



**FACULTY OF BUSINESS**

**FINAL EXAMINATION**

Student ID (in Figures) : 

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

Student ID (in Words) : \_\_\_\_\_  
\_\_\_\_\_

Course Code & Name : **ACC3423 ADVANCED AUDIT AND ASSURANCE**  
Semester & Year : JANUARY-APRIL 2020  
Lecturer/Examiner : Nur Afiqah  
Duration : 3 Hours

---

**INSTRUCTIONS TO CANDIDATES**

1. This question paper consists of:  
**PART A (100 marks) : FOUR (4) compulsory structure 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.

**Total Number of pages = 5 (Including the cover page)**

**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**

Power Sdn. Bhd specialises in manufacturing fabrics. The business started early 1970's when Fabric industry in Malaysia embarked on export oriented industrialisation which has led to the growth of the textile and apparel industry. In the following years, the existence of strong competition in this region has caused the industry to expand and become more innovative in meeting global market demand. The company has different range of customers from Malaysia and Asian countries.

The company's year-end was 30 June. During the year, 30 of the company's significant customers have experienced drop in sales, and thus they have purchased lesser items from Power Sdn Bhd. As a result the company has paid a number of its account payable later than the usual due date and some of the supplier removes the credit term; hence they need to pay cash on delivery. One of the accounts payable is threatening legal actions to recover the sums owing. The current ratio dropped from 2.1 to 0.9 and it shows there is a net of cash outflows of the year. Power Sdn Bhd has a loan of RM 1.5 million which is due for repayment in full by 30 October 2019.

The finance director has just informed the audit manager that there is a possible change in legislation which will result in one of Power's top product lines becoming obsolete as it will not comply with the proposed law. The prepared cash flow forecasts do not reflect this possible event.

**Required:**

- a. Discuss **FIVE (5)** indicators of going concern. [10 marks]
- b. Explain the audit procedures which you should perform in assessing whether or not Power Sdn. Bhd is a going concern. [10 marks]
- c. Discuss the contents and the importance of management representation from the management. [5 marks]

**[TOTAL: 25 MARKS]**

## QUESTION 2

Zamri Sdn Bhd started business in year 2008 in manufactures furniture. Starting this year, the company was involved selling products through Lazada and Shopee and the sales volume increased tremendously. There have been some major changes to the business operating system since the increased of the transactions. To cope with the new changes, the new system was introduced and will be replacing the manual system.

### **Required:**

- a. Explain **THREE (3)** ways to understand Zamri's general controls. [6 marks]
- b. Discuss **FIVE (5)** potential benefits and **FIVE (5)** risks when auditing with the company's software to an auditor. [10 marks]
- c. Discuss **FIVE (5)** risks of electronic commerce. [5 marks]
- d. Explain the effect of general controls if Zamri Sdn Bhd decided to change the software. [4 marks]

**[TOTAL: 25 MARKS]**

## QUESTION 3

"Internal auditor's independence is sometimes in doubt. This makes sense because the internal auditor is an integrated part of the organisation. As a part of the organisation, the internal auditor has a role to audited financial statements; give some suggestions and recommendations that can be used as the basis for making some decisions in the future. The lower of internal auditor's independence has an impact audit quality that can make the role of internal auditor degrade (Ida, 2017)".

Internal auditors are employed by companies to do both financial and operating auditing. Their role in auditing has increased dramatically in the past two decades.

### **Required:**

- a. Explain the role of internal audit plays in risk management, control and governance. [5 marks]
- b. Discuss the components of audit quality. [20 marks]

**[TOTAL: 25 MARKS]**

#### QUESTION 4

You are the audit supervisor of Zahid & Co and are currently planning the audit of an existing client; Core Corporation which financial year ended was 31 May 2019. Core Corp. is a pharmaceutical company, which manufactures and supplies a wide range of medical supplies. The draft financial statements show revenue of RM 17 million and profit before tax of RM 3 million.

The company's previous finance director left the company in 2018 after it was discovered that he had been claiming fraudulent expenses from the company for a significant period of time. A new finance director was appointed in February 2019 who was previously a financial controller of a bank, and she has expressed surprise that the auditor had not uncovered the fraud during last year's audit.

During the year, Core Corp has spent RM 0.9 million on developing several new products. These projects are at different stages of development and the draft financial statements show the full amount of RM 0.9 million within intangible assets. In order to fund this development, RM 1 million was borrowed from the bank and is due for repayment over a ten-year period. The bank has attached minimum profit targets as part of the loan covenants. The new finance director has informed the audit partner that since the year end there has been an increased number of sales returns and that in the month of May over RM 250,000 of goods sold in April were returned.

Zahid & Co. attended the year-end inventory count at Core Corp's warehouse. The auditor present raised concerns that during the count there were movements of goods in and out the warehouse and this process did not seem well controlled. During the year, a review of plant and equipment in the factory was undertaken and surplus plant was sold, resulting in a profit on disposal of RM 115, 000.

**Required:**

- a. Explain Zahid & Co. responsibilities in relation to the prevention and detection of fraud and error. [6 marks]
- b. Describe **SIX (6)** audit risks, and explain the auditor's response to each risk, in planning the audit of Core Corporation. [12 marks]

Core Corp's new finance director has read about review engagements and is interested in the possibility of Zahid & Co. undertaking these in the future. On the other hand, she is unsure how the differences between audit and review.

- c. Explain to the new finance director the differences between audit and review engagements. [4 marks]
- d. Explain **THREE (3)** possible safeguard measures that auditors can undertake to reduce the likelihood of independence threats should both audit and non-audit services are provided to the client.

[3 marks]

**[TOTAL: 25 MARKS]**

**END OF QUESTION PAPER**