



BERJAYA BUSINESS SCHOOL

FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) : _____

Course Code & Name : **ACC3413 AUDITING**
Trimester & Year : January – April 2019
Lecturer/Examiner : Tan Yi Siang
Duration : 3 Hours

INSTRUCTIONS TO CANDIDATES

1. Answer any **FOUR (4)** structured questions out of **FIVE (5)**. Answers and workings are to be written in the Answer Booklet provided.
2. Candidates are not allowed to bring any unauthorized materials except writing equipment and calculator 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.

STRUCTURED QUESTIONS (100 MARKS)

INSTRUCTION (S) : Answer only **FOUR (4)** questions out of **FIVE (5)**. Write your answers in the Answer Booklet(s) provided.

QUESTION 1

You are the audit manager of Kate & Co. and you are planning the audit for Wellington Sdn. Bhd. (Wellington). Your audit firm has been auditing Wellington for more than 4 years. Wellington's year end is on 31 October 2018. The company manufactures electronics accessories and the forecast profit before tax is RM40 million and total assets are RM80 million.

Plant Property and Equipment (PPE) has increased tremendously in comparison with previous year. This is material. On inquiry, the CEO assures you that there is nothing wrong and it is due to refurbishment exercise carried out during the year.

Wellington has computerised its accounting system to an integrated system. The company sells its products through sales agents and on its website. During the year, RM1 million had been spent by Wellington to upgrade the company website in order to attract more customers to sign up for promotion products. Wellington also plans to purchase a warehouse in October 2018 which will cost RM3 million negotiated RM2 million financed by long-term loans with a local bank and issue RM2 millions of irredeemable preference shares.

During the year, the finance manager extended the credit period of one of its wholesale customers, as the customer was unable to repay the debt of RM1 million owing to Wellington. The finance manager also increased the useful economic lives of fixture and fittings from four to five years as he felt this was more reliable.

On 1 October 2018 the financial controller of Wellington was dismissed. He had been employed by the company for over 20 years, and he has threatened to sue the company for unfair dismissal. The role of financial controller has not yet been filled and so his tasks have been shared between the existing finance department team.

In addition, the purchase ledger supervisor left in August 2018 and a replacement has been appointed only in the last week of August 2018. However, for this period no supplier statement reconciliation or purchase ledger control account reconciliation were performed.

Required

- (a) Identify and explain **ANY SIX (6)** audit risks in Wellington Sdn. Bhd. [9 marks]
- (b) Explain the auditor's response to each of the risks identified in (a) above, in planning the audit of the company. [6 marks]
- (c) Explain audit risk and discuss the relationship between materiality level and audit. [10 marks]

[Total: 25 Marks]

QUESTION 2

ISA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* states that the objectives of the auditor are to identify and assess the risks of material misstatement of the financial statements due to fraud. Auditors are required to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses. Auditors are also responsible to respond appropriately to fraud or suspected fraud identified during the audit.

Although the management and the board are ultimately responsible for fraud deterrence, an effective internal audit activity can be extremely helpful in addressing fraud issues. Internal auditors evaluate risks faced by their organisations based on audit plans and testing, and need to be alert to the signs and possibilities of fraud.

Required

- (a) Explain **ANY FIVE (5)** differences between an internal auditor and an external auditor. [10 marks]
- (b) Explain the differences between a fraud and an error and provide an example each of the fraud and error. [5 marks]
- (c) Explain **ANY FIVE (5)** external auditors' responsibilities in relation to the prevention and detection of non-compliance of law and regulation and fraud. [10 marks]

[Total: 25 Marks]

QUESTION 3

PART A

Swan Sdn. Bhd. (Swan) is a company which produces ice-cream. Swan's profit before tax for the year ended 31 October 2018 was RM17 million and total assets as at that date were RM67 million. You are an audit manager of Fox & Co. and you are currently planning for the year-end audit of your new client, Swan. You have attended a meeting with your audit supervisor where the following matters were discussed and taken into consideration:

Bank overdraft and savings accounts

Bank overdraft of RM3 million has been included in Swan's draft financial statements, which it is relevant to the Swan's main current account. In addition, Swan maintains a number of savings accounts. The savings accounts balance are recognised as cash and cash equivalents under current assets.

Directors' remuneration

Swan's board comprises seven directors. Director's remuneration will split into two parts which are annual salary and bonus. All remuneration paid to directors is included in wages and salaries account. Local legislation requires to disclose the total directors' remuneration in a detailed list by element and by director.

Required

- (a) Describe **ANY SIX (6)** substantive procedures that auditor should perform to obtain sufficient and appropriate evidence in relation to Swan's year-end bank balance. [6 marks]
- (b) Describe **ANY SIX (6)** substantive procedures that auditor should perform to confirm the director's remuneration included in the financial statements at the year end. [6 marks]

PART B

ISA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* sets out a decision framework for auditors using the communications with those charged with governance as a starting point. From the matters communicated with those charged with governance, the auditor determines those matters that required significant auditor attention. From there, the auditor determines which of these matters were of the most significance in the audit of the financial statements of the current period and are therefore Key Audit Matters (KAM).

ISA 701 allows for the possibility, in extremely rare circumstances, that the auditor does not require to communicate a matter determined to be a KAM in the auditor's report when the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication (e.g., consideration that such aspects include harm to the entity's commercial negotiations or competitive position). This exception does not apply if the entity has publically disclosed information about the matter. A member of your audit team has asked for the information on ISA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* as she has heard this standard is applicable to Swan Sdn. Bhd.

Required

Discuss Key Audit Matter (KAM) by providing relevant explanations.

[13 marks]

[Total: 25 Marks]

QUESTION 4

You are the audit manager of Shine & Co. and you are planning the audit for Asaki Sdn. Bhd. (Asaki). Asaki financial year-end is on 31 October 2018. The company supplies diamond jewellery to the worldwide. Your audit firm has auditing Asaki for more than 7 years. Asaki's finance manager has informed the audit manager that several companies' non-executive directors (NEDs) has just resigned, no immediate replacement has been made. The finance manager requests if the audit partners at Shine & Co could help Asaki in recruiting new NED.

In order to announce the company's financial outcomes earlier than last year, finance manager has asked if the audit could be completed within 2 months. In addition, the company is intending to propose a final dividend once the financial statements are finalised. Other than that, Shine & Co also advises on the company internal control system and provides taxation services for Asaki in the form of tax return preparation. The finance manager has decided to link this year's audit fee which is based on the company's profit before tax. Audit manager also awares about 80% of last year's audit fee is still outstanding.

Required

(a) Explain **ANY SIX (6)** professional and ethical issues which may affect Shine & Co's audit of Asaki.

[9 marks]

(b) For each ethical issue that has been identified in (a) above, suggest a safeguard to reduce the risk.

[6 marks]

(c) One of the ethical principles that auditors need to adhere to is the confidentiality of client's information except in certain circumstances.

Describe **ANY FIVE (5)** circumstances where the auditors are allowed to disclose client's confidential information.

[10 marks]

[Total: 25 Marks]

QUESTION 5

PART A

ISA 700 (Revised): Forming an Opinion and Reporting on Financial Statements guides auditors on how to express opinion formed on the basis of conclusions reached using audit evidence obtained. This provides the format of written report called auditor's report and explains the requirements regarding contents and working of auditor's report.

Auditors are required to form an opinion on the basis of sufficient appropriate audit evidence obtained and express it clearly in the form of a written report by selecting the type of opinion to be expressed i.e. qualified, adverse or disclaimer of opinion. Auditor must follow the guidelines of ISA 700 regarding the format and contents of auditor's report and if any supplementary information is provided by the management, auditor must ensure it is consistent with audited financial statements.

Required

Discuss **ANY EIGHT (8)** basic elements of an unmodified auditor's report.

[12 marks]

PART B

Rosie Sdn. Bhd. (Rosie) is a glove manufacturer company and the company financial year-end is 31 October 2018. Forecast revenue for the year is RM13 million and profit before tax is RM4 million. A key customer, with a receivables balance at the year-end of RM300,000 has just notified Rosie that they are not able to pay back the debt as they are experiencing cash flow problem. The finance manager has notified the auditor that he will write off this balance as an irrecoverable debt in 2018 financial statements.

Required

- (a) Discuss whether the financial statements for the year ended 31 October 2018 should be amended for the outstanding receivable balance of RM300,000. [5 marks]
- (b) Describe **ANY FOUR (4)** audit procedures that should be performed in order to form a conclusion on the financial statement. [8 marks]

[Total: 25 marks]

END OF QUESTION PAPER