INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

ON-THE-JOB TRAINING BLUEPRINT

CATEGORY

Audit

MODULE

Inventories

Commissioned by:

INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

singapore workforce development agency

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ON-THE-JOB TRAINING CURRICULUM

MODULE **INVENTORIES**				
No.	**Main Tasks[1]**	**OJT Hours[2]**	**Skills & Knowledge**	**Training Guidelines**
1	Prepare for an audit of inventories	2 - 4	**<u>Authoritative materials/requirements</u>** **Financial Reporting Standards:** FRS 1 Presentation of Financial Statements FRS 2 Inventories **Singapore Standards on Auditing:** SSA 230 Audit Documentation SSA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements SSA 450 Evaluation of Misstatements Identified during the Audit SSA 500 Audit Evidence SSA 501 Audit Evidence – Specific Circumstances for Selected Items SSA 505 External Confirmations SSA 520 Analytical Procedures SSA 530 Audit Sampling SSA 540 Auditing Accounting Estimates, including Fair Value Estimates, and Related Disclosures	Remind staff to read prior year's audit working papers and audit planning and note down: • Performance materiality • Risk of material misstatements • Understanding client's business • Prior year's corrected and uncorrected misstatements • Prior year's management letter and recommendations Obtain all necessary schedules from the client such as final inventory listing, audit working papers for the attendance at the inventory count prior to the OJT briefing, so that the trainer can walk through the tasks with the
2	Check that inventories exist	4 - 6		
3	Check that inventories are valued correctly, consistently and in accordance with accounting standards	4 - 8		

1 Tasks involving areas of high risk of material misstatements should be carried out by experienced staff or junior staff under close supervision.

2 OJT Hours refer to the recommended on-the-job training time required for a learner to acquire the skills, knowledge and practice to be competent in the respective Tasks and are limited to the time spent with the supervisor which include briefing, explanation, coaching and supervision. These numbers serve as a gauge and may vary from person to person, depending on the coaching ability of the supervisor and/or learning ability of the learner.

MODULE **INVENTORIES**				
No.	**Main Tasks[1]**	**OJT Hours[2]**	**Skills & Knowledge**	**Training Guidelines**
4	Check that adequate write-down is made for damaged, obsolete or slow moving inventories	3 - 8	SSA 580 Written Representations **Additional materials (non-authoritative)** AGS 4 Existence and Valuation of Inventories in the Context of the Historical Cost System ISCA Practical Guidance 1 – Inventory Obsolescence ISCA Practical Guidance 6 – Valuation of Inventories **Skills** • Professional scepticism for testing of inventory write-downs based on management's judgement and estimates. • Analytical skills	trainee during the briefing. Ascertain the experience level of the staff and whether the staff understands the audit of inventory. Explain Incoterms used by the client and the implications on the Occurrence and Cut-off assertions. Ask questions during the briefing to make sure the staff understands the instructions and objectives of each audit procedure.
5	Check that cut-off is proper	2 - 4		
6	Confirm that all necessary disclosures concerning inventories are made and that the information is appropriately presented and described	1 - 2		
7	Conclude audit findings	1 - 3		

No.	Main Tasks	Task Elements	Key Points	Task Standards
		CUT-OFF		
5	Check that cut-off is proper[3]	<u>Revenue cut-off</u> 1. Consider the types of sales (local or export sales; sales of goods or provision of services) and determine the total amount for each types of sales for ___ days before and after year-end. Document test details including rationale for separate/combined cut-off tests and basis of sample size and testing period. Calculate the number of samples and select samples to perform the following: (a) Check that sales invoices recorded before year-end pertain to risks and rewards transferred before the year-end, and inventories are excluded from the final listing and sales are included in trade receivables (if unpaid). (b) Check that sales invoices recorded after year-end pertain to risks and rewards transferred after the year-end, and	<u>Revenue cut-off</u> 1. In order to perform a robust cut-off test, the auditor needs to obtain an understanding of the company's cut-off procedures and assess the risk of material misstatement of revenue arising from any cut-off error. Rather than selecting a fixed number of samples before and after year-end, the auditor should select adequate samples in the period during which the risk of cut-off is assessed to be high. When determining the nature and extent of the audit procedures to address the cut-off assertion, the following factors should be considered: • *Risk of cut-off errors* Where the risk of cut-off errors is higher, the cut-off test will need to be more rigorous with more samples being tested and/or period covered being extended. Indicators of higher risk of cut-off errors may include but are not limited to the following:	• Substantive audit procedures for revenue and purchases cut-off have been carried out and properly documented.

3 Note that these procedures are also applicable for revenue and purchases (cut-off).

No.	Main Tasks	Task Elements	Key Points	Task Standards
		inventories are included in the final listing and sales are excluded from the trade receivables at year-end. (c) Review credit notes issued after the year-end and consider whether these have been accounted for in the correct period. For further guidance, refer to ISCA Practical Guidance 5 – Occurrence of Revenue from Sale of Goods and Practical Guidance 8 – Revenue and Purchase Cut-off on Sale of Goods.	- delivery orders are not pre-numbered or accounted for on a periodic basis; - delivery orders are not issued in proper sequence; - quantity of goods delivered or shipped is not reconciled to the quantity of goods billed; - management incentives to meet revenue goals are unusually high; and - numerous or individually significant revenue transactions occurring near the end of the year. • *Nature of revenue* Depending on the nature of revenue, the extent or method of testing may vary. For example, for retail sales, the auditor may test the revenue in the last day before and first day after year-end by tracing to the daily receipts to make sure the revenue is recorded in the proper period. For a trading company, it may be more appropriate to extend the period covered to one week or even one month before and after year-end, taking into consideration the risk of cut-off errors and lead time as illustrated earlier. Also, the test will involve vouching to delivery orders or	

No.	Main Tasks	Task Elements	Key Points	Task Standards
			sales invoices acknowledged by the customers. • *Incoterms used* For overseas trading revenue, Incoterms are commonly used to determine when risks and rewards of ownership are transferred. The auditor should examine the Incoterms when performing the revenue cut-off test to determine if the company has recorded revenue in the correct accounting period. • *History of revenue cut-off errors* Understand the root cause of the past revenue cut-off errors and set the number of days to enable auditors to detect cut-off errors. • *Drop shipment and back-to-back sales arrangement* In this situation, the auditor may test revenue and purchases cut-off concurrently. • *Audit findings for testing receivables and inventory cut-off* Testing of reconciliations of confirmations received from customers to the trade receivables account balances and inventory cut-off audit procedures may indicate revenue cut-off errors.	

No.	Main Tasks	Task Elements	Key Points	Task Standards
			Based on the above evaluation, document the basis of the selection of the number of days for testing revenue cut-off.	
		Purchases cut-off 2. Determine total purchases amount for ___ days before and after year-end and calculate the number of samples required. Perform the purchases cut-off test as follows: (a) Obtain sequentially numbered goods received notes (GRNs) and examine the goods received/purchased records for ___ days before and after the year-end. Select the samples to check that where risks and rewards are transferred to the entity before the year-end, the goods are included in inventories and purchases accounts, and trade payables are recorded before the year-end, and vice versa. (b) If the company does not have sequentially numbered GRNs, request for all payments made to suppliers subsequent to the year-end; and all unpaid suppliers' invoices as at	Purchases cut-off 2. In order to determine the number of days and the scope of purchases cut-off testing, the auditor should consider the following factors: • *Delivery lead time* Purchases from overseas suppliers take a longer time to deliver as compared to local supplier. • *Incoterms* For ex works purchases, risks and rewards are transferred when goods leave the supplier's warehouse, but for purchases with FOB origin shipping term, risks and rewards are transferred when goods pass the ship's rail. • *History of purchases cut-off errors* Understand the root cause of the past purchases cut-off errors and set the number of days to enable the auditor to detect possible cut-off errors. • *Drop shipment and back-to-back*	

No.	Main Tasks	Task Elements	Key Points	Task Standards
		fieldwork date, and match them to purchase orders and duly acknowledged goods received notes/bills of lading to check that the purchases have been properly accounted for in the correct period based on the dates when risks and rewards are transferred.	*sales arrangement* Test revenue and purchases cut-off concurrently. • *Audit findings for payables and inventory cut-off* Testing of reconciliations of suppliers' statements or confirmations to the trade payables account balances and inventory cut-off audit procedures may indicate purchases cut-off errors. Based on the above evaluation, document the basis of the number of days selected for testing purchases cut-off.	
PRESENTATION AND DISCLOSURE				
6	Confirm that all necessary disclosures concerning inventories are made and that the information is appropriately presented and described	1. Check that the disclosure and classification of the items are in accordance with the applicable financial reporting standards. 2. Check that there is sufficient appropriate evidence in the file to support the disclosures made.	1 and 2 Agree the balances found on the inventory lead schedule to the draft financial statements. Qualitative disclosures such as circumstances or events that led to the reversal of a write-down or disclosure for inventories pledged as securities can be cross-referenced to show audit work performed.	• The supporting schedules and financial information used for the items disclosed in the financial statements have been obtained and tested. • Financial statements contain all required disclosures.

No.	Main Tasks	Task Elements	Key Points	Task Standards
		CONCLUSION		
7	Conclude audit findings	1. Consider whether there are any points which need to be included in a letter of representation or letter of comment, and record as appropriate. 2. Assess whether the initial materiality and/or risk assessment should be revised in view of the audit evidence obtained. Record details of any necessary adjustments. Consider the impact on the remainder of the audit work and on any work undertaken to date.	1. Suggested matters (if any) to be added to the standard management representation letter may include the use of management judgment and estimates on valuation of inventory write down. 2. Discuss with management and get their agreement on all proposed adjustments and uncorrected misstatements	• All issues or outstanding matters have been resolved. • Corrected misstatements have been agreed with client. Uncorrected misstatements have been included in B7, ISCA Audit Manual for Small Companies. • Management letter comments are included in the audit file.

Disclaimer

The On-the-Job Training (OJT) Blueprint is designed to provide supervisors with a guide on conducting structured in-house training for learners, and is not intended to be a substitute for the firm's audit manual. Supervisors should utilise the Blueprint based on their professional judgement and the facts and circumstances of the individual audit engagement. Where discrepancies arise, the Singapore Standards on Auditing and Financial Reporting Standards should be applied. ISCA disclaims any responsibility or liability that may occur, directly or indirectly, as a consequence of the use and application of this Blueprint.