



Singapore CA Qualification Examination

2 December 2024

Integrative Business Solutions

Examination Day Documents

INSTRUCTIONS TO CANDIDATES:

1. The time allowed for this examination paper is **4 hours and 30 minutes**. Please note there is no separate prescribed reading time for this examination.
2. 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.
3. 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.
4. This examination paper and all video recordings are the property of the Accounting and Corporate Regulatory Authority (ACRA).
5. This is a hypothetical case written exclusively for this examination. Names, characters, places and incidents used are imaginary or fictional. Any resemblance to actual events or locales or persons, living or dead, is entirely coincidental. This case is not to be cited without permission from the ACRA.

IMPORTANT NOTICE:

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

****VERY IMPORTANT NOTICE****

1. Your question paper is attached under the "**Resources**" tab found at the bottom right of **EACH** question.
2. You may download the **Question Paper**, which allows annotation throughout your exam, from Question 1 on the e-Exam portal.
3. You may also download the **Excel file attachment** which contains figures from Exhibit 11, from 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.**

Case study report instructions

These Examination Day Documents (EDD) complete the case study scenario and set out the requirements of the report that you are required to write (**Exhibit 16**). You must combine your pre-reading and analysis of the Advance Information (AI), your other pre-examination research, and the new information in the EDD to plan the content and structure of your report, and then to write the report.

The IB Examination will be an open-book examination of **4 hours 30 minutes**. Please note that there is no separate prescribed reading time for this examination.

Report format

Your report should follow the following format:

Requirement	e-Exam Qn. Number	Marks
Requirement 1: An Executive Summary	2	10
Requirement 2: Financial performance review, competitive “Porter’s Five Forces” analysis and enhancing the supply chain and supply change management	3, 4, 5	38
Requirement 3: Evaluation of strategic decision to expand semiconductor manufacturing in Malaysia and related financial reporting and taxation implications	6, 7, 8, 9	36
Requirement 4: Improving the internal control and governance of semiconductor production	10, 11	16

You should clearly state any assumptions that you make and include any supporting data. Please put your appendices (if any) at the end of each question part.

Please note that only your report commentary (including the assumptions made), appendices and workings entered in Cirrus on the day of the examination will be marked.

Advance Information (AI) – List of Exhibits

Exhibit	Exhibit Title	Start Page
Advance Information (AI)		
1	About semiconductor manufacturing	AI-4
2	Economic outlook in Singapore and Southeast Asia in 2025 and beyond	AI-9
3	Semiconductor Manufacturing in Singapore	AI-10
4	About Edge Semiconductors Pte Ltd (including product, operations, organisational structure, governance and Board of Directors)	AI-11
5	Edge Semiconductors Pte Ltd Financial Performance Report for the year to 30 November 2023 versus 30 November 2022	AI-15
6	Chief Operating Officer (COO) 2023 Financial Performance Statement	AI-19
7	Briefing note to the Board of Edge regarding proposed supply chain strategies	AI-21
8	Potential expansion in semiconductor manufacturing in Malaysia	AI-23
9	Extract from Edge Semiconductors Pte Ltd Internal Auditor Report (July 2024)	AI-25
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Note: Unless otherwise stated, all dollar amounts (\$) are in Singapore dollars.

Examination Day Documents (EDD) – List of Exhibits

Exhibit	Exhibit Title	Start Page
Examination Day Documents (EDD)		
11	Edge Semiconductors Pte Ltd: Financial Performance Report for the year to 30 November 2024	EDD-6
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Note: Unless otherwise stated, all dollar amounts (\$) are in Singapore dollars.

Edge Semiconductors Pte Ltd: Financial Performance Report for the year to 30 November 2024

To: The Board of Directors of Edge
From: Benjamin Ravi, Edge Chief Financial Officer (CFO)
Date: 4 December 2024
Subject: Management accounts for the year ended 30 November 2024

Dear fellow Board members,

Below are extracts from our summary management accounts for the year ended 30 November 2024 together with relevant segmental information and operating data. A detailed commentary on our performance is provided by our Chief Operating Officer (COO), Adrian Koh.

Statement of Profit or Loss for the year ended 30 November	2024	2023
	S\$m	S\$m
Revenue	3,060.5	2,772.0
Cost of sales	<u>(2,006.9)</u>	<u>(1,786.1)</u>
Gross profit	1,053.6	985.9
Distribution costs	(110.1)	(95.1)
Depreciation, amortisation and impairment	(373.9)	(336.2)
Research and development costs	(110.1)	(128.2)
Selling and marketing costs	(44.4)	(41.2)
General and administrative costs	<u>(103.3)</u>	<u>(109.1)</u>
Total operating costs	<u>(741.8)</u>	<u>(709.8)</u>
Operating profit	311.8	276.1
Finance costs	<u>(60.8)</u>	<u>(66.3)</u>
Profit before tax	251.0	209.8

Taxation	<u>(42.7)</u>	<u>(35.7)</u>
Profit after tax	208.3	174.1
Dividends	<u>(41.7)</u>	<u>(34.8)</u>
Retained profit	<u>166.6</u>	<u>139.3</u>

Statement of Financial Position as at 30 November	2024	2023
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ASSETS	S\$m	S\$m
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Non-current assets

Property, plant and equipment (including right-of-use assets)	4,783.0	4,453.0
Intangible assets	<u>174.7</u>	<u>174.7</u>
	<u>4,957.7</u>	<u>4,627.7</u>

Current assets

Inventories	153.6	143.6
Trade and other receivables	647.6	567.6
Cash and cash equivalents	<u>131.3</u>	<u>450.8</u>
	<u>932.5</u>	<u>1162.0</u>

Total assets	<u>5,890.2</u>	<u>5,789.7</u>
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LIABILITIES

Non-current liabilities

Amounts due under leases: Greater than one year	259.2	268.9
Loans and borrowings	<u>900.0</u>	<u>1,050.0</u>
	<u>1,159.2</u>	<u>1,318.9</u>

Current liabilities

Trade and other payables	324.5	234.7
Amounts due under leases: Less than one year	73.2	69.4
Loans and borrowings	<u>150.0</u>	<u>150.0</u>
	<u>547.7</u>	<u>454.1</u>

Total liabilities	<u>1,706.9</u>	<u>1,773.0</u>
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EQUITY

Share capital	1,000.0	1,000.0
Revenue reserve	<u>3,183.3</u>	<u>3,016.7</u>
Total equity	<u>4,183.3</u>	<u>4,016.7</u>
Total liabilities and equity	<u>5,890.2</u>	<u>5,789.7</u>

Notes to the management accounts

Note 1: Revenue recognition

Revenue is recognised when semiconductor deliveries are shipped and received by the customer under the terms agreed in the contract of supply. Payments due from customers are based on the agreed payment terms of not more than 60 days.

Note 2: Segmental analysis

	2024	2024	2023	2023
	Distributor	Direct	Distributor	Direct
	Customers	Customers	Customers	Customers
	S\$m	S\$m	S\$m	S\$m
Revenue	1,739.6	1,320.9	1,562.5	1,209.5
Cost of sales	<u>(1,260.8)</u>	<u>(746.1)</u>	<u>(1,095.7)</u>	<u>(690.4)</u>
Gross profit	<u>478.8</u>	<u>574.8</u>	<u>466.8</u>	<u>519.1</u>

Note 3: Operating data

	2024	2023
Production units (millions)	1,105.1	992.8
Quality control passed production/sales (units millions)	1,069.8	969.5
Average number of manufacturing employees	1,646	1,616
Employee costs contained in cost of sales (S\$m)	302.6	296.3

Employee turnover (manufacturing)	<u>3.7%</u>	<u>1.1%</u>
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Quality control passed production units are materially the same as units sold, as semi-conductors are dispatched immediately following quality control and packing.

Segmented production data	2024	2024	2023	2023
	Distribu tor Custom ers	Direct Custom ers	Distribu tor Custom ers	Direct Custom ers
Quality control passed production/sales (units millions)	<u>719.5</u>	<u>350.3</u>	<u>645.1</u>	<u>324.4</u>

Note 4: Loans and borrowings

On 1 December 2017, Edge commenced a fourteen-year 3.8% fixed rate loan of S\$2,100 million from the Bank of Singapore. The loan is repaid in annual instalments of S\$150 million plus interest paid at 30 November. The loan is secured on available non-current assets up to the value of the outstanding loan. The management accounts reflect the most recent loan payment at 30 November 2024.

Best wishes,
Benjamin Ravi
Edge CFO

Note to Candidates: To prepare your answer, you may use the Excel file (provided in the separate attachment), which contains the figures from Exhibit 11.

END OF EXHIBIT 11

Chief Operating Officer (COO) Statement of Financial Performance for the year to 30 November 2024

To: The Board of Directors of Edge
From: Adrian Koh, Edge Chief Operating Officer (COO)
Date: 5 December 2024
Subject: Review of 2024 performance

Below is an overview of our performance for the year to 30 November 2024.

Introduction

Edge has achieved increases in production volumes and sales for both our market segments. However, despite actions to manage costs this year which has stabilised our operating margin, we recognise we must do more to address the continuing slightly declining trend in our gross margin.

Sales: Distributor Customer orders and Direct Customer orders

Amidst a more challenging economic landscape in Southeast Asia towards the end of 2024, the electronics component and the semiconductor manufacturing industry have overall demonstrated notable demand resilience. Whilst Edge surpassed its 2023 production output, it was slightly lower than expected. This is attributed to constraints of raw material capacity in our supply chain. Also, higher-than-expected cost inflation has dampened our 2024 financial performance compared with our expectations.

The demand for our Distributor Customer orders remains robust as we leverage their supply networks. However, we have faced firm pricing challenges as our distributor partners seek to widen their margins. This has kept our Distributor Customer prices largely unchanged in 2024.

Our Direct Customer orders typically yield higher margins compared to Distributor Customer orders as we provide a bespoke service to deliver precisely what the customer requires. However, Edge has continued to face intensive competition which has restricted our ability to pass on production cost increases to our Direct Customer orders.

Gross margins for our Distributor Customer orders have slightly fallen in 2024 due to a combination of subdued market demand and escalating supplier costs and increased production employee costs which we expect to continue into 2025. However, we have managed to slightly increase our gross margin on Direct Customer orders as our customers recognise the value of the direct customer services we offer.

Escalating production costs

Edge has been navigating through rising production costs due to increased prices in the supply chain, and our proactive negotiations with key suppliers and cost-control measures have mitigated some of these impacts. However, we recognise Edge needs to do more to manage supply chain price increases, supply capacity constraints, and product quality.

Operational challenges

Our journey through the year to 30 November 2024 was marked by an unexpected rise in employee turnover in manufacturing. We are aware of some employee dissatisfaction with working hours and frustration that poor communication between our procurement and production teams is leading to some inefficiencies which we believe has contributed to increased employee turnover. Despite this, we have managed to strictly control our production employee costs by managing recruitment and pay levels with the goal to support our margins.

In addition, several Distributor Customer orders have unfortunately been delivered late due to supply chain disruption which delayed production and pushed some orders into the post-year-end period. We continue to work on building supply chain resilience as a priority in the next financial year.

Also, a particular quality control issue with a particular Direct Customer order for a small quantity of semiconductors results in delay. Our rigorous quality control and testing procedures have successfully identified the issue before dispatch, preventing a costly product recall. However, this impacted our production costs as a batch of semiconductors was discarded and manufactured again. It seems this production issue was due to human error in the complex production process as we have ruled out any issue with supplier-provided materials and components.

Other costs

Expenses associated with semiconductor distribution have risen significantly due to the high inflation observed in the global logistics and distribution sector. Also, our sales and marketing costs have increased in a targeted effort to increase our share of the direct customer market, which has had mixed success.

Our commitment to research and development (R&D) continues as this is pivotal for keeping pace with industry innovations. However, we delayed non-essential R&D to preserve overall profitability and free cash flow. Other cost efficiencies have been introduced this year to manage general and administrative costs, which have been successful in countering higher than anticipated cost inflation in these areas.

The year ahead

It will be vital for Edge to improve our gross margins by considering our pricing strategy and looking to introduce production and cost efficiencies in our manufacturing operations.

Next steps

I request that the finance team compile a draft financial performance analysis report for the year to 30 November 2024 versus the year to 30 November 2023 for the Board. I will share a draft with the Board once this has been finalised.

Adrian Koh
Edge COO

END OF EXHIBIT 12

Operational challenges at Edge production facilities

To: Issac Fernandes, Head of Production
From: Jia Min Tan, Edge Production Employee Representative
Date: 15 November 2024
Subject: Ongoing operational challenges at Edge production facilities

Dear Mr. Fernandes,

In our ongoing efforts to uphold the highest standards of operational excellence and product quality at Edge, I have conducted interviews with production employees to understand the challenges they are facing. Below, I have grouped the key findings into distinct areas of concern:

1. Human Resources and Workforce Management

- Human errors on Edge assembly line have increased, resulting in a higher number of defective semiconductors. This is attributed to inadequate supervision, understaffing, long ten-hour shifts with minimal breaks, and frequent overtime requests.
- Edge manufacturing employees are often diverted from scheduled training programmes to meet production deadlines, which limits their ability to perform optimally and increases the likelihood of mistakes.
- There is some evidence of elevated employee absences due to stress from overwork, indicating the need for better workload management.

2. Material Handling and Inventory Management

- Delays in receiving materials from the warehouse, possibly due to poor communication and inefficiencies in the inventory management system, have resulted in production downtime. This has necessitated extended shifts to compensate for lost time.

3. Production Planning and Equipment Utilisation

- Poor planning has also led to last-minute changes in production procedures, causing confusion and inefficiencies.
- Newer manufacturing equipment has been introduced without sufficient employee training, leading to operational mistakes and underutilisation of investments.

4. Communication and Coordination Issues

- Poor communication between semiconductor production teams during shift handovers has resulted in repeated errors. Abrupt and last-minute changes to production procedures further exacerbate operational inefficiencies.
- Some manufacturing employees have expressed concerns about the absence of effective feedback channels to report production problems or suggest improvements without fear of reprisal from supervisors.

5. Maintenance and Safety Concerns

- In order to meet production deadlines, preventive maintenance on machinery has been delayed or cancelled, leading to an increase in minor factory accidents in the past quarter.
- The current production floor layout has been deemed inefficient, resulting in unnecessary movement and time wastage.

6. Quality Control

- Fluctuations in semiconductor production quality have been linked to inconsistent quality control measures, particularly due to newer employees and the reliance on temporary workers to fill urgent production gaps.

The above challenges which I have highlighted provide a comprehensive overview of the areas that require immediate attention. I am committed to supporting initiatives aimed at resolving these issues and look forward to your guidance on the next steps.

Regards

Jia Min Tan,

Edge Production Employee Representative

END OF EXHIBIT 13

Potential disposal of the manufacturing site at Woodlands Industrial Estate

To: Apex Chartered Accountants
From: Benjamin Ravi, Edge Chief Financial Officer (CFO)
Date: 6 December 2024
Subject: Disposal of Woodlands manufacturing site and purchase of new manufacturing site in Kulim Hi-Tech Park (KHTP) in Kedah, Malaysia

Dear Apex,

Following on from the CEO's email regarding a strategic opportunity to establish a new manufacturing facility located in Kulim Hi-Tech Park (KHTP) in Kedah, Malaysia, I am seeking your assistance to evaluate this strategic proposal to dispose of our existing Woodlands site to fund a new state-of-the-art semiconductor manufacturing plant in Malaysia.

The rationale for expanding into Malaysia aligns with our strategic goal to not only double Edge's overall manufacturing capacity but also to capitalise on the strategic benefits offered by Malaysia's burgeoning tech ecosystem. This includes leveraging cost efficiencies, tapping into a skilled labour force, and benefiting from supportive government policies in the technology and manufacturing sectors.

A tentative offer of S\$450 million from a potential buyer for the Woodlands site has been communicated to me. Edge has held Woodlands since the year of incorporation. The potential buyer is a small, Singapore-based, highly specialised semiconductor manufacturer that focuses on niche markets and is not a direct competitor of Edge. This offer is inclusive of the land, existing buildings at Woodlands, and the semiconductor production plant and machinery it contains. The sale would significantly contribute to

financing the Malaysian venture, complemented by an additional S\$150 million, which we expect to raise through external debt finance.

While we are dedicated to redeploying our Woodlands employees to other Singapore sites, we must acknowledge the potential challenges in workforce management and operational continuity this transition may entail. The new purchaser's interest in retaining some of our staff due to their site familiarity has been noted, though continued employment at Woodlands will not be a condition of the sale.

Our immediate next steps involve conducting an initial valuation of the Woodlands site to confirm the reasonableness of the S\$450 million offer from the potential purchaser.

To assist in determining an initial valuation of Woodlands, I have put together a list of assumptions which will help to provide a valuation, which I believe is relevant in this case as Woodlands would be sold as a viable, operating, semiconductor manufacturing facility for the purchaser. See Appendix 1 for my list of valuation assumptions.

Whilst the financial consideration is important, we must also consider the strategic case for selling Woodlands and purchasing a new manufacturing site in Malaysia.

Furthermore, we require an analysis of the financial reporting and taxation implications associated with this divestiture and the purchase of the new site in Malaysia.

It is noted that buyers in Malaysia are required to pay stamp duty on the purchase of land and property. Also, investing companies may benefit from Malaysia's tax incentives for foreign investment in high-technology industries and investment in green technology, although the specifics of these incentives are currently unknown.

This strategic consideration remains confidential, and no public announcements have been made. Your discretion is paramount due to the commercially sensitive nature of this information.

In my view, the offer for the Woodlands site is arguably the best we will get in the current property market, so quickly accepting the offer will provide the finance necessary to fund the acquisition of a manufacturing site in Malaysia as this will fortify our competitive position by increasing and diversifying our manufacturing capacity which will ensure Edge's continued and sustained growth in the semiconductor industry.

Once we can advance the sale process, a visit to Malaysia can be arranged for a tour of potential manufacturing premises at the KHTP in Kedah, Malaysia and confirm its suitability for Edge semiconductor manufacturing.

Your analysis and evaluation of this opportunity will be crucial for the Board's decision-making process.

Best wishes,

Benjamin Ravi

CFO of Edge

Appendix 1: Valuation assumptions for the Woodlands manufacturing site

The book value of the Woodlands site is approximately 10% of Edge's net book value of its tangible non-current assets. This is a reasonable estimate of its fair value in the current property market.

However, it is expected that the value of Woodlands is higher, being the present value of returns including potential revenue and cost synergies which a purchaser is likely to introduce.

Therefore, a high-level free cash flow valuation can be determined by applying the following assumptions:

- **Free cash flows before interest and tax:** Woodlands represents approximately 10% of Edge's 2024 operating profit before interest and tax, which is a good approximation of free cash flows before interest and tax.
- **Synergy:** It is expected that a purchaser could easily achieve the following synergies in its first year of operations (2025):
 - 10% growth in revenue due to increased pricing from its specialised products
 - 5% saving to its cost of sales and all other operating costs except depreciation which is expected to remain unchanged in 2025
- **Annual growth 2026 onwards:** Annual growth in free cash flows after tax for all years thereafter (2026 onwards) is expected to be 2% per annum.
- **Interest:** All current interest on Edge debt and lease finance will remain with Edge so interest can be ignored.
- **Future capital expenditure:** Current depreciation on plant and machinery at the Woodland site is considered a reasonable estimate of future annual capital

expenditure so no adjustment for capital expenditure is required.

- **Tax:** An effective Singapore tax rate is expected of 17% of profit before tax (after depreciation). This effective rate will allow for capital allowances claimed on capital expenditure incurred so no further adjustments for tax are required.
- **Required rate of return:** Edge's existing required rate of return after tax of 12% will be a reasonable indicator of value for a potential buyer.

END OF EXHIBIT 14

Appointment of a Professional Advisor to the Board of Edge

The Board of Edge has engaged the services of Apex Chartered Accountants to advise on strategic, operational and financial aspects of its semiconductor manufacturing operations.

This appointment aims to provide the Board of Edge with a comprehensive and independent preliminary report to facilitate well-informed decision-making.

You are Emily Lim, a recently qualified Chartered Accountant of Singapore at Apex Chartered Accountants.

You are responsible for drafting a report for review by a partner at Apex Chartered Accountants which will form the basis for a submission to the Board of Edge.

Your report will focus on:

- Financial performance review, competitive “Porter’s Five Forces” analysis and enhancing the supply chain and supply change management;
- Evaluation of a strategic decision to expand semiconductor manufacturing into Malaysia and related financial reporting and taxation implications; and
- Improving the internal control and governance of semiconductor production.

The specific requirements to be included in your report are set out in Exhibit 16.

END OF EXHIBIT 15

Edge Semiconductors Pte Ltd: Requirements

Your formal report should focus on Edge only, and comprise the following four elements:

Requirement 1: An Executive Summary

- (a) Write an executive summary to accompany your report. Your executive summary should allow the Board of Edge, to obtain a general understanding of what your report contains, including the key numbers. You should also include clearly stated assumptions, conclusions, and recommendations.

Note to Candidates: While your executive summary should not contain any material or points you have not discussed in the main body of the report, you are required to highlight any potential interactions between the individual standalone requirements below.

(Total: 10 marks)

Requirement 2: Financial performance review, competitive “Porter’s Five Forces” analysis and enhancing the supply chain and supply change management

- (a) Provide a financial performance review of Edge for the year to 30 November 2024 versus 30 November 2023.

Note to Candidates: To prepare your answer, you may use the **Excel file attachment** (provided in the separate attachment), which contains figures from Exhibit 11.

(15 marks)

- (b) Analyse the competitive landscape for semiconductor manufacturers in Singapore by applying Porter's Five Forces, as follows:

1. Rivalry among existing competitors
2. Threat of new entrants
3. Bargaining power of suppliers
4. Bargaining power of buyers
5. Threat of substitute products

Note to Candidates: In doing so, summarise each force as high, medium, or low, explain how Edge can mitigate against the challenge of each competitive force and provide an overall conclusion of the competitive landscape for Edge.

(12 marks)

- (c) Evaluate the risk of reliance on a small number of key suppliers at Edge **and** evaluate the **THREE** proposed strategies for mitigating supply chain risk proposed by Michelle Tan, Edge Head of Procurement Operations.

(11 marks)

(Total: 38 marks)

Requirement 3: Evaluation of a strategic decision to expand semiconductor manufacturing into Malaysia and related financial reporting and taxation implications

- (a) Evaluate, with calculations, the offer price for the Woodlands manufacturing site. In doing so, assess the valuation assumptions provided by Benjamin Ravi, CFO of Edge.

(12 marks)

- (b) Discuss **TWO** benefits and **TWO** risks associated with each of the following:

- (i) Divesting the Woodlands manufacturing site; and
- (ii) Acquiring a semiconductor manufacturing site in Malaysia.

Then, make a recommendation, stating your reasons, whether the sale of the Woodlands manufacturing site to fund the acquisition of a manufacturing site in Malaysia should proceed.

(14 marks)

- (c) Explain **FIVE** potential accounting treatment/financial reporting implications and explain the external audit implications of the decision to dispose of the Woodlands manufacturing site.

(6 marks)

- (d) Summarise **TWO** relevant taxation implications for each of the following:

- (i) Divesting the Woodlands manufacturing site; and
- (ii) Acquiring a semiconductor manufacturing site in Malaysia.

(4 marks)

(Total: 36 marks)

Requirement 4: Improving the internal control and governance of semiconductor production

- (a) Based on the email from Jia Min Tan, Edge Production Employee Representative, recommend **SIX** improvements to semiconductor production procedures and the internal control environment at Edge based on the concerns raised by Edge production employees.

(6 marks)

- (b) Assess **FIVE** current internal control weaknesses at Edge specifically in respect of preventing fraud, bribery and money laundering and recommend **FIVE** measures to mitigate each internal control weakness identified.

(10 marks)

(Total: 16 marks)

END OF EXHIBIT 16

END OF PAPER