



**UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL**

**FINAL EXAMINATION
OCTOBER 2025 SEMESTER**

COURSE CODE	: EAB21104
COURSE NAME	: AUDIT 1
PROGRAMME NAME	: BACHELOR IN ACCOUNTING (HONS)
DATE	: 23 JANUARY 2026
TIME	: 9.00 AM – 12.00PM
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) An effective system of internal control is crucial for safeguarding company assets, ensuring the accuracy of financial records, promoting operational efficiency, and encouraging adherence to management policies. According to *ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, the auditor is required to obtain an understanding of the entity's internal control relevant to the audit. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) identifies five interrelated components of internal control that provide a framework for designing and evaluating an organisation's control system.

Required:

- i. Discuss any **FOUR (4)** of internal control components. (8 marks)
- ii. The following audit procedures were performed by Ms. Alfari in auditing the sales and collection cycle at Kasyfil Sdn Bhd. For each of the audit procedures listed below, identify the control activity being tested.
1. Account for sequence of shipping document and sales invoice.
 2. Examine whether customer order is approved by credit department before shipment made.
 3. Examine indication of verification in sales order for customer name, product description, quantity and date.
 4. Identify responsible personnel who perform bank reconciliation and cash receipt record keeping.
 5. Observe whether physical access to cash, cheque and trade receivable records is restricted to authorised personnel only.
 6. Review evidence of independent checks performed by supervisors on monthly reconciliation of accounts receivable ledger to the general ledger.

(3 marks)

- (b) During an audit, auditors are required to prepare, obtain, or issue several types of formal letters. These letters serve different purposes in ensuring that the audit is properly planned, conducted, and concluded in accordance with professional standards. Among the most important are the engagement letter, management letter, and letter of representation.

Required:

Differentiate between the following audit letters:

- i. Engagement letter (*ISA 210 Agreeing the Terms of Audit Engagements*)
- ii. Management letter (*ISA 265 Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*)
- iii. Letter of representation (*ISA 580 Written Representations*)

In your answer, explain their purpose, recipient or addressed to, and main contents.

(9 marks)

[20 marks]

Question 2

- (a) Inventory usually represents a major asset in the financial statements of trading and manufacturing companies. According to *ISA 501 Audit Evidence: Specific Considerations for Selected Items*, auditors are required to attend the client's physical stocktake when inventory is material to the financial statements. The purpose of attending the stock count is to evaluate the effectiveness of the client's counting procedures and to obtain reliable evidence regarding the existence and condition of the inventory.

Required:

- i. Briefly explain **FOUR (4)** control activities to avoid manipulation of year-end inventory count.

(8 marks)

- ii. Explain the difference between FOB Shipping Point (FOB Origin) and FOB Destination, and state why understanding the shipping terms is important for auditors when performing inventory cut-off testing.

(3 marks)

(b) The following audit procedures were planned by senior auditor, Miss Ain Natasha in the audit of the acquisition and payment cycle for Azim Sdn Bhd for the year ended 31 December 2025:

1. Examine 20 samples of purchase requisition for indication of approval.
2. Send letters to 15 vendors, of which 10 have a zero balance and asking all of them to respond to the letter.
3. Compare current year inventory turnover ratio with the year 2024.
4. Select a sample of 20 entries in the cash disbursement journal and trace each to the purchase order and vendor invoice.
5. Recalculate the clerical accuracy of vendor invoice including discount and freight charges.
6. Examine a sequence of purchase requisition and purchase order

Required:

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

- i. Identify the type of audit test, 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.

Please answer in this following format:

No.	Audit test	Audit objective	Types of evidence
1			

(9 marks)

[20 marks]

Question 3

- (a) In auditing the year-end cash balance, the auditor seeks to obtain assurance that the reported cash and cash equivalents are accurate, complete, and not materially misstated. One of the key risks in this area is the potential for fraud. Where internal controls over cash are weak, auditors are required to extend their procedures on bank reconciliations and cash balances to evaluate the possibility of fraudulent activity.

Required:

- i. State **FOUR (4)** audit procedures commonly performed to verify the accuracy of a client's bank reconciliation. (4 marks)
- ii. Describe **TWO (2)** audit procedures specifically designed to detect possible manipulation or fraud in year-end cash balances. (4 marks)
- (b) AfaTech Industries Sdn. Bhd. is a mid-sized electronics manufacturer located in Batu Kawan Industrial Zone. The company employs about 60 assembly line workers in its production facility. Its payroll and personnel procedures are as follows:

When there is a vacancy, the Human Resource (HR) officer conducts reference and background checks for shortlisted candidates. Final interviews are carried out jointly by the HR manager, Mr. Zamil, together with the requesting department head. Once a hiring decision is made, the HR officer prepares the employment form and forwards it to Mr. Zamil, who authorises the new employee's wage rate and returns the approved form to payroll section. The HR assistant responsible for maintaining personnel records then inputs the approved wage rate into the centralised HR database. If any changes in wage rates occur later, the HR assistant completes an amendment form and seeks approval from Mr. Zamil before updating the system.

For recording attendance, AfaTech uses a fingerprint-scanning system located at the factory entrance. For salaried staff such as executives and administrative employees, payroll is disbursed through direct bank transfer into their individual bank accounts. For factory employees, pay is made by cheque. Based on daily attendance reports, the payroll assistant calculates employee earnings (including wages and overtime) and

prepares a payroll reconciliation, comparing the attendance report, approved wage rates, and the payroll register. The reconciliation and earnings summary are then submitted to the payroll officer for review and approval. Once verified, the payroll officer forwards both the attendance report and earnings summary to the accounts officer, who prepares salary cheques.

After the cheques are signed by the company accountant, Ms. Yasmeen, they are returned to the payroll officer for distribution. Employees must collect their cheques in person from the payroll office, presenting both their staff ID card and national identity card. Any uncollected cheques are returned to the accounts officer for safekeeping, and affected employees must later collect them directly from that officer.

The accounts officer records total payroll disbursements in the cash payments journal, net of any unclaimed cheques. At the end of each month, the accounts executive, who is independent from payroll processing and cash recording, prepares the payroll bank reconciliation. The accountant, Ms. Yasmeen, reviews both the bank reconciliation and the payroll reconciliation report, investigates discrepancies, and discusses unresolved items with the payroll officer.

Required:

- i. Identify **FOUR (4)** internal control strengths in acquisition and payment cycle at AufaTech Industries 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) Audit evidence forms the foundation of the auditor's opinion. According to *ISA 500, Audit Evidence*, the reliability of audit evidence refers to the degree to which the evidence can be regarded as trustworthy and credible in supporting the auditor's conclusions. Reliable evidence increases the persuasiveness of the audit process and helps the auditor determine whether the financial statements are free from material misstatement. The reliability of evidence is influenced by its source (internal or external), the nature of the evidence, and the circumstances under which it is obtained.

Required:

- i. Discuss **THREE (3)** factors that affect the reliability of audit evidence. (6 marks)
- ii. When determining which audit procedures to apply, an auditor may select from eight categories of audit evidence. For each of the following audit procedures, identify the type of audit evidence obtained.
1. Obtain letter from the client's solicitors which states that there were no lawsuits against the client.
 2. Watch client's warehouse personnel carried out stock taking exercises.
 3. Discuss with accounts manager whether there should be additional provision for doubtful debt with the credit manager.
 4. Perform a test count of the inventory during the stock take at the end of client's financial year.
 5. Agree the total amount of the sales journal to the amount stated in the sales account in general ledger.
 6. Examine an insurance policy stating the amount of fire insurance coverage on factory building and warehouse.
 7. Add the sales journal entries to determine whether the amounts were correctly totaled.
 8. Compare current year's gross profit margin with prior year's margin and industry average to identify unusual fluctuations.

(4 marks)

- (b) During the planning stage of the audit of Ahnaf Furniture Sdn Bhd, the auditor reviewed the unaudited financial statements and noted the following:

Profit Before Tax (PBT): RM8 million

Total revenue: RM95 million

Total assets: RM60 million

Based on professional judgment, the auditor set the preliminary judgment about materiality at RM400,000 (5% of PBT).

However, during fieldwork, the auditor discovered that the final audited PBT is RM4 million due to additional expenses that were not recorded earlier.

Required:

- i. Differentiate between preliminary judgment about materiality and performance materiality. (4 marks)
- ii. Explain **TWO (2)** purposes of setting preliminary materiality at the planning stage. (2 marks)
- iii. Calculate the revised materiality amount based on the updated Profit Before Tax (PBT). (2 marks)
- iv. Explain why it is important for the auditor to revise materiality during the audit. (2 marks)

[20 marks]

Question 5

Green Appliances Sdn. Bhd. (GASB) is a nationwide distributor of electronic household products. The company's financial year ends on 31 December. It does not maintain its own internal audit unit and instead hires an external consulting firm (not the statutory auditor) to carry out periodic internal control reviews.

The sales department at GASB is under constant pressure to achieve monthly targets, and sales staff may grant discounts to customers, provided the sales manager is notified after the transaction has been completed. Customer orders are placed using a three-copy pre-numbered order form prepared by sales staff. One copy is given to the customer, the second is kept by the sales office, and the third is sent to the warehouse for processing. Each order form is coded with a prefix representing the responsible sales representative, allowing management to monitor individual performance.

Before accepting new customers, the accounts assistant, Haziqah, performs basic background checks and determines suitable credit limits. However, the company does not have a formal process for periodically reviewing customer credit limits once accounts have been established, and long-standing customers continue to trade on their original limits despite changes in payment behaviour.

Deliveries are made daily, accompanied by a shipping document that cross-references the original order and is issued in sequential order. The company uses a well-established logistics provider to handle distribution nationwide. During peak seasons, the warehouse often experiences backlogs, and it is common for deliveries to be made without promptly updating the sales system. At times, sales staff are even permitted to arrange deliveries directly with the courier company when the warehouse is busy.

Customers are generally granted 60 days' credit, and most of them settle invoices via online banking. Each morning, Azhar, an accounts officer, records the bank transfers in the cash book and updates the trade receivables ledger. He is also responsible for preparing the monthly bank reconciliations. These reconciliations often contain small unreconciled differences; however, since the amounts are considered insignificant, they are never reviewed or followed up by management.

A smaller group of customers prefers to pay in cash. Sally, the senior accounts officer, receives these cash payments, prepares a daily pre-listing of cash receipts, and passes it to Azhar for recording. Meanwhile, Aslam, an account executive, is responsible for issuing customer statements every two months. He also makes reminder calls to overdue customers regarding their outstanding balances. In addition, Aslam undertakes reconciliation of the receivables control account and prepares an aging report to monitor overdue accounts.

Required:

- (a) Identify and explain **FIVE (5)** weaknesses in Green Appliances Sdn. Bhd.'s system of internal control over the sales and collection cycle which could result in operational inefficiencies and/or material misstatements in the financial statements. (10 marks)
- (b) For each weakness identified in (a), provide an appropriate recommendation to improve the effectiveness of the sales and collection cycle. (10 marks)

Please answer in this following format:

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

[20 marks]

END OF EXAMINATION PAPER