



UNIVERSITI KUALA LUMPUR BUSINESS SCHOOL

FINAL EXAMINATION MARCH 2025 SEMESTER

COURSE CODE	: EAB31103
COURSE NAME	: AUDIT 2
PROGRAMME NAME	: BACHELOR IN ACCOUNTING (HONS)
DATE	: 24 JUNE 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.
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THERE ARE NINE (9) PAGES OF QUESTIONS, EXCLUDING THIS PAGE.

(Total: 100 marks)

INSTRUCTION: Answer ALL questions.

Please use the answer booklet provided.

Question 1

- (a) Internal auditors play a critical role in assessing and improving an organization's risk management, control, and governance processes. Explain any **THREE (3)** roles of internal auditors in an organisation. (6 marks)
- (b) Discuss any **TWO (2)** major differences between operational auditing and financial statements auditing. (4 marks)
- (c) Other Assurance Services Engagement refers to assurance services provided by auditors or practitioners that go beyond the audit of historical financial statements. These engagements are designed to enhance the credibility of information for decision-makers, focusing on areas such as compliance, system reliability, sustainability reports, and performance measures.

Required:

- i. Discuss the differences between WebTrust service and SysTrust service. (6 marks)
- ii. Briefly explain the following services :
1. ISRS 4400 *Agreed-Upon Procedures Engagement*.
 2. ISRE 2410 *Review of Interim Financial Information*.

(4 marks)

[20 marks]

Question 2

- (a) Owner's equity represents the residual interest in the assets of an entity after deducting its liabilities, and it includes components such as share capital, reserves, retained earnings, and other comprehensive income. As part of their audit responsibilities, auditors need to ensure that transactions affecting owner's equity, such as issuance of shares, dividend payments, and adjustments to retained earnings, are valid, complete, and fairly presented.

Required:

- i. Identify **FOUR (4)** key audit objectives relevant to the audit of owner's equity.
(2 marks)
- ii. For each audit objective suggested above, explain **ONE (1)** appropriate audit procedure to obtain sufficient and appropriate audit evidence.
(4 marks)

- (b) Inventory is often one of the most significant assets in a company's financial statements, especially for trading and manufacturing entities. To ensure the accuracy and reliability of the inventory balances reported in the financial statements, auditors are required to attend and observe the client's stock count as part of their audit procedures. The purpose of attending the stock count is to evaluate the effectiveness of the client's inventory counting procedures and to obtain evidence regarding the existence and condition of the inventory.

Required:

Briefly explain **FIVE (5)** control activities to avoid manipulation of year-end inventory count.

(5 marks)

(c) The following audit procedures were planned by senior auditor, Miss Syasha in the audit of the inventory and acquisition cycle for Afiq & Afif Manufacturing Sdn Bhd for the year ended 31 December 2024:

1. Account for the sequence of inventory tags and raw material requisition forms to ensure proper control over inventory records.
2. Trace a sample of invoices from the purchase journal to the accounts payable master file and check for the amount, date and invoice number.
3. Observe the client's physical inventory count and assess whether staff responsible for the count are following the instructions provided by management, ensuring adherence to proper inventory count procedures.
4. Calculate the inventory turnover ratio and compare it with prior years to identify significant fluctuations or trends that may indicate inventory management issues.
5. Test for obsolete or slow-moving inventory by making inquiries with factory employees and management regarding damaged goods or items stored in inappropriate locations.
6. Compare current year manufacturing costs with those of previous years to identify any unusual variances that may impact inventory valuation.

Required:

For each procedure (1) to (6) above, provide the following:

- i. Identify the type of audit procedure, specifying whether it is test of control, an analytical procedure, a substantive test of transactions or test of details of balances.
- ii. State the audit objective(s) being addressed.
- iii. Specify the type of evidence being used.

(9 marks)

[20 marks]

Question 3

- (a) The audit of year-end cash and cash equivalents is essential to ensure that the amounts reported in the financial statements are fairly stated, complete, and free from material misstatement. Since cash is highly susceptible to misappropriation, the risk of fraud is a significant concern in this area. In situations where internal controls over cash handling are weak or ineffective, auditors are required to perform additional audit procedures at year-end to evaluate and address the potential for material fraud in the cash balance.

Sofia Sdn Bhd		
Bank Reconciliation as at 31 December 2024		
	RM	RM
Balance per bank (31 December 2024)		62,500.00
Add: Deposit in transit		
31/12/2024	18,500.00	
31/12/2024	24,000.00	42,500.00
		<u>105,000.00</u>
Less: Outstanding cheques		
Cheque No. 4140	12,200.00	
Cheque No. 4143	9,800.00	
Cheque No. 4145	6,300.00	
Cheque No. 4146	18,700.00	(47,000.00)
Balance per books (31 December 2024)		<u>58,000.00</u>

Required:

- i. State **FOUR (4)** audit procedures involved in verifying the above bank reconciliation.
(4 marks)
- ii. Explain **ONE (1)** audit procedures involved in testing each of the following items which may appeared in bank reconciliation:
 1. Bank credit memo
 2. Bank service charge
 3. Non-sufficient fund cheque
 4. Cheque error

(4 marks)

- (b) Hafiy Manufacturing Sdn Bhd has been operating in Malaysia since 2005 and specializes in producing electrical components for both local and international markets. The company relies on multiple suppliers for raw materials and emphasizes a robust purchasing and payment process to ensure smooth operations. As part of the year-end audit, you have been assigned by the Audit Manager to assess the effectiveness of control activities within the acquisition and payment cycle. The following are the audit findings:

Purchase Requisition and Approval Process

1. The client is using an automated purchase requisition system where department heads submit requests through an internal portal.
2. Implemented a multi-level approval based on the value of the purchase.
3. Automated system flags for duplicate or suspicious requisitions to maintain control and transparency.

Vendor Selection and Purchase Order (PO) Issuance

1. The approved vendor list is reviewed and updated quarterly to ensure only reliable vendors are selected.
2. Requirement to obtain three quotations before issuing a PO, promoting competitive pricing.
3. POs are generated and issued directly from the system.

Receiving of Goods and Inspection

1. A Receiving Department dedicated to verifying goods against the PO and Delivery Order (DO).
2. Generation of a receiving report signed by both the Receiving Officer and Quality Control (QC) team.
3. Documentation and reporting of any discrepancies for immediate resolution.

Invoice Verification and Payment Processing

1. Implemented a 3-way matching process (Invoice, PO, receiving report) before payment is made.
2. Invoice review and verification by the Accounts Payable (AP) team to ensure accuracy.
3. Dual authorisation required for payment approval, typically involving both the Finance Manager and a Senior Executive.

Payment Monitoring and Record Keeping

1. Use of an integrated accounting system (ERP) to maintain real-time records and audit trails of all transactions.
2. Regular supplier account reconciliations performed monthly for accuracy.
3. System-generated reports on outstanding payables to assist management in monitoring cash flow and payment schedules.

Required:

- i. Identify **FOUR (4)** internal control strengths in acquisition and payment cycle at Hafiy Manufacturing Sdn Bhd.
(4 marks)
- ii. Discuss **FOUR (4)** potential misstatements and inefficiencies that might occur if each of the controls stated in (i) were absent.
(8 marks)

[20 marks]**Question 4**

- (a) When auditing disposals of property, plant, and equipment (PPE), auditors must ensure that all disposals are properly recorded to prevent misstatements in financial statements. An effective audit procedure is necessary to identify any unrecorded disposals and ensure compliance with accounting standards.

Required:

- i. Explain why the search for unrecorded disposals is crucial in an audit. Give **THREE (3)** reasons.
(3 marks)
- ii. List **TWO (2)** potential risks if such disposals go undetected.
(2 marks)

- (b) Subsequent event review is an essential part of completing the audit to ensure that financial statements reflect events that occur after the reporting period but before the audit report is issued. Completing the audit is the final and crucial phase of the audit process where auditors perform a series of concluding procedures to ensure that all necessary audit work has been properly carried out and that sufficient appropriate audit evidence has been obtained to support the audit opinion.

Required:

- i. Explain contingent liabilities as per MFRS137 *Provisions, Contingent Liabilities and Contingent Assets*
(2 marks)
 - ii. Explain **THREE (3)** objectives of reviewing audit documentation.
(3 marks)
- (c) Saqiena & Co has been appointed as the auditor for Fatamira Berhad for the financial year ended 31 December 2024. The audit fieldwork was completed on 15 March 2025, and the audited financial statements, together with the signed audit report, were issued and submitted to the Securities Commission on 20 March 2025. Subsequently, the following unrelated subsequent events were identified:
1. On 26 January 2025, a lawsuit was filed against Fatamira Berhad for alleged patent infringement that occurred in 2024. According to the client's legal counsel, there is a reasonable risk of a significant loss to the company with an estimated amount of RM1 million.
 2. On 19 February 2025, Fatamira Berhad settled out of court a lawsuit that had originated and filed in 2020, which was previously disclosed as a contingent liability.
 3. On 17 April 2025, it was discovered that a major customer of Fatamira Berhad was declared bankrupt on 22 January 2025, following a severe uninsured fire that took place on 2 October 2024.
 4. On 5 April 2025, it was found that a fire on 30 March 2025 had destroyed one of Fatamira Berhad's three manufacturing plants.

Required:

Indicate whether each of the subsequent events listed above should lead to:

- i. Adjustment of 31 December 2024, financial statements.
- ii. Disclosure of the information in notes to the accounts in the 31 December 2024, financial statements.
- iii. Requesting the client to revise and reissue the 31 December 2024, financial statements. The revision should involve an adjustment to the 31 December 2024, financial statements.
- iv. No action is required.

(10 marks)

[20 marks]

Question 5

Qasdina Manufacturing Sdn Bhd is a medium-sized manufacturing company that employs over 200 employees. The company's payroll and personnel functions are managed by the human resource (HR) department. During an internal audit, several weaknesses in the payroll and personnel cycle were identified.

The Human Resource department has four main functions: recruitment and staffing, training and development, HR information systems, and payroll processing, all under the supervision of the HR Manager, En. Saddiq. In the financial year 2024, four production employees were hired by the foremen based on operational needs. The foremen determined the initial wage rates for these employees and proposed any wage increases, which were then approved by En. Saddiq. Additionally, En. Saddiq hired two administrative employees, one marketing employee, and one accounting employee. All eight newly hired employees were given permanent placements.

The company's operating hours are divided into two categories: factory employees follow a three-shift system, working 8 hours per shift, while other employees work 8 hours per day during regular office hours. Employees are required to clock in and out using a staff card, which captures their employee number and integrates with the computerised payroll system to generate the hours worked report. Factory employees receive hourly wages based on the total hours worked. However, when working overtime, all employees must record their

attendance using a punch card machine. The time cards are then submitted to the payroll staff weekly for overtime pay processing.

HR staff have direct access to the payroll system and can add new employees. Salary increments, deductions, and adjustments are processed after approval from the management team. A payroll officer, Bella is responsible for processing salaries and generating payment files. Payroll disbursement was mainly handled through bank transfer except for temporary production employees who receive their wages via cheque. Bella, who is also in charge of the signature stamp machine, must verify the identity of each payee before handing over the signed cheques to the foremen. The foremen are then responsible for distributing the cheques to the workers. Payroll reconciliations were not conducted due to lack of employee.

Alif, a payroll clerk, is responsible for processing weekly overtime payments. He manually enters employee details and overtime hours based on data recorded on time cards. Once the entries are made, the overtime payments are processed accordingly. Payroll reconciliation, such as corrections or missing entries, are made based on department submissions. Additionally, in some cases, resigned and terminated employees were not promptly removed from the payroll records, leading to discrepancies in the payroll system.

Required:

- (a) Briefly explain **FIVE (5)** weaknesses in the payroll and personnel cycle at Qasdina Manufacturing Sdn Bhd, which could lead to misstatement in the financial statements and inefficiency in the system.

(10 marks)

- (b) Give **FIVE (5)** recommendations for future years on how to improve the payroll and personnel system for each of the weaknesses identified in (a).

Please answer in this following format:

No.	(a) Weaknesses	(b) Recommendation
1.		

(10 marks)

[20 marks]

END OF EXAMINATION PAPER