



Singapore CA Qualification (Foundation) Examination

13 June 2019

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. This means that you are allowed to only bring the following materials into the examination hall:
 - One A4-sized double-sided cheat sheet.
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.
5. This examination paper is the property of the Singapore Accountancy Commission.

MODULE-SPECIFIC INSTRUCTIONS:

6. Assume that all dollar amounts are in Singapore dollar (S\$) unless otherwise stated.
7. 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 2019 and the Singapore Standards on Auditing (SSA) issued by the Institute of Singapore Chartered Accountants (ISCA) as at 1 January 2019.

Question 1 – (a), (b), (c) and (d)

Daryl is a new audit associate of Snorlax & Charmander LLP. He has been assigned to the audit of SwiftTech Pte Ltd (SwiftTech) for the year ended 31 December 20x8.

Before the commencement of audit fieldwork, Daryl has been reading the prior year audit files to familiarise himself with the audit working papers. As a fresh associate, he is confused between the engagement letter and the management representation letter.

Exemplify Question Number

Question 1 required:

1

- | |
|---|
| <p>(a) Assume you are the audit senior. To help Daryl to understand, compare FOUR characteristics of the engagement letter and FOUR characteristics of the management representation letter (relating to the preparer and addressee, date of the letters, purpose and frequency of issuing the letters). (8 marks)</p> |
|---|

An auditor is required to obtain an understanding of the entity and its environment and identify business risks that the entity is exposed to as most business risks will eventually have financial consequences. These business risks, if not addressed by management, may result in risks of material misstatement (ROMM) in the financial statements.

During audit planning, Daryl has identified the following business risks of SwiftTech:

1. SwiftTech manufactures and sells laptops and tablets. To remain competitive in the technology industry, the company has to launch a new model of its products at least once a year.
2. A majority of the customers are experiencing a global slowdown in demand. Thus, some customers have delayed their payments to the company.
3. Management believes that the company needs to secure a loan of significant amount from the bank to finance its working capital.
4. Management has implemented cost-cutting measures since the beginning of the year, including staff retrenchment. The staff who were retrenched have filed a legal claim against the company just before the year end for unfair dismissal and have demanded substantial compensation.
5. The regulator is investigating the company for a key product that is suspected of causing health issues to users. The investigation is not likely to be concluded by year end. In the worst-case scenario, the entity may be prohibited from selling that product and may have to pay a punitive penalty to the regulator.

**Exemplify
Question
Number**

2

- (b)** For each of the business risks above, describe the potential ROMM associated with the business risk and its impact on the financial statements. **(10 marks)**

Daryl has been informed by his audit manager to assist in the planning of the interim audit and final audit.

He is confused by the difference between “interim audit” and “final audit”, particularly in relation to:

1. The **timing** of when the interim audit and final audit is performed.
2. The **circumstances** under which the auditor may decide to perform an interim audit and **whether an interim audit is mandatory** for all audit engagements.
3. The typical **audit procedures** to be performed during the interim audit and the final audit. He is not sure of when the following procedures should be performed:
 - i) Walkthrough test on internal controls
 - ii) Test of details of assets and liabilities
 - iii) Review of going concern
 - iv) Audit risk assessment to identify risks of material misstatement
 - v) Evaluation of subsequent events
 - vi) Analytical procedures to assess whether the financial statements are consistent with the auditor’s understanding of the company

**Exemplify
Question
Number**

3

(c) Assume you are the audit senior and Daryl has approached you to seek your advice. Provide a brief explanation to Daryl on the items (1) and (2) above. **(4 marks)**

(d) For item (3) above, state the audit procedures (i) to (vi) that are usually performed for the interim audit and final audit respectively.

(6 marks)

(Total: 28 marks)

Question 2 – (a), (b), (c) and (d)

As part of the internal control walkthrough, Daryl has interviewed the staff in the purchasing department, warehouse department and the accounts payable (AP) section of the accounting department to understand the business process for purchasing and handling of supplier invoices.

He has documented the business process in the audit working papers as follows:

1. Purchasing Executives are responsible for contacting suppliers to negotiate price and delivery terms based on the Purchase Requisitions (PR) signed by the Department Head who raised the PR. PRs that are not signed by the Department Head will not be processed by the Purchasing Executives.
2. Once the negotiations with suppliers are completed, Purchasing Executives will prepare the Purchase Orders (PO). The PR and PO are submitted to the Purchasing Director / Purchasing Manager for approval. PO of value \$10,000 to \$150,000 shall be approved by the Purchasing Director. PO of value below \$10,000 shall be approved by the Purchasing Manager. The Purchasing Director and the Purchasing Manager will indicate their approval by signing on the PO. Any PO value higher than \$150,000 shall be approved by the Board of Directors.
3. The warehouse staff are given a copy of the approved PO which they will use to verify the goods delivered by the suppliers to the warehouse. If the goods delivered cannot be matched to an approved PO, the warehouse staff will reject the goods delivered by the suppliers.
4. The warehouse staff record goods received in a sequentially numbered Goods Received Note (GRN) with details such as PO number, Supplier Delivery Note (SDN) number, product code and quantity received. A copy of the GRN and SDN are attached and sent to the AP staff. The AP staff will then perform a sequence check on the GRN daily.

5. The AP staff file the GRN and SDN in an outstanding purchase file. When supplier invoices are received, the AP staff will match the details in the GRN and approved PO according to the product code, quantity and unit price. The AP staff will recalculate the invoice value in the supplier invoices. Supplier invoices that are in order will be keyed into the AP ledger system. Supplier invoices with unmatched details or errors in invoice value will not be keyed into the AP ledger. Instead, the AP staff will follow up with the suppliers on the discrepancies.
6. Before the supplier invoices are due for payment, the AP staff will prepare a payment voucher (PV) that indicates the supplier name, supplier invoice number and the total amount, and attach the approved GRN and PO to the PV. The PV with the attached GRN and PO will then be reviewed by the Finance Manager who will approve and sign on the PV if the documents are in order.

**Exemplify
Question
Number**

4

Question 2 required:

- (a)** For each of the above business process items (2) to (6), identify ONE internal control and describe ONE audit procedure that should be performed by Daryl for the test of control. Present the identified internal controls and test of controls as shown in the following format using business process item (1) as an example. **(10 marks)**

Internal Control 1

Only approved PRs are processed by the Purchasing Executives.

Test of control 1

Inspect sample PR to confirm that the PR has been signed by the Department Head.

After performing the procedures for the test of controls (TOC) as described in Question 2(a), Daryl is tasked by his audit manager to evaluate the results of the TOC.

Daryl understands that he needs to conclude on whether the internal controls are operating effectively.

**Exemplify
Question
Number**

For this question requirement, you are not required to address the TOC items (1) to (6) identified in Question 2(a).

5

(b) Assume you are the audit senior and Daryl has approached you to seek your advice; explain to Daryl in general on the following:

(i) how he should conclude if there are no control deviations detected from the TOC performed;

(1 mark)

(ii) what further procedures he should perform on the control deviations that are detected from the TOC performed; and

(1 mark)

(iii) how the results of the TOC would affect the extent of substantive procedures to be performed.

(3 marks)

Daryl needs to discuss with his audit manager whether to report the control deficiencies to either **(1)** both the Board of Directors and the Finance Manager or **(2)** the Finance Manager only.

**Exemplify
Question
Number**

- | | |
|----------|---|
| 6 | (c) Describe the factors that Daryl should consider when deciding whether the control deficiencies should be reported to the parties named in (1) or (2) as stated above. (4 marks) |
|----------|---|

Daryl is instructed to draft a management letter for the control deficiencies that have been identified. Daryl does not know what should be included as the key contents of a management letter.

**Exemplify
Question
Number**

- | | |
|----------|--|
| 7 | (d) List and explain THREE key areas that should be included in a management letter on control deficiencies. (6 marks) |
|----------|--|
- (Total: 25 marks)**

Question 3 – (a), (b), (c) and (d)

Daryl is tasked to perform external confirmation procedures to obtain audit evidence. His audit senior has given him instructions to select trade receivables balances for external confirmation using the following selection basis as follows:

1. All trade receivables with balances larger than performance materiality.
2. All trade receivables for major customers who have contributed to more than 10% of SwiftTech's total revenue for the year.
3. All trade receivables with balances that are outstanding for more than 90 days.
4. Selection of 50% of the remaining trade receivables by using software to identify the trade receivables for external confirmation. Criteria are not determined for the selection.
5. All trade receivables with credit balances.

**Exemplify
Question
Number**

8

Question 3 required:

- (a)** For each of the above selection basis (1) to (4), state whether a sampling approach is used and explain the reason for selecting the trade receivables balances for external confirmation.

Please refer to the example given below for selection basis (5) when presenting your answers for the other selection basis (1) to (4).

(10 marks)

Example

Selection Basis (5):

This is not a sampling approach.

*Reason for selection of trade receivables for external confirmation:
Trade receivables are usually in debit balances. Trade receivables with credit balances could be caused by recording errors and external confirmation is one of the procedures to validate the accuracy of the amounts.*

Daryl is required to perform external confirmation procedures to ascertain SwiftTech's bank balances and other information relevant to banking relationships.

He noted that his audit firm will typically request the banks to provide details of all the bank accounts which their audit client has maintained with the banks and information on the outstanding loans and other credit facilities that are financed by the banks.

**Exemplify
Question
Number**

- | | |
|----------|---|
| 9 | (b) List and describe FIVE types of details in relation to the outstanding loans that an auditor will normally request in their bank confirmations. (5 marks) |
|----------|---|

Performance of monthly bank reconciliation is considered a good internal control. Daryl understands that the purpose of performing a bank reconciliation is to compare the records in the cash book to those of the bank statement and to consider if there are any differences between these two sets of records for the cash transactions.

**Exemplify
Question
Number**

10

(c) Explain TWO errors that could be detected from the performance of monthly bank reconciliation; and **(4 marks)**

(d) Describe the TWO reconciling items, unpresented cheques and uncleared deposits, in a bank reconciliation.

(4 marks)

(Total: 23 marks)

Question 4 – (a), (b), (c), (d), (e) and (f)

Jane is the Finance Manager of SwiftTech. She has requested Daryl to convey a message to the audit engagement partner that the company would like to appoint Snorlax & Charmander LLP as its tax agent and to take care of all tax matters (including tax computation and filing). Her request is urgent as the company's tax agent, who is a sole proprietor, has decided to retire.

**Exemplify
Question
Number**

Question 4 required:

11

- (a)** Explain ONE significant ethical threat Snorlax & Charmander LLP may face by accepting the appointment to provide tax services to its audit client; and **(3 marks)**
- (b)** Explain TWO safeguards that the audit firm could implement to mitigate the threat (assuming that SwiftTech is not a listed company). **(4 marks)**

Daryl noted that the materiality for the financial statements as a whole was determined to be \$200,000 in the audit plan. However, during the final audit, the materiality was revised to \$100,000. He does not know why there is a change in the materiality.

**Exemplify
Question
Number**

12

- (c)** Explain THREE reasons that could result in a downward revision of the materiality. **(6 marks)**

Daryl is evaluating the audit evidence and appropriate audit opinion to issue for discussion with his audit manager during the completion stage. He concluded that the only issue detected during the audit was unrecorded supplier invoices.

Assume that the materiality for the financial statements as a whole is \$100,000.

**Exemplify
Question
Number**

13

- (d)** State whether the issue of unrecorded supplier invoices is a misstatement or a limitation on the scope of the audit (i.e. inability to obtain sufficient appropriate evidence to conclude on the audit).

(2 marks)

- (e)** Assume that (1) the unrecorded supplier invoices amounted to \$120,000, and (2) the unrecorded supplier invoices amounted to \$30,000.

For each of the scenarios (1) and (2),

- (i)** state the appropriate audit opinion to be issued, *i.e. unmodified, qualified, adverse or disclaimer*, and

(2 marks)

- (ii)** the effects of the misstatement or limitation (as identified in requirement (d) above) on the financial statements, *i.e. immaterial, material but not pervasive or material and pervasive*.

(3 marks)

The Finance Manager of SwiftTech, Jane, has written to Daryl that the company will record the unrecorded supplier invoices (as mentioned in Question 4(d) and (e)) in the ledger of the next financial year.

**Exemplify
Question
Number**

14

- (f)** Explain whether the proposed audit opinion in Question 4(d) and (e) will change in view of the above circumstances.

(4 marks)

(Total: 24 marks)

END OF PAPER

Appendix A - Common verbs used by the Examiners

Verb	Description
Compare and Contrast	Compare requires you to show how things are similar and/or different while contrast requires you to show how things are different or opposite. Even if you are asked just to compare , you must indicate both the similarities and differences.
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.
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.
List	Prepare an itemised list . Although you are unlikely to be asked just for a list of items, it is important to remember that many of the common verbs used by examiners require you to begin with a mental list of issues to consider.
Propose/ Provide	Put forward (for example, a point of view, idea, argument, alternatives, etc.) for consideration or action. For instance, “Based on the facts of the case, propose the most tax-effective entity type ...”, or “ Propose audit adjusting entries to correct ...”.
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.