Chartered Accountant SINGAPORE

SINGAPORE CA QUALIFICATION EXAMINER'S REPORT

MODULE: Assurance (AS)

EXAMINATION DATE: 17 June 2025

Section 1
General comments

The overall performance for the June 2025 exam was comparable to previous examinations, with results lower than those of the December 2024 exam.

Candidates demonstrated stronger performance on topics that were more common and less complex, including (i) accounting for goodwill; (ii) audit procedures related to the capitalisation of research and development costs, inventory valuation, and non-compliance with laws and regulations such as bribery; (iii) general IT controls; and (iv) subsequent event audit procedures.

Like 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 related to management's assumptions used in the discounted cash flow projections, and describing substantive analytical procedures for financial statements' accounts, such as revenue, trade receivables and salaries and wages.

Candidates are strongly encouraged to thoroughly review the case facts and question requirements prior to answering each question. This will help prevent the loss of marks resulting from misinterpretation, omission of key facts, or failure to address all components of the question, noting that some questions may contain multiple requirements.

Furthermore, Candidates are advised to read through all the questions at the beginning and plan how they want to allocate their time. It is recommended not to quote lengthy paragraphs from the standards or the case facts as this does not contribute to gaining marks.

Section 2
Analysis of individual questions

Question 1

For **Part (a),** Candidates were required to assess the likelihood, magnitude, and inherent risk for the two different types of revenue and evaluate inherent risk at the assertion-level based on the inherent risk factors: Complexity, Subjectivity, Change, Uncertainty and Susceptibility to misstatement due to management bias and other fraud risk factors.

Candidates generally showed sound knowledge of revenue recognition principles and were able to differentiate between complex and straightforward revenue streams. Many correctly identified that turnkey projects involve greater judgment and therefore higher risk, while maintenance services are lower risk due to fixed terms.

Some Candidates had inconsistencies in their risk assessment (e.g. rated mostly low for Complexity, Subjectivity, Change, Uncertainty and Susceptibility for accuracy of revenue for maintenance services but overall rating for likelihood, magnitude and inherent risk as high.)

For **Part (b)**, it required Candidates to identify and describe areas of general IT controls to test.

This part of Question 1 was generally well attempted. Most Candidates have a good understanding of the different components for IT general control which include logical access, change management and IT operations controls.

For **Part (c)**, Candidates were asked to suggest relevant substantive analytical procedure to perform for revenue, trade receivables and salaries and wages accounts.

Most Candidates demonstrated unsatisfactory performance on this section of Question 1. A significant number of Candidates incorrectly classified tests of details as a type of substantive analytical procedure, while others simply proposed basic analytical methods, such as comparisons with figures from prior years.

Part (d) asked Candidates to address management assertions regarding the absence of an annual impairment assessment for Goodwill, which constitutes a substantial part of the company's total assets, and its classification as an intangible asset.

Most Candidates correctly cited the requirement under FRS 36 *Impairment of Assets* that goodwill must be tested for impairment annually, regardless of whether any indicators of impairment exist. However, when addressing the next appropriate course of action, only a small number of Candidates demonstrated a full grasp of the auditor's responsibilities. Only a few were able to explain that the auditor should:

- Evaluate the design and effectiveness of management's internal controls over impairment testing; and
- Assess the reasonableness of key assumptions used by management in their impairment model, such as growth rates, discount rates, and cash flow projections.

A common error was that Candidates inappropriately focus on the initial recognition or measurement of goodwill, instead of impairment testing.

As for Goodwill as intangible assets, most Candidates correctly identified that goodwill should not be grouped under intangible assets on the balance sheet. They rightly pointed out that, in accordance with FRS 1 *Presentation of Financial Statements* and FRS 38 *Intangible Assets*, goodwill is a separate line item due to its nature and materiality.

Question 2

Part A(i) required Candidates to identify and explain the risk of material misstatement ("ROMM") arising from the issues described, and for each ROMM identified, describe and explain appropriate audit procedures to address the identified risk.

While most Candidates were able to demonstrate a general understanding of the risks involved, some Candidates omitted the ROMM explanation and proceeded directly to the audit procedures, which led to a substantial loss of marks.

Regarding the issue on capitalisation of Research and Development costs, most Candidates correctly identified the risk of inappropriate capitalisation of development expenditure in breach of FRS 38 *Intangible Assets*, potentially overstating intangible assets. Appropriate audit procedures, such as inquiries with project managers or inspection of internal approval documentation, were commonly suggested but there was a lack of elaboration. For example, Candidates frequently cited "inquire with management" without stating the objective or what specific evidence the inquiry was meant to obtain (e.g., to gather insights into potential delays or technical difficulties that could affect the feasibility of future economic benefits).

For the Inventory Valuation of Hardware Products issue, some Candidates incorrectly applied FRS 36 *Impairment of Assets*, using concepts such as "value in use" and "fair value less cost of disposal"—which are not applicable to inventories.

While some Candidates correctly identified net realisable value (NRV) testing as one of the audit procedures, they did not elaborate on how to perform such a test. For instance, a stronger response would refer to reviewing sales invoices post year-end to support the NRV.

Most Candidates correctly identified the ROMM related to Bribery at Overseas Subsidiary, noting the risk of understatement of provisions or omission of disclosures for contingent liabilities under FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Some Candidates confused between provisions and contingent liabilities, indicating a need for clearer understanding of recognition versus disclosure requirements.

A few better-performing Candidates highlighted the importance of local knowledge and suggested that the overseas network firm could be engaged to perform specific audit procedures. This is a commendable and practical response in the context of a multinational audit.

In terms of audit procedures, many Candidates again resorted to generic statements like "inquire with the board" without clarifying the intent (e.g., to assess knowledge of the bribery or obtain legal updates).

For **Part A(ii),** Candidates were required to describe and explain three actions to take in accordance with the pronouncement of Responding to Non-Compliance with Laws and Regulations (NOCLAR) in relation to the bribery allegations at the overseas subsidiary.

Candidates who understood the requirements of the question generally did well. However, some Candidates misinterpreted the question and went on to describe the disciplinary or enforcement actions that should be taken by regulators/management and the issuance of qualified opinion arising from the bribery allegation instead of focusing on the auditor's ethical responsibility under Ethics Pronouncement (EP) 100 *Code of Professional Conduct and Ethics* ("ISCA Code").

Part B(i) required Candidates to discuss a fundamental principle that that has been violated in the ISCA Code and suggest one way on how the audit firm can prevent future occurrences of similar situation.

This question was generally well-attempted. Most Candidates were able to correctly identify that the principle of confidentiality was violated and were also able to provide a suggestion to prevent future occurrences. However, as the recommendation of one suggestion is a 2-mark question, Candidates should note that simply stating a generic point such as "conduct training" is insufficient to obtain full marks. To be awarded the full 2 marks, the suggestion must be elaborated — it should clearly explain how the proposed action (e.g., implementing a social media policy, mandatory annual ethics training, or requiring staff declarations of compliance) would help prevent future breaches of confidentiality.

Question 3

For **Part A(i)**, Candidates are asked to describe and explain specific audit procedures used to assess the reasonableness of management's assumptions regarding projected revenue, projected operating costs, and the discount rate.

Many Candidates failed to reference the specific case study details, such as climate-related risks, which led to answers that deviated from the main points. Their responses often did not effectively address management's assumptions, largely because Candidates demonstrated a lack of understanding of the underlying assumptions in the first place.

For example, for projected revenue, management expected revenue to grow at 5% annually despite the increase in downtime, infrastructure damage and supply chain disruptions caused by climate-related risks, as evidenced by a significant flooding incident two years ago in 2023. Few Candidates correctly suggested the need to examine the historical revenue patterns in the aftermath of 2023 flooding incident and compare these patterns with the projected impact of future extreme events and assess if the 5% annual growth assumption is reasonable. Most responses were general in nature, often referencing industry trend comparisons or suggesting inquiries with management to clarify underlying assumptions.

To evaluate the reasonableness of management assumptions regarding the impact of regulatory and compliance costs on projected operating expenses, one approach is to review relevant environmental regulations anticipated to be enforced within the next two years and determine their potential effect on operational cost projections.

Additionally, Candidates generally provided more complete responses when addressing the assessment of discount rate assumptions.

For **Part A(ii)**, Candidates are required to explain a management assumption relating to capital expenditure that Candidates are sceptical about and explain relevant audit procedures to address the management assumption.

Some Candidates failed to refer to the given scenario to identify the management assumption that required further consideration and audit procedures. Instead, the Candidates suggested general audit procedures to test existence of property, plant and equipment, instead of procedures to test management's assumptions and estimates.

Part B(i) required Candidates to evaluate management assertion that no impairment to the non-financial assets of the subsidiary (CGU) is required, although the recoverable amount of CGU is less than carrying amount.

This part is generally well attempted by Candidates, who showed understanding of the requirements and ability to analyse. However, a handful of Candidates has misinterpreted the question, and unnecessary time was spent in analysing from the angle of materiality as a consideration on whether impairment is required.

Part B(ii) required Candidates to evaluate management's assertion that the value in use computation is overly conservative.

While most Candidates were able to critically assess and challenge management's assertions, many did not provide sufficient explanation or justification for their responses.

Part B(iii) required Candidates to suggest an alternative method to determine the recoverable amount of the CGU.

This is a direct question, but a handful of Candidates failed to identify the alternative method.

For **Part C(i)**, Candidates were asked to assess management's assertion that damages resulting from a subsequent event do not need to be recorded in the Group's financial statements.

This part was generally well addressed, and Candidates were able to clearly differentiate between adjusting and non-adjusting events.

For **Part C(ii)**, Candidates were required to recommend specific areas that should be included in the subsequent event disclosure note in the financial statements.

This part was generally not very well answered, as Candidates seemed to lack the application knowledge on what was required in subsequent event disclosure. Some Candidates inappropriately discussed going concern issue or the qualification of auditor's report.

Part C(iii) required Candidates to explain whether an Emphasis of Matter on the subsequent event was required in the Group's independent auditor's report.

Most Candidates demonstrated knowledge of this topic and provided clear explanations of their reasoning.