



Hong Kong Institute of
Certified Public Accountants
香港會計師公會



**Examination Technique Seminar on
Section B (Essay/Short Question)
for
Module C on Business Assurance**

**Speaker
Mr. Anthony Lam**

28 May 2013

QP Module C Seminar

- Exam Technique Seminar on **Section B (Essay / Short Question)** for past papers Qs **Jun 2012 and Dec 2012**



Agenda



1 • Introduction on HKCA

2 • About the Lecturer

3 • QP Subject Structure

4 • Exam Skills
• Past Paper Trend

5 • Revision Q&A
• Study Tips

About HKCA

- ◆ HKCA Learning Media Limited (**HKCA**) is established to provide professional accountancy training to university graduates and working adults who are keen to pursue an accountancy qualification in Hong Kong and Mainland China.
- ◆ We offer highest standard of accountancy training through our experienced tutors who will lead our students towards examination successes in QP. Our tutors are specialists in relevant papers and give you "IDEAS to Pass".
- ◆ HKCA is here "All for You to Pass".



www.hkcaexam.com

All for You to... PASS!

Copyright reserved

3

About Lecturer

Mr. Anthony Lam
CPA (USA), MAcc(USA)

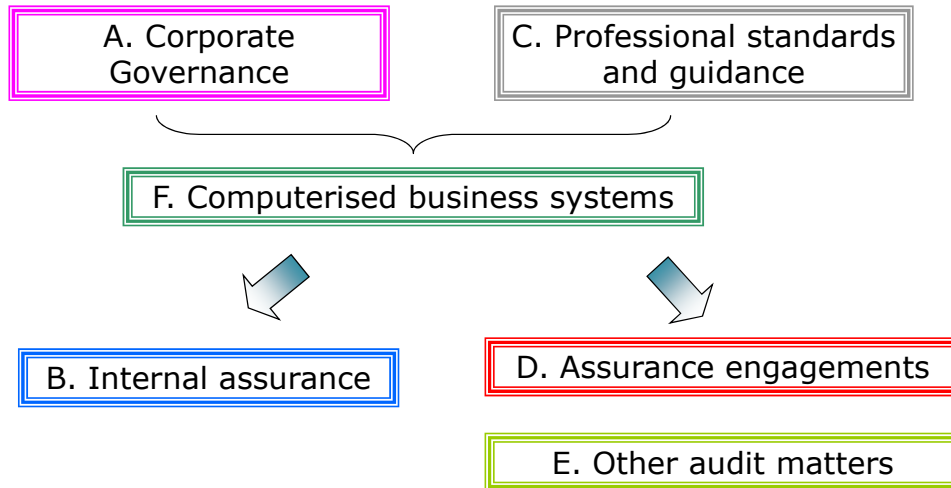
Mr. Anthony Lam had been working in the audit practice of a Big Four firm in Los Angeles for more than four years. He specializes in auditing healthcare organization and banking institutes. Currently, he is the lecturer for HKCA on the professional qualifications of Auditing papers.

Anthony obtained Master degree of Accounting and Bachelor degree of Finance from the University of Southern California. He is now a member of American Institute of Certified Public Accountant. Anthony has taught business assurance classes in Los Angeles.

4

QP Subjects Structure - MC

Module C – Business Assurance



5

QP Subjects Structure - MC

Module C – Business Assurance (Cont'd)

- Key to success:
 - Fully understand auditing and accounting standards
 - Understand the concepts by drawing mind-maps
 - Make good use of past papers by studying relevant Auditing papers
 - Use the “open book” wisely
 - Present the answers in a logical manner

6

Exam Skill

- ❑ Basic exam skills
 - ❑ Read requirements
 - ❑ Highlight key facts
 - ❑ Auditors, Clients, materiality, key issues
 - ❑ Draft mind map
 - ❑ Focus on subject matter
 - ❑ Ensure the mind map answer the question
 - ❑ Present answer in a logical manner

Past Paper Trend

	Dec-12	Jun-12
Corporate governance		
Scope of corporate governance	6d	
Corporate governance reports and practice		
Internal assurance		
Internal assurance		
Professional standards and guidance		
Code of Ethics	7c	8
Framework for assurance engagements		
Assurance Engagements		
Quality Control		
Changes in auditor appointment		
Planning, materiality and risk assessment	5a, 6a	5a
Audit evidence, procedures, audit methodologies and audit sampling		
Fraud and irregularities		
Internal control and tests of controls	5b, 6c	7a
Substantive procedures, including analytical procedures	5b	5b, 7a
Specific audit procedures	5b, 6b	5b, 7a, 7b
Using the work of others		
Accounting estimates, opening balances and comparatives	5b	
Overall audit review and finalisation		6, 7c
Audit reporting		
Other audit matters		
Group audits	7a, 7b	
Audit-related services and other assurance engagements		
Computerised business systems		
Information technology		

June 2012

Practice Questions



Question 5 (14 marks – Approximately 25 minutes)

Required:

In view of each case above:

(a) What is Cod CPA's audit objective in respect of Ling Limited's balances of inventories and accounts receivable as at 1 July 2010?
(5 marks)

(b) In view of the qualified auditor's report issued by Haddock CPA on Ling Limited's financial statements, discuss the specific audit procedures that Cod CPA should carry out in respect of the balances of inventories and accounts receivables as at 1 July 2010.

(9 marks)

June 2012

Practice Questions



Tips for Answer 5

Part a

- Show that you understand the topic of this question (opening balance)
 - > Discuss audit objective to obtain *sufficient appropriate audit evidence*
- 1. Opening balances contain misstatement that materially affect CY FS
- 2. Appropriate accounting policies reflect in opening balances have been consistently applied
- 3. If there are changes, the changes are appropriately accounted for and presented in disclosure

June 2012

Practice Questions

Tips for Answer 5

Part b

Review PY workpaper is not sufficient. Why?

Inventory

- Observe CY physical count and reconcile to opening balance (Rollback)
- Check valuation of opening inventory items (Obsolete items & cost)
- Perform test of detail on cut-offs and gross profits of inventory items
- Obtain confirmation from third parties

Account receivable

- Inspect collection of opening balances and perform test of detail (Hindsight)

June 2012

Practice Questions

Question 6 (9 marks – Approximately 16 minutes)

Required:

In the context of the above case particulars, and from the perspective of the auditor of X Limited, discuss the main issues which could cast doubt about the going-concern of X Limited for the year ended 31 December 2010.

(9 marks)

June 2012

Practice Questions

Tips for Answer 6

What would cast doubt on going concern assumption? HKSA 570

- Loss of distribution right
- Uncertainty about sales and profits of new products
- Provision on warranty
- Rental commitment

June 2012

Practice Questions

Question 7 (15 marks – Approximately 27 minutes)

Required:

- (a) List out the audit procedures that Benny and his team should conduct in respect of the bank reconciliation. (7 marks)
- (b) In addition to the balances of current and deposit accounts, explain two more particular items for the construction industry that Benny and his team should seek to ascertain or confirm from the bank confirmation reply. (4 marks)
- (c) Explain what Benny and his team should seek to ascertain or confirm from the lawyer's confirmation letter. (4 marks)

June 2012

Practice Questions



Tips for Answer 7

Part a

Audit procedures on bank reconciliation

General

- Verify mathematical accuracy
- Agree balances to cash book, bank statement, GL and bank confirmations.

Reconciling items

- Trace checks as outstanding to cash books after YE and to after date bank statements
- Review bank reconciliation before YE and check all items are cleared or moved forward to YE bank reconciliation
- Discuss with management on items in cash book for which no corresponding entries in bank statement and vice versa

June 2012

Practice Questions



Tips for Answer 7

Part b

Construction industry focus!

Bank guarantees or performance bond

- What is it? > any contingent liability? > Booking and disclosure
- Pledge to secure credit lines > Disclosure

Bank loans

- Why construction industry? > Booking and disclosure
- Confirm loan amount and terms

June 2012

Practice Questions

Tips for Answer 7

Part c

Lawyer's confirmation letter

- Ensure to show connection to construction industry
- Find out any litigation and claim that the legal counsels are aware of / assessment of outcome of litigation and claims / estimates of financial implications
- Sub-contractor relationship

June 2012

Practice Questions

Question 8 (12 marks – Approximately 22 minutes)

Required:

(a) Analyse the situation of Carol in the context of the HKICPA's ethical requirements.

(8 marks)

(b) Discuss any safeguards or actions Yvonne could implement in order to reduce the threats against the HKICPA's ethical requirements to an acceptable level.

(4 marks)

June 2012

Practice Questions



Tips for Answer 8

Part a

Analyze situation and discuss

- Carol should comply with 5 fundamental principles
- Carol should identify threats and apply safeguards
- Carol did not consult with Y&Z and violated integrity, professional competence and due care.

- Company Secretary has a close connection with entity.
- Carol will make decisions on behalf of entity.

June 2012

Practice Questions



Tips for Answer 8

Part b

Discuss safeguards

- Resign from the audit of DEL
- Terminate Carol and change audit plan for forthcoming year

Dec 2012

Practice Questions

Question 5 (15 marks – Approximately 27 minutes)

Required:

(a) **Assess and explain the risk of material misstatement relating to the accounting estimate over the inventory valuation as at year end.**

(6 marks)

(b) **After talking to the managing director, you are not satisfied with the explanation from the managing director on the inventory. What audit procedures would you further perform in response to the risk of material misstatement discussed in Question 5(a)?**

(10 marks)

Dec 2012

Practice Questions

Answer 5(a)

Tips

- Assess = Give conclusion
- Explain = Use application and logical analysis to support your conclusion
 - Significant? (Total Asset / Total Revenue / Profit)
 - Look for sign of slow moving inventory and management bias

Answer

- RoMM = High
- Significant
- Financial trend not reasonable
- Deterioration of inventory ageing
- Management bias indication

Dec 2012

Practice Questions

Answer 5(b)

Tips

- In response to RoMM in 5(a) = Inventory Valuation only
- Focus your answer on explanation from the managing director and requirement of provision
- List audit procedures that would help you to validate the managing director's **representation** and the necessity of **provision**
- Use key document as a check on completeness of audit procedures

Answer

- Future expansion plan
- Control over assessment process (Test of design and operating effectiveness)
- Inventory provision assessment (Assumption, data and method/judgment)
- Indicator of possible management bias / Check inventory realization plan
- Substantive analytical procedure on inventory provision
- Check subsequent sales
- Detail analysis on inventory ageing

www.hkcaexam.com

All for You to... PASS!

Copyright reserved

23

Dec 2012

Practice Questions

Question 6 (18 marks – Approximately 32 minutes)

Required:

- Assess and explain the risk of material misstatement relating to the existence and accuracy assertions of the cash and bank balance as at year end. (3 marks)**
- Suggest and explain the audit procedures you would perform in response to the risk of material misstatement identified in Question 6(a). (7 marks)**
- Explain the meaning of control activities and the required procedures relating to control understanding in addressing significant risks. (5 marks)**
- The Code on Corporate Governance Practices in Hong Kong ("the Code") clearly states the responsibilities of the board of directors relating to internal controls. Explain the responsibilities of the board of directors relating to internal controls in the context of principle and code provisions under the Code. (3 marks)**

www.hkcaexam.com

All for You to... PASS!

Copyright reserved

24

Dec 2012

Practice Questions



Answer 6(a)

Tips

- Assess = Give conclusion
- Explain = Use application and logical analysis to support your conclusion
 - No data provided to support significance

Answer

- Significant control deficiency on bank reconciliation process = risk of unidentified accounting errors and adjustments
- Process and control were not properly exercised by operation team = risk of misappropriation

Dec 2012

Practice Questions



Answer 6(b)

Tips

- In response to RoMM in 5(a) = Existence and Accuracy on Cash and Bank balance only
- Focus your answer on findings from Internal Audit
- Use key document as a check on completeness of audit procedures

Answer

- Understanding
 - Review Internal Audit Report
- Control
 - Remedial action plan / compensating control (ToD & TOE)
- Substantive
 - Test of details (Bank confirmation / Bank reconciliation reperform / Agree to bank statements)
 - Check subsequent bank statements on outstanding items

Dec 2012

Practice Questions

Answer 6(c)

Tips

- Focus your answer on control activities and require procedures on understanding on significant risks
- **HKSA 315**

Answer

- Meaning = to achieve the entity's specific objectives and are designed to prevent, or to detect and correct errors.
- HKSA 315: Auditor has to understand entity's control and control activities to identify significant risks
 - Controls **relevant to audit**
 - Relate to significant risks / considered to be relevant in the judgment of auditor
- Required procedures
 - Check whether management has implemented control activities
 - Documentation
 - Corporate Governance

Dec 2012

Practice Questions

Answer 6(d)

Tips

- Focus your answer on responsibilities of BoD relating to internal controls
- **Code on Corporate Governance**

Answer

- Responsibilities: safeguard shareholder's investment and company's assets
- How do they do it?
 - Review internal control system
 - Controls over financial, operation and compliance controls
 - Adequacy of resources
 - Competence and experience of staff
 - Report to shareholders at least annually

Dec 2012

Practice Questions

Question 7 (17 marks – Approximately 31 minutes)

Required:

Through your discussion with the CEO and CFO, together with the other information gathered for your audit scoping and planning, what would be your audit response to the information gathered below, as a group auditor, to ensure the quality of the group audit?

- (a) Assess and explain the risk of material misstatement relating to the existence and accuracy assertions of the cash and bank balance as at year end. (3 marks)
- (b) Suggest and explain the audit procedures you would perform in response to the risk of material misstatement identified in Question 6(a). (7 marks)
- (c) Explain the meaning of control activities and the required procedures relating to control understanding in addressing significant risks. (5 marks)
- (d) The Code on Corporate Governance Practices in Hong Kong ("the Code") clearly states the responsibilities of the board of directors relating to internal controls. Explain the responsibilities of the board of directors relating to internal controls in the context of principle and code provisions under the Code. (3 marks)

Dec 2012

Practice Questions

Answer 7(a)

Solid Inc. has a retail business in Asia Pacific which contributed to the group's 20% revenue and 10% net profit. The retail business is audited by another reputable well-known audit firm that you have confidence in the competence of that audit firm. (7 marks)

Tips

- HKSA 600: Group Auditor
- Always check if the component is significant → Determine involvement
- Focus answer on audit response

Answer

- Understand Solid Inc.
- Review component auditor's audit plan
- Perform risk of assessment (audit risk and fraud risk)
- Review component auditor's work (risk assessment, significant findings, disagreement with management)

Dec 2012

Practice Questions

Answer 7(b)

Solid Inc. has a real estate project in Brazil with investments of over US\$300 million. This is the first time that Solid Inc. has entered into the real estate industry. The project is now audited by a local auditor that you do not have much information about the local auditor in terms of competence, independence and objectivity. (7 marks)

Tips

- Always check if the component is significant → Determine involvement
- Focus answer on audit response
- Involvement should increase because we do not know much about the local auditor

Answer

- Assess competency, objectivity and independence of the local auditor through discussion, confirmation and assessment
- If the assessment is unsatisfactory, consider
 - Perform audit work themselves
 - Supervise component audit
 - Review component auditor's work in detail

Dec 2012

Practice Questions

Answer 7(c)

Your team has been the auditor of Solid Inc.'s shipping business over a period of 10 years before you were engaged as the group auditor. The partner in charge of the shipping business audit has extensive knowledge and experience with the client. He has been involved in the shipping business audit for 7 years and has known some of the senior management of Solid Inc. for a long time. (3 marks)

Tips

- Independence issues
- Response to those issues

Answer

- Familiarity threat and self-interest threat
- Evaluate significance of those threats and consider safeguards
 - Partner rotation
 - Independent review
 - Quality review of engagement

Our Courses



2013 QP/PC Classroom & Online Classes
 MA MB MC MD FE
Enquiry: 3107 0088
 Visit www.HKCAexam.com

<p>Early Preparation: DEC 2013</p> <ul style="list-style-type: none"> * FREE Sessions for all subjects; * Syllabus Review, Study Plan & Introduction * Focus on Sample questions, Study Skills & Key Topics * Online Study mode. <p>Supports:</p> <ul style="list-style-type: none"> * Extra Online hours to Face-to-Face lectures; * Discussion Forum; * Consultation Time before lecture; * Study / Online Rooms available. 	<p>Knowledge / Spring Knowledge :</p> <ul style="list-style-type: none"> * 9 Sessions for QP/PC course; * 8 Sessions for FE course; * Start studying the Knowledge preparation course earlier in Spring from Feb./Mar.; * Summarised Key Notes are provided; * Building knowledge on exam topics with updated materials; * Progress Test is provided with free marking service to help check progress & improvement; * Classroom and / or Online Study modes. 	<p>Revision: JUN 2013</p> <ul style="list-style-type: none"> * 9-session QP/PC revision course; * 16-session FE revision course; * Mocks Package is provided with free marking service to help check progress and improvement; * 3 Final review sessions included; * Mindmaps, Revision Pack with updated Q&A; * Critical File preparation; * Classroom and / or Online Study modes. 	<p>Intensive Revision:</p> <ul style="list-style-type: none"> * 6-session Intensive QP/PC revision course; * Tailor-made for Retakers / CPA Firm candidates; * Mindmaps, Revision Pack with updated Q&A; * Critical File preparation; * Classroom and / or Online Study modes. <p style="text-align: right;">NEW</p> <p>Mocks Package:</p> <ul style="list-style-type: none"> * Progress Test, Mock Exam & Final Mock Exam Q&A are included; * FREE marking service; * 3 Final Review sessions & Hot Topics List provided.
---	---	--	---

<p>Mr. Mike Li @ Module D & FE @ PC Tax Planning CA/MAA, FCCA, MSc (JUR), FPA, ATIR, CIA</p>	<p>Mr. Ricky Ma @ Module B & FE RCCA, PCPA, Master in Knowledge Management</p>	<p>Ms. Linda Ng @ Module A & FE BBA, FCCA, CPA (Practising)</p>	<p>Ms. Irene Lam @ Module A BSc (Honours) Accounting Degree, FCCA, RCPA</p>	<p>Mr. Harvey Lam @ Module C & FE @ PC Business Assurance BA, MSc., CPA, ACA</p>	<p>Mr. Anthony Lam @ Module C CPA (USA), MACC (USA)</p>	<p>Mr. Allan Lee @ Module C & FE MSc (JUR), ACA, ACCA, ACCA (PEL), CPA (PA/Aust), FCCA</p>	<p>Mr. Kamsuo Wong @ PC LAW MA, LL.M, MBA, CPA, CIA, PCPA/Aust</p>
---	---	--	--	---	--	---	---

www.hkcaexam.com

All for You to... PASS!

Copyright reserved

Any Questions?

Questions?

Discussion?

Brainstorm?

www.hkcaexam.com

All for You to... PASS!

Copyright reserved

Contact us



Enquiry Hotline:
3107 0088



Email:
info@hkcaexam.com



Website:
www.hkcaexam.com



Take a shot to contact us

Messages from HKCA

All for You to ... PASS!

Good Luck!



PROGRESS TEST QUESTIONS

SECTION B – ESSAY / SHORT QUESTIONS (Total 50 marks)

Answer ALL of the following compulsory questions. Marks will be awarded for logical argumentation and appropriate presentation of the answers.

Question 6 (15 marks – approximately 27 minutes)

You are an audit manager of ABC Ltd, a long standing audit client, for the year ended 31 December 2012. The draft balance sheet of ABC Ltd shows total assets of HK\$12 million (2011: HK\$11.5 million). The audit senior has made the following comment in a summary of issues for your review:

ABC Ltd's balance sheet shows a receivable classified as a current asset with a value of HK\$25,000. The only audit evidence we have requested and obtained is a management representation stating the following:

1. That the amount is owed to ABC Ltd from XYZ Ltd,
2. That XYZ Ltd is controlled by ABC Ltd's director, Mr. Chan, and
3. That the balance is likely to be received six months after ABC Ltd's year end.

The receivable was also outstanding at the last year end when an identical management representation was provided, and the working papers noted that because the balance was immaterial no further work was considered necessary. No disclosure has been made in the financial statements regarding the balance. XYZ Ltd is not audited by our firm and we have verified that ABC Ltd does not own any shares in XYZ Ltd.'

Required:

(a) In relation to the receivable recognised on the balance sheet of ABC Ltd as at 31 December 2012:

- (i) Comment on the matters you should consider. (5 marks)**
- (ii) Recommend further audit procedures that should be carried out. (6 marks)**

(b) Discuss the quality control issues raised by the audit senior's comments. (4 marks)

Question 7 (10 marks – approximately 18 marks)

In an IT environment, the method of collecting and evaluating audit evidence changes due to changes in the nature of evidence. More the risk of collecting inappropriate evidence is high due to cyber-crimes.

Required:

Discuss the above statement from an auditor's perspective. (10 marks)

Question 8 (16 marks – approximately 29 minutes)

The Lee Foundation (the “Foundation”) was established in 1960. The Foundation’s aim is to provide support to children from disadvantaged backgrounds who wish to take part in sports such as tennis, badminton and football.

The Foundation has a detailed constitution which explains how the Foundation’s income can be spent. The constitution also notes that administration expenditure cannot exceed 10% of income in any year.

The Foundation’s income is derived wholly from voluntary donations. Sources of donations include:

- (a) Cash collected by volunteers asking the public for donations in shopping areas,
- (b) Cheques sent to the Foundation’s head office,
- (c) Donations from generous individuals. Some of these donations have specific clauses attached to them indicating that the initial amount donated (capital) cannot be spent and that the income (interest) from the donation must be spent on specific activities, for example, provision of sports equipment.

The rules regarding the taxation of charities in the country The Foundation is based are complicated, with only certain expenditure being allowable for taxation purposes and donations of capital being treated as income in some situations.

Required:

- (a) **Identify areas of inherent risk in the Foundation and explain the effect of each of these risks on the audit approach.** (12 marks)
- (b) **Explain why the control environment may be weak at the Foundation.** (4 marks)

Question 9 (9 marks – approximately 16 minutes)

Mr. Tse, the recently retired chief executive of ABC Ltd, a major listed company, was giving a speech reflecting on his career and some of the aspects of governance he supported and others of which he was critical. In particular, he believed that audit committees were mainly ineffective. A lot of the ineffectiveness, he said, was due to the lack of independence of many non-executive directors (NEDs). He believed that it was not enough just to have the required number of non-executive directors; they must also be ‘truly independent’ of the executive board. It was his opinion that it was not enough to have no material financial connection with a company for independence: he believed that in order to be truly independent, NEDs should come from outside the industry and have no previous contact with any of the current executive directors.

In relation to audit committees, he said that in his experience, the company’s audit committee had always challenged the financial reporting policies proposed by the executives and because of this, he questioned its value. He said that the audit committee was ‘always asking for more information, which was inconvenient’. He asked, ‘why can’t audit committees just stop making inconvenient demands on company management? Do they think middle managers have nothing else to do?’.

Required:

Define ‘independence’ in the context of corporate governance and critically evaluate Mr Tse’s comment that greater independence of non-executive directors is important in increasing the effectiveness of audit committees.

(9 marks)

**** END ****