

Singapore CA Qualification (Foundation) Examination**9 December 2020****Assurance****INSTRUCTIONS TO CANDIDATES:**

1. The time allowed for this examination paper is **3 hours 15 minutes**.
2. This examination paper has **FOUR (4)** questions and comprises **NINETEEN (19)** pages (including this instruction sheet and Appendix A). Each question may have **MULTIPLE** parts and **ALL** questions are examinable.
3. This is a restricted open book examination. You are allowed to have only the following materials with you at your exam location:
 - One A4-sized double-sided cheat sheet
 - One A4-sized double-sided blank scratch paper
4. During the examination, you are allowed to use your laptop and any calculators that comply with the SAC's regulations. Please note that watches, mobile phones, tablets, and all other electronic devices **MUST NOT** be used during the examination and **MUST NOT** be within reach or sight or hearing from where you are seated to write the exam. Use of these devices, or, the sight or hearing of these devices, will be flagged as integrity breaches and investigated, unless it is for the purpose as stated under paragraph 6 below.
5. During the examination, videos of you and your computer screen will be recorded for the purpose of ensuring examination integrity and you have consented to these recordings.
6. Should you encounter any issues during the examination, please contact any of the hotlines below for assistance. The hotlines will be operational from one hour before the scheduled start time of the examination to 45 minutes after the scheduled end time of the examination.

Hotline numbers
6734 9868
6325 0594
8125 1053

7. This examination paper and all video recordings of this exam are the property of the Singapore Accountancy Commission.

MODULE-SPECIFIC INSTRUCTIONS:

8. Assume that all dollar amounts are in Singapore dollar (S\$) unless otherwise stated.
9. Unless specified otherwise, assume that all the reporting entities in all the questions adopt, for all the relevant years, the Singapore Financial Reporting Standards (International) (SFRS(I)) that were issued by the Accounting Standards Council as at 1 January 2020 and the Singapore Standards on Auditing (SSA) issued by the Institute of Singapore Chartered Accountants (ISCA) as at 1 January 2020.

**Exemplify
Question
Number**

1

Compulsory pre-exam steps to be recorded in video

Before you begin this exam, you are to perform a 360 degrees environment scan (via webcam), including a view of your table top, so that the location where you are taking the exam is being recorded in the video.

Next, show each side of your A4-sized double-sided cheat sheet to the webcam so that your cheat sheet is being recorded in the video.

Lastly, if you are using a calculator and a blank sheet of A4-sized scratch paper, show the calculator and both sides of the blank scratch paper to the webcam so that these items will be recorded in the video.

Should you encounter any issues during the examination, please contact any of the hotlines below for assistance.

1. 6734 9868
2. 6325 0594
3. 8125 1053

Question 1 – (a) and (b)

You are an audit associate in a mid-size audit firm. Alex is an intern assigned under your mentorship and he is confused between the responsibility of management and auditor in relation to the audit of financial statements. Alex has sought your clarification in these areas:

1. Accounting policies
2. Accounting estimates
3. An adjustment to correct an omission of a liability
4. Disclosure of material going concern uncertainty in the financial statements, if applicable
5. Using the going concern basis to prepare financial statements
6. Compliance with law and regulations that have a direct impact on the financial statements
7. Material subsequent events that are considered as adjusting events
8. Material subsequent events that are considered as non-adjusting events
9. Assessing the company's ability to continue as a going concern
10. Internal controls

**Exemplify
Question
Number**

2

Question 1 required:

- (a)** For each of the ten areas listed above, provide a brief description to Alex that explains the management's responsibility and the auditor's responsibility.

Present your answer in the following format:

1) Accounting policies

Management's responsibility:

Auditor's responsibility:

2) Accounting estimates

Management's responsibility:

Auditor's responsibility:

(20 marks)

**Exemplify
Question
Number**

3

Question 1 required:

(b) Alex is also confused between accounting policies and accounting estimates. For each of the following accounts, provide an example of accounting policies and an example of accounting estimates:

(i) Property, Plant and Equipment – Office Building

(3 marks)

(ii) Inventory – Finished Goods

(2 marks)

Present your answer in the following format:

(i) Property, Plant and Equipment – Office Building

Accounting policy example:

Accounting estimates example:

(ii) Inventory – Finished Goods

Accounting policy example:

Accounting estimates example:

(Total: 25 marks)

Question 2 – (a) and (b)

C19 Pte Ltd (C19) is a café operator and the audit of its' financial statements for the year ending 31 December 2020 has just commenced. You are the audit associate reviewing the narrative description on the payroll system written by an audit intern. An extract of the narrative description is as follows:

Payroll for Waiters

C19 has 20 waiters working in its 2 cafes over 2 shifts:

- Shift 1 – from 7 am to 3 pm
- Shift 2 – from 3 pm to 11 pm

As cafés are located in the central business district and they cater to office workers, they are open from Monday to Friday and are closed on Saturday, Sunday and public holidays.

Each waiter is paid a basic monthly salary of \$1,500. Occasionally, overtime work is necessary to cover other waiters who might be absent due to annual leave, sick leave or going on training. Some waiters are Singapore citizens, some are permanent residents and others are on work passes. The youngest waiter is 18 years old and the oldest waiter is 60 years old. The café managers are responsible for arranging the shift duty roster.

As waiters arrive at work, they are required to swipe their magnetic-strip staff card and scan their thumb print. Similarly, as they leave after their shift, they have to repeat the same process. The time recording system will record the date, time in, time out, staff name and card number. A CCTV is used to provide surveillance and recording of this process. The recording is kept online for a week before it is erased.

Overtime work can only be carried out upon instruction and approval from the café manager. Waiters fill in an overtime claim form detailing the date and hours of overtime worked for approval, evidenced by the café manager's signature. The approved overtime forms are sent to the accounting department for processing. The payroll processing calculates:

- The gross wages (made up of ordinary wages and overtime wages), deduction for Central Provident Fund (CPF) – employee's contribution, and net wages. [These details are printed in a Monthly Payroll Report for review and approval by the Finance Director]; and
- CPF – employer's contribution.

The employees' net wages are deposited into their bank accounts by the way of direct bank transfer. The Finance Director signs on the direct bank transfer list as instruction to the bank to effect the transfer. A copy of the signed bank transfer list is filed. The company submits and pays CPF contributions (both employer contribution and employee contribution) via CPF's e-submission service. The company files the e-submission acknowledgement notice and e-payment records which include details of CPF paid for each employee.

**Exemplify
Question
Number**

Question 2 required:

4

(a) Describe the audit procedures to be performed and the associated assertions tested:

(i) To confirm the correctness of employee's CPF deduction, taking into account their ages and citizenship;

(2 marks)

(ii) To confirm all waiters' net wages have been credited into their bank accounts;

(2 marks)

(iii) To confirm all waiters' CPF (employee contribution and employer contribution) has been paid to the CPF Board;

(2 marks)

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(iv) To confirm the waiters' ordinary wages (i.e. their basic salary) in the Monthly Payroll Report are correct;

(2 marks)

(v) To confirm all waiters are included in the Monthly Payroll Report;

(2 marks)

(vi) To confirm the waiters in the Monthly Payroll Report are bona fide employees;

(2 marks)

(vii) To confirm the overtime wages are correctly calculated;

(2 marks)

**Exemplify
Question
Number**

Question 2 required:

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(viii) To confirm the internal control over approval of overtime is operating effectively; **(2 marks)**

(ix) To confirm all employees included in the direct bank transfer list are bona fide employees, i.e. they are employees in the payroll; and **(2 marks)**

(x) To confirm the net wages are correctly calculated. **(2 marks)**

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(b) In the case when significant control deficiencies are discovered in the course of the audit, **describe** the need for the auditor to communicate such deficiencies in relation to:

(i) The addressee of such communication, i.e. whether the control deficiencies should be communicated to:

- The shareholders of the company; and **(1 mark)**
- The management/those charged with governance of the company. **(1 mark)**

(ii) The key contents of such communication. **(3 marks)**

(Total: 25 marks)

Question 3 – (a), (b), (c), (d) and (e)

SSA 220 - *Quality Control for an Audit of Financial Statements* requires the engagement partner to take responsibility for the overall quality of each audit engagement to which that partner is assigned. This includes the assignment of the engagement team, the direction, supervision and review of the audit engagement.

The following audit engagement team has been assembled for the audit of Jumbu Pte Ltd (JPL), a new client of the firm:

- Engagement partner – Alvin;
- Audit manager – Benny;
- Audit senior – Carol; and
- Associate – Donnie.

JPL is a software company that licences its software to customers and also provides support services. Some software applications are sold as a perpetual licence, and some are provided to customers on a subscription basis.

The only person in the engagement team who has performed an audit of entities in the same industry as JPL is Donnie. Benny is a newly hired audit manager and JPL will be the first audit engagement he will be involved in since joining the audit firm.

Some of the tasks assignment are as follows:

Donnie

- Revenue from sale of goods and revenue from rendering of service;
- Trade receivables; and
- Property, plant and equipment (PPE), primarily computer hardware such as mainframe computers, routers, network equipment, storage devices.

Carol

- Inventory, primarily user manuals, gifts for customers such as computer mouse;
- Cash at bank;
- Purchases and trade payables; and
- Payroll expense.

The respective balances of these accounts are as follows:

	Current Year \$ million	Prior Year \$ million
Revenue	80	50
Purchases	20	15
Payroll expense	5	3
Trade receivables	8	5
Trade payables	3	2
PPE	30	10
Cash at bank	5	5
Inventory	0.1	0.1

Carol is concerned that the completion of the audit will be delayed as she feels overwhelmed by the amount of work to be completed. Benny did not spend time on the audit engagement except for a couple of hours at the beginning of the engagement when he instructed Carol and Donnie to try to follow the firm's standard audit methodology. Carol found out that Benny has been away on marriage leave and she also does not have any idea when Alvin will review the audit working papers. Carol later discovered that she had missed the client's year-end inventory count. Because of these difficulties faced, she did not have time to check on Donnie's progress on the audit engagement and the adequacy of work done by him.

**Exemplify
Question
Number**

Question 3 required:

8

(a) Evaluate the quality control of the audit engagement performance in relation to:

(i) The assembly of the engagement team.

(2 marks)

(ii) The tasks assignment.

(2 marks)

(iii) Direction of the audit engagement.

(2 marks)

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(iv) Supervision of the audit engagement.

(2 marks)

(v) Review of the work performed.

(2 marks)

As part of the client acceptance procedures, the engagement partner has arranged, with management approval and with the consent of the predecessor audit firm, to review the audit working papers of the predecessor auditor's work on last year's audit.

**Exemplify
Question
Number**

Question 3 required:

- | | |
|-----------|---|
| 10 | <p>(b) Provide THREE reasons why the audit engagement partner would need to review the audit working papers of the predecessor auditor. (6 marks)</p> |
| 11 | <p>(c) Assuming the audit engagement partner is satisfied that sufficient and appropriate evidence is obtained to support an unmodified opinion for this year's financial statements, describe how the fact that last year's financial statements were audited by another audit firm should be disclosed in the audit report. (4 marks)</p> |
| 12 | <p>(d) Explain why client management approval is necessary for the predecessor audit firm to allow the new auditor to review their audit working papers. (3 marks)</p> |
| 13 | <p>(e) Briefly discuss whether the predecessor audit firm has the right to decline the request by the new auditor to review their audit working papers. (2 marks)</p> |

(Total: 25 marks)

Question 4 – (a), (b), (c) and (d)

In accordance with Ethics Pronouncement (EP) 200 Anti-Money Laundering and Countering the Financing of Terrorism, an auditor has the duty to report to the authorities any suspicious money laundering transactions encountered during the course of his/her professional work. The term “money laundering” covers any activity by which the apparent source and ownership of money representing the proceeds of crime are changed so that the money appears to have been obtained legitimately. Money laundering thus involves “proceeds of crime”.

Exemplify Question Number

Question 4 required:

14

- (a) For each of the following, identify the proceeds of the crime:
- (i) Tax evasion. (1 mark)
 - (ii) Bribe received from suppliers to award purchase contracts. (1 mark)
 - (iii) Bribe paid to customers to secure customers' contracts. (1 mark)

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- (iv) Helping a criminal to transfer stolen cash to an overseas bank account and keeping part of cash to be transferred as “service fee”. (1 mark)
- (v) For a service fee, helping an overseas criminal to register a company, open a bank account in the name of the company and deposit cash handled over by the criminal into the bank account. (1 mark)

**Exemplify
Question
Number**

Question 4 required:

16

- (b)** Explain how the duty of reporting suspicious money laundering transactions conflicts with the ethical principle of confidentiality.
(3 marks)

17

- (c)** When the auditor has reasonable grounds to suspect that the audit client is involved in money laundering, explain whether the auditor should investigate the matter further by asking the audit client to confirm that the transaction is related to money laundering.
(2 marks)

An auditor is required to express a modified audit opinion in any of the four situations:

1. There are material but not pervasive misstatements in the financial statements;
or
2. There are material and pervasive misstatements in the financial statements; or
3. When an auditor is unable to obtain sufficient and appropriate evidence and the possible effects are material but not pervasive; or
4. When an auditor is unable to obtain sufficient and appropriate evidence and the possible effects are material and pervasive.

**Exemplify
Question
Number**

Question 4 required:

- | | |
|-----------|---|
| 18 | <p>(d) For each of the following scenarios that are independent of each other, state the appropriate modified audit opinion to be expressed and the reason, with reference to one of the four given situations above:</p> <p>(i) An auditor was appointed after year end and hence missed the year-end inventory count and the auditor was not able to perform alternative procedures in lieu of the inventory count attendance. Inventory represented 20% of total assets. (3 marks)</p> |
| 19 | <p>(ii) \$20 million of the client's plant and machinery were seized by the government authority in relation to a fraud investigation. These \$20 million assets, which represented 90% of the client's total assets, were still being carried at a book value of \$20 million in the Statement of Financial Position. (4 marks)</p> |

**Exemplify
Question
Number
20**

Question 4 required:

21

(iii) A provision for a legal claim of \$100,000 was recognised in the Statement of Financial Position. The case was decided by the court after year end, before the audit work was completed. The client was to pay a compensation of \$1 million to the plaintiff. The profit before tax for the year was recorded at \$4 million. **(4 marks)**

(iv) Due to COVID-19, client's management has decided to cease operations. The company will close its 20 retail outlets in Singapore systematically over a period of 18 months. After the last retail outlet is closed, management will file for liquidation and seek to appoint liquidators to commence the liquidation process. This decision was adequately disclosed in a note to the financial statements. In the basis for accounting section of the disclosure note to the financial statements, it is stated that the financial statements are prepared on a going concern basis. Audit procedures performed confirmed that the financial statements are prepared on a going concern basis.

Your answer must include **all** of the following:

- An explanation of the issue, i.e. whether it is a misstatement or an inability to obtain evidence;
- An explanation of whether the issue is material (quantification is required where applicable);
- An explanation of whether the issue is pervasive; and
- An appropriate modified opinion.

(4 marks)

(Total: 25 marks)

END OF PAPER

Appendix A – Common verbs used by the Examiners

Verb	Description
Calculate / Compute	Do the number crunching and derive the correct answer. Make sure that you write down your workings and crosscheck your numbers. Candidates often underperform because of careless mistakes.
Describe	Describe requires you to provide the characteristics and features of an item or situation. For instance, " Describe the audit procedures to verify ..." requires you to state the specific audit procedure/s that you would use without going into step-by-step detail of how to perform that procedure.
Discuss	Discuss requires you to provide the 'for' and 'against' arguments, you cannot have a discussion without opposing views otherwise it would be just a conversation. If discuss is placed near the front of the instruction, then it requires you to provide an answer that is similar to explain , but addresses both the for and against arguments.
Evaluate	Pass judgment on or provide your opinion based on the facts at hand. When making an evaluation , there are often predetermined criteria that you will use to base your opinion on. The key here is to give your opinion or make a judgment of the facts, but providing just a description of the facts is insufficient. Professional judgment and scepticism (a questioning mind) are called for when making an evaluation . Examine and Evaluate have similarities.
Explain	Explain requires you to write at least several sentences conveying how you have analysed the information in a way that a layperson can easily understand the concept or grasp the technical issue at hand.
Identify	Identify is similar to list , but requires you to also provide an explanation as to why the item/s that you have identified is/are relevant to the facts given in the question.
State	State is similar to list , but the items require your professional judgement. For instance, " State any restrictions that apply". One of the easiest ways to make sure that you state comprehensively is to think, " list and justify ". You will note that state appears in many of the verb descriptions given.