand, Candidates, who did not perform well, provided generic actions that did not address the risk directly and this implied that they did not understand the root cause of the issue, hence, they failed to identify the controls that directly addressed the risk of unauthorised bank account changes.

Question 4

For **Part (a)**, Candidates were required to describe 2 possible fraud scenarios if the information on unit price and quantity were not removed from the copies of the PO forwarded to the receiving department. For each scenario, Candidates were required to discuss the impact of the risk of material misstatement (RoMM) and its overall impact on its cash flow and profitability.

Generally, Part (a) was poorly performed as the Candidates failed to identify 2 fraud scenarios as part of the question requirement.

Most Candidates identified 1 fraud scenario (i.e., under-reporting the quantity received) and identified the RoMM and discussed its impact on profitability.

Some Candidates failed to identify the fraud scenario when they explained that the receiving department skipped an independent count which could lead to undetected discrepancies in the quantities received.

Candidates described that the receiving department could access the system to edit the POs, and this demonstrated that Candidates had a poor understanding of the process flow within the procurement department and receiving department.

For **Part (b)**, Candidates were required to explain why the date of GRNs is critical for assessing the completeness of accounts payable and state an impact to the final conclusion on the accounts payable balance arising from improper application of the audit procedure.

Most Candidates did not identify that failure to properly scrutinise the date of the GRN would result in insufficient evidence as part of the audit procedure to ensure the completeness of accounts payable.

Part (c) required Candidates to explain the impact on overall audit risk and describe two actions to take that prevent the occurrence of such incidents.

While many Candidates demonstrated a good understanding of audit risk and detection risk, a small number of Candidates did not elaborate on the impact of overall audit risk.

Candidates were then required to describe two actions that could prevent similar incident re-occurrence. While many Candidates identified training as one of the appropriate actions to prevent a similar incident occurrence, some Candidates misinterpreted the question and responded with audit procedures.

Candidates, who scored well demonstrated knowledge of engagement management. They elaborated on the role of guiding junior staff and the role of a senior team member in terms of engagement oversight.

In **Part (d)**, Candidates were required to:

- i) Identify and explain 4 possible RoMMs;
- ii) Describe 1 audit procedure to test additions of new machines;
- iii) Describe 2 audit procedures to evaluate useful lives; and
- iv) Describe 1 audit procedure to test disposal of the machine.

For **Part (d)(i)**, several Candidates successfully identified the accidental capitalisation of the repairs but maintenance was incorrect. Most Candidates failed to identify the FX (foreign exchange) error in the additions. Some Candidates listed out 4 generic RoMMs without the application to the case facts.

Most Candidates performed well for **Parts (d)(ii) and (iv)** and successfully identified the audit procedures to test additions and disposals of machines.

In **Part (d)(iii)**, Candidates failed to identify the audit procedures to evaluate the reasonableness of useful life for the new machines. Some Candidates failed to explain the difference between the old and new machines when mentioned to assess the useful lives of the old machines.

Overall, Question 4 was the worst-performing question of the paper.