



**UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL**

**FINAL EXAMINATION
MARCH 2025 SEMESTER**

COURSE CODE : EAB21103
COURSE NAME : AUDIT 1
PROGRAMME NAME : BACHELOR IN ACCOUNTING (HONS)
DATE : 24 JUNE 2025
TIME : 2.00 PM – 5.00 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

- (a) Analytical procedures are used to assist auditor in planning the future, timing and extent of auditing procedures.

Required:

- i. Suggest **THREE (3)** benefits of conducting analytical procedures at the planning stage.

(3 marks)

- ii. Provide **THREE (3)** examples of analytical procedures that could be performed at the planning stage for accounts receivables.

(3 marks)

- (b) Materiality in audit can be caused by quantitative and/or qualitative factors. Discuss **TWO (2)** qualitative factors which may affect the materiality of an audit item.

(4 marks)

- (c) ISA 315 Identifying and Assessing the Risks of Material Misstatements through Understanding the Entity and Its Environment requires the auditor to identify and assess the risks of material misstatements in the financial statements through understanding the entity and its environment, including the entity's internal control.

Required:

- i. Differentiate between inherent risk and control risk.

(4 marks)

- ii. Demonstrate **FOUR (4)** procedures that auditor could perform to obtain an understanding of the client business and its environment, including its internal control.

(6 marks)

(20 marks)

Question 2

- (a) ISA 220 Audit Engagement stipulates auditor's responsibilities in agreeing the terms of audit engagement both management and those charged with governance. An engagement letter specifies the formal relationships between the auditor and client and outlines both parties' responsibilities.

Required:

- i. Demonstrate **THREE (3)** purpose of an engagement letter

(3 marks)

- ii. Explain **THREE (3)** principal content of an engagement letter

(3 marks)

- (b) Internal control systems consist of policies and procedures designed to provide management with reasonable assurance that the company achieve its objectives and goals.

Required:

- i. Elaborate the phrase 'reasonable assurance'.

(2 marks)

- ii. Discuss **THREE (3)** objectives of designing a functioning effective internal control system.

(6 marks)

- (c) It is expected for an entity to have robust internal control to meet management objectives. In contrast the situation did not happen due to inherent limitations of internal controls.

Required:

Illustrate **THREE (3)** inherent limitations of internal controls.

(6 marks)

(20 marks)

Question 3

- (a) ISA 500 Audit Evidence explains what constitutes audit evidence in an audit of financial statements, and deals with the auditor's responsibility to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on the financial statements.

Required:

- i. Illustrate any **TWO (2)** types of audit evidence.
(2 marks)
 - ii. Elaborate the meaning of the term 'sufficient and appropriate audit evidence'.
(4 marks)
 - iii. Identify **ONE (1)** example each for external and internal evidence.
(2 marks)
- (b) Agreed terms of the audit engagement between the auditor and client shall be recorded in the audit engagement letter or other suitable form of written agreement.

Required:

- i. Explain the purpose of an engagement letter.
(2 marks)

- ii. Discuss **TWO (2)** principal contents of an engagement letter.

(4 marks)

- (c) Audit working papers are documents gathered during the audit process. Audit working papers can be classified into permanent file and current file.

Required:

- i. Distinguish between permanent file and current file.

(2 marks)

- ii. Identify **TWO (2)** examples of documents that can be found in permanent file and current respectively.

(4 marks)

(20 marks)

Question 4

- (a) You are a manager in Mat Kancil & Partners for the last 11 years, an audit firm, with 5 branches and 12 partners. Majority of the firm's clients are audit clients; the balance are clients whom Mat Kancil & Partners perform bookkeeping and tax planning and business advisory services.

The firm is exploring how to increase their revenue, and you have been tasked to evaluate the suggestion made by one of the partners in the business advisory services of the firm. The partner has proposed to place an advertisement in social media to attract new clients. The draft advertisement is as follows for your review:

Mat Kancil & Partners is the largest audit firm in Malaysia and has been in operation for the last 24 years. Mat Kancil & Partners offers a range of services in addition to assurance, which are guaranteed to improve your business performance and obtain large tax saving from the LHDN.

If you are unhappy with your auditors, Mat Kancil & Partners can offer a second opinion on the report that has been issued. Welcome offer: for all new clients sign up,

there will be 15% discount when both audit and tax services are provided. Our rates are approved by MIA.

Required:

Based on MIA ethical principles, identify **THREE (3) each** potential issues, explain why it can be an issue towards MIA principles and recommendations to minimise this issue.

Answer in this table format:

• Issue identified	• Why it can be an issue?	• Recommendation
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(9 marks)

- (b) Threats may be created by a broad range of relationships and circumstances. These threats could compromise a professional accountant's compliance with the fundamental principles. Illustrate any **FOUR (4)** type of threats to independence.

(4 marks)

- (c) The principle of confidentiality imposes an obligation on all professional accountants to refrain from disclosing outside the firm and shall maintain confidentiality of privileged information incidentally obtained during their audit engagement.

Suggest **THREE (3)** exceptional scenarios that allow disclosure of this privileged information.

(3 marks)

- (d) Suppose an individual who holds a significant position at a client entity joins the audit firm and immediately becomes a senior member of the audit team for that client.

Explain the ethical threats this creates **AND** identify one action that might serve as a safeguard.

(4 marks)

(20 marks)

Question 5

Bayer Healthcare Sdn. Bhd. is a company selling approve pharmaceutical products based in Damansara. The company has recently undergoes reorganization to streamline their selling department function and split according to the following area of responsibilities:

- Online Sales

Online orders are electronically received via the Internet. Related information of orders such as customers' name and address, account number, type and the serial number of items ordered, and quantity of items ordered are automatically linked from the company's website to the system handling orders. The system will be linked to the website on the availability of the inventory. Customers will receive the confirmation email immediately after the payment is successful and no change of orders is allowed. All online orders are at a cash basis.

- Telephone Sales

Telephone orders are received by an operator in the sales department. Related information for telephone orders such as customers' name and address, account number, type and the serial number of items ordered, and quantity of items ordered are entered directly into a computer terminal by the operator. The system verifies the customer data against the approved customer file.

The specific purchases are then compared to a list of inventory items currently being held in the company's warehouse. The system indicates to the operator the validity of the customer's credit and the availability of the inventory. This information is conveyed immediately over the telephone to the customer with the transaction finalized at that time. The operator either enters approval for the sale or voids the transaction. The name of the operator who processes the order will appear on the system for every order taken.

Customers will be sent an email or message for confirmation of orders made immediately after the order is approved. No change of orders is allowed once the order is approved. Orders by telephone are grouped into cash and credit sales. All credit sales are given 60 days credit term and those customers who fail to settle the

outstanding with the credit term given will be notified by the system and it will be reflected during verification of the customers' data.

Then, the system will combine the data of online and telephone orders for further processing. A computerized list of the approved sales orders is maintained in chronological order and every order is assigned a sequence order number for control purposes. Sales invoices for credit sales and the sales receipts for cash transactions are automatically generated by the system and pre-numbered.

- Inventory Shipments

Using a terminal, the shipping department requests the next order to be processed. The customer and address are shown on the screen as well as the individual items that have been ordered. Once the items have been packed, the staff of the shipping department enters the date of the shipment, the goods dispatch note and the bill of lading number. Edit checks are incorporated into the software to verify the shipment data against the order and indicate any items that do not match. Unmatched items will be returned for checking and will go through the edit checks again. The completed packaging will be shipped to the customer together with a copy of the sales invoice or receipt.

Required:

- (a) Determine **FIVE (5)** existence of internal controls implemented by Bayer Healthcare Sdn Bhd.

(10 marks)

- (b) Based on the above case, identify **FIVE (5)** consequences if internal controls mentioned in (a) are absent.

(10 marks)

Answer in the following **TABLE** format:

(a) Existence of internal control	(b) Consequences when internal control absent
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(20 marks)

END OF EXAMINATION PAPER