

## SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

**MODULE:** Assurance (ASF)

**EXAMINATION DATE:** 5 December 2024

### Section 1

#### General comments

The overall performance of the December 2024 exam is similar to prior examinations.

Candidates did well on the topic of describing the audit procedures. However, Candidates need to improve on the following topics.

- Assessment of risks of material misstatement [**Question 1(a)**]
- Key audit matters in the auditor's report [**Question 1(c)**]
- Evaluation of entity's accounting treatment [**Question 3(c)**]

The common issue among the Candidates is the lack of technical knowledge.

**Question 1(a)** was on the topic of assessing the risks of material misstatement. As it was the first question of the exam paper, some Candidate did not attempt the question, and the performance of those who attempted **Question 1(a)** was disappointing. Most likely, the Candidates lacked knowledge of SSA 315 (Revised).

**Question 1(c)** was poorly attempted as Candidates did not have sufficient knowledge of SSA 700 specifically on how key audit matters should be determined by the auditor.

Most Candidates were not able to answer **Question 3(c)** on evaluating the accounting treatment of the shipping cost based on the accounting principles in FRS 16. One of the important components of the audit work is the ability to evaluate the entity's accounting treatment where the Auditor provides reasonable assurance that the entity's financial statements are prepared in accordance with the relevant financial reporting framework

### Section 2

#### Analysis of individual questions

#### **Question 1**

**Question 1** focuses on the planning stage of an audit of financial statements of a listed company which in this case is a bus operator in the private sector.

**Question 1(a)** requires Candidates to identify and explain the risks of material misstatement at the assertion level, based on the information provided in the management's business plan.

Generally, the quality of answers was rather disappointing. Many Candidates explained the assertions in the case scenario instead of describing the risks of material misstatement (RMM). Some Candidates did not answer this question at all. This suggested that Candidates were not well prepared for this topic.

Candidates were asked to explain the RMM relating to five events or transactions:

- (i) Depreciation of bus fleet
- (ii) Purchase contract for capital expenditure
- (iii) Early termination of a long-term maintenance contract with a supplier
- (iv) Cancellation of a purchase order placed with a supplier with the deposit being forfeited
- (v) Impairment of bus fleet

Some Candidates did not indicate the specific requirement. For example, Candidates explained the potential impact of bus fleet instead of the depreciation of the buses as required in **Question 1(a)(i)**.

Many Candidates did not identify the risk of lack of disclosure of capital commitment in **Question 1(a)(ii)**. This could be due to the Candidates unable to identify the relevant information in the case scenario or the lack of knowledge of the accounting requirements for capital expenditure.

For **Question 1(a)(iii)**, many Candidates failed to identify the risk of understatement of liability arising from not providing provision for the onerous contract.

**Question 1(b)** requires Candidates to state the audit procedures for items **(iii)** and **(iv)** in **Part (a)**. This is part of the audit planning stage as Auditor is required to design audit procedures in response to the identified RMM.

Some Candidates lost marks due to:

- Insufficient details in the audit procedures. For example, sending written confirmation request to the supplier without stating what details are to be confirmed with the supplier.
- Insufficient number of audit procedures. The question requirement is four audit procedures, but many Candidates provided three procedures or less.

**Question 1(c)** requires the Candidates to explain why the impairment of ICE buses could be considered as a key audit matter.

**Question 1(c)** was poorly attempted. Many Candidates considered the impairment of the buses to be a key audit matter due to its materiality. This showed that Candidates did not have sufficient technical knowledge to identify factors that should be considered by the auditor in determining key audit matters. Paragraph 9 of SSA

701 provides three factors for the auditor to consider which matters are key audit matters.

## Question 2

Question 2 covers the testing stage and review stage of the audit.

**Question 2(a)** requires Candidates to describe the test of details to be performed on the payroll costs. Five different objectives are given in the question requirements.

- (i) Completeness of employees included in payroll calculation,
- (ii) Employees included in payroll calculation are bona fide,
- (iii) All employees included in payroll calculation are also included in the bank payment list,
- (iv) Accurate determination of CPF contribution, and
- (v) Resigned employees do not continue to be paid after their last date of employment.

Overall, it seemed that limited attention was paid to the objectives when suggesting the appropriate tests of details. For example:

For **Part (a)(iii)**, the employee details should be traced from the payroll calculation to the bank payment list to ensure that all employees included in the payroll calculation were also included in the bank payment list,

However, some Candidates stated that the test of details was to trace the amount in the bank payment list to the payroll calculation, while some Candidates showed that they did not understand the test objective.

- For **Part (a)(v)**, several Candidates suggested recomputing the salaries of resigned employees based on the terms of employment contracts and tracing to the bank statement. This would have helped to determine the accuracy of the last payroll for the resigned employee but would not have met the objective of ensuring that resigned employees did not receive salary after their last date of employment.

**Question 2(b)** requires the Candidates to evaluate if the accounting treatment of the redundancy payment – to not make any provision and only disclose the redundancy payment in a note in the financial statements – is appropriate.

Several Candidates were able to address on the fairness of the redundancy payment. However, they failed to assess whether a present obligation exists, and if the payment is probable before concluding whether the accounting treatment is correct.

**Question 2(c)** requires the Candidates to describe the audit procedures to be performed in respect of redundancy payments:

- (i) All staff included in the payment calculations are bona fide,
- (ii) The payment amount is correctly determined, and
- (iii) A present obligation to pay exists at the year-end.

Candidates' performance was acceptable. Some Candidates lost marks due to inadequate attention to key details in the audit procedures. For example, many Candidates correctly wrote that an audit procedure for **Part (c)(iii)** is to sight the approval of the board of directors in the minutes of meeting. However, the most important detail was the date of approval. For a present obligation to exist at year-end, the approval must be obtained on or before the financial year-end.

**Question 2(d)** requires the Candidates to discuss whether the announcement in October 2024 (after year-end) to increase the redundancy payment is an adjusting event or non-adjusting event in accordance with SFRS(I) 1 - 10 *Events After Reporting Date*. Many Candidates did well. Those who did not could be due to:

- Lack of technical knowledge on distinguish between adjusting event and non-adjusting event, or
- Not using the available information in the case scenario. The case scenario stated that there was a discussion between the company and the National Trade Union Congress before the year-end. As a result, there was an increase in redundancy payments after the year-end. Thus, the condition existed before the year-end and subsequently, is an adjusting event.

### Question 3

In **Question 3(a)**, performance materiality and sample selection plan are provided for the performance of test of details (TOD) of fixed asset additions. Candidates are required to determine the number of items to be selected for TOD. Most Candidates answered this requirement well.

**Question 3(b)** requires the Candidates to describe the TOD to be performed to verify the costs of the imported fixed assets, including total cost, unit cost, shipping cost and the translation of foreign currency cost into functional currency.

Generally, Candidates did well. Several Candidates proposed procedures that were not related to the question requirements such as comparing amounts to goods received notes (GRN), purchase orders, or delivery orders. Few Candidates erroneously recalculated foreign exchange rates based on year-end closing rates instead of using the rate on the purchase date.

**Question 3(c)** requires the Candidates to evaluate PCK's accounting treatment of the shipping charges for the new crane equipment acquired. i.e. capitalise the shipping charges as the fixed asset cost. Several Candidates did not answer this question. Some Candidates concluded that shipping charges should be expensed off instead of being capitalised. This indicated a lack of technical knowledge on accounting for shipping charges as directly attributable to fixed asset costs.

**Question 3(d)** requires Candidates to quantify the actual misstatement and projected misstatement of the depreciation of the new fixed assets. Some Candidates calculated the misstatement for individual assets without quantifying the total misstatement and lost some marks.

**Question 3(e)** relates to auditor's report on the financial statements. Given the uncorrected misstatements are evaluated to be immaterial, Candidates are required to state the audit opinion and explain how these immaterial misstatements should be reflected in the management's written representation letter. Many Candidates correctly concluded that the opinion would remain unmodified. However, several Candidates incorrectly stated that immaterial misstatements did not need to be reflected in the written representation letter.

**Question 3(f)** requires the Candidates to discuss the ethical threat arising from the client's proposed audit fee arrangement and conclude whether the proposed fee arrangement is acceptable. Overall, Candidates performed well and correctly identified the self-interest threat posed by contingent fees. However, some Candidates lost easy marks by failing to provide a concluding statement.

#### **Question 4**

Two separate cases are provided in question 4, namely, Case A and Case B.

##### **Case A**

**Question 4 A(a) and A(b)** test the Candidates' knowledge on auditing revenue recognition. Generally, Candidates were able to identify the risk of early recognition of revenue instead of deferred revenue or contract liability. Candidates were also able to describe the test of details relating to revenue recognition.

**Question 4 A(c)** relates to the auditor's professional scepticism attitude. Candidates were required to provide three reasons why the cash refund in the case scenario could be a suspicious transaction relating to fraud risk. Generally, Candidates were able to provide two reasons. Some Candidates suggested the lack of segregation of duties as a reason for suspicious transactions. Inadequate segregation of duties increases control risk and risks of material misstatement. It is not an indicator of why the stated cash refund in the case scenario is a suspicious transaction.

**Question 4 A(d)** requires the Candidates to describe the audit procedures to be performed for the cash refund. **Question 4 A(e)** requires Candidates to discuss to whom the auditor should communicate on suspicious cash misappropriation. Candidates' performance for both parts was satisfactory.

##### **Case B**

The case is about possible money laundering in an audit client.

**Question 4 B(a)** tests the Candidates' knowledge of the 3 stages of money laundering, namely, placement, layering and integration. In the case scenario, cash from scammed victims was transferred from overseas bank accounts into the audit client's bank account in Singapore.

These illicit funds were transferred to other overseas bank accounts almost immediately, Candidates were asked to explain which of 3 stages of money laundering the bank deposit and withdrawal of these cash falls under.

Candidates who did not do well generally identified the placement stage in their answers. This is incorrect as the illicit funds were already placed into the overseas bank accounts before they were transferred to the bank account in Singapore.

**Question 4 B(b) and B(c)** require the Candidates to describe the audit procedures relating to the bank deposit and withdrawal, and how these procedures could have help to identify these suspicious deposits and withdrawals. Generally, Candidates describe the vouching of the supporting documents. However, marks were lost because Candidates did not explain how these could flag suspicious deposits and withdrawals.

**Question 4 B(d) and B(e)** relate to auditor's duty regarding anti-money laundering. Candidates are asked whether the suspicious money laundering transactions should be reported to the authority and be communicated as suspicious transactions with the Director. Candidates correctly concluded the reporting duty to the authority. However, many Candidates also concluded that suspicious money laundering transactions should also be communicated to the Director. There is a lack of consideration of the legal duty to avoid committing the offense of tipping off.