Acceptance Process
New Client – Black Mobile Pte. Ltd.

- Latest audited F/S – 31 December 2011

- Business activities:
  - Wholesaler - import and export of mobile phones and related products
  - Retail sales - retail outlets or consignment to telecom companies
  - 3 subsidiaries – 2 local and 1 overseas
New Client – Black Mobile Pte. Ltd.

- Management claims:
  - Subsidiaries are inactive, not significant components

- Management wants a reasonable fee quote (Same as previous auditor or even lesser)

- Management provides the company’s financial information to the auditor
New Client – Black Mobile Pte. Ltd.

What happens next? Partner client.

Client                  Partner
New Client – Black Mobile Pte. Ltd.

BACK IN OFFICE

JJ, good news we have a potential client. Here are some notes that I have made during my discussion with them. Can you do up the necessary paper work?

Yes boss, I will arrange for the professional clearance and the letter of engagement to be prepared!

Partner

Manager
New Client – Black Mobile Pte. Ltd.
New Client – Black Mobile Pte. Ltd.

Hold on JJ. Not so fast. Let us sit down and run through this whole thing together. This job does not seem that simple. And I don’t really know the directors of the company.

Oh, it seems like a pretty straight-forward job to me!

Partner

Manager
New Client – Black Mobile Pte. Ltd.

What needs to be considered?

**Competency**

➢ 31 December is our peak period for inventory count. Does the Firm have **enough staff** to perform the count during that period?

➢ Does the Firm have the **knowledge and expertise** relating to mobile phone related industry?
New Client – Black Mobile Pte. Ltd.

What needs to be considered?

➤ Any matter that the Firm is aware of that may cast doubt on the **integrity of the client**?

➤ What is the **reason for the change** of auditor?

➤ Is the management forthcoming?
New Client – Black Mobile Pte. Ltd.

What needs to be considered?

- Can the Firm comply with the **ethical requirement**?
- Is there any **other professional service** rendered by the Firm to the company?
- Are there **any staff** within the Firm who are **related to the key management** of the prospective client?
New Client – Black Mobile Pte. Ltd.

Any Other Matters?

- Will the F/S be submitted to anyone else? (Banks? Other investors?)
- Any qualification of the client’s accounts for the past three years?
- Who does the accounting for the company?
New Client – Black Mobile Pte. Ltd.

So JJ, based on the F/S for FY 2011 that the client has provided, work out an estimated budget. Need to put in a premium if that job is to be given priority.

Manager

Partner

Yes boss.
Illustrative Documentation - Acceptance
2.1. Acceptance/continuance procedures

2  Where another firm has acted as auditor in the previous year:
   (a) Confirm that a professional clearance letter has been received.
   (b) Step 2 (b) is done after the Firm conclude that they are accepting that potential client.

<table>
<thead>
<tr>
<th>Comments</th>
<th>WP Ref</th>
</tr>
</thead>
<tbody>
<tr>
<td>Done</td>
<td></td>
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2.1. Acceptance/continuance procedures

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</tr>
</thead>
<tbody>
<tr>
<td>Done</td>
<td>PAF 2.9</td>
</tr>
<tr>
<td>Requested from XX firm professional clearance letter on 25.10.12.</td>
<td></td>
</tr>
<tr>
<td>Received on 1.11.2012</td>
<td></td>
</tr>
</tbody>
</table>
2.1. Acceptance/continuance procedures

5 Have any limitations in scope been imposed on the audit that could result in a disclaimer of opinion?

What has been done?

<table>
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<tr>
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<td>None.</td>
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2.1. Acceptance/continuance procedures

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<tbody>
<tr>
<td>None.</td>
<td>C9 – Prelim discussion with mgt</td>
</tr>
</tbody>
</table>

Based on preliminary discussion with mgt team, no concern noted in this area. Also noted unmodified opinion in the last financial statements.
2.1. Acceptance/continuance procedures

6. Are there any circumstances or events that cast doubt on the integrity of the client's owners, board members or management?

What has been done?

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>None noted.</td>
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2.1. Acceptance/continuance procedures

<table>
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<tbody>
<tr>
<td>None noted.</td>
<td>PAF 08 – New client checklist</td>
</tr>
</tbody>
</table>

6 Are there any circumstances or events that cast doubt on the integrity of the client's owners, board members or management?

**Comments:**

1. Performed **directory search of the business entity** and noted:
   - The entity exists and is operating
   - The entity complies with annual filing requirement
   - The registered address is same as disclosed in the Financial Statement.  
     [see next slide]

2. Purchased a copy of the company business profile and noted no exception. (Refer to Handout 2.1).

3. Purchased profiles of the company’s directors and noted that the director held directorship in the two subsidiaries. No other matters are noted. (Refer to Handout 2.2).
**Directory of Registered Entities (Extract from ACRA)**

**FREE!**

Search By: Entity name
Search Details: Black Mobile (Containing the words)

<table>
<thead>
<tr>
<th>S/No.</th>
<th>Registration No.</th>
<th>Entity Name</th>
<th>Address</th>
<th>Status</th>
<th>Compliance Rating for Annual Filing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>198011234A</td>
<td>Black Mobile Pte. Ltd.</td>
<td>15 Ajunied Road, #04-01 Singapore 389511</td>
<td>Live</td>
<td>√ 1</td>
</tr>
</tbody>
</table>

*(3)* Registered Address of business entity – If unable to contact business entity at the address, or suspect that it might have suddenly moved premises, exercise caution before dealing it.

(1) **Live** - The business entity is currently in existence and operating.

(2) **Compliance rating for Annual Filing** - A green tick shows that the company has complied with the annual filing requirements under the Companies Act while a red cross indicates it has not. Can “Click” on icon for details of compliance record (See next slide)
### Compliance Record (Extract from ACRA)

<table>
<thead>
<tr>
<th>Registration No.</th>
<th>Entity Name</th>
<th>Last Annual General Meeting (&quot;AGM&quot;) Date</th>
<th>Last Annual Return Date</th>
<th>Date of Accounts Laid at Last AGM</th>
<th>Next AGM Due Date</th>
</tr>
</thead>
</table>

- The Certificate of Compliance can be purchased for a fee of $15.
- Non-compliance is reflected in red.
2.1. Acceptance/continuance procedures

7 Consider any other factors that may cause the firm to decline the appointment such as staff resources or conflicts of interest with existing clients.

What has been done?

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<tr>
<td>None Noted.</td>
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### Amended documentation

#### 2.1. Acceptance/continuance procedures

7. Consider any other factors that may cause the firm to decline the appointment such as staff resources or conflicts of interest with existing clients.

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</tr>
</thead>
<tbody>
<tr>
<td>None Noted.</td>
<td>PAF 08 – New client checklist</td>
</tr>
<tr>
<td>Specifically, two points have been considered:</td>
<td></td>
</tr>
<tr>
<td>i) Firm has previous experience auditing clients that trade in technology related products.</td>
<td></td>
</tr>
<tr>
<td>ii) Staff is available to attend the client’s inventory count on 31.12.2012</td>
<td></td>
</tr>
</tbody>
</table>
Continuance Process
Acceptance and Continuance Process

- The Firm accepted the job
- Audit for 2012 was completed in April 2013
- Partner did not foresee any problem to continue with the client for FYE 31.12. 2013
- Manager called client on October 2013
- Client informed Manager, no changes to the business process and operation. Same as last year.
Continuance Process

What needs to be considered?
Continuance Process

What needs to be considered?

➢ What were the **audit and accounting issues** last year ("LY")?

➢ What was the **fee recovery** for LY’s audit? (Pull out LY’s timesheet)

➢ Did the team spend a lot of time helping the client with their **accounting work**?

➢ Did the Firm have the **resources** to cope with the coming audit?

➢ Any **ethical issues** that the Firm needs to re-visit?
Continuance Process

What should be documented?

- Significant changes in laws and regulations specific to the client’s industry
- Significant issues brought-forward from previous year
- Significant changes to the engagement terms
- How the updates are obtained
  - Eg. Inquiry of management
Illustrative Documentation
- Continuance
Continuance Process

For illustration – Notes with management for the audit of FYE 31.12.2013

Contacted Ms. Sim, the finance manager on 25 October 2013. The following were our understanding:

i) No changes in major customers and suppliers. No significant changes in the laws & regulations and accounting policies for the company.

ii) No changes in the number of retail outlets as of Oct. However, the Company will close down one outlet in Nov 2013 and the management will transfer all of that outlet’s inventories to the warehouse. The outlet’s employees will also be re-located to other outlets.
Continuance Process
For illustration—Notes with management for the audit of FYE 31.12.2013

The following were our understanding:

iii) There was a potential inventory obsolescence of $500,000 in 2012 for mobile model SM1001, SM1010 and SM 2235. Management had provided audit team with sales orders for those models to support the potential sale of those inventories. Ms Sim updated that only SM 1001 and SM 2235 are sold. The bulk of SM 1010 remains unsold to date.

iv) Need the Firm to perform a sales certification audit for 5 retail outlets.
Continuance Process
For illustration– Notes with management for the audit of FYE 31.12.2013

Conclusion:

The auditor concluded that the Firm has no issue continuing with that client.

For the sales certification audit on the 5 retail outlets, the Firm would issue a separate engagement letter.