Chartered Accountant SINGAPORE

SINGAPORE CA QUALIFICATION EXAMINER'S REPORT

MODULE: Assurance (AS)

EXAMINATION DATE: 5 December 2023

Section 1
General comments

The overall performance for the December 2023 exam was better than the prior exams. Candidates who were well prepared scored well for the commonly tested topics such as audit analytics, audit procedures, evaluation of misstatements and their implications on audit reports.

It was observed that the Candidates were weak in the topics relating to the assessment of the risk of material misstatements. Some Candidates were not able to differentiate between the two types of risk of material misstatements, namely, risk of material misstatements at the overall financial statements level and at the assertions level. Consequently, these Candidates were not able to design appropriate responses to the risk. Candidates who did well in this topic were able to use the information in the case to identify and assess the risk of material misstatements.

In addition, Candidates are advised to read the case facts and question requirements carefully before attempting each question to avoid losing unnecessary marks.

Section 2
Analysis of individual questions

Question 1

For **Part (a)**, Candidates are required to identify and explain five unusual transactions for further investigation. Most of the Candidates were able to identify and explain the five issues that should be investigated. There were some Candidates who were not able to score the full 3 marks for every issue identified, as they were unable to explain clearly and correctly why the issue should be investigated and not able to identify the possible causes of the issue.

Candidates who scored badly did not answer according to the question requirements. These Candidates commented on the controls which were lacking and suggested controls to prevent the issues from happening instead of identifying the causes for further investigation. Impact on the financial statements was not asked in the question, but there were quite a number of Candidates who commented about the impact of the issues on the financial statements.

Candidates are reminded to read the question requirements carefully before answering so that they will not be penalised unnecessarily.

For **Part (b)**, Candidates are required to discuss whether the suspected fraudulent transactions should be reported to the regulatory authority in three different situations, i.e., when the audit client is:

i. A registered charity
ii. A publicly listed company
iii. A private company

It was observed that most answers included a discussion on the need to report suspected fraudulent transactions to the management and those charged with governance. Whilst this is a necessary step to be taken, the question requirement specifically asked about the need to report the suspected fraudulent transactions to the regulatory authority. These Candidates scored 0 marks as their answers did not respond to the specific requirement.

Another common answer was to report the suspected fraudulent transactions to the Suspicious Transactions Reporting Office (STRO). Candidates were not awarded any marks as reporting to the STRO is only necessary if the transaction in question is related to money laundering or terrorism financing.

In relation to publicly listed companies, stronger Candidates applied their knowledge relating to the Companies Act, which requires the auditor to report to the external authority serious offence committed against a listed company. On the other hand, weaker Candidates wrongly stated reporting is required by SGX listing rules.

Part (c) required the Candidates to identify the source documents and state the audit procedures to verify the transport allowance rate used and trips made. Many Candidates were able to answer this question correctly.

There were some Candidates who used abbreviations but did not explain or define the abbreviations. For example, DO was noted in some of the answers which represented delivery order. Candidates are reminded to clarify any abbreviations used.

Question 2

Question 2 was the best-performing question for the paper.

Parts (a) to (c) tested the concept of the audit of a sale and leaseback transaction, specifically in evaluating whether the transaction should be accounted as a financial liability or a leaseback transaction and to state the adjusting entries to correct the accounting error.

Generally, Candidates are conversant with the evaluation criterion, which is whether the sale meets the conditions as sale in accordance with the requirements of SFRS(I) 15 – Revenue from Contracts with Customers.

However, some Candidates have difficulty in the correct accounting treatment if the transfer of the asset does not meet the conditions as sale.

For **Part (c)**, many Candidates were able to list the correcting journal entries except for the entries to record the sale proceeds as a financial liability.

Parts (d) to (f) tested Candidates' knowledge on the evaluation of misstatements, individually and then in aggregate, both in terms of materiality and their implications on the audit opinion on the financial statements.

Part (d) required Candidates to quantify each misstatement and evaluation of whether each misstatement is material. Most Candidates were able to quantify the misstatement and determine which misstatements are individually material based on the materiality provided in the question.

Common mistakes observed were:

- Missed out on the quantification and went straight to conclude on the materiality of the misstatement.

- Summation of both debit and credit amounts for each misstatement to derive a combined total and conclude that the misstatement is material. For instance, in the case of misstatement 3, Candidates added the absolute values of the debit ($0.26m) and credit ($0.26m) amounts, resulting in $0.52m, which exceeded the $0.5 million materiality threshold. Consequently, these Candidates concluded that the misstatement was material.

For Part (e), most Candidates were able to correctly assess that the aggregated misstatements are material, given that it exceeded the materiality of $0.5m. Misstatement 2 was on the overstatement of income of $0.25m, which overstated profit and misstatement 3 was on the understatement of expenses of $0.26m which overstated profit by another $0.26m. Several Candidates mistakenly net off these two misstatements, arriving at a net misstatement of $0.1 million in profit. Consequently, they concluded that since this net misstatement fell below the materiality threshold of $0.5 million, the aggregated misstatement was not material.

Furthermore, some Candidates failed to acknowledge that misstatements can impact both assets and profits. They focused solely on the misstatement related to assets and neglected the profit or vice versa.

For **Part (f)(i)**, some Candidates concluded that the misstatements were material and pervasive and wrongly proposed an adverse opinion. Other than this, most Candidates were able to suggest that an appropriate opinion is a qualified opinion given that the misstatements are material and not pervasive.

For **Part (f)(ii),** most Candidates were able to conclude that misstatement 3 is not material, and accordingly, the audit opinion will be an unmodified opinion. However, a handful of the Candidates suggested an "unqualified opinion" instead of "unmodified opinion." Some Candidates even went on to reassess the new materiality after correcting for misstatements (1) and (2). There were also Candidates who wrongly suggested the use of an "Other Information" section to highlight the immaterial misstatements.

For **Part (g)**, most of the Candidates were able to describe the written representation that should be obtained from the management regarding the uncorrected misstatements. Some Candidates did not read the question carefully and failed to realise that the question was only asking for written representation in relation to the uncorrected misstatements and wrote a very lengthy response on the other aspects of the letter of representation which is irrelevant to the context of the question.

Question 3

Question 3 was the worst-performing question for the paper. **Part (a)** tested the Candidates' ability to identify and explain the risks of material misstatement at the financial statement level. It was observed that many Candidates identified risks relating to the opening balances, when the question had already stated they are to exclude the risk to the opening balances. Again, Candidates are reminded to read the question requirements carefully so that they will not waste time providing non-relevant answers.

Part (b) tested the Candidates' ability to identify and explain the risks of material misstatement at the assertion level. There are six sub-parts to part (b):

i. **Revenue recognition and measurement**;
ii. Leases of video production equipment;
iii. **Leases of office space**;
iv. CPF payments;
v. Freelancer costs; and
vi. Cash at bank.

It was observed that Candidates were weaker in the topics related to (i) revenue and (iii) lease of co-workspace, (iv) CPF payments and (vi) cash at bank.

Common mistake observed for part (b)(i):

- Able to discuss on the 20% upfront fees collected but failed to discuss the Risk of material misstatements the balance 80% fee income.

- Did not discuss on the revenue recognition over time and based on the percentage of completion.

For **Part (b)(iii)**, most Candidates treated the payment was made in advance and proceeded to discuss on not recognizing prepayment of rental. It is also unclear how these Candidates could link the lack of prepayment to an overstatement of revenue.

As billings from Co-work invoices C180 at the beginning of each month, it is for the rental of that month. Assume C180 pays at the beginning of the month upon receipt of the invoice and scans immediately to SA, there is no prepayment issues at month end as the rental paid is for that particular month. This is unlike a tenant billing for rental monthly in advance (i.e., in advance of the following month). Some Candidates have misinterpreted that billings were made yearly in advance.

For **Part (b)(iv),** most Candidates failed to identify that the risk of material misstatement was low although they were able to identify that the CPF payment was only for one employee. Common mistakes observed:

- Candidates were confused about the timing of the recognition.
- Those who commented on the understatement of payroll expenses did not include their analysis of the CPF payable or accruals for CPF payable.
- Several Candidates went on to discuss the non-contribution of CPF for the freelancers or additional wages such as bonuses.

Part (b)(vi) was the worst performing part for part (b). Common mistakes observed:

- Most Candidates identified Charlie as the sole bank operator/signatory, and hence the risk of personal transactions or unauthorised transactions was high.
- Some Candidates indicated that the bank reconciliation could contain errors leading to over / understatement of the cash account.

Candidates generally showed a lack of understanding of the bank reconciliation and the mechanism of the operations of the bank account. For example, Candidates did not understand that there is no timing difference for “electronic bank transfers” or online transactions.

Part (c) consisted of 2 subparts – (i) Identify and explain the ethical threat in relation to the provision of the financial statement’s preparation service and (ii) describe an appropriate safeguard to reduce the ethical threat to an acceptable level. Most Candidates scored well for the question part.

Those who did poorly either did not explain or stated that no safeguard is available to reduce the threat to an acceptable level even though the question clearly states so.

Part (d) required Candidates to explain how the firm should respond to the request by the audit client to select the appropriate accounting policies for the case company. This required knowledge on whether selecting accounting policies is the responsibility of the management and if auditors can assume such responsibilities.

Many Candidates were able to identify that selecting accounting policies is the management’s responsibility and auditors should not assume such responsibilities. Those who did well provided an explanation of how the firm should respond, knowing that auditors should not assume such responsibilities.

Question 4

Parts (a) and (b) tested Candidates' knowledge of group audit in accordance with SSA 600 – Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)

For **Part (a)**, Candidates are required to justify why the financial statements of a subsidiary, S2, should be audited, from the perspective of a group audit. Most Candidates were able to highlight the 20% contribution of S2's assets to the group as a key reason since it exceeds the 15% benchmark indicated in SSA 600.

A handful of the Candidates did not answer the question of whether the financial statements of S2 should be audited from the *perspective of the Group audit*. Candidates are reminded to read the questions carefully.

For **Part (b)**, many Candidates were able to propose two acceptable ways which the group auditor can implement the full scope audit.

Some Candidates proposed targeted audit procedures such as auditing significant balances and transactions, when the question asks for two alternative ways to implement a full scope audit.

There were also Candidates who proposed to appoint an affiliated component auditor for S2. Candidates need to be careful when answering the question, as it is indicated in the question that DEKP LLP does not have an office or network firm operating in that jurisdiction.

Part (c) required Candidates to suggest audit procedures to confirm a company, S3, is indeed dormant. Generally, Candidates were able to refer to the general ledger and other appropriate accounting records as sources of information and collaborative evidence regarding the dormant status of S3.

However, several Candidates proposed to check ACRA or Bizfile for confirmation of the dormant status of S3. This is insufficient audit work as S3 is not domiciled in Singapore and statutory filings may be unreliable as information such as the Company's dormant status is normally not subjected to any verification.

Parts (d) to (f) tested on the audit of inter-company transactions, namely sales and purchases, management charge and loan. **Parts (d) and (e)** were well attempted and **part (f)** was badly attempted.

For **Part (f)**, many Candidates were unable to interpret that no intention to repay the loan constitutes as capital injection.

Parts (g) and **(h)** tested Candidates' knowledge on the audit of investment in associates. **Part (g)** was well performed and most Candidates were able to provide

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the answer to perform ACRA bizfile search and review of Share Purchase Agreement for right to appoint one director.

For **Part (h)**, there were many Candidates who concluded the misstatement is pervasive and gave an adverse opinion. This implies a lack of understanding of the pervasiveness of the misstatement.