UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL

FINAL EXAMINATION
MARCH 2026 SEMESTER

COURSE CODE	:	EAB21104
COURSE NAME	:	AUDIT 1
PROGRAMME NAME	:	BACHELOR IN ACCOUNTING (HONS)
DATE	:	20 JUNE 2026
TIME	:	9:00AM – 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) The design of a sound internal control system forms the foundation of good corporate governance by supporting asset protection, reliable financial reporting, efficient operations, and disciplined organisational conduct. In fulfilling audit responsibilities under ISA 315 (Revised), auditors are required to develop an understanding of how internal controls are established and operated within the entity. This understanding is guided by the COSO framework, which conceptualises internal control through five interconnected components that collectively shape the effectiveness of an organisation's control environment.

Required:

Discuss the following component of internal control :

i. Control environment
ii. Risk assessment
iii. Monitoring

(6 marks)

(b) Explain **THREE (3)** key reasons why the evaluation of going concern is important during the audit of financial statements.

(9 marks)

(c) The following audit procedures were performed by Mr Yusri in auditing the sales and collection cycle at Yasir Sdn. Bhd. For each of the audit procedures listed below, identify the control activity being tested.

i. Trace selected delivery orders to sales invoices and ensure all documents are properly recorded without omission.

ii. Review evidence that customer credit limits are system-approved before sales transactions are processed.

iii. Inspect whether sales invoices are independently checked for accuracy of pricing, quantities, and customer details before posting.

iv. Confirm that different staff are responsible for cash handling, recording of cash receipts, and updating the receivables ledger.

v. Observe the use of locked storage and restricted areas for keeping cash collections and cheque deposits.

vi. Examine whether monthly customer statements are reviewed by a supervisor before being issued.

vii. Review procedures for approving sales returns and allowances before adjustments are made to customer accounts.

viii. Inspect whether cash collections are deposited daily.

ix. Account for the sequence of sales orders, shipping documents, and sales invoices.

x. Observe whether pre-listing of cash receipts is prepared by non-accounting staff.

(5 marks)

[20 marks]

Question 2

(a) The following audit procedures were planned by senior auditor, Miss Risma in the audit of the sales and collection cycle for Aisar Sdn. Bhd. for the year ended 31 December 2025:

1. Account for a sequence of sales invoice, shipping documents and credit memo.
2. Review a sample of uncollectible account authorisation form to see if each has received approval from an authorised official.
3. Calculate accounts receivable turnover, then compare the result to the prior year.
4. Trace a sample of invoices and shipping documents to the sales journal and compare for the date and amount.
5. Send confirmation letter to a sample of 25 customers who have outstanding balance exceeding RM10,000.
6. Compare the quantity and description of items on a sample of sales order with related shipping documents.

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.	i. Audit test	ii. Audit objective	iii. Types of evidence
1			

(9 marks)

(b) Payroll expenses are usually significant in many organisations. Weak payroll controls may result in errors, fraud, or payments to fictitious employees. Auditors must evaluate the design and operation of payroll controls, in line with ISA 330, to ensure salaries and wages are valid, authorised, and accurately recorded.

Required:

Briefly explain **FIVE (5)** control activities to prevent manipulation in the payroll expenses.

(10 marks)

[19 marks]

Question 3

(a) Khir Sdn. Bhd. (KSB) is a medium-sized retail company specialising in electronics and home appliances. As part of its year-end financial reporting process, the company conducts a comprehensive annual physical inventory count at its main warehouse located at Banting Industrial Park. You have been assigned to observe the year-end inventory count procedures performed by KSB.

The inventory count is coordinated by the internal audit manager, Miss Putri, who is responsible for overall supervision of the process. To enhance independence and objectivity, ten staff members from various departments including administration, payroll, treasury, sales, and finance, are appointed to assist in the count. Two weeks prior to the inventory count, Putri conducts a formal briefing session with all appointed staff. During the session, clear written instructions are distributed outlining counting procedures, documentation requirements, roles and responsibilities, and reporting lines. Staff are given the opportunity to seek clarification to ensure full understanding of the procedures.

To ensure accuracy and completeness, all inventory movements (receiving, dispatch, and internal transfers) are suspended during the counting period. Access to the warehouse is restricted to authorised personnel only. Necessary counting equipment such as barcode scanners, pre-numbered inventory count sheets, clipboards, pens, and permanent markers are prepared in advance. The inventory count sheets are centrally controlled and issued sequentially to each counting team.

Five teams of two staff members are assigned to specific warehouse sections. Each team consists of personnel from different departments to promote cross-verification. One staff member performs the physical count while the other records the quantities independently on the pre-numbered count sheet. The roles are rotated periodically during the count.

During the physical count, each item that has been counted is affixed with a pre-numbered inventory tag to indicate that the item has already been verified. The tags are controlled and issued sequentially to each counting team. At the end of the counting process, all used and unused tags are returned and accounted for to ensure completeness and prevent duplication of counts.

Putri actively supervises the counting process by performing spot checks and reviewing completed count sheets for completeness and accuracy. Any damaged or obsolete items identified during the count are clearly segregated in a designated area. Details of such items, including description and quantity, are recorded in write off sheets for further management assessment.

Upon completion, all inventory count sheets are returned to Putri, who ensures that all pre-numbered sheets are accounted for. The physical count results are reconciled with the system records by the finance department. Any discrepancies are investigated promptly to determine their causes, such as recording errors, shrinkage, or potential theft. A comprehensive inventory count report, including discrepancies identified, investigation findings, and recommended corrective actions, is prepared and submitted to management for review and approval.

Required:

i. Identify **FOUR (4)** internal control strengths in the year end inventory count at Khir Sdn Bhd.

(4 marks)

ii. Discuss **FOUR (4)** potential misstatements or inefficiencies that might occur if each of the controls stated in (i) were absent.

(8 marks)

(b) You have been assigned by the Senior Associate, Miss Wirda, to audit the bank reconciliation of Davisha Sdn. Bhd. for the year ended 31 December 2025. The bank reconciliation is as follows:

Davisha Sdn. Bhd.
Bank Reconciliation as at 31 December 2025

	RM	RM
Balance per bank (31 December 2025)		62,500
Add: Deposit in transit		
30/12/2025	18,500	
31/12/2025	24,000	42,500
		105,000
Less: Outstanding cheques		
Cheque No. 4140	12,200	
Cheque No. 4143	9,800	
Cheque No. 4145	6,300	
Cheque No. 4146	18,700	(47,000)
Less: NSF cheque	4,200	
Less: Bank service charges	350	(4,550)
Balance per book (31 December 2025)		53,450

Required:

i. State **SIX (6)** audit procedures commonly performed to verify the accuracy of the client's bank reconciliation.

(6 marks)

ii. Explain the meaning of cash equivalent and give **TWO (2)** examples commonly found in a business.

(3 marks)

[21 marks]

Question 4

(a) Audit documentation refers to the record of audit procedures performed, evidence obtained, and conclusions reached by the auditor. These working papers provide support for the audit opinion and document the work performed throughout the audit process. It is also known as Audit Working Papers (AWP).

Required:

Discuss any **THREE (3)** types of audit evidence with an example for each.

(9 marks)

(b) Explain the difference between inherent risk and control risk in an audit of financial statements.

(6 marks)

(c) The auditor is auditing accounts receivable with a total balance of RM500,000. A sample of accounts with a total value of RM50,000 was selected, and misstatements of RM2,500 were identified in the sample. The auditor allows for a sampling error of RM3,000, and the tolerable misstatement is RM20,000.

Required:

i. Calculate the projected misstatement.

(2 marks)

ii. Determine the estimated misstatement.

(1 mark)

iii. Conclude whether the balance is materially misstated.

(2 marks)

[20 marks]

Question 5

Nexora Retail Solutions Sdn. Bhd. (NRSSB) is a retail company operating through physical outlets and online sales channels, offering a variety of consumer products including apparel, household items, lifestyle goods, and selected electronics. The company has experienced rapid operational growth, which has increased the complexity of its procurement, inventory, and payment processes. In response, management has requested a review of the company's acquisition and payment system to assess the adequacy of internal controls and identify potential weaknesses in the system.

NRSSB uses a centralised purchasing system to manage procurement activities. However, this purchasing system is not integrated with the inventory management system, creating reliance on manual notifications of inventory shortages. Warehouse staff monitor inventory levels and manually generate pre-numbered purchase requisitions (PR) when stock levels are low. These PRs are forwarded to the purchasing department for processing.

Upon receiving the PR, purchasing staff select suppliers from an internal supplier database and prepare a pre-numbered purchase order (PO). The PO is then sent to the purchasing manager for approval. After authorisation, copies of the PO are distributed to the warehouse department and the accounting department for reference purposes.

Goods delivered by suppliers are received by the warehouse receiving section. Receiving staff inspect the deliveries by comparing the goods to the approved PO in terms of quantity, quality, and specifications. After inspection, goods are transferred into storage, and the perpetual inventory system is updated by the storekeeper. A receiving report is prepared, numbered, and tagged with a supplier identification code. Copies of the receiving report are sent to the purchasing and accounting departments.

Supplier invoices are received by the purchasing department via email and forwarded to the accounting department. The accounts payable clerk performs a three-way match by comparing the PO, receiving report, and supplier invoice before the transaction is recorded in the accounting system. Any discrepancies are resolved with the supplier prior to recording. Once recorded, invoices are scheduled for payment according to supplier terms. Payments are processed through cheque or electronic funds transfer by the accounts payable officer.

The list of payments prepared is reviewed and approved by the finance controller before disbursement. After payment, vendor balances and the accounts payable ledger are updated. The accounts payable executive performs vendor statement reconciliations, bank reconciliations, and monthly reconciliation of the purchase ledger control account. Discrepancies identified are investigated and corrected through documentation review and communication with suppliers.

Required:

(a) Briefly explain **FIVE (5)** weaknesses in the acquisition and payment cycle at Nexora Retail Solutions 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 acquisition and payment system for each of the weaknesses identified in (a).

(10 marks)

Please answer in this following format:

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

[20 marks]

END OF EXAMINATION PAPER