

Singapore CA Qualification Examination

10 June 2021

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 Appendices A and B). 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. 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 examination are the property of the Singapore Accountancy Commission.

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 2021.

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.

e-Exam
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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. Please download the relevant required Appendices in Question 1 of the e-Exam portal.

Other important information:

3. 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.
4. You are **NOT ALLOWED** to access any websites during the exam.
5. You are **NOT ALLOWED** to print the question paper.
6. **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 6100 0516

7. **You do not need fill in an answer for this question.**

Question 1 – (a) and (b)

Pintoto Pte Ltd (PPL) is an advertising agency. It provides advertisement, marketing campaign design and implementation services. It has a focus on the public sector and its clients include government ministries such as the Ministry of Transport (MOT), Ministry of National Development (MND), Ministry of Finance (MOF) and statutory boards such as Enterprise Singapore, etc.

You are an Audit Manager in an audit firm. Your firm has been engaged by PPL to provide internal audit services. The focus of this year's internal audit is on employee expense claims. The Board of PPL felt that the expense claims appear to be getting higher. The Board wants to have a detailed analysis of the expense claims in September 2020 as a start. You are now planning the internal audit engagement.

PPL operates from Singapore and has a regional office in Surabaya, Indonesia. It often participates in conferences and expo exhibitions to widen its business contacts and generate sales leads.

The nature of PPL's work involves tendering for advertisement work put up by its clients. This often entails working round the clock to meet tender submission deadlines. Thus, PPL has a policy that allows employees working overtime to claim overtime pay and also claim transport reimbursement, i.e. taxi expenses on days of overtime work.

In relation to overseas travel, employees will pay for their airfare, hotel accommodation, meal expenses and laundry expenses and then claim reimbursement from the company. There are expense limits imposed based on staff grade, such as CEO, CFO, other management, executive and rank-and-file staff.

Employees claim reimbursement by filling up an expense reimbursement form and attach supporting documents such as hotel bills, restaurant invoices, taxi receipts (if available – as some overseas taxi operators do not issue receipts) and record the following details in the claim form:

- The expense amount

- The purpose of the expense including date of incurring the expense
- The date expense claim is filed

The claim forms are approved and signed by the employee's immediate supervisor, except for the CEO.

The CFO's expense claims are approved by the CEO.

Upon obtaining the necessary approvals, the expense claims will be processed through the payroll system.

A monthly expense claim report detailing the CEO's expense claims will be produced for approval during the monthly Board Meeting.

You have obtained TWO (2) Microsoft Excel spreadsheets:

1. Employee Expense Reimbursement as at 30 September 2020 (provided in Appendix A)
2. Employee Status as at 30 September 2020 (provided in Appendix B)

Spreadsheet 1 (Appendix A) includes details on the date which the expense was claimed, the claim amount, the staff ID and the purpose of the expense. This spreadsheet was provided by the PPL payroll section and the payroll software has a function that processes the employees' expense claims.

Spreadsheet 2 (Appendix B) lists the employment status of all the company staff as at 30 September 2020. This spreadsheet was provided by the PPL Human Resource Department and it contains the following details:

- Staff ID
- Start date
- Last date (for employees who left in 2020)
- On leave (the dates on which the employees were on annual leave or sick leave in September 2020)

Appendix A

Employee Expense Reimbursement as at 30 September 2020

Claim Number	Staff ID	Claim Date	Amount (\$)	Purpose	Expense Date
1	1003	3.9.2020	23.24	Overtime transport taxi from office to home Tampines	3.9.2020
2	1006	4.9.2020	5.50	Taxi from office to Spring Singapore Raffles City	4.9.2020
3	1001	7.9.2020	32.10	Binding proposal for MOH tender	5.9.2020
4	1007	14.9.2020	680.00	Marriot KL - Meeting with CEO of Macrosoft 2 nights	12.9.2020
5	1003	15.9.2020	55.00	Taxi from office to Spring Singapore Raffles City	15.9.2020
6	1011	15.9.2020	323.00	Airfare - Surabaya 8.9.2020 to 11.9.2020 - Visit branch	8.9.2020
7	1006	16.9.2020	1,108.00	Marriot Shanghai - 3 nights - Expo conference	13.9.2020
8	1006	16.9.2020	98.00	Marriot Shanghai - Expo conference - Laundry	13.9.2020
9	1006	16.9.2020	486.00	Marriot Shanghai - Expo conference - Meals	13.9.2020
10	1008	18.9.2020	963.00	Entertainment - Dinner with CEO of MacroSoft	17.9.2020
11	1021	8.9.2020	18.30	Overtime transport taxi from office to home Bedok	7.9.2020
12	1012	9.9.2020	8.90	Express courier - Tender submission - MOF	9.9.2020
13	1017	21.9.2020	5.30	Taxi from office to Spring Singapore Raffles City	21.9.2020
14	1006	8.9.2020	524.00	Airfare - Shanghai expo conference from 13 to 15 Sep	13.9.2020
15	1013	22.9.2020	22.00	Overtime transport taxi from office to home Sengkang	21.9.2020
16	1006	23.9.2020	5.40	Taxi from office to Spring Singapore Raffles City	23.9.2020
17	1019	23.9.2020	9.95	Taxi submit tender proposal MND	23.9.2020
18	1011	15.9.2020	323.00	Airfare - Surabaya 8.9.2020 to 11.9.2020 - Visit branch	8.9.2020
19	1006	28.9.2020	686.00	Marriot Surabaya - Management meeting	8.9.2020
20	1006	16.9.2020	89.00	Marriot Surabaya - Management meeting - Laundry	8.9.2020
21	1006	16.9.2020	122.00	Marriot Surabaya - Management meeting - Meals	8.9.2020
22	1021	18.9.2020	963.00	Entertainment - Dinner with CEO of Macrosoft	17.9.2020
23	1003	29.9.2020	23.00	Overtime transport taxi from office to home Tampines	29.9.2020
24	1006	29.9.2020	5.50	Taxi from office to Spring Singapore Raffles City	29.9.2020
25	1021	28.9.2020	17.90	Overtime transport taxi from office to home Bedok	28.9.2020
26	1013	28.9.2020	21.80	Overtime transport taxi from office to home Sengkang	28.9.2020
27	1014	9.9.2020	10.00	Express courier - Tender submission - MOT	9.9.2020
28	1017	30.9.2020	5.30	Taxi from office to Spring Singapore Raffles City	30.9.2020
29	1099	27.9.2020	323.00	Airfare - Surabaya 9.9.2020 to 10.9.2020 - Visit branch	9.9.2020
30	1001	27.9.2020	321.00	Airfare - Surabaya 18.9.2020 to 21.9.2020 - Visit branch	18.9.2020
		Total	7,278.19		

Appendix B

Employee Status as at 30 September 2020

<u>Staff ID</u>	<u>Start Date</u>	<u>Last Date</u>	<u>On leave</u>
1001	4.1.2008	28.7.2020	
1002	29.3.2009	1.4.2020	
1003	18.7.2011		
1004	29.5.2012		
1005	3.3.2013		22.9.2020
1006	5.6.2013		
1007	13.8.2013		
1008	28.4.2014		
1009	6.7.2015		
1010	11.12.2015		
1011	17.2.2016		
1012	21.5.2017		
1013	31.3.2018		
1014	5.9.2019		
1015	18.11.2019		
1016	12.12.2019		
1017	3.1.2020		21.9.2020
1018	19.1.2020		
1019	2.2.2020		
1021	4.2.2020		

**e-Exam
Question
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Question 1 required:

2

(a) Using the above information and the TWO Excel spreadsheets (Employee Expense Reimbursement and Employee Status as at 30 September 2020) provided, identify and explain SIX unusual items/observations for further investigation.

(18 marks)

3

(b) From the unusual items/observations identified in **(a)** above, describe THREE possible control deficiencies that could have allowed them to occur and recommend internal control improvements to address the deficiencies.

(7 marks)

(Total: 25 marks)

Question 2 – (a) to (e)

Pipop Pte Ltd (Pipop) is a new audit client of the firm. Its financial year end is 30 April 2020. You are the Audit Manager who has just been assigned to takeover this audit engagement from the previously assigned audit manager who has left the audit firm. Pipop is involved in the distribution of medical supplies, medicines and health supplement products. Pipop imports from various overseas suppliers and distributes the products to hospitals, clinics and pharmacies.

Your review of the audit working papers showed that the professional clearance with the predecessor audit firm was unusual. The predecessor audit firm responded by stating that it was not given permission by Pipop's management and thus was not able to communicate any details about the audit engagement. The previously assigned manager did not document any follow up action on this response.

You are aware that the predecessor auditor issued a qualified opinion over the lack of evidence in verifying inventories.

The audit working paper system notes documented the following:

Customers place orders through the Pipop website. Each customer is given a customer account number and password to access the Pipop online sales system for placing orders. The warehouse supervisor monitors the sales orders online for new orders and organises the packing of goods by preparing the delivery notes using a delivery system that is not integrated with the online sales system. A copy of the delivery note is printed by the warehouse supervisor daily and physically transferred to the accounting department. Using the receivable ledger software, the receivables ledger account staff prepares sales invoices based on delivery notes and prices in the approved product catalogue. The following details have to be keyed in by the receivables ledger account staff because the receivables ledger is not integrated with the online sales system and the delivery system:

- Customer name
- Product code

- Quantity
- Unit price
- Sales value
- GST

The sales invoices generated are saved in the receivables ledger and the total balance in the receivables ledger is automatically posted to the general ledger.

Your audit senior has sent you a memo on issues identified so far:

“I have reviewed the sales contracts Pipop signed with all their customers. Copies of these contracts are placed in the audit permanent file, Schedule C. The sales terms clearly stated that customers have no right to return the products. However, during the test of details of sales, I discovered several goods returned from customers in the samples tested. Most of the goods returned happened with a single customer, a hospital which is Pipop’s largest customer. The warehouse supervisor, who also handles customers’ request for returning goods, explained that the customers who returned the goods stated that the quantity delivered was in excess of quantity ordered. When customers call in to return the goods, he will arrange for the delivery staff to pick up the goods returned when making delivery to the customers.

The receivables ledger account staff prepares credit notes based on the goods returned notes prepared by the warehouse supervisor. Credit notes are used to offset the receivables balance so customers with credit notes will settle the sales invoices amount net of the credit notes. However, for the largest hospital customer, she said that cash cheques are issued for the credit notes and the customer’s purchasing manager will pick up the cash cheques personally from Pipop office. She explained that the hospital has already paid the sale invoices and thus a cash refund was issued in accordance with the customer’s request.

Strangely, when visiting the warehouse during the interim audit, I had a conversation with a delivery staff who claimed that he was never instructed to pick up goods returned from the largest hospital customer. I have an uncomfortable feeling about all these, but I don't know what to do next."

e-Exam Question Number	Question 2 required:
4	(a) Describe further actions that the audit firm should have taken in relation to the professional clearance response from the predecessor audit firm. (4 marks)
5	(b) Provide a justification for mentioning in the audit report that this is a new audit client and explain how this should be communicated in the audit report. (4 marks)
6	(c) Identify and explain TWO control deficiencies that could allow quantity in excess of what customers ordered to be delivered to the customers. For each control deficiency, recommend and explain ONE improvement to the system and/or procedures to address the control deficiency. Describe a test of detail of transactions that could detect the transactions where the quantity delivered was in excess of the quantity ordered. Marks are allocated as follows: <ul data-bbox="510 1814 1212 1971" style="list-style-type: none">• Control deficiency – 2 marks each• Recommended improvement – 2 marks each• Test of detail – 1 mark (9 marks)

**e-Exam
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Number**

Question 2 required:

7

- (d)** In addition to reviewing the contracts with customers, describe a substantive procedure that could verify whether the customers have the right to return goods or not. Additionally, explain why it is important for the auditor to confirm the existence of the customers' right to return goods. Your answer should include a comment on which accounts might be overstated or understated if customers do have a right to return goods. **(4 marks)**

You subsequently instructed the audit senior to immediately send circularisation to the largest customer, i.e. the hospital, to confirm the receivables balances at an interim date. The reply provided evidence confirming that the balances in the hospital's records do not include any of the credit notes. This heightened your professional skepticism. You now suspect that there could be some irregularities involving the warehouse supervisor and the hospital purchasing manager.

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Question 2 required:

8

- (e)** Based on the information above, suggest TWO possible irregularities that might be taking place.

(4 marks)
(Total: 25 marks)

Question 3 – (a), (b) and (c)

Maitu Pte Ltd (MPL) is an event organisation company. Its financial year end is 30 June 2020. The draft financial statements showed profit before tax of \$1 million (2019: \$1.4 million) and net assets of \$20 million (2019: \$22 million).

Due to the COVID-19 pandemic, the company's operations have been badly affected. Although still profitable, the profits have reduced by more than 50% from prior year and the company is projected to report a loss for the next financial year. Since the circuit breaker in April 2020, the company hardly received any enquiry from customers on event organisation. The management of MPL has taken a number of measures to try to stay afloat. These includes:

Restructuring of loan

Negotiating loan repayment that is due on 31 March 2021 to extend the repayment date by two years. The loan payable in the draft statement of financial position has a carrying value of \$10 million which is the carrying value before the loan restructuring. The company's accounting policy is to record the loan at amortised cost. On 28 June 2020, MPL successfully negotiated an extension of the repayment of the outstanding balance at year end by two years. The loan is presented as a non-current loan payable in the draft statement of financial position.

However, MPL agrees to pay 2% higher interest for the rescheduled loan. Management has determined the present value of the rescheduled loan as:

- \$12 million based on the original effective interest rate of the existing loan; and
- \$12.5 million based on the new effective interest rate of the revised loan.

Ask for higher property rebate

Demanding the landlord of its office to increase the amount of property tax rebate received from the government that is supposed to be passed on to tenants from the landlord. MPL believes the landlord did not pass on the correct amount of tax rebate to MPL. MPL has submitted a dispute resolution application to the Valuation Review Panel (VRP) set up by the government. A VRP hears and determines disputes relating

to the passing on of property tax rebates under Part 6 of the COVID-19 (Temporary Measures) Act 2020 from non-residential property owners to their tenants. Any direction made by a VRP after a determination may be enforced like a court order. MPL has just submitted the application and has only received an acknowledgment letter from the VRP. The increase in property rebate MPL is asking for, i.e. \$8,000, has been recognised as other receivable and other income.

Job Support Scheme (JSS)

The JSS was launched by the Singapore government in Budget 2020 to help enterprises to retain their local employees (Singapore Citizen and Permanent Residents) during the period of economic uncertainty due to the COVID-19 pandemic.

As at 30 June, MPL has recognised all the 17 months (up to March 2021) of JSS subsidies received and receivable as other income. The JSS grant meant for offsetting salary expense from July 2020 to March 2021 is estimated to be \$21,000.

**e-Exam
Question
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Question 3 required:

For each of the following issues:

- (i)** Loan payable at year end
- (ii)** Other receivable from property tax rebate
- (iii)** JSS grant income

- 9** **(a)** Describe the audit procedures to be performed. **(10 marks)**
- 10** **(b)** Explain why MPL's accounting treatment is wrong. Support your answer with computations where necessary. **(10 marks)**
- 11** **(c)** Identify and explain which misstatements must be corrected, at the minimum, to avoid a modification to the auditor's opinion. **(5 marks)**
- (Total: 25 marks)**

Question 4 – (a), (b) and (c)

Tingkat & Co (TC) operates a chain of restaurants throughout the country. It also has a separate division operating catering service. The catering division is run independently of the restaurants and is monitored separately by TC's management in terms of financial performance and resource allocation. It has its own kitchen, purchasing and sales staff. It caters to corporate events and individual consumers' events. According to last year's audited financial statements, i.e. year ended 31 May 2019, restaurants contributed to 60% of the total revenue and catering contributed 40% of the total revenue.

You are the Audit Manager assigned to the audit engagement of TC for the year ended 31 May 2020. During the audit planning meeting with the Finance Director of TC in February 2020, the following information were gathered:

TC Board decided in the February 2020 Board Meeting to close all the restaurants. This is in anticipation of the severe slowdown of the restaurants business due to the uncertainty of the spread of the COVID-19 virus. The resources will be channelled to expand the catering service to take-away and delivery services.

Notices to landlords of the restaurant premises to terminate leases will be issued by 15 March 2020. All restaurant leases have remaining lease terms of between one to two years. The Finance Director will be leading a team to negotiate the break lease compensation as there are no early termination options in the lease contracts. The Finance Director is authorised by the Board to agree on compensation terms with the landlord so long as the remaining lease liability of each lease is reduced by at least 50% and the compensation is lower than the lease payments saved. The deadline to conclude the break lease arrangement is 30 April 2020 so that all affected restaurants can cease operations before 31 May 2020.

Employees of affected restaurants, including managers, waiters and waitresses, chefs and kitchen staff, cleaners, cashiers will all be made redundant. Redundancy notices will be sent to affected staff as soon as the break lease agreement is reached with the landlords. A fixed three-month salary will be paid to all affected employees

as redundancy compensation regardless of their length of employment with TC. All affected staff will be paid the redundancy compensation by 30 June 2020.

All the equipment in the restaurants will be put up for sale when the break lease agreement with the landlords commences. A reputable contractor in buying and selling of used restaurant equipment has been engaged to advise on the estimated selling prices and manage the selling process. The company will pay 10% of the sales proceeds to the contractor as commission. Any offer to buy that is close to the estimated price will be accepted. Equipment that cannot be sold will be disposed. Advertisement for the sale of equipment will be put up from 30 April 2020.

You have identified the following issues as having high risk of material misstatements:

- Lease termination
- Staff redundancy
- Sale of restaurant equipment

**e-Exam
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Question 4 required:

12

(a) Design audit procedures for each issue identified above. Explain the risk of material misstatements the audit procedures are intended to address. Your audit procedures should not include written representation as it will be collated and obtained towards the end of the audit.

(i) Lease termination **(5 marks)**

(ii) Staff redundancy **(6 marks)**

(iii) Sale of restaurant equipment **(6 marks)**

You have written the following audit procedures to be performed by your audit assistant:

“Review the draft income statement to see whether the revenue and profits from the restaurant operations are separately presented from the revenue and profits from the catering operations.”

Your audit assistant has no idea what separate presentation you were referring to and has asked for guidance.

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Question 4 required:

13

(b) Explain to the audit assistant why it is necessary to separately present results from the restaurant operations and catering operations. **(4 marks)**

As a gesture of goodwill, the Finance Director has offered you the opportunity to buy any of the equipment at a price that is 50% lower than the estimated price provided by the contractor.

**e-Exam
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Question 4 required:

14

(c) Discuss the ethical issue arising from the offer by the Finance Director and the appropriate response to the offer.

(4 marks)

(Total: 25 marks)

END OF PAPER