

Case Study: Sustainable Audit Practice

Budget template	
	Hours
Planning audit	
- Team discussion on identification of key risk areas and significant issues	2
- Planning meeting with the management	1
	3
Audit working file preparation	
- Work paper set-up and customised schedules to be prepared by management	3
- Casting and checking of all schedules prepared by management	3
- Posting of trial balances to the respective sections and	
agreement of sub ledgers with general ledger for all sections	3
	9
Execution audit (Note 1)	
- Plant and equipment	4
- Trade and other receivables, prepaid operating expenses	8
Expected audit procedures including but not limited to: Verify the existence of accounts receivable through external confirmations, perform sales cut-off, evaluate the adequacy of allowance for doubtful receivables, evaluate the adequacy of other adjustments to accounts receivables such as rebates, credit, memos, discounts, inquire about or review the list of credit balances and investigate large/unusual items.	
- Inventories	16
Expected audit procedures including but not limited to: Observe physical inventories count performed by client, trace the cut-off information obtained during the physical observation to the accounting records of sales and purchases, test the valuation of inventories to verify that it is performed in accordance with the client's accounting policies or applicable financial reporting framework and test the allowances to reduce the valuation of inventories to net realisable value.	
- Cash and cash equivalents	5
- Trade and other payables, including accrued operating expenses and	
amount due to holding company	8
- Hire purchase creditors	2
- Income taxes and deferred taxes liabilities	4
- Share capital (including statutory review)	3
- Statement of comprehensive income	
Test of revenue and costs of sales	12
Understand nature of miscellaneous income and investigate unusual transactions	1
Perform payroll review and analytics and investigate unusual trend	2
Review of large and/or unusual expenses	2
Rental reasonableness test	1
- Commitments and contingencies	1
	69
Finalisation Audit	
- Financial statements review	6
- Audit working file wrapping up and archival	3
	9
Total staff hours	90
Note 1: The audit procedures are determined based on the audit strategy and risk assessment done by the audit team.	

Table 1: Computation of the cost by hour, by rank.				
	Note	Salary	Others	Total
		a	b=(a*(1/3))	c=a+b
			Note 6	
Lower range salary scale				
Partner [(\$9,800/20 days)/8 hours]	1	\$61.25	\$20.42	\$81.67
Manager [(\$5,800/20 days)/8 hours]	1,2	\$36.25	\$12.08	\$48.33
Experienced senior [(\$4,640/20 days)/8 hours]	1,3	\$29.00	\$9.67	\$38.67
Staff time [(\$3,132/20 days)/8 hours]	1,4	\$19.58	\$6.53	\$26.10
		d	e=(d*(1/3))	f=d+e
High range salary scale				
Partner [(\$12,800/20 days)/8 hours]	1	\$80.00	\$26.67	\$106.67
Manager [(\$8,800/20 days)/8 hours]	1,2	\$55.00	\$18.33	\$73.33
Experienced senior [(\$5,800/20 days)/8 hours]	1,3	\$36.25	\$12.08	\$48.33
Staff [(\$4,060/20 days)/8 hours]	1,4	\$25.38	\$8.46	\$33.83

Senario 1: Engagement with composition of a partner, a manager and a staff.					
Time costs based on lower range salary scale					
	Note	Hours	Salary	Others	Total
		g	$h=g*a$	$i=g*b$	$j=h+i$
Partner	5	12	\$735	\$245	\$980
Manager		28	\$1,015	\$338	\$1,353
Staff		90	\$1,762	\$587	\$2,349
Total hours		130	\$3,512	\$1,171	\$4,682
Time costs based on high range salary scale					
	Note	Hours	Salary	Others	Total
		k	$l=k*d$	$m=k*e$	$n=l+m$
Partner	5	12	\$960	\$320	\$1,280
Manager		28	\$1,540	\$513	\$2,053
Staff		90	\$2,284	\$761	\$3,045
Total hours		130	\$4,784	\$1,595	\$6,378

Senario 2: Engagement with composition of a partner, an experienced senior and a staff.					
Time costs based on lower range salary scale					
	Note	Hours	Salary	Others	Total
		<i>o</i>	<i>p=o*a</i>	<i>q=o*b</i>	<i>r=p+q</i>
Partner	5	16	\$980	\$327	\$1,307
Experienced Senior		36	\$1,044	\$348	\$1,392
Staff		90	\$1,762	\$587	\$2,349
Total hours		142	\$3,786	\$1,262	\$5,048
Time costs based on high range salary scale					
	Note	Hours	Salary	Others	Total
		<i>s</i>	<i>t=s*d</i>	<i>u=s*e</i>	<i>v=t+u</i>
Partner	5	16	\$1,280	\$427	\$1,707
Experienced senior		36	\$1,305	\$435	\$1,740
Staff		90	\$2,284	\$761	\$3,045
Total hours		142	\$4,869	\$1,623	\$6,492

- Note 1The monthly salary (including contribution to Central Provident Fund of 16% and capped at \$5,000) for the respective levels of audit personnel were obtained from an established recruiter, Glenhill Group Pte Ltd.
- Note 2Manager is a professional with at least 9 years of audit experience.
- Note 3Experienced senior is a professional with at least 6 years of audit experience.
- Note 4Staff is a professional with at least 3 years of audit experience.
- Note 5The work scope of a manager/experienced senior is to perform detailed review of the audit work papers for all sections and to perform audit procedures for areas which require the use of judgment such as review of journal entries, evaluate the adequacy of allowance for doubtful receivables, perform review on revenue recognition procedures, consider the impact of technology, business or environmental changes that may indicate the need for provision for the inventories and detailed review of minutes, agreements and confirmation replies for evidence of existence, liens, pledges or other security interests in investments.
- Note 6Others represent overheads such as office rental, administrative expenses, depreciation of equipment, utilities, transportation etc. that typically accounts for approximately 1/3 of the total payroll costs.
- Note 7Scenarios 1 and 2 describe the two common composition of audit teams among small and medium-sized practices. The team typically consists of a manager or an experienced senior. However, the costs for both are not expected to deviate much given the fact that the experienced senior is likely to spend longer time on the engagement as compared to the manager.

Financial Statements of ABC Pte Ltd

ABC Pte Ltd Balance Sheet As at 31 December 20XX	
	20XX \$'000
Non-current assets	
Plant and equipment	153
Current assets	
Trade and other receivables	544
Prepaid operating expenses	11
Inventories	530
Cash and cash equivalents	2,004
	3,089
Current liabilities	
Trade and other payables	110
Amount due to holding company	430
Accrued operating expenses	156
Hire purchase creditors	34
Income tax payable	110
	840
Net current assets	2,249
Non-current liabilities	
Hire purchase creditors	15
Deferred tax liabilities	484
	499
Net assets	1,903
Equity attributable to equity holders of the Company	
Share capital	620
Retained earnings	1,283
Total equity	1,903

ABC Pte Ltd Statement of Comprehensive Income For the financial year ended 31 December 20XX	
	20XX \$'000
Revenue	5,102
Cost of sales	(3,098)
Gross profit	2,004
Other income	102
Selling and distribution expenses	(404)
Administrative expenses	(402)
Other operating expenses	(40)
Finance expenses	(15)
Profit before taxation	1,245
Income tax expense	(162)
Profit for the financial year, representing total comprehensive income for the financial year	1,083

Assumptions:

- Nature of business:** ABC Pte Ltd ("the Company") is a trading company which sells medical equipment to clinics and hospitals. It is a wholly-owned subsidiary of a company incorporated in Japan. All products are manufactured by its holding company in Japan.
- Functional currency:** The Company purchases goods in JPY and sells based on competitive rates in SGD. Functional currency is assessed to be SGD.
- Other assumptions:** The Company has 3 bank accounts maintained in JPY, SGD and USD respectively.
- The Company has less than 20 trade receivables and 4 trade payables.
- It is a recurring audit.
- The physical stock take is performed as at year-end. It comprises only finished goods.
- Plant and equipment comprises office equipment and 2 motor vehicles for the purpose of goods delivery.
- Tax computation is prepared by the client and the company has finalised its tax submission up to the latest year of assessment.
- 2 motor vehicles were purchased under hire purchase arrangement in the previous year. No new hire purchase transaction entered during the year.
- No commitments and contingencies. No legal cases reported.
- No new issuance of shares and no dividend declared during the year.
- The Company has 10 employees. There are no new hires and resignations during the year.

ABC Pte Ltd Statement of Changes in Equity For the financial year ended 31 December 20XX			
	Share Capital	Retained Earnings	Total Equity
	\$'000	\$'000	\$'000
20XX			
Balance at 1 January 20XX	620	200	820
Profit for the financial year	-	1,083	1,083
Total comprehensive income for the financial year	-	1,083	1,083
Balance at 31 December 20XX	620	1,283	1,903