



Singapore CA Qualification (Foundation) Examination

9 June 2022

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 **TWENTY-FOUR (24)** pages (including this instruction sheet and Appendix A). Each question may have **MULTIPLE** parts and **ALL** questions are examinable.
3. This is a restricted open book examination. You are allowed to have only the following materials with you at your exam location:
 - One A4-sized double-sided cheat sheet
 - One A4-sized double-sided blank scratch paper
4. 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.
5. 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.
6. This examination paper and all video recordings of this exam are the property of the Singapore Accountancy Commission.

MODULE-SPECIFIC INSTRUCTIONS:

7. Assume that all dollar amounts are in Singapore dollar (S\$) unless otherwise stated.
8. 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, the Singapore Standards on Auditing (SSA) and the Code of Professional Conduct and Ethics issued by the Institute of Singapore Chartered Accountants (ISCA) as at the date of this examination.

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.

****VERY IMPORTANT NOTICE****

1. Your question paper is attached under the "**Resource**" tab found at the bottom right of **EACH** question.

Other important information:

2. You will **only be allowed** to access the Excel function from your computer.
3. You are **NOT ALLOWED** to access any websites or reference materials (except for your A4 sized double sided cheat sheet) during the exam.
4. You are **NOT ALLOWED** to print the question paper.
5. **Please take note that your screen will be monitored throughout the examination. If you are found to have accessed unauthorised materials or 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 number:

+65 6100 0516

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

Question 1 – (a) to (g)

You are the audit senior assigned to the audit of Save a Pet Foundation (SPF), a charity providing temporary care for abused pets. Today is 28 March 20X1 and you are involved in the planning stage of the audit of the financial statements for the year ending 31 May 20X1.

For SPF, income is mainly made up of cash donations from donors. Donations fluctuate with the performance of the economy and the job market. When the economy is bad, such as during the COVID-19 lock down period, donations were close to zero.

The main expenses of the charity are salary expenses, utility expenses and transport allowances for volunteers. The other expenses are spent on the beneficiaries of the charity, i.e., providing care for the abused pets. Expenses such as staff expenses, volunteers' allowances, utilities, food for pets and veterinary care, are stable and do not fluctuate much as SPF has been running at full capacity, in terms of the number of pets under its care, for several years.

Your intern has several questions about materiality. The auditor is required to apply the concept of materiality in planning and performing an audit of financial statements.

**e-Exam
Question
Number**

2

Question 1 required:

(a) Explain to the intern how materiality is applied:

(i) In the planning stage. **(1 mark)**

Note: For example, in planning the audit, materiality provides a basis for determining the nature, timing and extent of risk assessment procedures.

(ii) In evaluating identified misstatements. **(1 mark)**

Determining materiality involves the exercise of professional judgment. A percentage is often applied to a chosen benchmark as a starting point in determining materiality for the financial statements as a whole. The intern is not sure what would be an appropriate benchmark to select as a basis for determining materiality for an entity such as SPF.

**e-Exam
Question
Number**

Question 1 required:

3

(b) Select an appropriate benchmark from the following TWO choices and provide TWO reasons to support your choice:

i. Income

ii. Total expenses

(3 marks)

Prior to evaluating misstatements, the auditor is required to revise materiality determined at the planning stage.

**e-Exam
Question
Number**

Question 1 required:

4

(c) Provide ONE reason for auditor revising materiality prior to evaluating misstatements.

(2 marks)

One of the major expenses of SPF is payroll, particularly wages for the cleaners. The cleaners work 8 hours per day and 5 days per week. They are required to clock in and clock out every day at work with their clock cards. The clock cards are collected by the payroll department and the hours worked by each cleaner are manually added up and keyed into the payroll software by a payroll clerk.

The Human Resource Department (HRD) maintains a personnel file for each employee. The personnel file contains information such as employees' personal identification details, employment contracts, pay revision letters and promotion letters. According to the HRD, all the cleaners are Singapore citizens. You have obtained a monthly payroll report of the cleaners for September 20X1 to prepare the audit programme of substantive procedures to be performed on cleaners' payroll.

Payroll Report – Cleaning Department – 1 September to 30 September 20X1

Staff No.	Hours worked	\$ per hour	Gross wages \$	CPF – employee contribution \$	Net wages \$
1	2	3	4	5	6
CD31	176	6.00	1,056.00	(211.20)	844.80
CD32	176	6.00	1,056.00	(137.28)	918.72
CD33	168	6.00	1,008.00	(201.60)	806.40
CD35	176	6.00	1,056.00	(79.20)	976.80
CD37	176	6.00	1,056.00	(52.80)	1,003.20
		7 Totals →	5,232.00	(682.08)	4,549.92

There are 7 items indicated on the payroll report above:

- 1) Staff No.
- 2) Hours worked
- 3) \$ per hour
- 4) Gross wages
- 5) CPF – employee contribution
- 6) Net wages
- 7) Totals (Total Gross wages, Total CPF – employee contribution, Total Net Wages)

**e-Exam
Question
Number**

Question 1 required:

- 5** **(d)** For each of the items 1, 2, 3, 4 and 6 stated above, describe ONE substantive procedure to be performed and state the assertion relating to payroll transactions that will be verified by the substantive procedure. **(10 marks)**
- 6** **(e)** For item (5) CPF – employee contribution, describe THREE substantive procedures to be performed to confirm the accuracy of the item. **(3 marks)**
- 7** **(f)** One substantive procedure to be performed on item (5) CPF – employee contribution, is to trace the details in payroll report to the CPF Board’s Record of Payment. State the objective of this substantive procedure. **(1 mark)**
- 8** **(g)** For item (7) Totals, describe TWO substantive procedures to be performed; for each substantive procedure, state the assertion to be verified by the substantive procedure. **(4 marks)**
- (Total: 25 marks)**

Question 2 – (a), (b), (c), (d) and (e)

You are the audit senior assigned to audit the financial statements of Eastern Private Limited (EPL) for the financial year ended 31 May 20X1. The audit manager has asked you to select receivables for external confirmation based on the following criteria:

- i. Large receivables at year end
- ii. Major customers with small receivables at year end
- iii. Receivables with credit balances
- iv. Long overdue receivables that remain uncollected after year end

e-Exam Question Number

Question 2 required:

9

(a) Explain the objective of selecting each of the above types of receivables, including the key risk of misstatement for each of them. **(8 marks)**

10

(b) Explain THREE factors that contribute to the reliability of external confirmations as audit evidence. **(3 marks)**

For trade receivables, a positive external confirmation request asks the confirming party to reply to the auditor in all cases, either by:

- i. indicating the confirming party's agreement with the balance outstanding at year end; or
- ii. asking the confirming party to provide the balance outstanding at year end.

**e-Exam
Question
Number**

11

Question 2 required:

(c) Describe ONE disadvantage of asking the confirming party to confirm the balance indicated and ONE disadvantage of asking the confirming party to provide the balance.

(2 marks)

Your audit intern has prepared a draft external confirmation for receivables as follows:

<p>Audit Firms' Letterhead</p>
<p>To: Customer A</p> <p>1 Peanut Road Postal code 23456</p> <p>28 June 20X1</p> <p>Attention: Trade Payables Clerk</p> <p>Our firm, XYZ LLP, are auditing ABC Co.'s financial statements. Part of this audit includes direct verification of customer balances.</p> <p>Please examine the data below carefully and either confirm its accuracy or report any differences directly to ABC Co.</p> <p>This is not a request for payment.</p> <p>Your prompt attention to this request will be appreciated.</p> <p>_____</p> <p>Audit Partner</p>
<p>Reply Slip</p>
<p>The balance due ABC is correct.</p> <p>The balance is correct except as noted below:</p> <p>_____</p> <p>Date: _____ By: _____</p> <p style="text-align: center;">Title: _____</p>

**e-Exam
Question
Number**

Question 2 required:

12

(d) Identify and explain FIVE deficiencies in the above draft external confirmation letter. **(10 marks)**

13

(e) If a confirmation reply from a customer states that there is a difference due to an invoice which was recorded by the customer after the audit client's year-end date, describe a further audit procedure to be performed to confirm whether the receivable should be recorded after the year end.

(2 marks)

(Total: 25 marks)

Question 3 – (a), (b), (c) and (d)

In the financial year end as at FY 31.12.20X0, KT & Co. (KT) is being sued by one of its customers, Benten Pte Ltd (Benten) for a late delivery which led to consequential loss in the customer's production. Your firm has sent a written confirmation to KT's lawyer requesting the lawyer's advice on the likely outcome of the legal claim dated 20.12.20X0. The lawyer has responded via an email as follows:

From: Maximum Low

Sent: 28.1.20X1

To: Jason Jay, Reasonable Assurance PAC

Cc: Kena Sue, Finance Director – KT & Co.

Subject: KT & Co – legal confirmation letter for audit purpose

Thank you for your letter.

Please see our response as follows:

The likelihood of outcome is "in favour" of the suit in question as we are of the view that the Plaintiff's case will succeed and it is probable that the case will be in favour of the Plaintiff.

Warm regards

M/S Surewin Chambers LLC

1 Sleep Park

#01-01

Singapore 911911

**e-Exam
Question
Number**

Question 3 required:

14

- (a)** Describe the risk of misstatement in the financial statements relating to the legal claim. Your answer must include the correct accounting treatment that KT may or may not be complying with, and a description of which financial statement accounts are likely to be overstated or understated.

(4 marks)

Despite the above lawyer's advice, the Finance Director of KT is of the view that the legal claim does not need to be reflected in the financial statements. The amount of compensation sought by the customer is 15% of KT's draft profit before tax.

**e-Exam
Question
Number**

Question 3 required:

15

- (b)** Suggest an appropriate audit opinion to be issued and provide justification for your suggested audit opinion.

(4 marks)

As at KT's year end, the receivable from Benten amounted to \$5 million. Benten has refused to pay this amount due to the above legal dispute. Benten did not reply to the external confirmation request for this amount. Audit procedures have already been satisfactorily performed to confirm that the sales occurred and the receivable existed at year end.

**e-Exam
Question
Number**

16

Question 3 required:

(c) (i) Describe TWO further audit procedures to be performed on the receivable from Benten. Your answer should include the objective of the audit procedures.

(4 marks)

(ii) State ONE common assertion to be verified by the audit procedures in **(i)**.

(1 mark)

The following cases are ethical situations reported by various audit engagement teams and are discussed in the firm's ethics committee meeting:

Company A

Company A is a company listed on the Singapore Exchange. Upon hearing of the audit engagement partner's retirement from the audit firm, the Board of Directors of Company A invites this audit engagement partner to become a Non-Executive Director of Company A. **(4 marks)**

Company B

Company B is a property developer which recently launched a new condominium development for sale. Company B offers a 10% discount for the first 8 customers who purchase a unit. The audit manager assigned to the audit of Company B has signed a contract with Company B to purchase a unit and qualified for the 10% discount as he was the 7th customer who signed up. **(4 marks)**

Company C

Company C is a finance company that provides personal loans, home mortgage loans and car loans. The audit senior assigned to the audit of Company C is buying a 10-year old car for \$28,000. The audit senior is considering taking up a 3-year loan of \$5,000 with Company C that is currently running a promotional car loan package. **(4 marks)**

**e-Exam
Question
Number**

17

Question 3 required:

- (d)** For each of the above cases, identify the potential ethical threat, explain whether the potential ethical threat is significant or not and suggest the appropriate advice the ethics committee should give to the audit staff concerned.

(Total: 12 marks)

(Total: 25 marks)

Question 4 – (a) to (f)

The audit of ABC Company's financial statements for the year ended 31 December 20X1 is about to be completed. The following extracts of the audit report were drafted by an intern as a training exercise for your comments. Assume that you are the audit manager responsible for mentoring the intern.

AUDITOR'S REPORT

To the Directors of ABC Company

Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended.

In our opinion, the accompanying financial statements are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) so as to give a true and fair view of the financial position of the Company and of the financial performance, changes in equity and cash flows of the Company for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with applicable auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Singapore Accountancy Commission (SAC) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (SAC Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the SAC Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to a disclosure note in the financial statements, which indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

**e-Exam
Question
Number**

18

Question 4 required:

- (a)** Identify and explain ELEVEN deficiencies in the draft auditor's report extract. **(11 marks)**

Note: Candidates do not need to consider those paragraphs that are not included in the above extracts.

The intern recently attended your firm's training on SSA 580 – *Written Representations* which provides information on the auditor's responsibility to obtain written representations from management and, where appropriate, those charged with governance in an audit of financial statements.

The intern has a few questions on written representations.

**e-Exam
Question
Number**

19

Question 4 required:

(b) Explain to the intern what a written representation is.

(3 marks)

The intern is confused about the date of the written representation and is thinking about the appropriateness of the following dates:

- Financial year end: 31 December 20X1.
- Audit report date: 18 April 20X2.
- Written representation date: planned to be dated 19 April 20X2.

e-Exam Question Number	Question 4 required:
20	(c) Evaluate the planned date of the written representation. You should include reasons to support your evaluation. (4 marks)
21	(d) Describe the next THREE steps/actions that the auditor should take if management does not provide the requested written representations. Your answer should exclude the actions in determining the possible effect on the opinion in the auditor's report. (3 marks)

SSA 580 requires the auditor to consider the implications for the audit opinion when issues arise with written representations.

**e-Exam
Question
Number**

22

Question 4 required:

(e) State the appropriate audit opinion to be issued if:

- i.** The auditor concludes that there is sufficient doubt about the integrity of management such that the written representations are not reliable. **(1 mark)**

- ii.** Management does not provide the written representations required. **(1 mark)**

Note: Consider parts **(i)** and **(ii)** independently of each other.

According to SSA 540 – *Auditing Accounting Estimates and Related Disclosures*, the auditor shall request written representations from management and, when appropriate, those charged with governance about whether the methods, significant assumptions and the data used in making the accounting estimates and the related disclosures are appropriate to achieve recognition, measurement or disclosure that is in accordance with the applicable financial reporting framework.

**e-Exam
Question
Number**

23

Question 4 required:

- (f)** Give TWO examples of accounting estimates where written representations are considered as relevant audit evidence.

(2 marks)

(Total: 25 marks)

END OF PAPER

Appendix A – Common verbs used by the Examiners

Verb	Description
Calculate / Compute	Do the number crunching and derive the correct answer. Make sure that you write down your workings and crosscheck your numbers. Candidates often underperform because of careless mistakes.
Describe	Describe requires you to provide the characteristics and features of an item or situation. For instance, “ Describe the audit procedures to verify ...” requires you to state the specific audit procedure/s that you would use without going into step-by-step detail of how to perform that procedure.
Evaluate	Pass judgment on or provide your opinion based on the facts at hand. When making an evaluation , there are often predetermined criteria that you will use to base your opinion on. The key here is to give your opinion or make a judgment of the facts, but providing just a description of the facts is insufficient. Professional judgment and scepticism (a questioning mind) are called for when making an evaluation . Examine and Evaluate have similarities.
Explain	Explain requires you to write at least several sentences conveying how you have analysed the information in a way that a layperson can easily understand the concept or grasp the technical issue at hand.
Identify	Identify is similar to list , but requires you to also provide an explanation as to why the item/s that you have identified is/are relevant to the facts given in the question.
Illustrate / Give examples	Illustrate requires you to provide an example, either from the facts given, a real-life example, or a made up example to illustrate the point you are trying to make. Illustrate and Demonstrate have similarities.
State	State is similar to list , but the items require your professional judgement. For instance, “ State any restrictions that apply”. One of the easiest ways to make sure that you state comprehensively is to think, “ list and justify ”. You will note that state appears in many of the verb descriptions given.
Propose/ Provide	Put forward (for example, a point of view, idea, argument, alternatives, etc.) for consideration or action. For instance, “Based on the facts of the case, propose the most tax-effective entity type ...”, or “ Propose audit adjusting entries to correct ...”.