



FACULTY OF BUSINESS

FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) : _____

Course Code & Name : **ACC3413 AUDITING**
Semester & Year : JANUARY – APRIL 2022
Lecturer/Examiner : JAMES LIOW
Duration : 3 Hours

INSTRUCTIONS TO CANDIDATES

1. This question paper consists of:
PART A (100 marks) : Answer FOUR (4) compulsory questions. Answers are to be written in the Answer Booklet provided.
2. Candidates are not allowed to bring any unauthorized materials except writing equipment into the Examination Hall. Electronic dictionaries are strictly prohibited.
3. This question paper must be submitted along with all used and/or unused rough papers and/or graph paper (if any). Candidates are NOT allowed to take any examination materials out of the examination hall.
4. Only ballpoint pens are allowed to be used in answering the questions, with the exception of multiple choice questions, where 2B pencils are to be used.

WARNING: The University Examination Board (UEB) of BERJAYA University College regards cheating as a most serious offence and will not hesitate to mete out the appropriate punitive actions according to the severity of the offence committed, and in accordance with the clauses stipulated in the Students' Handbook, up to and including expulsion from BERJAYA University College.

Total Number of pages = 4 (Including the cover page)

PART A : COMPULSORY QUESTIONS (100 MARKS)

INSTRUCTION (S) : There are **FOUR (4)** compulsory questions in this section. Write your answers in the Answer Booklet(s) provided.

QUESTION 1

The auditor's report is a document containing the auditor's opinion on whether a company's financial statements comply with the Malaysian Financial Reporting Standards and are free from material misstatement.

Required

- a) Explain the differences between qualified audit report and adverse audit report. (4 marks)
- b) In accordance with ISA 700 *Forming an Opinion and Reporting on Financial Statements*, List **NINE (9)** components that should be included in an unqualified audit report. (15 marks)

Perfect Bhd (Perfect) has appointed the auditor Howarth & Associate to audit the company's financial statement for the financial period ended 31 December 2021.

The following are the two scenarios when Howarth carried the audit work for Perfect:

Scenario 1

Because of late appointment to the audit engagement, Howarth is unable to observe Perfect's physical stock. However, Perfect maintains a proper perpetual stock's record and Howarth has been able to perform substantive tests and satisfied with stock's ending balances.

Scenario 2

Because of a direct request by Perfect, Howarth did not observe Perfect's stock. Perfect's accounting records are not complete and Howarth is unable to perform other substantive test which lead to dissatisfaction of the stock's ending balances.

Required

- c) In each of the above scenario, describe the reporting options and factors to be considered in deciding which type of opinion to report.

(6 marks)

[Total 25 marks]

QUESTION 2

Grant Longman PLT (Grant) is an auditor evaluating Muhibbah Bhd's (MB) internal control over cash receipt. In planning the engagement, he identified the requirement that all invoices are to be authenticated with approval of the manager for control purposes. MB is planning to do the audit sampling since there are numerous transactions involving cash receipts.

Required

- a) Explain the process of sampling that will be carried out by Grant. (8 marks)
 - b) Explain the **FOUR** (4) methods of audit sampling. (12 marks)
 - c) Discuss the differences between audit sampling risk and non-sampling risk. (5 marks)
- [Total 25 marks]**

QUESTION 3

ISA 500 Audit Evidence defines audit evidence as all information used by an auditor in arriving at the conclusions on which the auditor's opinion is based.

Required

- a) Discuss **FIVE** (5) types of audit evidence. (10 marks)
 - b) Explain **TWO** (2) types of audit working papers. (10 marks)
 - c) Discuss the confidentiality of an audit files. (5 marks)
- [Total 25 marks]**

QUESTION 4

Direct Sports Bhd (DSB) is a manufacturer of sports equipment. The business is expanding well in year of 2021 despite the unprecedented global pandemic of COVID-19.

DSB has appointed the auditor Coopers & Libra to audit the financial statements of DSB for the financial period ended 31 December 2021. You have been assigned by the business unit's audit manager to carry out the audit for DSB.

The following have been briefed by Mr Thomas, finance director of DSB on sales procedures and payroll:

Sales procedures

Sales employees are responsible for evaluating the customers' credit limit. They are also responsible to suggest a new credit for specific customers based on the specific characteristics which are then approved by the head of sales department. The employees have monthly sales targets and can use their

discretion in granting sales discounts up to 15%. They are required to record the discounts to the master data file of the customers.

For the sales order form, the employee will deal personally with the customers and requested the customer to complete the sales order form which using pre-printed sales order form. One copy will be retained by the customer and the other copy is retained by the employee of the sales department. On top of the form is the sales order which is based on the ID staff number.

DSB will ship the goods within 4 working days. Once the employee received the order, then he will email to the finance department and to the warehouse with the customer ID and the sales order details and from this a pick list is generated. Sequentially numbered goods despatched notes are completed and filed in the warehouse.

Consecutively numbered invoices are generated using the pick lists for quantities and the customer master data file for prices. Standard credit terms for customers are 30 days and monthly sales invoices which are over 90 days outstanding are notified to the relevant employees of the sales department to ask the customer to pay directly to the employees.

Payroll

Mr Thomas informed you that a major fraud took place during the year in the payroll department. Several non-existence employees were set up on the payroll and salaries were paid into one bank account holder. This bank account belonged to two supervisors who are siblings and were employed by DSB.

The job scope of one of the supervisors is setting up new joiners in the payroll system and the other administered and approved bank transfer requests for salaries and non-current assets payments. These employees no longer work for the company and the management has asked the audit firm for recommendations on how to improve controls in this area to prevent this type of fraud occurring again.

Required:

- a) Identify and explain **SIX** (6) weaknesses in the sales cycle and provide a recommendation to address each of these weaknesses.
(18 marks)
- b) Advise the company how to improve the payroll's internal control weaknesses in respect of the hiring process and payroll transactions.
(7 marks)

[Total 25 marks]

END OF QUESTION PAPER