CONFIDENTIAL

UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL

FINAL EXAMINATION
MARCH 2026 SEMESTER

COURSE CODE	:	EAB21404
COURSE NAME	:	AUDIT 2
PROGRAMME NAME	:	BACHELOR IN ACCOUNTING (HONS)
DATE	:	27 JUNE 2026
TIME	:	9.00 AM to 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 consist 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

Harith & Associates (H&A) is an audit firm that currently performs the statutory audit for Cempaka Berhad, a listed company. The management of Cempaka Berhad has recently approached H&A with three additional service requests:

- A review of the company's interim financial statements for the six-month period ending 30 June 2025.
- A compilation of management accounts for internal decision-making purposes.
- Assistance in recruiting a new Chief Financial Officer (CFO), including shortlisting candidates and conducting reference checks.

Required:

(a) Distinguish between a review engagement and a compilation engagement in terms of:

i. Objective

(2 marks)

ii. Level of assurance provided

(2 marks)

iii. Form of conclusion.

(2 marks)

(b) Explain the meaning of negative assurance and construct an example of a negative assurance conclusion that H&A would include in the review report for Cempaka Berhad's interim financial statements.

(4 marks)

(c) Identify the specific threats to independence that arise if H&A accepts the CFO recruitment engagement while continuing as external auditor for Cempaka Berhad.

(3 marks)

(d) Suggest **TWO (2)** safeguards for H&A to implement.

(2 marks)

(e) Briefly discuss **TWO (2)** arguments in favour of H&A providing the review and compilation services to Cempaka Berhad, and **ONE (1)** argument against doing so.

(5 marks)

[20 marks]

Question 2

(a) The collapse of many public companies in recent years has raised continuous debate about the audit expectation gap, specifically regarding the ability of external audits to detect fraud.

Required:

i. In the context of ISA 240 (The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements), identify who holds the primary responsibility for the prevention and detection of fraud within an entity.

(2 marks)

ii. Explain the responsibilities of the external auditor in relation to detecting material misstatements due to fraud.

(6 marks)

(b) Azmi & Co is a public accounting firm. During the audit of a major client, Mega Bina Berhad, a newly hired audit assistant examined the supporting documentation of 150 cash disbursements as a test of acquisitions and payables. During the audit, the assistant discovered twenty (20) material disbursements for the acquisition of raw materials that had no receiving reports or delivery orders attached.

The assistant noted these exceptions in the working papers and brought them to the attention of the audit senior-in-charge. Relying on personal relationships with the client's management, the senior disregarded the assistant's comments, assuming it was a mere administrative delay, and did nothing to investigate the exceptions further. An unmodified audit report was subsequently issued.

Six months later, Mega Bina Berhad went into receivership after it was discovered that the company's purchasing manager had engaged in a massive fraudulent scheme with fictitious suppliers. The liquidators of Mega Bina Berhad are now suing Azmi & Co for professional negligence and breach of duty.

Required:

i. State the **FOUR (4)** elements the plaintiff (the liquidators) must prove to be successful in an action against the audit firm for negligence.

(4 marks)

ii. Based on the scenario, discuss how the liquidators could establish that Azmi & Co breached its duty of care, and how this negligence resulted in the financial loss of the company.

(5 marks)

iii. Describe **THREE (3)** proactive measures that Azmi & Co could have implemented at the firm level to minimize the risk of such legal liability claims.

(3 marks)

[20 marks]

Question 3

(a) The introduction of ISA 701, Communicating Key Audit Matters in the Independent Auditor's Report, significantly changed the landscape of auditor reporting by providing more transparency about the audit that was performed.

Required:

i. Explain **THREE (3)** main objectives of communicating Key Audit Matters (KAM) in the auditor's report.

(3 marks)

ii. Explain the basis used by the auditor in making the decision on selecting items to be included as Key Audit Matters.

(2 marks)

iii. Identify **THREE (3)** specific elements that need to be disclosed by the auditor for each item presented in the Key Audit Matters section.

(3 marks)

(b) As the audit manager in charge, you are evaluating the following independent situations encountered by your audit teams during the finalization phase of various audit engagements.

Scenario 1

During the audit of Mutiara Sendirian Berhad, the financial controller explicitly refused to allow your team to send confirmation letters to three of its largest overseas customers, citing "sensitive ongoing price negotiations." The accounts receivable balances for these customers are highly material. Your team attempted to perform alternative procedures but was unable to obtain sufficient appropriate audit evidence to verify the existence and valuation of these balances.

Scenario 2

Maju Jaya Berhad has incurred substantial, recurring operational losses over the past three years and has recently defaulted on its primary bank loan covenant. You have concluded that there is a material uncertainty related to going concern. The management agrees with your assessment but adamantly refuses to include any disclosure regarding this going concern uncertainty in the notes to the financial statements, arguing it will panic their remaining suppliers.

Scenario 3

Your firm was appointed as the auditor of Alpha Manufacturing Berhad on 15 February, well after the financial year-end of 31 December. Consequently, your team was unable to observe the client's year-end physical inventory count. However, your team successfully performed rollback audit procedures, reviewed subsequent sales, and tested perpetual inventory records, ultimately satisfying themselves completely regarding the inventory balance at year-end.

Scenario 4

Beta Synergy Berhad leases its main manufacturing facility from a private entity entirely owned and controlled by the Chief Executive Officer of Beta Synergy. Your review of the lease agreement indicates that the rental terms are significantly above the current market rate for similar properties. The directors refuse to disclose this related-party transaction in the financial statements, claiming the transaction is a private administrative matter.

Required:

For each of the **FOUR (4)** independent scenarios above, state the type of audit opinion that should be issued and explain the justification for your decision. Assume all amounts involved are material. (Answer in the following table format)

Audit Opinion	Justification

(12 marks)

[20 marks]

Question 4

(a) Analyse the ethical implications in each of the following independent scenarios. For each scenario, determine the specific threat to auditor independence and propose an appropriate safeguard to reduce the threat to an acceptable level.

Scenario 1

Johan has been the audit engagement partner for Megatronics Berhad for the past eight years. Over time, he has developed a close personal relationship with the Managing Director, often attending their family events and taking personal trips together.

Scenario 2

The audit fees generated from auditing Global Tech Sendirian Berhad represent 32% of the total annual gross revenue for your medium-sized audit firm. The management of Global Tech has recently hinted that they might tender the audit to another firm if the current year's audit fees is not discounted.

Scenario 3

Your audit firm has been approached by a long-standing audit client, Apex Berhad, to assist in promoting their newly issued shares to potential investors ahead of a major initial public offering (IPO). The client believes your firm's reputation will boost investor confidence.

Required:

For each of the **THREE (3)** scenarios above, determine the threat to independence, analyse why it is a threat, and propose an appropriate safeguard.

(9 marks)

(b) Public confidence in the audit profession rests heavily on the concept of independence.

Required:

i. Distinguish between the concepts of "independence of mind" (in fact) and "independence in appearance,"

(2 marks)

ii. Explain why an auditor must critically maintain both elements during an audit engagement.

(2 marks)

(c) You are an audit manager at a public accounting firm. A prospective client, CryptoVault Sendirian Berhad, operates in a highly complex and unregulated cryptocurrency exchange market. Your firm has never audited a company in this specialised sector. During preliminary discussions, the CEO of CryptoVault offers you an all-expenses-paid luxury vacation to Europe, dismissing it as a "standard corporate hospitality gesture" to build a good working relationship. He assures you that this gesture is unconditional and should not affect your audit judgment.

Required:

i. Evaluate your firm's position in the scenario above in relation to the fundamental principles of Professional Competence and Due Care and Objectivity.

(4 marks)

ii. Based on your evaluation, formulate a conclusion on the appropriate course of action your firm must take regarding the prospective engagement and the hospitality offer.

(3 marks)

[20 marks]

Question 5

(a) The auditing profession continues to face intense scrutiny due to the persistence of the "audit expectation gap."

i. Explain how this gap contributes to public misunderstanding of an auditor's responsibilities

(2 marks)

ii. Contrast the general public's perception of financial statement audits with the actual statutory duties of an independent auditor.

(2 marks)

iii. Recognising that the expectation gap can damage the credibility of the profession, recommend practical measures and safeguards that the auditing profession and regulatory bodies can implement to narrow this gap.

(4 marks)

(b) Modern enterprises heavily rely on complex Computerised Information Systems (CIS) for their accounting records.

i. Differentiate between "General IT Controls" and "Application Controls" within such an environment. In your discussion, demonstrate their distinct functionalities by providing a relevant illustration for each control type.

(6 marks)

ii. Evaluate the potential risks of material misstatement introduced when a client transitions from a manual accounting system to a highly automated IT environment.

(3 marks)

iii. Explain how an auditor should adapt their audit approach (e.g., shifting from auditing around the computer to auditing through the computer) to appropriately mitigate these specific risks.

(3 marks)

[20 marks]

END OF EXAMINATION PAPER