

Singapore CA Qualification Examination

29 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 **SEVENTEEN (17)** pages (including this instruction sheet and Appendices A and B). Each question may have **MULTIPLE** parts and **ALL** questions are examinable.
3. This is an open book examination. 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.
4. 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.
5. This examination paper and all video recordings of this examination are 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 2020.

**Exemplify
Question
Number**

Pre-exam instructions

1

Instructions on Question Paper and Appendices, if any:

- i. Download the document(s) via this link – <https://bit.ly/3kYJui1>
- ii. These file(s) is/are to remain on your desktop throughout the entire exam.
- iii. Printing of the Question Paper is only allowed at the start of the exam and via a printer located in the same room.
- iv. If you are unable to download the document(s) via the link provided above or if you have been provided with incorrect file(s) for the exam, please contact SAC at
 - (a) 6325 0515;
 - (b) 6325 0535; or
 - (c) 6325 0529.
- v. If you need to go for toilet breaks, please mention “toilet break” to the webcam.

Question 1 – (a), (b) and (c)

Shunfu Transport Pte Ltd (ST) is a bus operator that operates a fleet of six buses of different sizes. ST provides bus transport for school children and office workers during the morning and evening peak hours. During off-peak hours, the buses are available for chartering, for example, by tour agents for transporting tourists and providing airport transfers. ST's financial year end is 31 May 2020. ST is wholly owned by Mr. Hakchew who is ST's only Director. However, he does not run the business and hires a General Manager to manage it on his behalf.

You are the audit senior assigned to audit the payroll expenses of ST. You are provided with TWO Excel spreadsheets for the purpose of auditing payroll expenses:

- Payroll report for May 2020 (provided in Appendix A)
- Bank Transfer List for May 2020 (provided in Appendix B)

The payroll report shows the calculation of employees' net pay after deduction of employee's CPF contribution.

The bank transfer list is an instruction to the bank to disburse net salary to employees' bank accounts. All employees are paid through their DBS or POSB bank accounts. The General Manager and the Finance Manager are the joint bank signatories.

Each bus has only one assigned driver. The cleaners are responsible for the cleaning of the office and buses. The sales team is responsible for securing contracts from corporate customers and individual parents. Every employee is paid a fixed monthly salary with no overtime work and no overtime pay.

The duty of the Human Resource (HR) function is mainly to recruit employees. The HR clerk, Ruby, commented during a discussion with the audit team that her main focus is to ensure that the company has sufficient local workers (i.e. Singapore citizens and permanent residents) so as to be able to hire sufficient foreign workers on work permit. She also has to ensure the hiring of bus drivers complies with regulation such as having a valid class of driving licence and a maximum age limit of 77 years old.

Ruby said that the current 18 local employees are just sufficient to meet the quota mandated by the Ministry of Manpower for ST to hire 11 foreign workers on work permit. She is concerned that if any local employee resigns, she will have to scramble to hire a local replacement to meet the foreign worker quota requirement. She cited a recent example when a driver, Leeke, left and joined a rival company that was newly set up by Mr. Betman. She suspects that Betman is the son of Mr. Suraiman, ST's General Manager, as she saw Betman's name in the General Manager's personnel file. She was afraid to ask him about it. She commented that she has been busy since her immediate supervisor, the HR executive, has been on "no pay leave" for months. She also said that she knows everyone in the company except Tansing, a bus driver, whom she has never seen since she joined ST 11 months ago. She was told by the General Manager that Tansing is a 77 year old Singaporean and he is not required to come to office when he has no driving duty. Ruby feels that the General Manager is very kind to allow this. He also allows Shawn, the son of the Finance Manager, Suzy, to do school work in the office after school.

When asked about the workflow, Ruby said she advertises job vacancies in the newspapers and also with recruitment agencies. She arranges interviews which are always conducted by the General Manager. The General Manager informs her the new hire details and she will arrange the paperwork including applying for work permits, if necessary. Similarly, the General Manager will notify HR on any termination or resignation of employees. Ruby updates the HR list with current employees and employees who have resigned.

Your discussion with the Finance Manager, Suzy, confirms that it is the General Manager who will instruct the Finance Manager on the setting up of new employees in the payroll system (which is essentially a spreadsheet). The Finance Manager handles payroll processing and bank payment. To maintain staff privacy, the accountant, Supra, is not given the payroll report. Instead, Supra is given the total gross pay, CPF deduction and net pay for recording in the general ledger.

Appendix A

Payroll Report for May 2020

S/N	Grade	Name	Employee CPF Rate	Gross	Deduction	Net
1	General Manager	Suraiman	13.0%	10,000.00	1,300.00	8,700.00
2	Finance Manager	Suzy	17.0%	8,800.00	1,496.00	7,304.00
3	Accountant	Supra	17.0%	6,000.00	1,020.00	4,980.00
4	Executive - Accounting	Shuyi	7.5%	3,100.00	232.50	2,867.50
5	Executive - Human Resource	Shaun	17.0%	3,000.00	510.00	2,490.00
6	Clerk - Accounting	Weibo	17.0%	1,800.00	306.00	1,494.00
7	Clerk - Accounting	Wendy	17.0%	1,600.00	272.00	1,328.00
8	Clerk - Accounting	Tokee	0.0%	1,700.00	0.00	1,700.00
9	Clerk - Human Resource	Ruby	17.0%	1,700.00	289.00	1,411.00
10	Fleet Manager	Ahhock	17.0%	5,000.00	850.00	4,150.00
11	Driver	Fandie	17.0%	3,800.00	646.00	3,154.00
12	Driver	Guzman	0.0%	2,000.00	0.00	2,000.00
13	Driver	Tansing	5.0%	2,000.00	100.00	1,900.00
14	Driver	Leebee	17.0%	1,900.00	323.00	1,577.00
15	Driver	Gomez	0.0%	2,000.00	0.00	2,000.00
16	Driver	Josua	0.0%	2,000.00	0.00	2,000.00
17	Driver	Laijun	0.0%	2,000.00	0.00	2,000.00
18	Driver	Leeke	0.0%	2,000.00	0.00	2,000.00
19	Cleaner	Chensao	0.0%	1,800.00	0.00	1,800.00
20	Cleaner	Robertan	17.0%	1,800.00	306.00	1,494.00
21	Cleaner	Willychen	17.0%	1,800.00	306.00	1,494.00
22	Cleaner	Felix	0.0%	1,300.00	0.00	1,300.00
23	Cleaner	Jamesking	0.0%	1,300.00	0.00	1,300.00
24	Cleaner	Santi	0.0%	1,200.00	0.00	1,200.00
25	Sales Manager	Yuzca	5.0%	7,000.00	350.00	6,650.00
26	Sales Executive	Brendawong	17.0%	5,000.00	850.00	4,150.00
27	Sales Executive	Leelee	17.0%	3,000.00	510.00	2,490.00
28	Sales Executive	Laoshi	0.0%	2,000.00	0.00	2,000.00
29	Secretary	Lulu	17.0%	3,300.00	561.00	2,739.00
	Total			89,900.00	10,227.50	79,672.50

Appendix B

Bank Transfer List for May 2020

Name	Bank Account Number	Amount
Ahhock	0012517898	4,150.00
Brendawong	0043692002	4,150.00
Chensao	0112663009	1,800.00
Fandie	0013461920	3,154.00
Felix	0231239765	1,300.00
Gomez	0013337117	2,000.00
Guzman	0294333333	2,000.00
Jamesking	0017664645	1,300.00
Josua	1043822322	2,000.00
Laijun	1419563420	2,000.00
Laoshi	1660011680	2,000.00
Leebee	0012050311	1,577.00
Leeke	0028765789	2,000.00
Leelee	2037677455	2,490.00
Lulu	2044300877	2,739.00
Robertan	2161233221	1,494.00
Ruby	2410118223	1,411.00
Santi	0017656321	1,200.00
Shawn	0012343235	2,490.00
Shuyi	0013667547	2,867.50
Supra	2161298755	4,980.00
Suraiman	2881898181	8,700.00
Suzy	2882838482	7,304.00
Suraymen	2881898181	1,900.00
Tokee	0701080114	1,700.00
Weibo	0742045675	1,494.00
Wendy	1660120126	1,328.00
Willychen	2049434147	1,494.00
Yuzca	2883747448	6,650.00

**Exemplify
Question
Number**

Question 1 required:

- 2** **(a)** In the payroll report, there are different rates for employees' CPF contribution. This is due to differences in age and whether the employees are local or on work permit. State the audit procedures to be performed to confirm that the rates are correctly applied. **(2 marks)**
- 3** **(b)** Using the above information and the two Excel spreadsheets (Payroll report and Bank Transfer List for May 2020) provided, identify and explain THREE unusual items or observations for further investigation. **(18 marks)**
- 4** **(c)** Advise the audit manager why a confidential meeting with the sole Director is necessary. **(5 marks)**
- (Total: 25 marks)**

Question 2 – (a), (b), (c) and (d)

Pan-Island System Pte Ltd (PIS) is a new client of the audit firm although PIS has been in operation for 3 years. Its current financial year end is 30 April 2020. You are an audit senior assigned to audit sales and revenue. You documented your discussion with the management and the staff involved in the sales and receivables cycle and you are reviewing them now.

PIS designs, manufactures and sells mechanical and digital lock and security systems as the original equipment manufacturer to corporate customers. As the company is newly formed, its focus is the domestic market and goods are delivered by an outsourced logistics company, Speedel.

A small sales team visits corporate customers to secure orders. The sales staff completes a two-part sales order for each order secured. Part 1 is retained by the sales staff to prepare the sales report. Part 2 is handed over to Mary, the only sales support staff.

Mary keys the details of sales orders into a standalone sales system. Mary prints out the delivery orders and hands them over to the warehouse supervisor for picking and packing of goods for delivery. It is the responsibility of the warehouse supervisor to update the inventory system with the quantity of goods issued for delivery and any goods returned. Mary will also email the delivery notes to Speedel for pickup and delivery. Speedel has an online tracking system that updates the date, time and address of delivery of each sales order.

Occasionally, customers who received wrong goods or wrong quantity would call Mary to arrange for return or re-delivery. Mary would contact Speedel to pick up the returned goods from the customers and instruct them the address to return the goods. Speedel also updates the online tracking system on the date, time and address of each return.

If goods were returned, Mary updates the sales orders. Once Mary confirms goods were accepted by the customers and there is no sales return, based on the information in Speedel's tracking system, she uses the sales system to generate and print sales

invoices from the sales orders. Mary believes this ensures that the sales invoices reflect the goods delivered, net of return, to avoid the need of issuing credit notes to customers. The printed sales invoices are transferred to the accounting department by Mary at noon of each business day. The accounting staff keys the details of the sales invoices into the trade receivable ledger.

Sales staff are paid a basic salary and a sales commission based on sales volume in the sales report prepared by the sales team. The sales report is submitted by the sales team once a week and it has to be approved by the Sales Manager.

Audit issues brought forward from predecessor auditor

As the prior year's financial statements of PIS were audited by another audit firm, your firm has written to the predecessor auditor to enquire about any issues to be considered for the change in audit appointment. The predecessor auditor has replied and the reply included the following issues:

- (i) The predecessor audit firm did not seek re-appointment because of significant difficulty encountered in the audit that led to a qualified opinion being issued.
- (ii) Excessive sales commissions were being inappropriately processed and paid.
- (iii) The predecessor audit firm had issue tracing the flow of the goods returned as the goods were not returned to the company's warehouse.
- (iv) Unusual credit notes were consistently issued every month against the sales invoices for a specific customer, Lockwell. The Sales Manager explained that these were due to discounts given after the sales invoices were sent to Lockwell. Each credit note is settled by a cash refund even before the associated trade receivables were collected. Each cash refund was collected by Lockwell's Purchasing Director, Martin Wiwi, in person. Because of this, there were serious doubts about the integrity of the Sales Manager.

**Exemplify
Question
Number**

Question 2 required:

5

(a) In relation to the issue of excessive commission inappropriately processed and paid:

(i) Identify and explain a control deficiency that allowed excessive sales commissions to be processed and paid. Recommend a control improvement to mitigate this risk.

(4 marks)

(ii) Describe the test of details that could have helped the auditor to detect the problem.

(2 marks)

6

(b) In relation to the issue of excessive goods returned by the customers:

(i) Provide one possible explanation, besides recording errors in sales orders, that could lead to such occurrence.

(3 marks)

(ii) Recommend a control procedure to address the issue.

(3 marks)

(iii) Describe the test of details that could have helped the auditor to detect the goods which were not returned to the company's warehouse.

(3 marks)

**Exemplify
Question
Number**

7

Question 2 required:

(c) In relation to the credit notes and cash refund issue:

(i) Explain how the issue might lead the auditor to have serious doubts about the integrity of the Sales Manager.

(6 marks)

(ii) Describe TWO internal controls that could mitigate the issue.

(4 marks)

(Total: 25 marks)

Question 3 – (a), (b) and (c)

Caretosell Pte Ltd (CPL) is a retailer with 18 shops in shopping malls across Singapore. CPL also sells through its online website. Over the years, the revenue from the online sales has been increasing steadily and the revenue from the 18 shops has been reducing significantly. For the year ended 31 March 2020, revenue from online sales and the 18 shops represent 60% and 40% of total revenue respectively.

The audit of CPL's financial statements for the year ended 31 March 2020 is underway. The planned audit report issue date is 28 July 2020. You are the audit senior assigned to audit post balance sheet events affecting the financial statements. Your audit procedures have identified the following post balance sheet event:

The Board approved the disposal of the shops in a board resolution dated 1 August 2019 after a strategic review meeting on the same day.

There was a memorandum of understanding (MOU) signed between CPL and the competitor to explore the sale of the 18 shops. The MOU was signed on 27 December 2019.

On 8 April 2020, CPL management signed an agreement with the competitor to sell all its 18 shops to them. Under the agreement, the competitor will take over all the 18 shops, including all the associated assets, liabilities, employees and lease obligations. The total carrying value of the assets in the disposal amounted to \$40 million and the total liabilities disposed in this transaction amounted to \$10 million. These amounts were recorded at their carrying values in the Statement of Financial Position at year end under property, plant and equipment, inventories, trade receivables and trade payables. They were derecognised on 28 April 2020 when handover was completed and the sale proceeds of \$50 million was received. The Income Statement for the year ended 31 March 2020 did not reflect this disposal.

With the completion of the disposal of shops in shopping malls, CPL will focus on the expansion of its online sales.

**Exemplify
Question
Number**

Question 3 required:

- 8** **(a)** Besides enquiry of CPL's management and reviewing of post year end minutes of Directors' meeting, describe TWO other audit procedures that could have been performed to identify the above post balance sheet events. Your answer must include the specific post balance sheet transactions/events that could be identified by the audit procedures. **(10 marks)**
- 9** **(b)** For the post balance sheet event identified, discuss whether the accounting treatment adopted by CPL is correct. Your answer must discuss the appropriate accounting treatment and justify your conclusion on whether CPL's accounting treatment is appropriate. **(10 marks)**
- 10** **(c)** Based on your conclusion in **(b)**, describe the implications on the auditor's opinion to be issued if the accounting treatment by the management remains unchanged. **(5 marks)**
- (Total: 25 marks)**

Question 4 – (a), (b), (c) and (d)

You are the audit senior carrying out the audit planning of Titanic Pest Control Pte Ltd (TPC) for the year ending 30 June 2020. This is the second year the firm is providing audit service to this client. You have obtained some extracts from the forecasted June 2020 figure (extrapolated from the actual financial figures for 11 months to-date, i.e. from 1 July 2019 to 31 May 2020) for analysis:

	2020 (Forecasted)	2019 (Audited)	2018 (Audited)
	S\$ million	S\$ million	S\$ million
Revenue	88	66	60
Finance cost	0.4	0	0
Lease expense	10	10	10
Warranty expense	0.2	0	0
Trade receivables	29	11	10
Bad debt expense	0.8	0.67	0.6

You have obtained the following information from your preliminary discussion with the Finance Manager:

- 1) Revenue increased significantly since January 2020 when the COVID-19 started. The company received overwhelming demand for cleaning and disinfection services. Customers now sign a package deal which provides monthly cleaning and disinfection services instead of ordering ad hoc services. Revenue is recognised when the sales invoices are billed to the customers before the company sends its service teams to the customer sites.
- 2) Due to popular customer demand, TPC started selling warranty service which guarantee a re-cleaning service if customers failed the inspections by the Ministry of Health or Ministry of Environment and Water Resources. This warranty service is an optional opt-in service. Customers do not need to sign up for the warranty service if they choose not to. For customers who do sign up

for the warranty service, the value of the warranty service will be reflected in the invoice. During the year, warranty expense is recognised when actual warranty cleaning service is performed. At year end, management estimates the probability of after year end warranty claim within the valid warranty period that is sold during the year and recognises a provision for warranty.

- 3) During the year, the company took a loan to construct an equipment to produce an in-house anti-bacteria spray. The construction of the equipment is expected to be completed three months after year end. The finance cost from the loan is recognised in the Income Statement.
- 4) As many of the company's customers are in the retail and food and beverage industries, their businesses are badly affected by the spread of the COVID-19. Sales are significantly lower and cash flow is becoming a major issue for some of TPC's customers. However, TPC is confident that these customers will be able to repay their trade receivables over a longer period of time compared to prior years. Thus, bad debt expense arising from the provision for bad debt remains roughly about 1% of revenue as in previous years.
- 5) The lease expenses remain the same as last year as the company is on to its third year of a 5-year lease of its current premises.

**Exemplify
Question
Number**

Question 4 required:

11

- (a)** Using the above information and figures provided, identify FIVE specific risk of material misstatements as part of the risk assessment process in audit planning. Your discussion should include which accounts are likely to be overstated and/or understated, where applicable.

(15 marks)

A few days after your meeting with the Finance Manager, the Finance Manager requested for a copy of any communication the audit firm has sent to the Finance Manager relating to internal-control matters identified during last year's audit as the Finance Manager has misplaced the communication sent by the audit firm. Believing that the Finance Manager is finally looking into the issue to address the control deficiencies, you replied to the email with the requested documents.

Two days later, your audit firm received a notification from TPC, stating that TPC reserves the right to take legal action against the audit firm for failing to:

- detect a misappropriation of funds perpetrated by its trade payable staff; and
- communicate the control deficiencies in trade payable processing to the Board of TPC which allowed the misappropriation to be perpetrated and concealed.

**Exemplify
Question
Number**

Question 4 required:

12

- (b)** Suggest ONE immediate action that the firm should take in relation to the legal threat.

(2 marks)

**Exemplify
Question
Number**

Question 4 required:

13

(c) Discuss the firm's likely exposure to the risk of professional negligence in relation:

(i) To detecting the misappropriation of funds in trade payable.

(3 marks)

(ii) To reporting control deficiencies in the trade payable processing to the Board of TPC.

(3 marks)

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(d) Explain the ethical issue arising from the legal threat from TPC.

(2 marks)

(Total: 25 marks)

END OF PAPER