



FACULTY OF BUSINESS

FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) : _____

Course Code & Name : **ACC3423 ADVANCED AUDIT AND ASSURANCE**
Semester & Year : JANUARY – APRIL 2023
Lecturer/Examiner : JAMES LIOW
Duration : 3 Hours

INSTRUCTIONS TO CANDIDATES

1. This question paper consists of 1 part:
PART A (100 marks) : **FOUR (4) compulsory questions. Answers are to be written in the Answer Booklet provided.**
2. Candidates are not allowed to bring any unauthorised 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.

PART A : COMPULSORY QUESTIONS (100 MARKS)

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

QUESTION 1

Permata PLT has been the auditor of a Malaysian listed company – General Technologies Bhd (GTB) for seven years. The partner in charge of this audit has always been Kelvin over this seven-year period. Same as the prior years, GTB plans to celebrate the completion of the audit by arranging a party for their staff and the audit team. In order to enhance the atmosphere of the party, a lucky draw is arranged every year and everyone can get a piece of gold of a different weight. The chairman of GTB believes that the money is well spent as such an arrangement can enhance the audit efficiency of each year.

Close to the end of the audit team's field work, Kelvin was approached by the chairman of GTB discussing the continuation of the assurance engagement for the next year. The only condition was that the bank loan of GTB could be renewed after the current year's audit with an unmodified auditor's report. The renewal of the bank loan is critical for GTB's continuation of business.

Finally, after evaluating all the audit evidence, Kelvin concluded that there was a material uncertainty regarding the renewal of the bank loan of GTB and such material uncertainty has been adequately disclosed in its financial statements. He also concluded that the management's use of the going concern basis of accounting to prepare GTB's financial statements is appropriate. Accordingly, an auditor's report containing an unmodified opinion is to be issued for GTB's financial statements for the current year.

Required

- a) Explain **FIVE (5)** fundamental principles of the MIA By-Laws on Professional Ethics for Professional Accountants. (15 marks)
- b) Analyse the situation of GTB for Permata PLT and explain the potential threats and the ethical principle that may be breached. (9 marks)
- c) List any **ONE (1)** board committee which serves to ensure the good corporate governance practices of a Malaysia listed company. (1 mark)

[TOTAL 25 marks]

QUESTION 2

The provision of many non-audit services to audit clients can improve the quality of the audit and reduce costs and complexity for businesses, without compromising independence.

Required

- a) Differentiate between audit and review engagements. (10 marks)

Apart from financial statements audit, Zaki Ibrahim PLT (ZK) is providing its audit clients with non-audit services such as review of financial statements and compilation reporting. It has been a major concern that more than half of the fee income of ZK comes from the non-audit services. The concern is founded on the

possibility that ZK would allow for clients' improper financial reporting for the sake of preserving lucrative fees from those non-audit services.

Required

- b) Explain the nature of the following non-audit services:
- (i) Agreed upon procedure
 - (ii) Compilation reporting

(6 marks)

- c) Other than the concern mentioned above, discuss **THREE (3)** other arguments against Zaki Ibrahim PLT providing non-audit services to their clients.

(9 marks)

[TOTAL 25 marks]

QUESTION 3

ISA 560 *Subsequent Events* defines subsequent events as those events that occur between the reporting date and the date of approval of the financial statements and the signing of the auditor's report.

Required

- a) Explain **TWO (2)** types of subsequent events.

(10 marks)

General Bijian Bhd (GBB) manufactures breakfast cereals and has three factories, four warehouses and three distribution depots spread across Malaysia. The audit for the year ended 31 December 2022 is almost complete and the financial statements and audit report are due to be signed shortly. Profit before taxation is RM7.9 million. The following events have occurred subsequent to the year end and no amendments or disclosures have been made in the financial statements. The company's materiality threshold is 10% and above is considered as material.

Event 1 – Fire

On 15 February 2023, a fire occurred at the largest of the distribution depots. The fire resulted in extensive damage to 40% of the company's vehicles used for dispatching goods to customers; however, there have been no significant delays to customer deliveries. The company estimates the level of damage to the vehicles to be in excess of RM650,000. Only a minimal level of inventory, approximately RM25,000, was damaged. GBB's insurance company has started to investigate the fire to assess the likelihood and level of payment, however, there are concerns the fire was started deliberately, and if true, would invalidate any insurance cover.

Event 2 – Inventory

On 18 February 2023, it was discovered that a large batch of GBB's new cereal brand 'Loopy Green Loops' held in inventory at the year-end was defective, as the cereal contained too much green food colouring. To date no sales of this new cereal have been made. The cost of the defective batch of inventory is RM915,000 and the defects cannot be corrected. However, the scrapped or defective cereal can be utilised as a raw material for an alternative cereal brand at a value of RM50,000.

Required

- b) For each of the two subsequent events described above, justify whether the financial statements require amendment. *(Your answers should include the reasons of your justification and the materiality percentage based on the net profits)* (15 marks)

[Total 25 marks]

QUESTION 4

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations.

Required

- a) Explain the 'Three Es' approach to internal audit and provide **ONE (1)** example each. (12 marks)
b) Discuss **THREE (3)** drawbacks if company plans to outsource the internal audit. (9 marks)
c) Outline **TWO (2)** differences between internal auditor and external auditors. (4 marks)

[Total 25 marks]

END OF QUESTION PAPER