Chartered Accountant SINGAPORE

SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

MODULE: Assurance (ASF)

EXAMINATION DATE: 25 June 2024

Section 1
General comments

The overall performance for this examination is not satisfactory, particularly in the following areas:

- Test of details based on assertions are tested in every exam and Candidates still showed confusion between completeness and occurrence assertions, completeness and cutoff assertions. Furthermore, there is lack of understanding of the “Accuracy, Valuation and Allocation” assertion. The specific comments for Question 3(c) below illustrate this further.

- The second worst performing question is **part (a)** of Question 3 which relates to auditor’s report, despite auditor’s report has been tested in every past exam.

- Another disappointment is the quality of answers on the audit of subsequent events. It seems that some Candidates did not understand the actions that auditor should take when the entity amended its financial statements based on events uncovered after the financial year. Comments on Question 3 **part (c)** provided more details on this. This is the worst performing question part of the entire paper.

- A common weakness observed is that Candidates did not use the information provided in the case scenario as context in answering the question requirement. This weakness is reflected in Candidates’ answers for Questions **2(b), 2(e), 3(a), 4(a) and 4(b)**.

Section 2
Analysis of individual questions

Question 1

Question 1 tested Candidates’ knowledge on the appointment stage and the planning stage of the audit process.

SSA 210 requires the auditor to establish whether the preconditions for audit are present, as part of consideration on whether to accept or continue an audit engagement.

Part (a) is the worst performing question part of this question.

In **part (a)**, Candidates were asked to identify and explain THREE preconditions that are not present in the case scenario.

Additionally, Candidates were required to explain why the firm should not accept the audit engagement given the limitation of scope in the case scenario.

This is a knowledge test that relates to paragraph 7 of SSA 210 which states: "*If management or those charged with governance impose a limitation on the scope of the auditor's work in the terms of a proposed audit engagement such that the auditor believes the limitation will result in the auditor disclaiming an opinion on the financial statements, the auditor shall not accept such a limited engagement as an audit engagement, unless required by law or regulation to do so*."

Many Candidates were able to evaluate the possible effects of the management-imposed limitation as material. However, only a handful went on to discuss the possible effects as pervasive which may result in the auditor issuing disclaimer of opinion.

Part (b) asked the Candidates to compare and contrast the audit engagement letter and the management representation in three aspects, namely (i) their purpose, (ii) the preparer of the letters and (iii) the date of the letters. Candidates performed well for this question. Some Candidates were confused over the management letter with management representation letter.

There are TWO parts to question **part (c)**. The case scenario provided the fact that the entity was looking to secure a loan from a bank which asked for audited financial statements to assess the entity's profitability. Firstly, Candidates were required to explain why management need to secure a loan is a source of risk of material misstatements at the financial statement level. Generally, Candidates' performance for this requirement is satisfactory. Secondly, Candidates were asked to provide FOUR examples of misstatement at assertion levels affecting revenue and expenses that could arise due to the risk of material misstatement at the financial statement level. Candidates who performed poorly provided general answers without focusing on revenue and expenses.

This is a test on application of knowledge in auditing standards. SSA 315 (Revised 2021) states that risks of material misstatement at the financial statement level may also affect individual assertions, and identifying these risks may assist the auditor in assessing risks of material misstatement at the assertion level, and in designing further audit procedures to address the identified risks.

Part (d) required the Candidates to determine and justify whether the materiality level should be at 1% of revenue or 2% of revenue. Most Candidates correctly determined that 1% of revenue would be appropriate. Marks are lost in the justification of the decision. Given that four marks are allocated to this requirement, Candidates are expected to provide a robust justification. Most Candidates correctly justified the choice of a lower materiality due to higher risk of material misstatements being assessed. However, few discussed the need to obtain sufficient appropriate evidence and reduce the risk of wrongly concluding that material misstatements are immaterial. Performance for this question part is satisfactory.

Overall, Question 1 is the best-performed question of this entire paper.

Question 2

Parts (a) and **(b)** tested Candidates' knowledge on external confirmation as audit evidence.

Parts (a)(i) and **(ii)** required Candidates to explain one advantage and one disadvantage of "blank confirmation requests" as "compared to "normal confirmation requests".

Paragraph A5 of *SSA 505 External Confirmations* provides guidance on the advantage and disadvantage of these two types of external confirmations for auditor to consider when deciding which type of external confirmations is more appropriate in the context of specific audit engagements.

SSA 505.A5 states: "*A positive external confirmation request asks the confirming party to reply to the auditor in all cases, either by indicating the confirming party's agreement with the given information, or by asking the confirming party to provide information. A response to a positive confirmation request ordinarily is expected to provide reliable audit evidence. There is a risk, however, that a confirming party may reply to the confirmation request without verifying that the information is correct. The auditor may reduce this risk by using positive confirmation requests that do not state the amount (or other information) on the confirmation request, and ask the confirming party to fill in the amount or furnish other information. On the other hand, use of this type of "blank" confirmation request may result in lower response rates because additional effort is required of the confirming parties*."

Candidates generally did well for this question part. Some lost marks due to inadequate explanation. For example:

- Candidates stated that blank confirmation provides more reliable without explaining the risk a confirming party may reply without verifying the information incorrect.

- Candidates stated that blank confirmation could result in low response rates without explaining the reason is the additional effort required of the confirming parties.

Part (b) required Candidates to explain whether blank confirmation for trade receivables would be appropriate given the entity in the case scenario is assessed to have a risk of understating trade receivables. Majority of the Candidates failed to take into account the risk of understatement to justify the use of blank confirmation. Those who recommended blank confirmation without explaining why, lost marks. Those who did not recommend blank confirmation did not obtain any credit.

Part (c) provided various test of details (TOD), and Candidates were required to explain the objectives of each TOD, including the main assertion that could be verified. Given that similar questions were tested in almost every past examination session, it is expected that Candidates should perform well for similar question(s). The performance was not up to expectation. It appeared that Candidates did not read the description of TOD carefully and thus provided the wrong assertions as answers. For example:

- *For the TOD "for the physical inspection of fixed assets selected from the fixed register, record any fixed assets that are damaged or not in use and these assets should be subject to further audit procedures." Many Candidates identified this as a test for existence of fixed assets because the assets are selected from the register for physical inspection. They failed to consider the stated purpose is to identify damaged assets or assets that are in use. The are the assets that could be impaired and thus the associated assertion is "accuracy, valuation and allocation".*

- For the TOD that traced post year end payment in pre-year end payable ledger, Candidates wrongly identified the assertion of cutoff instead of completeness.

Part (d) was poorly attempted, particularly the further audit procedures to be performed on the damaged fixed assets identified in **part (c)**.

Part (e) required Candidates to evaluate the entity's accounting treatment of a rental of large warehouse. The case scenario described that the entity recorded as the monthly invoices as rental expenses in the profit or loss. Many Candidates stated that the accounting treatment was appropriate as long as the amount is low value or the lease term is twelve months or less. Candidates failed to apply their knowledge to the case – the rental of a large warehouse cannot be a lease of low value underlying asset. To score full marks, Candidates need to consider three factors:

1) The warehouse lease term is of 12 months or less; and
2) The lease does not contain a purchase option; and
3) The entity elects the exemption in FRS 116 not to recognise an ROU asset and lease liability.

Only a handful of Candidates scored full or near full marks. Majority did not pass this question by providing the first factor only.

Question 3

Question 3 was the worst performing question of the entire paper.

Part 3(a)(i) provided Candidates with two paragraphs of the audit opinion in the auditor's report on the financial statements of a Singapore registered private limited company. Candidates were required to identify and explain three deficiencies in this extract, i.e. not written in accordance with SSA 700 (Revised) Forming an Opinion and Reporting on Financial Statements.

Based on the Candidates' answers, many Candidates either:

- Did not read the case scenario that clearly state that only the opinion section is provided and not the entire audit report;

- May not have read an auditor's report before.

Their identified deficiencies are not from the Opinion section but from the other sections such as Auditor's Responsibility section such as the reference to SSA and ACRA Code. Some identified the lack of a Key Audit Matter (KAM) section as a deficiency when the case clearly stated that the company is a private limited and thus KAM is not required.

Part 3(a)(ii) asked Candidates about reflecting immaterial misstatements in the auditor's report on the financial statements. It is surprising that many Candidates stated that immaterial misstatements should be reflected in the auditor's report. Some requires the immaterial misstatements to be mentioned in the "Other Matter" section, some wanted to mention them in KAM section and some said the audit opinion should be modified to a qualified opinion. These Candidates clearly did not appreciate that immaterial misstatements do not affect the true and fair view of the financial statements and thus should not be reflected in the auditor's report.

Part 3(a)(iii) asked Candidates to explain the two conditions that must be met for an unmodified opinion to be issued. Many Candidates were able to identify one of the two conditions which was there were no material misstatements in the financial statements. They failed to identify the second condition which was that the auditor was able to obtain sufficient and appropriate evidence.

Part 3(a)(iv) required Candidates to discuss whether the auditor could refer to the reliance on an auditor's expert by adding an "Other Matter" section in the audit report. This is a test of Candidates' knowledge of *SSA 620 Using the Work of an Auditors Expert*. SSA 620 paragraph 14 states that the auditor shall not refer to the work of an auditor's expert in an auditor's report containing an unmodified opinion unless required by law or regulation to do so.

Part 3(a)(v) asked Candidates to explain whether the auditor could add an "Emphasis of Matter" (EOM) paragraph to highlight immaterial misstatements. Majority wrote the correct answer. Those who answered wrongly show a lack of understanding of the purpose of the EOM. Some wrote that EOM was to highlight material misstatements. Some stated that if qualified opinion was issued, an EOM was required. Some stated that it was not appropriate to add an EOM without explaining why.

Part 3(a)(vi) tested Candidates' knowledge on when it is not appropriate to add a "Material Uncertainty Related to Going Concern" (MUGC) section in the auditor's report on the financial statements given the fact that the entity in the case scenario faces MUGC. Those who did not do well can be categorised into two groups:

- Did not use the information in the case scenario, i.e. the entity faced MUGC. Their answers stated MUGC section was not necessary because there was no MUGC.
- Did not know the use of the MUGC section in the auditor's report. They stated MUGC was not appropriate if the company face MUGC.

Part (b) provided a scenario where management assessment of the company's going concern covers less than 12 months from the date of the financial statements. Candidates were required to state the immediate action that the auditor should take. Candidates were also required to explain the implications on the audit opinion if management refused to extend the assessment to cover at least 12 months. This is a knowledge test relating to *SSA 570 (Revised) Going Concern*. The Candidates' answers show a general lack of knowledge of SSA 570, in particular paragraph 13 and paragraph A35.

SSA 570.13 requires the auditor to request management to extend its assessment period to at least twelve months from the financial statement date.

SSA 570.A35 requires the auditor to consider issuing a qualified opinion or disclaimer of opinion if management refused to extend the going concern assessment as requested by the auditor.

Generally, Candidates' performance is not satisfactory. Some Candidates wrote that auditor should highlight MUGC in the audit report. Some correctly decided to issue a disclaimer of opinion but for the wrong reason and thus lost marks. Instead of stating that the issue was unable to obtain sufficient appropriate evidence relating to going concern, these Candidates issued disclaimer of opinion because of doubt on management integrity.

Part (c) tested Candidates' knowledge on the audit of subsequent events as required by SSA 560, in particular the period after audit report date and prior to financial statements issue date. In the case scenario, after the audit report was signed, the management informed the auditor of an asset misappropriation fraud that was committed during the financial year. Candidates were required to describe three actions to be taken if management amended the financial statements to take into account the effect of the fraud. SSA 560.11 provides the guidance in this scenario. Many Candidates' answers did not specify the correct actions. Some even suggested that auditor should re-issue the financial statements when it was the management's duty and not the auditor's duty to do so. This was the worst-performing part of this question and also for the entire paper.

Question 4

Parts (a) and **(b)** related to internal controls and test of control (TOC).

Part a(i) required Candidates to describe two TOC on daily cash count at a minimart.

Generally, Candidates performed satisfactorily for **parts (a)** and **(b)**, except:

- Some Candidates mixed up between observation and inspection. For example, “inspecting” the cash count performed by the cashier and store manager instead of “observing” and “observing the daily sales report for signatures instead of “inspecting”.

- Some Candidates did not use the information from the case scenario. For example, “inspect the cash count sheets” when there was no usage of cash count sheet in the case. The case scenario described the use of the daily sales report for the purpose of cash count.

- Some Candidates described test of details instead of TOC.

Part (a)(ii) asked Candidates to describe an audit procedure to verify whether the accountant had prepared the monthly bank reconciliation correctly. This was in the context of a small chain of minimarts and the case clearly stated that the accountant was the only person in the entity that knew how to read the bank reconciliation and thus there was no review of the bank reconciliation by others in the entity.

Generally, Candidates obtained a pass without scoring full marks available. Marks were lost due to insufficient details in the answer. Given that 2 marks were available, answers such as the following examples were awarded 1 mark only:

- *Agree the balance in the bank reconciliation to bank statement. This procedure is relevant but insufficient to verify bank reconciliation is correctly prepared.*

Some Candidates’ answers showed that there was a lack of understanding of the bank reconciliation. Such answers included that the auditor should rely on the bank statements instead of the bank reconciliations.

Part (a)(iii) and **(iv)** required the Candidates to describe test of details (TOD) to verify the completeness and occurrence assertions of sales revenue respectively.

Candidates did not perform well for this part because of failure to apply the case scenario information. These Candidates used source documents such as sales orders and delivery notes when the context of sales was that of cash sales in a minimart and thus there were no such source documents.

Part (a)(v) tested Candidates’ knowledge of assessing risk of material misstatement at the assertion level. Candidates were required to assess whether the sales cutoff risk was high or low.

The case scenario provided that the daily sales reports were used to update the cash book and the general ledger on a daily basis, except for Monday when the minimarts were close for business.

Generally, Candidates did satisfactorily except for those who were not able to use the information in the case scenario. For example:

- Some Candidates wrote that the sales on Mondays were not recorded promptly as the daily sales reports collected on Tuesdays and would be recorded late. The case scenario clearly stated that the minimarts were closed for business on Monday and Candidates should be able to infer that there would be no sales on Mondays.

- Some Candidates wrote that cash collection was the wrong basis to record sales revenue as cash collection did not coincide with timing of revenue being earned. These Candidates failed to appreciate that in a cash sales retail situation, revenue was earned when the customers paid for the goods and took possession of the goods at the same time.

Part (b) required Candidates to recommend an improvement to internal control that could detect cash misappropriation by the accountant. This was in the context that the accountant was responsible for:

- Collecting cash from each minimart and depositing cash into the entity's bank account;

- Collecting the daily sales report from each minimart and updating cash book and the general ledger with the total sales figures; and

- Performing monthly bank reconciliations.

Most Candidates correctly suggested increasing the extent of segregation of duties. However, marks were lost because the details of segregation of duties were not provided.

Some Candidates suggested the entity should appoint an independent person to review the bank reconciliations prepared by the accountant. This suggestion was flawed because the Candidates did not apply the information in the case scenario as case clearly stated there was no other personnel in the entity who knew how to read a bank reconciliation.

Part (c) is not well attempted by Candidates. The objective of **part (c)** was to find out whether Candidates really knew about bank reconciling items such as "uncleared lodgement" and "unpresented cheques". These were normally considered as timing differences due to:

- Cheque processing and clearance time required by the bank; and
- Suppliers deposit the cheques received later than the issuance dates.

The context of the question was due to impending discontinuance of cheque usage by 2025 as per directives from the Monetary Authority of Singapore. Candidates were required to explain how the discontinuance of cheques would affect the above bank reconciling items. Many Candidates failed to appreciate that such bank reconciling items existed because of the use of cheques by customers to pay the entity and the entity used cheques to pay the suppliers. When there was no cheque receipt and payment, such reconciling items would not exist. These Candidates went on to describe the audit procedures to be performed on the reconciling items. This showed that:

- Candidates failed to use information from the case scenario and failed to read the question requirement which clearly states that: “In the context of PS’s imminent discontinuance of the use of cheques….”; or

- Candidates did not really know what these reconciling items were and how these reconciling items arose.

Part (d) was a test on Candidates’ knowledge of ethical threats to auditor’s independence.

The case scenario provided a request by the audit client to perform a review engagement on cash flow forecast to support a loan application. Candidates were asked to identify and explain the ethical issues arising from:

- The auditor meeting the bank to support the loan application; and
- Performing the assurance engagement on the cash flow forecast.

Candidates’ performance for this question part was generally acceptable. Those who did not perform well did not identify the ethical issues or did not answer the question requirement. For example, some wrote about intimidation threat arising from the audit client changing auditor if the firm did not agree to perform assurance engagement. Some focused on the increase of risk of material misstatement because of the pressure on the management to secure the loan.

Overall, Candidates’ performance for Question 4 was fair.

