Chartered Accountant SINGAPORE

SINGAPORE CA QUALIFICATION EXAMINER'S REPORT

MODULE: ASSURANCE (ASF)

EXAMINATION DATE: 19 JUNE 2025

Section 1
General comments

The overall performance has improved slightly from the previous exam setting.

Generally, questions relating to ethics and basic audit procedures were well answered. However, Candidates demonstrated limited familiarity with the audit procedures specific to the assessment of management actions to address the going concern issue.

A key weakness was that Candidates were not able to apply the information in the case scenario. Notably, the scenario stated that the outcome of management's planned actions would not be known by the date the audit report was to be signed. This detail had significant implications for the nature and extent of audit evidence that could reasonably be obtained. Some Candidates did not take this point into account, which affected the relevance and accuracy of their responses.

In addition, Candidates who did not perform well with audit procedures relating to incremental borrowing rates and lease liabilities. This may be attributed to a combination of limited accounting knowledge in these more technical areas, and such topics were less frequently tested.

Section 2
Analysis of individual questions

Question 1

Question 1 primarily tests Candidates' knowledge during the appointment stage of an audit engagement.

Part (a)
Candidates were asked to identify and explain three deficiencies in the extracts of a draft engagement letter was provided in the case scenario.

Generally, Candidates were able to identify the deficiencies in the extracts. Some Candidates could not identify a sufficient number of deficiencies in the extracts provided and instead referred to issues beyond the extract, such as the omission of the engagement letter date.

Part (b)

Management stated that two of primary financial statements (the Statement of Changes in Equity and the Statement of Cash Flows) would not be prepared, and Candidates were required to explain whether the auditor should agree with the scope exclusion.

Most Candidates correctly concluded the auditor would not agree with the scope exclusion. Some Candidates did not conclude despite the question explicitly requiring one.

Most Candidates performed well on identifying the components that constitute a complete set of financial statements. However, some Candidates were unaware that a complete set includes five distinct components, which resulted in incomplete answers that did not fully meet the requirements of the question.

Part (c)

Management suggested that the audit fee to be linked to operating profit. Candidates were required to discuss the ethical issue arising from this contingent fee arrangement and whether the firm should agree with the proposed fee arrangement.

This is the best-performing question. Most Candidates did well, and many scored full marks.

Part (d)

As the client is a new audit client and the prior year's financial statements were audited by another audit firm. Candidates are asked to explain whether a review of the audit work of the predecessor auditor is necessary. In the main, Candidates' answers suggest a general lack of the knowledge of SSA 510 *Initial Audit Engagements – Opening Balances*.

Although many Candidates correctly identified the need to refer to the predecessor auditor's working papers, few provided the accurate justification – that is, to obtain sufficient appropriate audit evidence concerning the opening balances. Instead, a common answer is to gain better understanding of the audit client.

Candidates were further asked to decide whether the fact that the prior year's financial statements were audited by another audit firm should be reflected in the "Emphasis of Matter" paragraph (EOM) or the "Other Matter" paragraph (OM) in the audit report. Candidates' overall performance was satisfactory. However, few Candidates provided a theoretical explanation of EOM and OM without clearly indicating a choice between them.

Part (e)

Candidates were asked to provide two reasons why the auditor should not agree with the management's suggestion on reliance on work performed by the newly formed internal audit function.

Most Candidates were able to identify both the lack of competence and independence within the internal function, although a few did not recognise the lack of independence.

Question 2

This question focuses on the planning stage of a financial statements audit engagement.

Part (a)
Candidates were asked to:
- Determine an overall materiality using the benchmark provided; and
- Provide a justification for the chosen overall materiality.

Most Candidates correctly determined an appropriate overall materiality. However, many could not provide a justification, and this showed a lack of understanding of risk of material misstatement (RMM) and detection risk.

Part (b)
In the case scenario, the audit client, a bus operator, has two types of buses:
- Those owned by the entity, i.e. PPE buses
- Those leased from the Land Transport Authority (LTA), i.e. leased buses

The management uses two depreciation methods:
- Leased buses are depreciated on a straight-line basis over the lease term
- PPE buses are depreciated mileage travelled in relation to expected total mileage, i.e. unit-of-production method.

Candidates were asked to evaluate whether the depreciation methods are consistent with the principles in FRS 16.

Many Candidates correctly concluded that the straight-line basis for leased buses was consistent with the requirements of FRS 16.

With regards to PPE buses, few Candidates answered it correctly, highlighting gaps in accounting knowledge that hinder the effective evaluation of accounting policies and accounting estimates.

Part (c)
The case scenario stated that the customers for the PPE buses book the buses for 12 months and the audit client billed the customers 12 months service fee in advance. Candidates were required to assess the risk of material misstatement (RMM) relating to revenue from the operations of the PPE buses.

Overall, Candidates performed well, correctly identifying that amounts billed in advance should be recognised as deferred revenue and only transferred to revenue when the service was performed. Some Candidates stated that revenue should be recognised when performance obligation is satisfied without addressing the initial treatment of the advance billing as deferred revenue (or contract liability). Few responses included incorrect terminology, such as referring to the amount as "accrued revenue," which reflects some confusion in the application of the relevant concepts.

Part (d)

This question part required Candidates to describe the audit procedures to be performed for the PPE buses and leased buses.

Generally, Candidates' performance was satisfactory, with the following exceptions:

- The incremental borrowing rate (IBR) for the leased buses.
- The initial lease liabilities relating to the leased buses.

Candidates' answers indicated gaps in understanding in the following areas:

- IBR was specific to the entity, the underlying asset, and the economic environment. As such, comparing the IBR used by management to the general market interest rates did not provide sufficient and appropriate audit evidence.
- The initial measurement of lease liabilities should be based on the present value of unpaid lease payments. However, some candidates suggested procedures such as inspecting the lease agreement and bank statements, without clearly linking these to the determination of the lease liability.

Part (e)

This question part required Candidates to state the assertions to be verified by the various audit procedures provided in the case scenario.

Generally, Candidates did well, although a minority confused the completeness and existence assertions.

Question 3

Question 3 focused on the audit field work stage.

Part (a)

Candidates were asked to describe audit procedures to be performed on payroll transactions and balances, including CPF. Generally, Candidates' performance was satisfactory.

Part (b)

Candidates were required to review the journal entries that post the payroll costs and payables to the general ledger.

Generally, Candidates were able to identify and explain the wrong journal entries provided in the case scenario. Candidates' answers revealed that there was a lack of understanding of the difference between the employer's contribution to CPF and the employee's contribution to CPF.

Part (c)
Candidates are required to decide whether the declaration of the unexpected bonus should be an adjusting event or non-adjusting event in accordance with FRS 10 – *Subsequent Events*.

The overall performance was mixed. Some Candidates' responses indicated a lack of understanding regarding the distinction between the two types of subsequent events. Specifically, it was apparent that they were unaware that subsequent events are classified into adjusting and non-adjusting events, and consequently, they were unable to determine the correct classification in this context.

Part (d)
The case scenario provided an instance of non-compliance with law and regulations (NOCLAR); CPF was wrongly determined, resulting in under-payment of the CPF to the CPF Board. Candidates were asked to recommend to management three specific actions to rectify the non-compliance.

Generally, Candidates were able to provide relevant management actions.

Part (e)
Following part (d) on NOCLAR, Candidates were asked to consider which accounts could be overstated or understated as a result of the NOCLAR. Overall, Candidates' performance on this question part was satisfactory.

Question 4

This question focuses on the finalisation and reporting stage of an audit.

The case scenario describes a company facing events and circumstances that may cast significant doubt on the company's ability to continue as a going concern. Management initiated a number of measures addressing these going-concern issues. The case clearly states that the outcome of these management actions will not be known by the date of the audit report. This means the actions will still be in progress, and whether the actions will be successful in addressing the going concern issues are still uncertain.

Part (a)
Candidates were required to describe the audit procedures to be performed on the management actions, including the issuance of new shares, securing a loan from a shareholder, selling an investment property, salary reduction to save costs and a redundancy programme to downsize the workforce.

This was the worst-performing question part of the exam. Most Candidates did not consider the timing of the audit report, overlooking that management's proposed actions were still in progress at the time the audit was completed.

<u>Part (b)</u>
This question part tests the Candidates' application knowledge on auditor's report relating to material uncertainty related to going concern (MUGC).

In **Q4(b)(i)**, Candidates were required to suggest and justify an appropriate audit opinion given that the financial statements adequately disclosed the MUGC which was considered as appropriate by the audit engagement partner. Generally, Candidates performed reasonably well. Some Candidates, however, suggested a qualified opinion or a disclaimer of opinion, which was not appropriate in the given context.

Next, in **Q4(b)(ii)**, Candidates were asked to identify the source giving rise to material uncertainty relating to going concern. i.e. where the material uncertainty arises from.

A common observation was that candidates were unable to distinguish between:

- the events that cast significant doubt on going concern, and
- the events that give rise to a material uncertainty.

Paragraph 16 of SSA 570 requires the auditors to do the following:
"If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (hereinafter referred to as "material uncertainty") through performing additional audit procedures, including consideration of mitigating factors."

The negative financial indicators provided in the case scenario represented the "events that cast significant doubt on going concern". It is the uncertainty surrounding the outcome of management's actions that gives rise to the "material uncertainty".

However, many Candidates merely restated the negative financial indicators as the "material uncertainty" and, as a result, did not address the question appropriately.

Lastly, in **Q4(b)(iii)**, Candidates were asked to decide whether an Emphasis of Matter (EOM) or a MUGC paragraph should be added to the audit report. Candidates were also required to provide a brief description of the key content of the added paragraph, i.e. EOM or MUGC.

Generally, some Candidates were not able to clearly describe the key content of MUGC. For example, several responses omitted the statement that the audit opinion remained unmodified in relation to the MUGC.