CONFIDENTIAL

UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL

FINAL EXAMINATION
MARCH 2026 SEMESTER

COURSE CODE	:	EAB21103
COURSE NAME	:	AUDIT 1
PROGRAMME NAME	:	BACHELOR IN ACCOUNTING (HONS)
DATE	:	20 JUNE 2026
TIME	:	9AM – 12PM
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 SIX (6) PAGES OF QUESTIONS, EXCLUDING THIS PAGE.

(Total: 100 marks)

INSTRUCTION: Answer ALL questions.
Please use the answer booklet provided

Question 1

(a) Audit risk is the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk may be considered as the product of the various risks that may be encountered in the performance of the audit.

Required:

i. Explain briefly how the components of audit risk may relate to one another in an auditor's consideration when performing an audit.

(3 marks)

ii. The concept of materiality is applied by the auditor on the financial statements and in forming the opinion in the auditor's report. Explain briefly how materiality is applied in an audit.

(3 marks)

(b) The auditor should obtain sufficient appropriate audit evidence in order to be able to form an audit opinion.

Required:

i. Discuss **THREE (3)** reasons why audit evidence is considered to be persuasive rather than conclusive.

(6 marks)

ii. Discuss **TWO (2)** situations which restrict the auditor's ability to obtain sufficient appropriate audit evidence, giving **TWO (2)** examples for each situation.

(8 marks)

[20 marks]

Question 2

(a) ISA 220 Audit Engagement stipulates auditor's responsibilities in agreeing the terms of audit engagement both management and those charged with governance. An engagement letter specifies the formal relationships between the auditor and client and outlines both parties' responsibilities.

Required:

i. State **THREE (3)** purpose of an engagement letter.

(3 marks)

ii. Explain **THREE (3)** principal content of an engagement letter.

(3 marks)

(b) Internal control systems consist of policies and procedures designed to provide management with reasonable assurance that the company achieve its objectives and goals.

Required:

i. Elaborate the phrase 'reasonable assurance'.

(2 marks)

ii. Discuss **THREE (3)** objectives of designing a functioning effective internal control system.

(6 marks)

(c) It is expected for an entity to have robust internal control to meet management objectives. In contrast the situation did not happen due to inherent limitations of internal controls.

Required:

Illustrate **THREE (3)** inherent limitations of internal controls.

(6 marks)

[20 marks]

Question 3

Lily & Co is the appointed auditor for two companies for the year ended 30 June 2022. These two companies are in the trading industry. The materiality level set by Lily & Co is 10% of sales or profit after tax for both companies. After the audit process, the partner, Lily, found some issues relating to the company's financial statements, which are as follows:

Oden Sdn. Bhd.
The company reported total sales of RM7 million for the year, with a profit after tax of RM6 million. These sales were generated from its operations in Malaysia, Indonesia, Singapore, and Thailand. However, due to strict entry restrictions into Singapore during the COVID-19 movement control order, the auditor was unable to verify the sales from the Singapore branch, which amounted to RM500,000. This matter was communicated to management, who agreed with the auditor's decision to exclude the amount from consideration.

Berry Sdn. Bhd.
The company reported total sales of RM2 million for the year, with a profit after tax of RM500,000. During the year, it was identified that a customer, River Sdn Bhd, had not settled an outstanding amount of RM500,000 due to a dispute over the quality of goods received. The auditor requested management to reassess the recoverability of this amount. However, the Finance Director remains confident that the issue will be resolved and has declined to write off the debt or exclude it from the reported sales.

Required:

(a) Explain **FOUR (4)** contents of an independent auditor's report.

(8 marks)

(b) Based on each of the cases above, determine **ONE (1)** matter that require significant attention by the auditor and those in charge with governance.

(4 marks)

(c) Based on each of the cases above, describe the impact of the issue raised on the respective companies' independent auditor's report.

(8 marks)

[20 marks]

Question 4

You are the audit manager of Ahmad & Co and you are planning the audit of MegaFon Sdn. Bhd., which has been an audit client for four years and specialises in manufacturing luxury mobile phones. During the planning stage of the audit you have obtained the following information.

The employees of MegaFon Sdn. Bhd. are entitled to purchase mobile phones at a staff discount of 10%. The audit team has in previous years been offered the same level of staff discount by the client. During the year, the Financial Controller of MegaFon Sdn. Bhd. was on an extended medical leave and was therefore unable to carry out his duties. The company had no available internal staff capable of fulfilling the role, and as a result, a qualified audit senior from Ahmad & Co was seconded to the client for a period of three months. The audit partner has since recommended that this audit senior be assigned to the current year's audit engagement, given his familiarity and working knowledge of the client.

The fee income derived from MegaFon Sdn. Bhd. was significantly boosted by this secondment arrangement and, together with the statutory audit and tax advisory fees, now accounts for 16% of Ahmad & Co's total fee income. Upon reviewing the correspondence files, you note that the audit partner and the Finance Director of MegaFon Sdn. Bhd. have maintained a close personal friendship for many years. It has been noted that both families travelled together for a holiday to Langkawi last summer. As a result of this close personal relationship, the audit partner has not yet approached the client regarding the outstanding fees from the previous year's audit, of which 20% remains unpaid.

Required:

(a) Explain **FIVE (5)** ethical threats which may affect the independence of Ahmad & Co's audit of MegaFon Sdn. Bhd.

(10 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.

(10 marks)

[20 marks]

Question 5

AstraZeneca Pharmacy Berhad. is a company selling approved pharmaceutical products based in Damansara. The company has recently undergone reorganisation to streamline its selling department function and split into the following areas of responsibility:

- Online Sales

Online orders are received electronically through the company's website. Relevant details such as customer names and addresses, account numbers, item types and serial numbers, and quantities are automatically transferred from the website to the order processing system. The system is also integrated with the website to reflect real-time inventory availability. Once payment is successfully completed, customers immediately receive a confirmation email, and no further changes to the order are permitted. All online transactions are conducted on a cash basis.

- Telephone Sales

Telephone orders are handled by a sales department operator. The key details such as customer names and addresses, account numbers, item types and serial numbers, and quantities are entered directly into the system via a computer terminal. The system then verifies the customer's information against the approved customer database. The requested items are subsequently checked against the company's current inventory records. At the same time, the system assesses the customer's credit status and confirms stock availability. This information is immediately communicated to the customer over the phone, allowing the transaction to be completed during the call. The operator will either approve the sale or cancel the transaction, and the system records the identity of the operator responsible for processing each order.

Once an order is approved, customers receive an email or message confirming the transaction. No amendments are allowed after approval. Telephone orders are classified as either cash or credit sales. Credit sales are subject to a 60 days payment term, and customers who fail to settle outstanding balances within this period are automatically flagged by the system, which is reflected during subsequent customer verification. Finally, the system consolidates both online and telephone order data for further processing. Approved sales orders are recorded in chronological order, with each order assigned a unique sequential number for control purposes. The system automatically generates pre-numbered sales invoices for credit transactions and sales receipts for cash transactions.

- Inventory Shipments

The shipping department uses a terminal to retrieve the next order for processing. The system displays the customer's details, delivery address, and the list of items ordered. After the items are packed, shipping staff record the shipment date, goods dispatch note, and bill of lading number in the system. Built in edit checks verify the shipment details against the original order and flag any discrepancies. Any unmatched items are returned for further review and must pass the verification checks before proceeding. Once completed, the packaged goods are dispatched to the customer along with a copy of the sales invoice or receipt.

Required:

(a) Determine **FIVE (5)** existence of internal controls implemented by AstraZeneca Pharmacy Berhad.

(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 is absent

[20 marks]

END OF EXAMINATION PAPER