



Question 1

Using your recent work experience, describe how you identified two different business or professional issues.

EXAMPLE ANSWER

IDENTIFICATION OF POTENTIAL TAX LIABILITY BEFORE INCORPORATION

The Optics Association, a membership organisation, was established in 1984 and operates as an unincorporated association. It did not have charitable status until 2019 when the organisation successfully incorporated itself as a Charitable Incorporated Organisation (CIO) with the Charity Commission. As the trustees were unsure of their obligations under the new structures, in June 2019 they asked me to provide an overview of their duties, in particular on the financial management and internal controls aspect, at their next meeting.

In order to ensure that I was prepared for the meeting and understood their affairs fully, I requested copies of their financial accounts, constitutional documents as well as their Board minutes. I also verified information in the public domain, including from Companies House and the Charity Commission. In the course of my preparation, I discovered that they might have overlooked their corporation tax position prior to incorporation. I also noticed that the organisation's income was mostly from membership subscriptions, but approximately 20% was attributable to events income.

I discussed this matter with the Chair before the meeting and asked him for his understanding of the situation. He confirmed that the trustees had always held the belief that they were exempt from taxation as they saw themselves as a charity, albeit without official status. It seemed to me that the trustees did not have a full understanding of their tax position.

I expressed my concerns to him, as I knew that unincorporated associations were caught by the corporation tax regime and that the non-for-profit motive would be irrelevant from the taxation perspective. However, there were complex rules relating to mutual trading which could provide them with certain tax exemptions on their membership subscription, but the profits from events could be charged to corporation tax.

I did a 'back of an envelope' calculation to estimate the impact of this potential tax liability on the organisation's reserves, the potential impact on the members and the CIO. Advice was not given at this stage - the objective was to raise the trustees' awareness of the newly identified issue.

I subsequently suggested to the Chair that this was an area where they would need help from a tax specialist.

EXAMPLE ANSWER

IDENTIFICATION OF WRONG ESTIMATION OF USEFUL LIFE AND UNDERSTATEMENT OF DEPRECIATION FOR RADIOLOGY EQUIPMENT

I was working as a Business Financial Controller at ABC Healthcare, a leading healthcare business. In a meeting with the Director of Operations, he expressed his concern over investment plan and financials of radiology services. The company introduced radiology services in their diagnostic setups few years ago and made a huge investment in related equipment. The Director of Operations requested a separate meeting to discuss it in detail.

Prior to having a meeting with him, I conducted a desk review of the available documents to understand the operations of radiology services. I reviewed a detailed list of equipment procured in the last 3 years, their specifications and costs. While reviewing the documents through secondary sources, I noticed that some of the equipment (Ultrasound and X-Ray machine) were replaced after being declared unrepairable before completion of its useful life. I noticed that the frequency of such incidents was more than once last year. I suspected that either the equipment procured were of poor quality or the judgements used for useful life were wrong.

To investigate it further, I scrutinised the limited purchase documents available as part of my desk review such as purchase requisitions, quotations, vendor evaluation forms, equipment warranty documents. I assessed that the equipment procured was not new rather it was refurbished. I gathered limited information from available documents during my desk review. I decided to arrange a call with vendor to get further details on this matter. The vendor revealed that the management was well aware that the equipment was refurbished and the life span was disclosed in the final meeting before procurement. This highlighted that the management might have over-estimated the useful life to charge less depreciation and to reflect high profits.

I explored various articles online and studied details related to the lifecycle and technicalities of the radiology equipment. My research helped me in understanding the efficiency and life of radiology equipment, and for how long it can be used after being repaired. I also got an understanding of the quality of image produced by the refurbished equipment and its impact on diagnoses. My research highlighted that the radiology equipment has a definite life span and operating it beyond that specific period affects its efficiency and the diagnosis.

I consulted a senior radiologist, who had more than 20 years' experience of operating the equipment, to understand the operating cycle of the equipment and how the consumption of equipment affects its useful life. My discussion with him strengthened my doubt that a refurbished piece equipment cannot have a useful life similar to a brand new equipment.

I studied International Accounting Standard (IAS-16) to get more clarity on estimation of useful life and its accounting treatment. According to IAS -16, useful life of an asset is determined based on expected utility of that asset to an entity. Hence, I was clear that the accounting treatment of the asset (i.e., its depreciation) was wrong due to the wrong estimation of useful life.

Based on this high-level review conducted with the available information through documents, online research and consultation with senior radiologist, I concluded that the issue identified was correct. Management was using the wrong estimation of useful life which ultimately resulted in wrong planning and misstatement in reports.

EXAMPLE ANSWER

IDENTIFICATION OF THE LACK OF UN-EXPLAINED PAYMENT TO INTERMEDIARY

XYZ is a large retailer and has been listed on CITY M stock exchange since 1999. According to Country K's listing regulation, XYZ and its worldwide subsidiaries need to be compliant with Foreign Corrupt Practices Act ("FCPA") in their daily operation, including:

- a) The anti-bribery provisions
- b) The books, records, and internal control provisions, which speaks to accounting practices

In December 2019, I led a compliance review project on the FCPA compliance for XYZ ("the company"), focused on identifying any improper payments made to the vendors providing intermediary service ("the intermediary"), including unexplained service fees, discrepancies in actual invoice amount, potential facilitation expenses that might be perceived or constituted as bribery or corruption.

There were more than 3 thousand of these intermediaries and the various service types they provided. In order to identify the payment issue and address the FCPA compliance risk properly, I conducted the below steps when performing the compliance review:

- a) Firstly, to understand the workflow, I discussed the matter with the head of procurement to get to know the intermediary management, the frequency of the intermediary service renewal, and the proportion of the intermediaries providing single service and multiple services.
- b) Then, I met with the leader of Accounts Payable to understand the process about how in detail they would verify the supporting documents before releasing payment, and what challenges they faced in the three-way matching process.
- c) I discussed with several service user departments how they ensured the payment requested by the intermediaries was in accordance with the services they provided.
- d) I checked the monthly statistics of payments made to the intermediaries in the past 12 months.

Based on the above work I performed to help me to identify the key issues, I decided to focus my review on the intermediaries with the following criteria that deemed to be high risk areas:

- a) The intermediaries providing multiple services, which might be suspicious or did not make business sense.
- b) Highest spend amounts with frequent payments.
- c) The intermediaries newly set-up within the recent 1~2 years.

After that, I compared the payment amount to the unit prices indicated in the contract, PO and invoices and then multiplied by the service quantity in the monthly statement for the selected intermediaries.

Based on my method, I noticed the payments to some sample intermediaries (2 out of 10) had discrepancies. Such discrepancies resulted in the failure to comply with accuracy accounting booking requirement in FCPA.

I called a meeting with the company's management to highlight the non-compliance issue and its impact. The management understood it and the risk behind it and agreed to take actions immediately.

EXAMPLE ANSWER

IDENTIFICATION OF THE UNQUALIFIED RECYCLER FOR ELECTRONICS WASTE DISPOSAL

DD Corporate is Country F's largest electronics retailer. It has a subsidiary named DD Asia Pacific ("the company") for sourcing the original design manufacturers ("ODM") in Asia to design and manufacture products solely for DD's private brand. As part of the design process, the company would keep certain quantities of sample products for testing and defect analysis purposes, and would engage a third-party waste recycler to properly dispose the sample products as electronics waste ("Ewaste") after the required retention period was due, on annual basis.

I was in charge of the Ethics and Compliance function in the company to ensure the company's daily operation complied with law, regulations, and company policies. As part of project assignment, I needed to identify any non-compliance with local environment protection regulations when the company carried out the disposal of E-waste. With reference to my previous audit knowledge on waste disposal, it was always high-risk in the recycler's qualification area.

Therefore, I performed various works including background information checks using my industry experience and research to relevant E-waste handling process in Country G. The major work carried out was as follows:

- a) I walked through the current workflow of the company's E-waste disposal and noted there was lack of check point on the recycler's qualification.
- b) I read the product materials structure handbook to understand what types of E-waste would be generated when the products were disposed.
- c) I performed desktop research on company's current recycler's company profile, including its qualification to corresponding E-waste.
- d) Based on the above information, I conducted further desktop research on the mandatory qualification requirement to the corresponding E-waste and the qualified recycler list to the corresponding E-waste via local Environment Protection Bureau ("EPB") website.
- e) After that, I compared the recycler's qualification to the corresponding E-waste qualification requirement.

Based on the above work, I found the current recycler did not hold the mandatory qualification as required by local EBP regulation to ensure they had right to carry out E-waste handling. I then double confirmed the EBP requirement and its effective period via enquiries to the local EPB hotline. I then passed the identified issue to the admin manager responsible for the disposal process for her to investigate the root cause. Per her check, she confirmed that her team did not have sufficient knowledge and experience on this area so no check point control was established in the process, resulting in the issue.

I discussed the matter with the local management of the company and explained to them on the issue I discovered. They were aware of the issue and the risk behind it and took action to solve the issue in a timely manner.

EXAMPLE ANSWER

IDENTIFICATION OF OVERLY GENEROUS CONTRACTUAL TERMS TO EXHIBITORS AS REASON FOR POOR PROFITABILITY

Between 2016 and 2017, the Town & Country Association made significant losses in one of its major events - The Game-zone Fair. The show was the biggest countryside event in Europe, attracting more than 30,000 people over the course of the four days of the show. It also had a significant role in enhancing their branding. Nonetheless the net financial outflow put pressure on other parts of the TCA's business.

As the Interim Financial Controller, I was responsible for preparing management information and providing the Board with financial insights. An area of concern to the management that existed when I joined the TCA was the poor profitability of The Game-zone Fair. In order to prepare a management report on this matter, I produced various forms of background information including:

- Desktop research on the events industry in general;
- Monthly statistics of ticket purchase for the last three years;
- High level review of the organisation's business model;
- High level review of the contracts with exhibitors;
- Control environments and their weaknesses.

I also discussed the issue with other senior colleagues, e.g. marketing director and The Game-zone Fair director, in order to understand the corporate strategy. The Game-zone Fair model was to provide a marketplace where exhibitors and sponsors would have the captive audience of the TCA's members.

As part of my review, I discovered that one of the reasons for the losses could be attributed to inadequate control of contracts with exhibitors. My review suggested that the standard terms for the exhibitors' contracts might have not been properly considered, with the financial risks being allocated to the TCA, rather than shared between the parties. They included generous cancellation and payment policies which allowed exhibitors to pull out from the show at the last minute.

I further collated statistics about the number of exhibitors, the agreed prices and the pattern of cancellations on a spreadsheet. Through reviewing the information, I noticed that this generous policy clearly affected the overall profitability of the show. The exhibitors, especially the smaller ones, took advantage of the generous terms and effectively hedged their positions.

Under the cancellation policy, the TCA would allow almost a full refund if the exhibitors cancelled their places four weeks prior to the show. Via discussion with colleagues in the events team, I identified that by that time, it would be too costly for the TCA to find a replacement exhibitor. I established that cancellations also had a knock-on impact on other areas affecting profitability, including typesetting of the show guide and the site plan, amongst other things.