SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

MODULE: Assurance (ASF)

EXAMINATION DATE: 7 December 2023

Section 1
General comments

The overall performance for this exam has deteriorated as compared to the previous exam in June 2023.

Questions on audit procedures and assertions are still not well answered despite the fact these questions have been tested in every exam session.

The quality of answers on the audit of subsequent events is also unsatisfactory. It seemed that some Candidates did not understand the concept of subsequent events are, in particular what adjusting events.

Questions on the assessment of risk of material misstatements and the audit of revenue are also not performed well. Candidates did not seem to understand that the invoice amount billed to customers before performance obligation is satisfied should be recognised as deferred revenue (or contract liability). Weak accounting knowledge has contributed to the inability to identify the risk of material misstatements and recommend the appropriate audit procedures to be performed.

Section 2
Analysis of individual questions

Question 1

Question 1 was one of the worst performing questions of the entire paper. Many candidates did not manage to pass part (c) and (e).

This question tested Candidates' knowledge on the audit of subsequent events, i.e. events that occurred after the financial year end.

In **part (a)**, Candidates were asked to provide examples of adjusting events and non-adjusting events. Candidates provided good examples for non-adjusting events but did not do so for adjusting events. Many Candidates gave examples of conditions that existed on or before year end but did not extend to the subsequent events that provided additional evidence that these conditions existed at year end. For example, some Candidates wrote about a legal claim that existed before year end without stating its progress after year end which provided additional evidence that a provision should be recognised.

Part (b) required Candidates to state how an insurance claim submitted before year end should be accounted for when payout was confirmed by the insurer after the year end. Candidates who did not perform well failed to identify that the subsequent event provided evidence that a receivable should be recognised at year end.

Part (c) provided a subsequent event scenario that a pre year-end contract to acquire a warehouse was fulfilled after year end, i.e. ownership of warehouse was transferred after year end. Many Candidates wrongly stated that this was an adjusting event such that the company should have recorded the warehouse as a fixed asset at year end.

Part (d) provided a scenario that post year-end settlement of a legal claim that existed on or before year end. Some Candidates did well to correctly conclude that the settlement was an adjusting event that provided additional evidence on the provision necessary at year end.

Part (e) provided a similar scenario to that in part (d). Instead of a legal claim that existed at year end, it was a commitment (obligation) to pay bonus based on full year's profit. The post year end approval of payment was an adjusting event that provided additional evidence on the necessary provision amount at year end. However, majority of Candidates failed to apply the same principle in **part (d)** to **part (e)**.

Question 2

Question 2 was also one of the worst performing questions of the entire paper. Many Candidates did not manage to pass parts (a), (b) and (c).

Question 2 tested Candidates' knowledge on the identification and assessment of risks of material misstatement.

SSA 315 states that the risks of material misstatement may exist at two levels:

- The overall financial statement level; and
- The assertion level for classes of transactions, account balances, and disclosures.

SSA 200 states that risks of material misstatement at the overall financial statement level refer to risks of material misstatement that relate pervasively to the financial statements as a whole and potentially affect many assertions.

SSA 315 provides examples of risks of material misstatements at the overall financial statement level, which includes:

- The entity's financial statements are to be used in discussions with lenders in order to secure further financing to maintain working capital.

- The entity faces operating losses and liquidity issues and is reliant on funding that has not yet been secured.

SSA 330 requires the auditor to design and implement overall responses to address the assessed risks of material misstatement at the financial statement level, which includes:

- Emphasising to the audit team the need to maintain professional scepticism.
- Assigning more experienced staff or those with special skills or using experts.
- Changes to the nature, timing and extent of direction and supervision of members of the engagement team and the review of the work performed.
- Incorporating additional elements of unpredictability in the selection of further audit procedures to be performed.

Part (a) required Candidates to identify and explain one risk of material misstatement at the overall financial statement level and design to overall responses to this risk.

SSA 200 states that risks of material misstatement at the assertion level are assessed in order to determine the nature, timing, and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence.

Part (b) asked Candidates to identify and explain one most significant risk of material misstatement at the assertion level and design audit procedures for the following transactions:

- Revenue from the sale of vending machines,
- Revenue from rental income
- Revenue from maintenance service
- Refundable deposit from customers

Candidates' answers show that there was a lack of understanding that recognising revenue based on the invoice prior to delivering of goods or services would affect the cutoff assertion and lead to wrong timing of revenue recognition. Candidates appeared to be familiar only with revenue from delivering of goods.

Part (c) tested Candidates' knowledge on the audit procedure to be performed to verify the existence of fixed assets that were located at customer sites. Generally, Candidates were able to provide at least one of the two procedures required.

Part (d) required Candidates to suggest improvement management inventory count procedures and to design an audit procedure to be performed attending client's inventory count. Some Candidates mixed up the client's count procedures with the auditor's audit procedures.

Question 3

Question 3 provided a scenario in that two classes of assets were destroyed by a fire, namely cash on hand and fixed assets. Due to police investigation, access to verify extent of damage was restricted.

Candidates were required to evaluate the issues and their implications on the auditor's opinion on the financial statements.

Many Candidates were unable to identify that the two issues related to lack of evidence rather than misstatement. However, most Candidates were able to correctly evaluate if the two issues were material individually while some were not able to evaluate the materiality of these two limitations on an aggregate basis. They did not seem to understand what "in aggregate" meant.

Some Candidates wrongly concluded that the possible effects of the limitations were both material and pervasive and wrongly concluded a disclaimer of opinion was required. There seemed to be a lack of understanding of pervasive means.

Part (b) required Candidates to explain if the event in **part (a)** should be reflected in the financial statements if the fire occurred after year end. Some Candidates discussed how this should be disclosed in the auditor's report and thus did not answer the question.

Part (c) tested Candidates' application of the "Other Matter" section in the auditor's report. Most Candidates were able to identify that the "Other Matters" paragraph had to be added and provided reasonable details.

Part (d) required Candidates to describe the audit procedures to be performed on the opening balances of an initial engagement, given that the client's prior years' financial statements were not audited. Many Candidates made reference to prior years' audited financial statements, when the question clearly stated that the client had not been audited previously. This resulted in Candidates not being able to obtain the appropriate marks for this part of the question.

For the opening inventory balances, some Candidates suggested for a roll-back of stock take to be done to prior year end, which was not feasible or reasonable given that the question stated that the client did not maintain proper records for inventory.

Question 4

Question 4 was a commonly tested topic of assertions. It was disappointing that Candidates were confused between:

- Completeness and existence
- Existence and occurrence

Some Candidates could not differentiate the test for i) sales vs subsequent receipts test for accounts receivables and ii) purchases vs subsequent payment test for accounts payable.

The final part of Question 4 tested Candidates' knowledge of ethical threats to auditor's independence and safeguards. The case scenario provided a request by the audit client for the audit engagement manager to be seconded to act as their finance manager for six months. Most Candidates correctly identify the self-review threat involved. Few Candidates identified the issue of the auditor assuming management responsibilities which was prohibited by the EP100.

