

Singapore CA Qualification Examination

19 June 2024

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 Tables A to C). 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 ISCA's regulations. Please note that smartwatches, 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 exam are the property of the Accounting and Corporate Regulatory Authority.

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 2024.

IMPORTANT NOTICE:

If you are not feeling well, please do not press "Start Assessment". If you have started and leave during the exam, you would be deemed to have attempted the paper.

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1

****VERY IMPORTANT NOTICE****

1. Your question paper is attached under the "**Resources**" tab found at the bottom right of **EACH** question.
2. You may also download the question paper that allows annotation throughout your exam in Question 1 of the e-Exam portal.
3. Please download the relevant required Appendices (Tables A to C) in Question 1 of the e-Exam portal.

Other important information:

4. You will be allowed to access your reference materials but **will not be allowed** to communicate with anyone either physically or through any electronic means.
5. You are **NOT ALLOWED** to access any websites during the exam.
6. You are **NOT ALLOWED** to print the question paper.
7. **Please take note that your screen will be monitored throughout the examination. If you are found to have accessed any websites, or if you cheat or attempt to cheat, you will be liable to severe disciplinary action.**

Should you encounter any issues during the exam, please call the following numbers:

+65 6028 9811

8. **You do not need to fill in an answer to this instruction question.**

Question 1 – (a) to (c)

Cellar Pte Ltd (Cellar) distributes premium wine and whisky to supermarkets, restaurants and hotels in Singapore.

You are assigned to audit the financial statements of Cellar for the financial year ended 31 December 2023. As you will be using data analytics to audit the sales commission expenses and payments, you obtained the following information from the Finance Manager:

- Table A: Sales commissions paid for Q3 2023
- Table B: Selected employment details of the sales team
- Table C: Approved sales commission for the financial year ended 31 December 2023

The Finance Manager informed you that Cellar has revised the commission tiers with effect from 1 July 2023 to improve staff retention and drive sales performance amongst the sales team. The commission for each salesperson is calculated based on net sales basis (i.e., sales achieved during the quarter minus sales returns that occur in the same quarter).

Table A: Sales commissions paid for Q3 2023

Sales Manager		Sales Achieved	Sales Returns	Commission paid on 20 December 2023	
ID	Name	SGD	SGD	SGD	Bank account
ID901	Jacob	\$20,000		\$0	XXX-XXXX-012
ID902	Andy	\$49,000		\$980	XXX-XXXX-701
ID903	Ling	\$60,000		\$2,000	XXX-XXXX-321
ID904	Arti	\$80,000	\$5,000	\$600	XXX-XXXX-215
ID905	Sarasa	\$100,000		\$1,800	XXX-XXXX-896
ID906	Siti	\$120,000		\$1,000	XXX-XXXX-698
ID907	Yen	\$90,000		\$0	XXX-XXXX-118
ID908	Kai	\$480,000		\$22,800	XXX-XXXX-009
ID909	Dinesh	\$300,000		\$8,500	XXX-XXXX-020
ID910	Sharon	\$0		\$0	XXX-XXXX-323
	Q3 total	\$1,299,000	\$5,000	\$37,680	

Table B: Selected employment details of the sales team

Staff ID	Sales Manager	Bank account
ID901	Jacob	XXX-XXXX-012
ID902	Andy	XXX-XXXX-701
ID903	Ling	XXX-XXXX-321
ID904	Arti	XXX-XXXX-215
ID905	Sarasa	XXX-XXXX-698
ID906	Siti	XXX-XXXX-896
ID907	Yen	XXX-XXXX-118
ID908	Kai	XXX-XXXX-009
ID909	Dinesh	XXX-XXXX-020
ID910	Sharon	XXX-XXXX-323

Table C: Approved sales commission for the financial year ended 31 December 2023

Tier	Sales Achieved per Quarter per Sales Manager		Revised Rate with effect from 1 July 2023	Rates prior to 1 July 2023
Tier 1	First	\$50,000	0%	0%
Tier 2	Next	\$50,000	2%	2%
Tier 3	Next	\$50,000	4%	3%
Tier 4	In excess of	\$150,000	6%	4%
Total commission cap per Quarter per Sales Manager			\$20,000	\$18,000

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Question 1 required:

2

- (a)** Using the information in Tables A, B and C, identify and explain **FIVE (5)** transactions with issue(s) that warrant further investigation.

For **each** transaction identified, you should:

- explain why you would want to investigate the transaction further, justify with workings on the issue identified, where appropriate; and
- describe the impact on the financial statements, including quantifying any impact on the relevant transactions **and** account balances, where appropriate.

(20 marks)

3

- (b)** Provide **TWO (2)** possible underlying causes that resulted in the issues identified in **part (a)**.

(2 marks)

4

- (c)** Describe how you would verify whether the sales return included in Table A should be taken into account when processing Arti's commission payments for Q3 2023.

(2 marks)

(Total: 24 marks)

Question 2 – (a) to (e)

Norman, an audit partner of ACE LLP (ACE), is preparing to brief his team on the impending annual audit of Vivo Global Foods Limited (Vivo) for the financial year ended 31 December 2023. Vivo is listed on the Singapore Exchange and has been a client of ACE for the past three financial audits.

Vivo is a global conglomerate specialising in wholesaling and distribution of canned food with operations in more than twenty countries across Asia, Europe and the Middle East.

Vivo has an internal audit (IA) team comprising a director, two managers and three staff auditors. All of them are qualified chartered accountants and members of the Institute of Internal Auditors (IIA). Each of them had worked in Big Four audit firms in the assurance and risk management divisions for at least three years prior to joining Vivo. The IA team sends its reports directly to the Audit Committee Chair on a quarterly basis and regularly meets with the Audit Committee, without the presence of management.

The IA team adopts a robust quality control and improvement framework to ensure all their internal audit activities adhere to the standards and code of ethics prescribed by IIA and are aligned with the industry's best practices. The framework is reviewed annually for improvement and requires approval by the Audit Committee to ensure the IA function remains effective within the organisation.

In early August 2023, flash floods submerged Vivo's warehouse in Guangzhou, up to the 3rd floor, affecting all the inventory awaiting outbound shipment on the 1st floor and those stored on the 2nd and 3rd floors. The city suffered extensive damage affecting transportation, power and communication lines. Vivo was only able to resume operation at the warehouse in late September 2023 after critical infrastructure had been repaired and power lines restored.

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Question 2 required:

5

- (a)** Evaluate if ACE is able to use the work of Vivo's internal audit function for the purposes of its external audit.

(4 marks)

Norman is considering leveraging some areas of work done by the IA team so that his team is able to meet the tight reporting deadlines. He has discussed with the IA team, reviewed the IA's working papers and is satisfied with the adequacy of their audit programmes, including the appropriateness of scope of work, period covered and methodology, results obtained and conclusion made, for each of the following areas:

- Periodic surprise audits of petty cash funds.
- Examination of staff expenses and reimbursement processes against company expense policies.
- Review the development of an invoicing system to determine if adequate controls have been built into the system and are working properly to ensure all valid invoices are captured into the system.
- Estimation of damage and obsolescence affecting inventory in the Guangzhou warehouse, which accounts for a fairly significant percentage of Vivo's total inventory for the year ended 31 December 2023.

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Question 2 required:

6

- (b)** For **each** area of work done by the IA team (“Work Done”), determine:
- (i)** Whether and how ACE may use the Work Done to reduce the extent of audit procedures to be performed directly by its own team members; and **(8 marks)**
 - (ii)** **ONE (1)** relevant assertion that is addressed by the Work Done. **(4 marks)**

Vivo concluded that the impairment for damaged and expired inventory at the Guangzhou warehouse amounted to \$2.3 million, which in Vivo’s view, is not material. Norman concurred with Vivo’s impairment assessment of \$2.3 million after his review of the work done by his audit team but noted that this would have resulted in a net inventory balance of \$12.3 million and a net profit before tax of \$987.6 million in the draft financial statements as at 31 December 2023. Assume specific materiality for inventory balances of \$2.1 million applies.

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Question 2 required:

7

- (c)** Discuss the implications on your firm’s audit opinion. **(4 marks)**

Nearing completion of the audit, Norman informed the Board of Directors of Vivo (BOD) that he would be retiring as an audit partner of ACE in the next six months and will take on the role of a senior advisor, post-retirement at the request of ACE, to guide the junior partners. His successor, Owen, will take over as the new audit engagement partner. Upon hearing this, the BOD invites Norman to be a member of its audit committee upon his retirement.

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Question 2 required:

8

(d) With reference to the Code of Corporate Governance, discuss whether Norman is able to accept the BOD's invitation.

(4 marks)

The BOD wants ACE to provide an assurance report on the effectiveness of all its internal control processes relating to its financial systems based on the work done during the course of the audit.

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Question 2 required:

9

(e) Provide **TWO (2)** reasons to the BOD to explain whether ACE is able to provide such assurance report.

(4 marks)

(Total: 28 marks)

Question 3 – (a) to (d)

AA LLP (AA) is a medium-sized audit firm with a staff strength of 50 auditors and six (6) audit partners. The firm was founded by Alex Ang, Benny Beh and Cecil Chung. The partners report to Alex Ang, being the most senior in terms of experience and seniority.

WLB Pte Ltd (WLB), a long-time audit client of AA, operates 20 co-working offices and co-living serviced apartments across Singapore. Its financial year ends on 31 December. Alex Ang is the audit engagement partner.

The sole HR executive of WLB resigned recently and will be leaving the company in two weeks' time, by 30 March 2023. A replacement has been found, but the new employee is only able to join the company on 15 July 2023. The management of WLB requests AA to assist in processing its monthly payroll-related expenses for the next four (4) months from 1 April to 31 July 2023. Due to the sheer volume of payroll and reimbursement transactions, the monthly fee for the service is expected to amount to 5% of the annual audit fee.

**e-Exam
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10

Question 3 required:

- (a) In relation to the provision of the payroll processing service:
- (i) Identify and explain **THREE (3)** potential ethical threats to AA's independence; and **(6 marks)**
 - (ii) Describe **THREE (3)** appropriate safeguards that AA could apply to reduce these potential threats to an acceptable level. **(6 marks)**
 - (iii) Conclude with justification on whether AA could accept or should decline the request. **(3 marks)**

Assume that the ethical threats can be reduced to an acceptable level for AA to provide payroll processing services to WLB. Zena Zhang, a newly promoted audit partner of AA, is assigned as the engagement quality reviewer for the audit of WLB. Zena Zhang has never been involved in the audit of WLB.

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Question 3 required:

- (b) Discuss the appropriateness of Zena Zhang's appointment. **(3 marks)**

AA is now in the midst of auditing WLB's financial statements for the year ended 31 December 2023. In the course of performing audit procedures on trade creditor balances, the audit senior noted multiple correspondences from a vendor, Primrose Pte Ltd (Primrose) to WLB on non-payment of \$382,000 owing to Primrose.

Willy, the Finance Manager of WLB, shared that WLB is disputing Primrose's claims as WLB had made full settlement into Primrose's new bank account as instructed by the Finance Department of Primrose via a series of emails notifying the change of Primrose's bank account details. Willy had taken precautions to confirm the change and accuracy of the new bank details with the sender via the emails, before releasing the payment. Unfortunately, the sender and related emails were subsequently discovered to be fraudulent by Primrose. Willy showed the audit senior an email received from Primrose two days ago, sharing the findings of its internal investigations with WLB, that Primrose did not have any records of the sender as their employee, and the purported emails did not originate from Primrose's email server.

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Question 3 required:

- | | |
|-----------|--|
| 12 | (c) List THREE (3) evidence on work done by the audit senior that should be documented in the working papers with regard to this issue. (3 marks) |
| 13 | (d) Describe TWO (2) actions the Finance Manager should take to reduce the risk of making similar mistakes in the future. (2 marks) |
- (Total: 23 marks)**

Question 4 – (a) to (d)

You are the audit manager responsible for the audit of Roho Pte Ltd (Roho), a major supplier and distributor of plant-based skincare products in Singapore and Malaysia.

Roho imports formulations in bulk from various manufacturers in South Korea and Japan. Roho's sole factory in Malaysia re-packs the formulations into smaller plastic bottles or tubes, made from non-biodegradable plastic materials, under its own mass-market label before distributing them to e-retailers, beauty and health stores and supermarkets. Roho also imports specially packaged premium skincare products used in the medical industry. These do not require any repacking as they are shipped directly from the manufacturers to the pharmacies and medical centres.

During the audit for the financial year ended 31 December 2023, your audit assistant documents his understanding of the flow of information and documents in the goods receiving department as follows:

- When purchased goods are received, the receiving department personnel checks and counts these goods against the supplier's shipping documents and a copy of the purchase order (PO) will be routed to him by the procurement department.
- He prepares 3 copies of the goods received note (GRN), initials on each copy, before forwarding them to the store, procurement department and the accounting department, respectively.

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Question 4 required:

- (a) Describe **TWO (2)** possible fraud scenarios if the procurement department did not remove the information on unit price and quantity on the copies of PO forwarded to the receiving department. For each scenario, discuss the impact on the risk of material misstatements, if any, as well as the overall impact on Roho's cashflow and profitability.

(8 marks)

During your review of the work done for completeness of accounts payables, you noted that the audit assistant did not scrutinise the date of the selected GRNs.

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Number**

15

Question 4 required:

- (b) Explain why it is important to scrutinise the date of the GRNs. State **ONE (1)** impact on your final conclusion on the accounts payable balance arising from the improper application of the audit procedure by the audit assistant.

(2 marks)

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- (c) Explain how this incident of misapplication of audit procedure affects your overall audit risk, assuming the impact is material. Describe **TWO (2)** appropriate actions you should take to prevent such incidents from occurring again.

(3 marks)

The Chief Operating Officer (COO) of Roho shared that consumers are increasingly demanding for skincare products packaged in and labelled using sustainable materials. Furthermore, ASEAN announced that all of its member states unanimously support an upcoming international treaty to gradually phase out non-sustainable resources used in consumer products with effect from 2025, to be followed by a total prohibition in 2027.

On 2 August 2023, Roho commissioned five (5) new packaging and labelling machines that were customised to handle alternative materials, which Roho is confident will not be affected by the upcoming treaty. Each of the machines costs Malaysian Ringgit (MYR) 1 million. Roho decommissioned all its existing plastic packaging and labelling machines two months later and sold them to a third party on 3 October 2023.

Roho's policy is to depreciate machinery on a straight-line basis over 10 years from the month of deployment. The COO mentioned that there was no other asset purchased during the year. He further mentioned that only a small amount, less than \$80,000, was spent annually to repair and maintain all machines.

An extract of Roho's financial information in Singapore Dollars (S\$) on machinery as at 31 December 2023 is shown below. Assume a foreign exchange rate of S\$1 to MYR 3.50 applies.

Extract of Roho's financial information on Machinery

As at 31 December 2023

Machinery Cost	S\$'000
As at 1 January 2023	3,400
Additions	5,005
Disposals	(1,120)
As at 31 December 2023	<hr/> 7,285 <hr/>

Accumulated Depreciation	S\$'000
As at 1 January 2023	2,760
Charge for the year	310
Disposals	(1,098)
As at 31 December 2023	<hr/> 1,972 <hr/>

Net book value	S\$'000
As at 31 December 2022	640
As at 31 December 2023	5,313

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Question 4 required:

- (d)** In relation to Roho's machinery:
- (i)** Identify and explain **FOUR (4)** possible risks of material misstatements to demonstrate that this area will be of audit concern. **(4 marks)**

 - (ii)** Describe **ONE (1)** audit procedure that you should perform relating to the addition of the new machines in the fixed asset register, except areas relating to useful lives covered in **Q4(d)(iii)**. **(2 marks)**

 - (iii)** Describe **TWO (2)** audit procedures you should perform to evaluate the reasonableness of useful lives for the new machines. **(4 marks)**

 - (iv)** Describe **ONE (1)** audit procedure you should perform on the disposal of the plastic packaging and labelling machines. **(2 marks)**
- (Total: 25 marks)**

END OF PAPER