Chartered Accountant SINGAPORE

SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

MODULE: Assurance (ASF)

EXAMINATION DATE: 8 December 2022

Section 1
General comments

The overall performance is comparable to the previous exam in June 2022.

Questions for the following areas were not satisfactory despite the fact that some of these topics have been tested in every examination:

- Audit procedures and Assertions
- Audit report
- Accounting ratios as a tool to identify risk of material misstatements

It was also observed that there is an increase in number of answers that were incomplete. This could be due to lack of knowledge, or that Candidates did not read the question requirements carefully and thus omitted the requirements in the answers.

Section 2
Analysis of individual questions

Question 1

Part (a) tested Candidates' knowledge on preliminary analytical procedures, substantive analytical procedures and final analytical procedures. Generally, Candidates struggled with the objectives of the three different types of analytical procedures.

Part (b) required Candidates to analyse given accounting ratios and trends. Candidates were specifically asked to provide a business reason that could have contributed to accounting ratio changes from prior year. Candidates generally explained the changes by using the formula without providing actual business reasons. For example, many Candidates provided a reason of increase in sales that could lead to higher gross profit margin. There was also a lack of commercial acumen in some answers. For example, a reason given by Candidates for a reduction in payables payment period was that the company had spare cash and thus chose to pay off trade payables earlier. This did not make business sense in terms of working capital management. There were more realistic reasons such as a change in suppliers and management agreed to shorter credit terms. Candidates also seemed to be unfamiliar with the interest cover ratio.

Part (c) tested Candidates' knowledge on the difference between preliminary materiality and final materiality. Most Candidates were able to compute the correct final materiality using the facts given in the case. A small number of Candidates only stated the preliminary materiality given in the case as the final materiality. This clearly demonstrated the lack of knowledge that preliminary materiality level should be revised based on the year-end final figures that are net of misstatements.

Most of the Candidates performed well for **Part (d)** and were able to evaluate if the misstatement was material.

Question 2

In **Part (a)**, Candidates were provided with a list of audit procedures and were asked to explain the purpose of each of the given audit procedures, including the assertions to be verified.

Some Candidates provided multiple assertions for a given audit procedure when it was obvious that the audit procedure was targeted at verifying one assertion. For example, the audit procedures that compared the date of the transaction and the date of recording of that transaction was targeted at the cutoff assertion. Some Candidates stated both cutoff and completeness. Answers as such would not be awarded marks.

A number of Candidates struggled with the classification assertion. The audit procedure to verify that the property was indeed used by the company was to confirm that the property is part of Fixed Assets and not an investment property. Many who answered this wrongly thought that the procedure was to verify existence. Some thought it could confirm ownership of the property.

Part (b) tested Candidates on ethics. Generally, the Candidates' performance was satisfactory. However, one common mistake made by some Candidates was recommending an excessively onerous safeguard to address a familiarity threat that is relatively insignificant. It was unnecessary to remove the audit assistant who was exposed to the familiarity threat from the audit engagement team.

Question 3

Part (a) provided two internal control procedures implemented by the audit client. One internal control was the use of credit limit to reduce bad debt risk. The other was the review of sales invoice report to ensure all goods delivered had been invoiced.

Candidates were required to explain the business benefits of the internal controls, the risk of material misstatement addressed by the internal controls. Candidates were also required to describe a test of control to be performed by the auditor to verify whether the control procedure was operating effectively.

Candidates struggled with the test of control for both internal control procedures and the business benefits of the second internal control procedure.

Part (b) required Candidates to explain how the **extent** of test of details will be affected if the test of controls confirmed the controls are **not** operating effectively. Most Candidates correctly stated that the **extent** of test of details would be increased. However, most were not able to the state the specific test of details that were affected. This showed that the Candidates were aware of the relationship between test of controls and test of details only in theory but could not apply it.

This observation is further supported by the answers to **Part (d).** Some Candidates stated that the auditor may not want to perform test of controls because the controls were not operating effectively. The purpose of test of control is to find out whether the controls are operating effectively.

Question 4

Part (a) tested Candidates' knowledge on the professional clearance process. Most Candidates were able to state the timing and purpose of the professional clearance process. However, many were unable to address the deficiency in the professional clearance process in the case and the implications on audit planning.

Part (b) focused on the issue of management-imposed scope limitation and the implications on auditor's opinion. Some could not differentiate between lack of evidence (and thus potential misstatements) and actual misstatements.

Some only considered the implications on the scope limitation on inventory (which accounts for 20% of the total assets and omitted the scope limitation on fixed assets (which accounted for 70% of the total assets). Consequently, these Candidates wrongly concluded the issue as material but not pervasive and recommended the qualified opinion which was not appropriate.

For **Part (c) and (d)**, generally, Candidates were not conversant with the auditing standards' requirement on **Precondition**. i.e., If the auditor is aware that there is a management-imposed limitation that is likely to lead to a disclaimer of opinion, the auditor should not accept the re-appointment. Many Candidates correctly concluded that the auditor should not accept re-appointment without the correct justification. As such, most were also unable to correctly answer the follow up question in part (d).

