

SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

MODULE: Assurance (ASF)

EXAMINATION DATE: 9 June 2022

Section 1

General comments

The performance of this exam is comparable to the previous sitting. Candidates did best for question 2 and did worst for question 3.

Generally, Candidates did well with audit procedures and did not do well in the following areas:

- Audit report
- Professional ethics
- Determining materiality during planning
- Written representation

Audit report and professional ethics have been tested in every exam session. Thus, Candidates should have been well prepared if they had practised the past-year exam papers. However, the performance for these two subject matters were not satisfactory.

As with all past sittings, Candidates are advised to prepare themselves to cover all examinable topics within ASF in order to do well for the paper. They are encouraged to practice more using questions from the recommended textbook and past ASF examination papers. They should also read the case facts and questions requirements carefully when attempting the paper to avoid getting penalised.

Section 2

Analysis of individual questions

Question 1

Question 1 is framed in the context of auditing the financial statements of a charity.

Parts (a) to (c) focused on the planning stage of the audit, with specific emphasis on the concept of materiality.

Part (a) required Candidates to explain how materiality level is being used in the planning stage of the audit and in evaluating misstatements.

Part (b) required Candidates to select an appropriate benchmark for the determination of materiality.

Part (c) required Candidates to discuss the reasons for auditor to revise the preliminary materiality.

The quality of the answers was not satisfactory, and **part (c)** was the of the worst performing question part for this paper. Majority of Candidates could not express how materiality level is being used.

Some Candidates did not know the process of determining materiality and thus did not know how to choose an appropriate benchmark.

Preliminary materiality is determined at the planning stage which is usually before the financial year end of the audit client. The figures used for determining materiality level are thus pre-year-end figures and thus auditor usually revises the materiality level when the full-year figures are available.

Part (d) required Candidates to describe audit procedures to be performed on 5 items on a payroll report. This is within the context of auditing payroll expenses.

Most Candidates correctly described the audit procedures to verify that the employees are bona fide employees. However, marks were lost when the Candidates stated the assertion to be verified was existence of employees. This reflected their insufficient understanding of assertions. Assertions are linked to:

- Transactions and events; and
- Account balances.

Thus, to verify the employees' existence was to verify that the payroll transactions occurred. i.e. occurrence.

Part (e) required Candidates to describe three audit procedures to verify employees' CPF contribution. Most Candidates got one of the audit procedures correct, namely, to compare the CPF rates used to the CPF rates published by the CPF Board. However, to do so, Candidates needed to determine whether the employees were Singapore citizens, permanent residents or others. Candidates also needed to determine the ages of the employees. CPF contribution rates are affected by these factors. Candidates lost marks on these details.

For **part (f)**, most Candidates passed Question **1(f)** and managed to correctly state that the objective of the audit procedure was to verify that the CPF deductions were completely and accurately paid to the CPF Board.

The answers for **part (g)** showed that many Candidates did not know the link between the payroll system and the general ledger. The totals in the payroll report were posted to the general ledger:

Dr Payroll expenses (gross wages)

Cr Accrual for CPF – employee contribution

Cr Accrual for net wages

Thus, after verifying the details of the payroll report, the next audit procedure would be to cast the totals and trace the totals to the general ledger. Many Candidates did not get this right.

Question 2

Question 2 tested Candidates' knowledge on external confirmations as well as principles in SSA 505 – External Confirmations. Overall, this is the best performing question for this paper.

Part (a) provided a list of receivables selected by the auditor for external confirmation. Candidates were required to explain why the auditor chose those receivables. Some Candidates were unable to differentiate the objectives that the auditor tried to achieve with the different types of receivables. For example, selecting major customers with small receivables at year end is primarily for testing understatement. We would expect major customers who purchased a lot from the company to have a large balance outstanding. Thus, if the balance is small, it could be understated.

Part (b) required Candidates to describe THREE factors that contributed to the reliability of external confirmation as audit evidence. Candidates who had read SSA 505.2 would have scored well with the following factors:

- Written evidence
- From independent external source
- Obtained directly by auditor

Part (c) required Candidates to describe an advantage of a positive confirmation where respondents were requested to confirm the balances indicated. The knowledge is in SSA 505.A5 which states that a confirming party may reply to the confirmation request without verifying that the information is correct. Candidates were also required to describe a disadvantage of asking the confirming party to provide the balance, i.e. a “blank confirmation.” Again, the answer could be found in SSA 505.A5, which states that a blank confirmation may result in lower response rates because of additional effort required by the confirming parties. It was obvious from the answers submitted by the Candidates that they lack knowledge of the guidelines in SSA 505.

Part (d) provided Candidates with a draft receivable confirmation request letter and required Candidates to point out five areas where the letter was not prepared correctly. Candidates did well and many scored full marks.

Part (e) tested Candidates' knowledge on SSA 505.14 which states “the auditor shall investigate exceptions to determine whether or not they are indicative of misstatements.” SSA 505.6e states that an exception is a response that indicates a difference between information requested to be confirmed, or contained in the

entity's records, and information provided by the confirming party. The exception in the exam case scenario was that the customer of the entity did not record a sale invoice from the entity until after the financial year. The issue was whether the entity delivered the goods on or before the year end. If it did, then the recorded receivables were correct. The appropriate audit procedure was to inspect the entity's shipping document/goods delivery note to verify the date of delivery. Some Candidates wanted to verify the sales invoice date which did not provide proof on date of delivery. Some Candidates wanted to inspect the customer's goods received note. The auditor was not auditing the customer of the audit client. It was not practical to inspect audit client's customers documents. These answers showed lack of knowledge on the audit procedures to be performed on reconciling items.

Question 3

Overall, Question 3 was the worst performing question for this paper. Question 3 covered three different areas:

- Evaluating the risk of material misstatement of a specific transaction and determining the appropriate audit opinion given the misstatement
- Designing audit procedures given a specific issue
- Discussing ethical threats and suggesting appropriate safeguards

For the first area **Part (a)**, Candidates were provided with a response from a lawyer confirming their professional view of a law suit the audit client is facing. Candidates were required to consider the correct accounting treatment for the lawsuit. As it was probable that the auditor might lose the case and must pay compensation, the correct accounting treatment was to recognise an expense and a provision for the estimated compensation amount. Many Candidates were confused between provision and contingent liability disclosure and hence did not do well.

For **part (b)**, most Candidates correctly suggested a qualified opinion to be issued for material but not pervasive misstatement if the provision was not recognised. Some Candidates wrongly suggested an adverse opinion. Some wrongly considered 15% of the profit was substantial proportion of the financial statements.

For **part (c)**, the customer had sued the audit client and refused to pay the outstanding balance. Thus, the associated receivable was a potential bad debt. Candidates were required to suggest audit procedures to follow up on the issue. The focus was on evaluating the extent of expected credit loss to be recognised. Most Candidates appeared to be unfamiliar with the audit procedures to be performed in relation to potential bad debt.

For the part on ethics – **part (d)**, three different scenarios were provided in the question.

The first scenario was about an audit engagement partner being invited to join his audit client, a listed company, as a Director upon his retirement as an audit partner from the audit firm. Para R524.6 of EP 100 provides guidelines in such a situation.

Many Candidates did not seem to be aware of these guidelines and were unable to provide an acceptable answer.

The second scenario was about an Audit Manager obtaining discount from the audit client when purchasing inventory from the audit client. Whilst most Candidates correctly identified the Audit Manager was exposed to self-interest threat, many failed to consider that the purchase was in the normal course of business and the discount was available to the public as well and thus was at commercial terms. Some wrongly considered 10% discount as insignificant in value.

The third scenario was about an audit senior considering obtaining a car loan from an audit client that provided car loan financing. As the audit client provided car loan financing as a finance company, the loan was in the normal course of business. Many Candidates failed to consider this point. Unlike the second scenario, the loan amount was small. This reduced the self-interest threat.

Candidates should be familiar with the provision in EP 100 about auditor's independence when auditing financial statements, particularly from para 410 to 610 in section 4A.

Question 4

Question 4 focused on the review and finalisation stage of the audit. This was the second-best performing question for this paper.

Part (a) provided Candidates with a draft of an extract of an audit report. Candidates were required to identify and explain ELEVEN deficiencies in the draft auditor's report extract.

Generally, Candidates' performance for this question was average. The following observations were made regarding the weaker answers:

- Commenting on areas of the audit report had been omitted from the draft despite a note reminding Candidates not to do so. Candidates wrote about auditor's responsibilities and auditor's signature which were not included in the draft.
- Commenting that the audit opinion was not included when audit opinion could be found in the second paragraph in the draft.
- Explaining what an Emphasis of Matter was.
- Candidates found less than five deficiencies and thus did not a score a pass.

The weaker answers suggested that these Candidates had not seen an unmodified audit report and only managed to memorise the elements in an unmodified report off the book.

Parts (b) and (c) tested the Candidates' knowledge on written representation in terms of its purpose and when to date the written representation. **Part (d)** required Candidates to state the next three steps an auditor should take if the Management

refused to provide the requested written representation. Generally, Candidates' performance was satisfactory.

Part (e) tested Candidates' knowledge on audit report given two mutually exclusive scenarios:

- If Management refused to provide written representation.
- If auditor deemed the written representation as unreliable.

In both situations, a disclaimer of opinion should be expressed. Without reliable written representation, there was a lack of evidence that could be both material and pervasive. A third of the Candidates got both answers correct.

Part (f) was related to the use of written representation as audit evidence. Candidates were required to give TWO examples of accounting estimates where written representations were considered as relevant audit evidence. Surprisingly, Candidates struggled to come up with two relevant examples. Some mentioned "the basis of asset valuation". While deciding the basis to value assets require professional judgment, the basis of valuation is not an accounting estimate. It is the assumptions used in valuing assets that are accounting estimates.