



**UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL**

**FINAL EXAMINATION
OCTOBER 2025 SEMESTER**

COURSE CODE	: EAB21103
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.**

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) Materiality is a key factor in planning an audit because it determines the nature, timing and extent of audit procedures. An auditor must assess whether misstatements individually or in aggregate could reasonably influence the economic decisions of users.

Required:

- i. Illustrate any **TWO (2)** qualitative or quantitative factors an auditor considers when determining materiality.
(2 marks)
- ii. Inherent risk and control risk influence the level of detection risk acceptable to the auditor. Briefly explain inherent risk and detection risk and relate your answer to how these risks affect the extent of substantive audit procedures.
(4 marks)

- (b) Audit evidence is obtained through various techniques to support the auditor's opinion. During the audit, the auditor documents procedures performed, evidence obtained and conclusions reached. There are eight (8) major techniques of collecting audit evidence.

Required:

Identify the most appropriate audit evidence technique for each of the following situations:

- i. The auditor inspects the supplier's delivery order, goods received note and purchase invoice to confirm that the purchase of raw materials occurred during the year.
- ii. The auditor visits the warehouse to observe whether the inventory count procedures conducted by the client's staff follow proper controls.

- iii. The auditor recalculates the depreciation expense for plant and machinery and compares the result with the amount recorded by the client.
- iv. The auditor compares this year's payroll expense to prior years and investigates unusual fluctuations.
- v. The auditor obtains written confirmation directly from the bank regarding the client's loan balance and related interest rate.
- vi. The auditor interviews the warehouse manager to inquire about any damaged or obsolete inventory items not yet written down.

(6 marks)

- (c) Audit documentation can be categorised into two major types of files. Discuss **TWO (2)** types of audit files and provide **TWO (2)** examples each.

(8 marks)

(20 marks)

Question 2

- (a) During the planning phase of an audit, the auditor must obtain an understanding of the entity and its environment in order to identify events or conditions that may give rise to risks of material misstatement.

Required:

- i. Describe audit planning importance in achieving an efficient audit engagement.
(3 marks)
- ii. For each of the following situations, state which component of audit risk (inherent risk, control risk, or detection risk) is MOST affected and briefly explain your answer:
 - 1. A company operates in a highly competitive and rapidly changing technology industry.
 - 2. The client has recently implemented a new accounting software with minimal staff training.
 - 3. Audit procedures were reduced due to tight reporting deadlines.

(3 marks)

(b) In designing audit procedures, auditors must consider how persuasive the audit evidence obtained will be. Explain how each of the following factors could influence the *persuasiveness* (sufficiency and reliability) of the audit evidence the auditor needs to gather:

- i. Complexity of the entity's transactions.
- ii. Past history of misstatements.
- iii. Weaknesses identified in internal controls.

(6 marks)

(c) Compare and explain the persuasiveness between the following types of audit evidence. Each scenario is independent from one to another:

- i. Recalculation performed by auditor vs calculation performed by client accountant.
- ii. Auditor's observation of inventory count vs management's representation on inventory quantity.
- iii. Third-party legal confirmation vs internal legal memo prepared by company lawyer.
- iv. Evidence obtained directly by the auditor (inspection/observation) vs evidence provided indirectly through management.

(8 marks)

[20 marks]

Question 3

(a) Document A: Sales & Receivables Summary

Customer	Invoice No.	Invoice Date	Amount (RM)	Status	Notes
Alpha Mart	INV-455	29 Dec 2024	12,500	Outstanding	Delivery scheduled 3 Jan 2025
Beta Stores	INV-467	31 Dec 2024	8,200	Paid	Payment received 31 Dec 2025
City Gadget	INV-459	28 Dec 2024	15,900	Outstanding	Dispute over 50 units returned
Dino Mobile	INV-470	2 Jan 2025	9,600	Outstanding	Recorded as December revenue
Electro Hub	INV-452	15 Dec 2024	7,450	Outstanding	Long overdue (120 days)

Document B: Delivery orders

Invoice No.	Delivery Date	Notes
INV-455	3 Jan 2025	Delivered after year-end
INV-467	31 Dec 2024	Delivered within year-end
INV-459	28 Dec 2024	50 units returned (Return Note dated 30 Dec)
INV-470	2 Jan 2025	Delivered after year-end

Required:

Identify **FOUR (4)** possible misstatements relating to existence, cutoff, valuation, and accuracy based on Documents A & B. Answer in this table format. An example has been provided to help you.

(8 marks)

Customer	Issue Identified	Possible Misstatement
Alpha Mart (example)	Delivered 3 Jan 2025 but recorded as December revenue	Cutoff error – revenue overstated

(b) Audit Evidence comes in various types and has different degrees of reliability. For each of the independent situations given below, briefly discuss whether the first or the second type of evidence is more reliable.

- i. Physical examination of inventory items by the auditor versus a review of the perpetual inventory listing printed by the warehouse manager.
- ii. A confirmation of an accounts receivable balance mailed directly to the auditor by a customer versus an examination of a sales invoice retained in the client's files.
- iii. The auditor's independent recalculation of accrued interest expense versus the client's computer-generated schedule of interest payments.
- iv. An original title deed for a property held in the company safe versus a photocopy of a lease agreement provided by the administrative assistant.

(8 marks)

- (c) In substantive audit procedures, auditors often make comparisons between source documents and accounting records to obtain evidence. Explain the key difference between *vouching* and *tracing*.

(4 marks)

[20 marks]

Question 4

You are a senior auditor at Rahman & Associates, a mid-sized audit firm. Your firm has been approached by Digital Solutions Sdn Bhd, a rapidly growing e-commerce platform company, to conduct their statutory audit for the financial year ending 31 December 2025.

Background Information:

Digital Solutions Sdn Bhd has experienced significant growth over the past three years, with revenue increasing by 200%. The company is planning an initial public offering (IPO) within the next 18 months and needs audited financial statements to support their listing application.

During the preliminary engagement discussions, you discover the following information:

1. Your firm currently provides IT consulting services to Digital Solutions Sdn Bhd, amounting to RM180,000 annually. This includes system implementation and cybersecurity advisory services.

2. One of your audit partners, Encik Ahmad, owns 2% shares in Digital Solutions Sdn Bhd, which he purchased two years ago as a personal investment. The current value of these shares is approximately RM500,000.
3. The Finance Director of Digital Solutions Sdn Bhd, Ms. Lee, was previously an audit manager at Rahman & Associates until she left 8 months ago to join the client. She had worked on several major audit engagements during her time at your firm.
4. Digital Solutions Sdn Bhd has indicated that they would like the same audit team that conducted their internal control review last year, as they were "very satisfied" with the team's understanding of their business operations.
5. The proposed audit fee is RM350,000, which would represent approximately 18% of Rahman & Associates' total annual fee income. This is significantly higher than your typical engagement fee.
6. The CEO has mentioned that if the audit goes smoothly and the IPO is successful, Digital Solutions Sdn Bhd would consider appointing Rahman & Associates as their exclusive business advisor for expansion into regional markets, with estimated fees of RM2 million over three years.
7. Your firm has been invited to attend Digital Solutions Sdn Bhd's annual company retreat in the Maldives next month, with all expenses paid, to "better understand the company culture and strategic direction."

Additional information:

The company's financial statements show significant intangible assets related to software development and customer databases. There are complex revenue recognition issues due to multiple-element arrangements and subscription-based services. The company has also entered into several related party transactions with companies owned by the CEO's family members.

Required:

- (a) Identify and explain **FOUR (4)** threats to independence and objectivity that Rahman & Associates would face if they accept Digital Solutions Sdn Bhd as an audit client. For each threat, classify the type of threat according to the ethical framework and assess its severity (low, medium, or high).

(8 marks)

- (b) For each threat identified in part (a), recommend appropriate safeguards that could be implemented to eliminate or reduce the threat to an acceptable level.

(4 marks)

- (c) Explain **FOUR (4)** other matters (excluding independence threats) that Rahman & Associates should consider before accepting this audit engagement. Your answer should reference relevant ethical principles and professional standards.

(8 marks)

[20 marks]**Question 5**

MediCare Supplies Sdn Bhd is a medical equipment supplier located in Shah Alam, Selangor. The company recently implemented a new computerised sales system to handle their growing business operations. The sales process is divided into three main channels:

Walk-in Sales

Walk-in customers are served at the company's showroom by sales personnel. When a customer selects products, the sales personnel will key in the customer's details (name, contact number, and address for delivery if required) and product information (item code, description, quantity) into the Point of Sale (POS) system.

The system automatically checks the inventory database for stock availability and displays current stock levels on screen. For items out of stock, the system generates an automatic purchase requisition to the purchasing department. The POS system also checks against the approved price list to ensure correct pricing.

All walk-in sales are cash transactions only. The system generates a pre-numbered sales receipt upon successful payment entry. Daily, the system automatically reconciles total cash sales with the cash register readings and flags any discrepancies exceeding RM50 for investigation by the supervisor.

Corporate Sales

Corporate customers who have established accounts with MediCare can place orders through their dedicated account managers. The account manager receives the purchase order from the corporate customer and enters the order details into the sales order system, including customer account number, delivery address, items ordered, and quantities.

The system performs automatic credit limit checks against the customer's approved credit limit and outstanding balance. If the order exceeds the available credit, it requires approval from the Sales Manager through a digital authorisation workflow. The system also verifies that the customer account is not flagged for overdue payments exceeding 90 days.

Corporate sales are given credit terms of 30 to 60 days depending on the customer category. The system generates pre-numbered sales invoices which are electronically sent to customers. A copy of the delivery order is sent to the warehouse for fulfilment. Once goods are dispatched, the warehouse staff updates the system with the actual delivery date and delivery note number, which triggers the accounts receivable recording.

E-commerce Sales

The company operates an online platform where registered users can browse and purchase products. New customers must complete an online registration form with their details and upload identification documents for verification. The system sends verification links via email and SMS before accounts are activated.

When customers place orders online, the system performs real-time inventory checks. For sufficient stock, customers proceed to payment through integrated payment gateway options (online banking, credit card, e-wallet). The payment gateway sends instant confirmation of successful transactions to the system, which then automatically generates a pre-numbered sales order and invoice.

Orders are queued in a fulfilment dashboard accessible by the warehouse team. The system assigns a unique tracking number to each order for shipment monitoring. Customers receive

automated notifications at each stage: order confirmation, payment received, order packed, and goods dispatched with courier tracking details.

For returns or cancellations, customers must initiate requests through their account portal within 7 days of delivery. The system routes these requests to the Customer Service Manager for approval. Upon approval, the system generates a credit note and processes refunds through the original payment method.

Required:

- (a) Determine **FIVE (5)** existence of internal controls implemented by MediCare Supplies 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