Chartered Accountant SINGAPORE

SINGAPORE CA QUALIFICATION (PROFESSIONAL) EXAMINER'S REPORT

MODULE: Assurance (AS)

EXAMINATION DATE: 20 June 2023

Section 1
General comments

Overall, Candidates did not perform as well as the December 2022 examination.

It was observed that some Candidates did not read the exam question requirements carefully and thus did not provide answers specifically requested from the questions. For example, Question 1(a) required Candidates to identify issues for investigation and group all the transactions with similar issues for discussion. Some Candidates failed to document all the transaction IDs, and some did not state any transaction IDs. Another example is Question 4(d) which specifically asked Candidates to state which account is overstated or understated. A handful of Candidates did not provide a specific answer. Failure to provide answers as per the question requirements caused precious marks to be lost.

In addition, Candidates who attempted this exam session seemed to have more time management issues as compared to the previous exam sessions as it was observed that more Candidates did not complete Question 4.

The best-performing question is Question 1, and the worst-performing question is Question 3. Question 3 primarily required Candidates to identify the risk of material misstatements in relation to the various accounting transactions, explain how the entity's accounting for these transactions might be wrong and describe the relevant audit procedures to be performed. It was observed that Candidates who did not perform well generally were not able to identify why the accounting is wrong and therefore, were not able to describe the pertinent audit procedures. A possible cause is the lack of accounting knowledge. Given that the purpose of audit procedures is to verify that the entity's accounting is in compliance with the accounting standards, it is essential that Candidates have sufficient accounting knowledge.

Section 2
Analysis of individual questions

Question 1

Part (a) required Candidates to analyse the accounting data provided and identify 6 unusual transactions for further investigations. Overall, most of the Candidates answered **Part (a)** well. They were able to identify at least 5 out of the 6 unusual transactions/ issues that should be investigated. However, some Candidates were not able to score the full 3 marks for every issue identified as they did not provide a clear or correct explanation on why the issue should be investigated.

Part (b) required Candidates to describe audit procedures in relation to the audit of payroll transactions. Most of the Candidates were able to provide answers to the requirements of these questions, with the majority scoring 2 or 3 marks out of a possible 3 marks.

Part (c) tested Candidates on the knowledge of the Emphasis of Matters (EOM) section in the auditor's report. Many Candidates were able to identify the factors to consider when it might be appropriate to include EOM in the auditor's report. Although Candidates are required to arrive at a conclusion on whether EOM should be included, some Candidates arrived at an appropriate conclusion but did not state if EOM should be included.

Question 2

Part (a) required Candidates to describe audit procedures to verify the different aspects in relation to an investment that is accounted for as an investment in an associate particularly:

(i) Investment cost;
(ii) Percentage of share ownership;
(iii) Existence of significant influence by the investor over the investee; and
(iv) The share of the associate's profit

Performance for **Part (a)** was satisfactory. Overall, Candidates did well for **parts (a)(i)** and **(a)(ii)** but were not able to describe the required number of audit procedures for **parts (a)(iii) and (a)(iv)**. Based on the Candidates answers for parts (iii) and (iv), it appears that some Candidates do not know what "significant influence" and "share of associate profit" is. For example, the answer for **part (iv)** is restricted to the re-computation of share of profit but Candidates provided irrelevant answers.

Part (b) required Candidates to describe the misstatement in the accounting for investment in the case. Only a few Candidates were able to correctly identify that the investment should not be accounted as an investment in associate and accordingly, should not record the share of the investment's profit. Candidates who did not answer this question part well showed a lack of accounting knowledge. The following are some errors noted:

- Stated that the investment should have been accounted for non-current assets held for sale in accordance with SFRS(I) 5.
- Stated the investment should be accounted for as available-for-sale investment in accordance with FRS 39 which is outdated.

For **Part (c)**, Candidates were required to evaluate whether the misstatements (arising from wrongly recognising the investment as an investment in an associate) were quantitatively and qualitatively immaterial.

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About half of the Candidates correctly pointed out that the misstatement is less than the materiality of $20,000 and the overstatements are not quantitatively material. However, a number of Candidates did not read the case facts carefully and missed out on the materiality which has been provided for and determined their own basis of materiality instead.

Candidates did not perform well when discussing whether misstatements are qualitatively material. SSA 450 requires auditors to consider both the quantitative and qualitative aspects of a misstatement. SSA 450 para A21 provides examples of circumstances that some misstatements may cause the auditor to evaluate them as material even if they are lower than the materiality level.

Part (d) required Candidates to state an appropriate audit opinion based on the analysis in part 2(c). The majority of the Candidates stated the appropriate audit opinion. Candidates who did not do well recommended the disclaimer of opinion when the issue is not a limitation on the scope of the audit. Some Candidates even suggested an adverse opinion even though the issue was clearly not pervasive.

Question 3

Part (a) required Candidates to explain the risk of material misstatements in the sales rebate accounting. The issue is the entity's accounting system recognises sales rebates at a different timing as required by SFRS(I) 15. This leads to the risk of overstatement of revenue and understatement of refund liability.

Common mistakes observed were:

- Candidates were unable to provide the correct accounting treatment for recording a refund provision.
- Candidates incorrectly stated that rebates should be recognised as a cost reduction against the cost of goods sold instead of offsetting against revenue.

Part (b) is a follow-on question from part (a). Candidates were asked to design audit procedures based on the risk of material misstatements.

Candidates who lacked knowledge of accounting for refund liability clearly did not write any audit procedures to verify the reasonableness of the provision for refund liability at year-end.

Most Candidates were able to identify at least one audit procedure in response to the risk of overstatement of revenue. However, many Candidates listed audit procedures which are similar in nature and could not score the marks required for other related audit procedures. For example, recomputing of total sales volume rebate refund based on the sales volume report and recomputing the sales volume rebate refund for FY23 by dividing over 12 months and then multiplying for the 10 months in FY23.

Part (c) tested Candidates knowledge of assertions and required them to state an audit procedure to verify the occurrence of recorded revenue and an audit procedure to verify the completeness of recorded revenue.

Most Candidates were able to correctly state the audit procedure required to verify occurrence. However, many Candidates misunderstood cut-off procedures for completeness test.

For **Part (d)**, Candidates were required to explain the error in the entity's accounting for the penalty relating to the late delivery of goods and services to customers and propose audit adjustments.

Slightly more than half of the Candidates correctly explained why the accounting is wrong and what the correct accounting should be. Candidates who failed to do well did not have the accounting knowledge that the penalty is a variable consideration in revenue from contracts with customers.

In terms of proposing audit adjustments, some Candidates did not state the proper audit adjustment journal entries which was to include both the double entry and the amount. A handful of Candidates managed to identify the impacted financial statement line items and correctly calculated the amount but the debit/credit was wrong.

Part (e) consisted of two question parts. **Part (e)(i)** required Candidates to identify the issues related to an onerous contract and explain how it should be reflected in the financial statements including both the recognition and measurement criteria.

The following observations were noted:

- Candidates did not seem to know how the unavoidable cost should be determined and as a result, came to an incorrect decision of what amount to provide.
- Candidates were unable to identify that the issue was an onerous contract.
- Candidates considered the two options independently, i.e. the option of fulfilling the contract and the option of breaking the contract, and went on to discuss the different accounting implications dependent on management's choice of action. However, the accounting standards require the lower cost of the two to be provided.

The second part of the question was poorly done as Candidates concluded that there is a significant ethical issue in advising the accounting treatment for the issue, which is incorrect. The audit process necessitates dialogue between the auditor and the entity management, which might include applying accounting standards and proposing adjusting journal entries. These are normal parts of the audit process and do not usually create threats so long as management is responsible for making the decision on the accounting.

Some Candidates misunderstood the question and thought that the auditor was advising the entity management whether to choose between fulfilling the onerous contract and exiting the contract when the issue was about discussing the accounting treatment of an onerous contract.

Question 4

For **Part (a)**, Candidates were required to describe one audit procedure to determine that the functional currency of the entity is indeed Singapore dollar.

Generally, Candidates did not perform well for the question part, and it was observed that Candidates lacked knowledge of functional currency. A common answer was about how foreign currency transactions should be translated into Singapore dollar before recording.

Part (b) required Candidates to describe one audit procedure to confirm that the classification of a newly acquired warehouse as investment property is correct.

A fair number of Candidates stated the definition under SFS(I) 1-40 but did not address the audit procedures.

Some Candidates stated that the inspection of the property purchase agreement would have stated that the warehouse was acquired for investment purposes, but no credit was awarded for this.

There were also Candidates who stated that the rent must be verified to be arm's length in order for the property to be classified as an investment property.

There are two parts to **Part (c)**. **Part (c)(i)** required Candidates to describe one audit procedure to verify that the entity's incremental borrowing rate (IBR) used for lease accounting is 10%. The majority of the Candidates suggested reviewing against existing credit/unutilised facilities to verify the incremental borrowing rate. A small number of Candidates suggested a comparison with MAS published interest rates. This suggested a lack of knowledge that the IBR is both an entity-specific and asset-specific rate and not a general interest rate.

Part (c)(ii) required the Candidates, in the role of an auditor, to perform an independent calculation of the initial measurement of the lease liability and determine whether the audit client has correctly measured the initial lease liability. This was generally well answered, and Candidates were able to provide steps and workings to the computation.

For **Part (d)**, Candidates were asked to identify and explain the misstatements in the consolidated financial statements arising from the intra-group lease of a warehouse. This question was generally well attempted except that some Candidates failed to indicate the accounts that were overstated or understated despite being required specifically to do so, and thus did not obtain the full credit available.

Part (e) required Candidates to identify issues arising from the valuation performed and suggest steps that could be taken by the audit engagement team to resolve the issues.

Candidates did reasonably well in the identification of the competency issue, but the valuation techniques seemed relatively harder for them. Quite a good number of Candidates thought valuation techniques referred to valuation assumptions.

In terms of steps to be taken, the majority of the Candidates did not discuss their concerns with management before they proposed to engage another valuer.

For **Part (f),** Candidates were required to identify and explain the misstatements in relation to a warehouse used within the Group. The warehouse is classified as an investment property and the misstatements in relation to the fair value gain in relation to this warehouse being recorded as other income in the income statement. Candidates were further required to propose audit adjustment entries to correct the misstatements.

A number of Candidates did not answer this question part at all. This could be due to poor time management. Those who did answer this question generally performed well in the explanation of the misstatements but did not perform as well in the audit adjustment entries. Weaker Candidates failed to identify the misstatements correctly and suggested that investment property that is based on the fair value model should not be depreciated at all.