

## Singapore CA Qualification Examination

5 December 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 **FOURTEEN (14)** pages (including this instruction sheet). 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. This examination paper is the property of the Singapore Accountancy Commission.

#### MODULE-SPECIFIC INSTRUCTIONS:

5. Assume that all dollar amounts are in Singapore dollar (S\$) unless otherwise stated.
6. 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.

### Question 1 – (a), (b) and (c)

Your audit firm is keen to embrace the use of data analytics in the performance of audit of financial statements. As a trial, your firm has decided to apply data analytics in the audit of Ken Bridge Pte Ltd (KB) for the financial year ended 31 Dec 2019.

KB has extracted the purchase orders for inventories issued in November and December and the associated information into a computer file as follows:

Purchase Order No.	Purchase Order Date	Goods Received Note Date	Supplier	Invoice Amount \$	Invoice Date	Payable Ledger Date	Items Purchased	Quantity
11111	8-Nov-19	18-Dec-19	AAA	50,000	19-Dec-19	20-Dec-19	A111	100
11112	8-Nov-19	22-Dec-19	Bibi	250	14-Dec-19	20-Dec-19	B222	10
11113	9-Nov-19	2-Dec-19	Cee	2,000	4-Dec-19	10-Dec-19	C333	200
11114	12-Nov-19	17-Dec-19	Dodo	7,500	17-Dec-19	20-Dec-19	D444	250
11115	13-Nov-19	8-Dec-19	Eee	4,000	8-Dec-19	10-Dec-19	E555	80
11116	15-Nov-19	4-Nov-19	Fufu	7,000	5-Nov-19	10-Nov-19	F666	700
11117	17-Nov-19	3-Dec-19	Gogo	3,600	5-Dec-19	10-Dec-19	G777	180
11118	17-Nov-19	15-Dec-19	Hihi	8,800	6-Dec-19	10-Dec-19	H888	220
11119	19-Nov-19	2-Nov-19	Haha	1,200	8-Nov-19	10-Nov-19	H999	12
11120	19-Nov-19	2-Dec-19	Igloo	10,000	3-Dec-19	10-Dec-19	I987	10
11121	20-Nov-19	8-Dec-19	Joker	39,000	18-Dec-19	20-Dec-19	X888	39
11122	20-Nov-19	16-Dec-19	Kingly	8,800	17-Dec-19	20-Dec-19	K234	44
11123	20-Nov-19	18-Dec-19	LOL	1,200	19-Dec-19	20-Dec-19	L789	4
11124	23-Nov-19	8-Dec-19	Joker	31,000	18-Dec-19	20-Dec-19	X888	31
11125	25-Nov-19	19-Dec-19	Lulu	900	20-Dec-19	20-Dec-19	L567	3
11126	25-Nov-19	9-Dec-19	Joker	29,000	19-Dec-19	20-Dec-19	X999	58
11127	25-Nov-19	11-Dec-19	MMM	8,888	12-Dec-19	20-Dec-19	M1	1
11128	25-Nov-19	15-Dec-19	NINO	9,800	15-Dec-19	20-Dec-19	N2	2
11129	28-Nov-19	9-Dec-19	Joker	12,000	19-Dec-19	20-Dec-19	X999	42
11130	28-Nov-19	9-Dec-19	Otto	480	11-Dec-19	20-Dec-19	O3	4
11131	28-Nov-19	10-Dec-19	Pipi	2,100	10-Dec-19	10-Dec-19	P7	7
11132	2-Dec-19	18-Dec-19	AAA	25,000	19-Dec-19	20-Dec-19	A111	50
11133	3-Dec-19	20-Dec-19	R&R	9,300	20-Dec-19	20-Dec-19	R2	3
11134	2-Dec-19	18-Dec-19	SOS	40,000	18-Dec-19	20-Dec-19	A111	50
11135	8-Dec-19	28-Dec-19	Tango	38,000	3-Jan-20	10-Jan-20	T3	3,000
11136	9-Dec-19	1-Dec-19	UU	12,000	1-Dec-19	10-Dec-19	U2	60
11137	9-Dec-19	29-Dec-19	Vivala	5,600	4-Jan-20	10-Jan-20	V344	8
11138	12-Dec-19	8-Jan-20	Winwin	10,400	9-Jan-20	10-Jan-20	W6	52
11139	15-Dec-19	30-Dec-19	Yoyo	28,000	9-Jan-20	10-Jan-20	Y1314	40
11140	18-Dec-19	30-Dec-19	Fufu	8,000	10-Jan-20	10-Jan-20	F666	800

You are tasked to perform preliminary analysis on the above data to identify unusual items for further investigation. The objective is to then structure specific instructions to your colleagues in the computer audit department so that they can automate the data analysis process and apply it to more data files in the year. You are aware that orders with value \$40,000 and above require approval by two Directors and orders lower than \$40,000 require one Director's approval.

You perused the prior year audit working papers for financial year 2018 and noted that there were findings documented by the auditor who audited the procurement process in the prior year.

The findings on recurring issues were:

1. goods were received by KB before purchase orders were issued;
2. purchases of **one item from the same supplier**, with the same delivery date, was split into multiple purchase orders; and
3. \$160,000 of goods received by KB in December 2018 were not recorded as trade payables or purchase accruals at year-end, similar to prior year.

**Exemplify  
Question  
Number**

**Question 1 required:**

**1**                    **(a)** Describe the audit procedures to be performed to confirm purchase order 11111 is the first purchase order in November and purchase order 11140 is the last purchase order for December. **(2 marks)**

**2**                    **(b)** Analyse the data provided in the table and identify transactions, which may indicate control deficiencies and potential misstatements in the financial statements. Using the data provided in the Microsoft excel spreadsheet, classify these transactions into FIVE groups based on their nature. For each group of transactions, explain why you group these transactions and the associated risks. Your explanation should include possible implications relating to internal controls and/or potential misstatements in the financial statements. **(20 marks)**

**3**                    **(c)** Explain why it is necessary for the auditor to communicate the above findings to those charged with governance in accordance with Singapore Standard on Auditing (SSA) 265 *Communicating Deficiencies in Internal Control to those Charged with Governance and Management*. **(3 marks)**

**(Total: 25 marks)**

## Question 2 – (a), (b) and (c)

You are reviewing the **going concern section** of the audit working papers for the audit of Highflyer Ltd (Highflyer) for the financial year ended 30 November 2019. The audit assistant has extracted some financial figures for the analysis on going concern.

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Short term loan	352,462	677,776	659,652	453,464	128,999
Long term loan	1,173,195	802,345	764,297	979,331	1,137,980
Total loan	1,525,657	1,480,121	1,423,949	1,432,795	1,266,979
Equity	1,007,562	1,200,911	1,312,028	1,341,988	886,292
Cash balance at year end	204,612	427,748	433,398	444,428	243,945
Cash from operating activities	(284,123)	(272,000)	(43,651)	(226,133)	(422,431)
Revenue	353,629	380,634	445,241	321,394	535,790
Cost of sales	(265,222)	(277,863)	(311,669)	(208,906)	(321,474)
Profit/(Loss) after tax	(115,560)	(99,608)	49,954	53,060	51,623
Trade receivables	124,155	152,609	117,940	86,848	92,870
Trade payables	139,531	123,743	118,664	70,246	98,181

**Exemplify  
Question  
Number**

**4**

**Question 2 required:**

- (a)** Use the information provided to compute relevant ratios for 4 years (2016 to 2019), such as gearing ratio and cash from operating activities as a percentage of revenue, so as to **identify** and **explain FIVE indicators** that may cast significant doubt on the company's ability to continue as a **going concern**. **(15 marks)**

The Directors of Highflyer believe there is no material uncertainty related to going concern to be disclosed in the financial statements as:

- They are negotiating the extension of loan repayment with the banks and are confident that the bank will extend the repayment date.
- The Directors are also confident that the business environment in 2020 will improve and the business operations will generate sufficient cash to repay the short-term loan when due.

**Exemplify**

**Question**

**Number**

**5**

**(b)** Applying the attitude of professional scepticism, explain TWO reasons why you might be sceptical about the Directors' explanations for not disclosing going concern uncertainty in the financial statements. **(6 marks)**

**6**

**(c)** For each of the explanation provided by the Directors, describe ONE principal audit procedure to be performed to verify the validity of the explanation. **(4 marks)**

**(Total: 25 marks)**

### Question 3 – (a) to (e)

The audit of Advante Ltd's (Advante) financial statements for year ended 30 November is nearing completion. Advante is a new audit client of the audit firm. The audit manager, who is newly promoted, prepared a draft audit report for the review by the audit engagement partner. As Advante is a public listed company on the Singapore Exchange, a "Key Audit Matter" section is required to be included in the audit report. The audit manager has proposed a disclaimer of opinion. The relevant extract is as follows:

#### Disclaimer of Opinion

We do not express an opinion on the accompanying consolidated financial statements of the Group. Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

#### Basis for Disclaimer of Opinion

The goodwill recognised in the consolidated statement of financial position amounted to \$28 million, which is 10% of the group total assets and 20% of group profit before tax. SFRS (I) 13 *Business Combinations* requires goodwill to be measured at the amount recognised at the acquisition date less any accumulated impairment losses. SFRS (I) 36 *Impairment of Assets* requires goodwill to be tested for impairment at least annually. Management did not perform any impairment analysis on the goodwill which is still stated at the amount recognised at the acquisition. As a result, we were unable to determine whether any adjustments might have been found necessary with respect to the recorded goodwill.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. Key audit matters are selected from the matters communicated with those charged with governance, but are not intended to represent all matters that were discussed with them. Our audit procedures relating to these matters were designed in the context of our audit of the consolidated



financial statements as a whole. Our opinion on the consolidated financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

- *Key Audit Matter 1 - Valuation of Financial Instruments*

The Group's valuation of the investments in structured financial instruments is not based on quoted prices in active markets. The Group has determined that it is necessary to use an entity-developed model to value these instruments, due to their unique structure and terms. As a result, the valuation of these instruments was significant to our audit.

- *Key Audit Matter 2 – Provision for Legal Claim*

A legal claim against the Group of \$50,000 was recognised as a provision in the consolidated statement of financial position. The legal claim was settled on 8 December 2019 as a result of out-of-court settlement.

#### *Emphasis of Matter*

The goodwill of \$28 million arose from the acquisition of a new subsidiary Lanti Pte Ltd (Lanti) during the year. The Group acquired 100% of the ordinary shares of Lanti from Mr. Lie Cheat King, the Group's Executive Chairman of the Board of Directors. This has not been disclosed in the consolidated financial statements. This has not been disclosed in the annual report as an Interested Party Transaction as required by Listing Rules.

#### *Other Information*

Management is responsible for the other information. The other information comprises of the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we concluded that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Exemplify Question Number	Question 3 required:
7	<b>(a)</b> Evaluate the appropriateness of the proposed disclaimer of opinion. <b>(4 marks)</b>
8	<b>(b)</b> Evaluate the appropriateness of including Key Audit Matter 1 – valuation of financial instruments and evaluate the adequacy of the description of this key audit matter. <b>(6 marks)</b>
9	<b>(c)</b> Discuss the appropriateness of the inclusion of Key Audit Matter 2 – provision for legal claim. <b>(4 marks)</b>
10	<b>(d)</b> Discuss the appropriateness of the inclusion of the Emphasis of Matter. <b>(7 marks)</b>
11	<b>(e)</b> Taking into account the matters discussed in <b>(a)</b> to <b>(d)</b> above, where applicable, evaluate the “Other Information” section. <b>(4 marks)</b>
	<b>(Total: 25 marks)</b>

#### **Question 4 – (a) to (e)**

Kan Jeong Pte Ltd (KJ) is a small family business established ten months ago. Mr. Jeong, the founder, Chief Executive Officer and sole owner of the company, believes the company will qualify for audit exemption due to its small size. Hence, he did not appoint an external auditor. He has employed a bookkeeper to help record accounting transactions. Mr. Jeong approached a bank for a corporate loan and he was asked to provide the company's financial statements prepared in accordance with Singapore Financial Reporting Standards (International) (SFRS (I)). The bank did not insist that the financial statements be audited.

Mr. Jeong approached your audit firm to provide a compilation service, i.e. to help the company prepare the SFRS (I) compliant financial statements using KJ's trial balance. After having accepted the appointment to provide compilation service, you have obtained KJ's trial balance for 12 months ended 30 November 2019 for a preliminary review. You have noted that the following items did not appear in the trial balance:

- Property, plant and equipment (PPE)
- Trade receivables
- Trade payables
- Depreciation expense
- Tax expense
- Tax payable

Mr. Jeong clarified that KJ did not have any of the above items. He confirmed that KJ bought and owned the company's furniture, office equipment and computer equipment. The money spent on acquiring the equipment is recorded as expense. He also confirmed the company sells on credit and buys on credit. Sale invoices and supplier invoices are recorded when cash is collected and cash paid respectively. Based on this principle, tax expense will be recorded when tax is paid according to notice of assessment from the Inland Revenue Authority of Singapore (IRAS).

**Exemplify  
Question  
Number**

**Question 4 required:**

- 12**                      **(a)** Discuss the professional and ethical issues faced by your firm if Mr. Jeong insisted that the financial statements should be prepared based on the trial balance provided and the issues on PPE, trade receivables, trade payables, depreciation and tax expense should be ignored. **(6 marks)**
- 13**                      **(b)** Discuss the steps your firm should take in withdrawing from the compilation service if the above issues are not resolved. **(4 marks)**
- 14**                      **(c)** Assume that Mr. Jeong is agreeable to make the necessary adjustments and produce a revised trial balance for your compilation. Explain the necessity of issuing a compilation report to accompany the financial statements compiled by your firm. **(4 marks)**

Mr. Jeong requested for your firm's partner to attend a meeting between him and the bank to go through the financial statements. Mr. Jeong believes your firm will be in the best position to answer any query from the bank as your firm has prepared the financial statements. This should enhance the bank's confidence in the financial statements. Mr. Jeong also asked about the difference between compilation of financial statements and audit of financial statements in terms of the benefit to the users of the financial statements.

**Exemplify  
Question  
Number**

**15**                      **(d)** Discuss the ethical issue involved in relation to attending the meeting with the bank and suggest an appropriate action the firm should take. **(5 marks)**

**16**                      **(e)** From the perspective of the users of the financial statements, provide ONE benefit of the compilation and ONE benefit of audit and make a comparison between these two benefits. **(6 marks)**

**(Total: 25 marks)**

**END OF PAPER**