UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL

FINAL EXAMINATION
OCTOBER 2024 SEMESTER

COURSE CODE	:	EAB21103
COURSE NAME	:	AUDIT 1
PROGRAMME NAME	:	BACHELOR IN ACCOUNTING (HONS)
DATE	:	3 FEBRUARY 2025
TIME	:	9.00 AM – 12.00 PM
DURATION	:	3 HOURS

INSTRUCTIONS TO CANDIDATES

1. **Please CAREFULLY read the instructions given in the question paper.**
2. **This question paper has information printed on both sides of the paper.**
3. This question paper consists of **FIVE (5) Questions**.
4. Answer **ALL** questions.
5. Please write your answers on the answer booklet provided.
6. All questions must be answered in **English** (any other language is not allowed).
7. **This question paper must not be removed from the examination hall.**

THERE ARE SEVEN (7) PAGES OF QUESTIONS, EXCLUDING THIS PAGE.

(TOTAL: 100 marks)

INSTRUCTION: Answer ALL questions.
Please use the answer booklet provided.

Question 1

ISA 300: Planning an Audit of Financial Statements provides guidelines on the responsibilities of the auditor regarding planning an audit of financial statements. During this audit planning process, the auditor will consider the potential risk of material misstatements in the financial statements.

Required:

(a) i. State **TWO (2)** importance of engagement letter.

(3 marks)

ii. Provide **THREE (3)** contents of engagement letter.

(3 marks)

(b) Briefly explain **TWO (2)** factors that relates to the business environment that could possibly affect the risk of misstatements in the financial statements.

(4 marks)

(c) i. Identify audit risk model components and explain their relationship to each other.

(6 marks)

ii. Explain the concept of materiality in the audit process.

(4 marks)

[20 marks]

Question 2

(a) Based on ISA 520 Analytical Procedures, auditors are required to make comparison of financial information from prior period to assess evidence they have obtained.

i. Describe the purpose of analytical procedures.

(2 marks)

ii. Elaborate **TWO (2)** analytical procedures for the following audit assessment at the end of the financial year:

- Profitability of audit client
- Liquidity position of audit client

(6 marks)

(b) Accounts receivable balance is one of the items in the statement of financial position which requires verification by auditor.

Required:

i) Identify **THREE (3)** management assertions that relates to accounts receivable.

(3 marks)

ii) Briefly explain the specific audit objective that you have identified in i) above.

(3 marks)

iii) Elaborate **THREE (3)** substantive procedures that you would.

(6 marks)

Answer using this table format.

i) Assertions	ii) Audit objective	iii) Substantive procedures
1.		
2.		
3.		

[20 marks]

Question 3

Pontilo & Co, an audit firm offers a range of assurance services. Ms. Amidala is the partner responsible for the audit of Vekanda Leisure Bhd (VLB). VLB contribute 14.9% of Pontilo &Co. income each year. The firm has been the auditor for VLB for the last five (5) years. The finance director of VLB, Mr. Howell has recently contacted Ms. Amidala to assist Sacul Industries Sdn Bhd (SISB) in preparing audited financial statement. The managing director of SISB, Mr. Rampart is a close friend of Mr. Howell. According to Mr. Howell, SISB is a small company which is looking to expand in the next few years and Mr. Rampart has approached the company's bank for finance of RM2 million to fund the company expansion.

To support this loan application, Mr. Rampart needs to appoint a firm to prepare the company audited financial statements and he also want Pontilo & Co to provide tax planning advice and to prepare both the company's and his personal tax computations for submission to the tax authorities. Mr. Howell has asked Mr. Rampart to contact Ms. Amidala. Mr. Howell hope that Pontilo & Co will be able to provide these services to SISB for a low fee. If the fee charged is too high, and unacceptable to Mr. Rampart, Mr. Howell recommend that Mr. Rampart approaches Gowix & Associates another audit firm to prepare the necessary task. Mr. Howell would also consider appointing Gowix & Associates to provide the audit for VLB and might terminate Pontilo & Co.

Required:

(a) Identify and comment on **FOUR (4)** ethical and professional issues arising from the above case.

(8 marks)

(b) What are "self-interest threats" and how can they impact auditor independence? Also, give **THREE (3)** examples of self-interest threats.

(4 marks)

(c) The basis for fee determination goes beyond a simple calculation of time and effort; it involves a careful consideration of ethical implications, professional standards, and potential threats to independence.
Discuss **FOUR (4)** critical aspect to determine level of fees charged to audit client.

(8 marks)

[20 marks]

Question 4

Betty Boothroyd operates a two-star Michelin fine dining business Beta Molina Sdn Bhd (BMSB) in Datai Bay, Langkawi. Her staff work in two (2) shift rotation beginning in the morning and the evening. Her workers during every shift comprise of 2 chefs, 8 assistant chefs, 6 waiters and 1 cashier.

Last month Betty consulted you to help dealing with major difficulties of her business. The following are finding from your discussion with her:

- Betty is dealing with poor attendance of the waiters. Thus, she required each waiter to record the time when they arrive and leave the restaurant in an attendance register.
- Betty felt that BMSB cash collection is in the low side in contrast to the uptrend of customer visit. She suspected one of the cashiers might be stealing although she has no evidence to support her assertions on this.
- The BMSB standard operating procedure also gave the following information:
  - Customer order will be recorded by any of the waiters on a customer order form, which is then handed over to the chefs at the kitchen.
  - After the meals were delivered, any three (3) of the senior waiters will determine the price on a bill that is given to the customer. The other waiter is not allowed to determine the price. Betty is profoundly aware the consequences of wrong billing just like the case of a customers which was billed for thousands of ringgit eating 'Garoupa fish' in another top-rated restaurant in Langkawi, post pandemic lockdown in the year 2021. This case was being shared widely in social media and harmed the reputation of the hospitality industry.
  - When making payment over the counter, the customer is required to present the bill to the cashier.
  - The cashier is required to immediately record the collection from every customer using a cash receipt register.
  - In case, when the bill is misplaced by the customer, the cashier will issue a new bill based on confirmation by the customer.
  - At the end of every shift, the cashier would count the cash collection and compared the amount with the receipt.
  - The physical cash would then be handed over to Betty.
  - Betty is comfortable with the system because no shortage occurred so far.

- Betty also suspected that the chefs might have stolen some of the high value inventory items. such as giant lobster and king prawns. These items. were ordered and delivered directly by the suppliers chosen by the chefs based on their long-term experience and networking of top-quality supplier in the industry.

Required:

(a) Identify **FOUR (4)** weakness, **FOUR (4)** impact and **FOUR (4)** improvement action to address internal control weakness in BMSB. You must answer in the following format:

Weakness	Impact	Improvement

(12 marks)

(b) Discuss **TWO (2)** objectives of designing effective internal control system. Use the case study BMSB in your answer.

(4 marks)

(c) Explain **TWO (2)** constraints when managing internal control system in a small and medium enterprise (SME).

(4 marks)

[20 marks]

Question 5

The Kira Sodelle Sdn Bhd (KSSB) finds itself at a pivotal juncture. For nearly ten years, this family-owned business has demonstrated the ability to produce high-quality clothing, earning modest profits over the last five years. However, beneath the surface lies a series of critical challenges that threaten its long-term viability. Addressing these issues requires careful analysis, strategic thinking, and decisive action.

Business Overview

KSSB operates with a small, modern factory and a workforce of 210. Clerical staff handle customer orders and maintain accounting records, but the tools they rely on are outdated and inefficient. These inefficiencies ripple across the organization, evident in poor credit management and weak oversight of receivables and payables.

Despite being in a growing market, the company lacks an online presence, a critical gap in today's business environment. The chief buyer, the managing director's son, excels at sourcing premium fabrics globally but struggles with cost control and supply chain consistency. This mismanagement creates budgeting difficulties and reduces profitability on some product lines.

Marketing efforts are minimal. The managing director, who has resisted hiring a professional marketing manager, relies primarily on an outsourced catalogue for promotion. As competition increases, the company's market share continues to decline despite a slow rise in turnover.

Governance and Financial Structure

The company is financed through a combination of family investments and bank loans. The managing director and his wife are the sole shareholders, while their son, despite his operational role, holds no financial stake. Control is expected to pass to the wife, their son, and two uninvolved daughters, but disagreements among family members about the company's direction create instability.

Compounding these issues is the absence of a qualified accountant. Financial statements are often delayed and lack quality, reflecting broader governance shortcomings. This creates significant risks in financial management and strategic planning.

Your Role and the Opportunity

As a Chartered Certified Accountant with relevant industry experience, you bring a unique perspective to this situation. Your previous role as an internal auditor in a larger clothing company has equipped you with the skills to identify risks and recommend effective solutions.

Your sister, the managing director's wife, recognizes the critical need for outside expertise and has sought your help. She believes that your experience can guide KSISB toward a more sustainable and prosperous future.

(a) Before you decide whether to accept the assignment that your sister has given you, *discuss both positive and negative* considerations that you will take into account.

(4 marks)

(b) Perform risk assessment facing KSISB and possible action to mitigate this risk. Your answer should be discussed based on the following recommended heading:

a. Compliance Risk

b. Financial Risk

c. Operational Risk

d. External Risk

(You may opt for other appropriate headings)

Answer using this format:

Type of Risk	Mitigation action

(16 marks)

[20 marks]

END OF EXAMINATION PAPER