



**FACULTY OF BUSINESS**

**FINAL EXAMINATION**

Student ID (in Figures) : 

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

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

Course Code & Name : **ACC3423 ADVANCED AUDIT AND ASSURANCE**  
Semester & Year : MAY – AUGUST 2022  
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 structured 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**

“Negligence on the part of the auditor could be so wilful so as to constitute a conspiracy with management to defraud the company or other parties. The auditors could be brought to court on criminal fraud charges”  
(Gill, G.S. & Cosserat, G.W., 2000)

**Required:**

- a) State **FOUR (4)** elements a plaintiff must prove to be successful in an action against an auditor for negligence. (8 marks)
- b) Identify any **THREE (3)** measures that can be taken at the audit firm level to minimize the legal liability against auditors. (6 marks)

Michael recently joined the public accounting firm of KKY & Co as an audit associate after graduating from University of South Greenwich.

He quickly established a reputation for thoroughness and steadfast dedication by adhering to the prescribed auditing procedures. On his third audit, he examined the supporting documentation of one hundred (100) disbursements as a test of acquisition, vouchers payable, and cash disbursement procedures. During the audit, he found twenty (20) disbursements for the acquisition of materials with no receiving reports.

He noted the exceptions in his working papers and brought them to the attention of the team leader. Relying on prior experience with the client, the team leader disregarded Tony’s comments and did nothing about the exceptions. Subsequently, it was discovered that one of the client’s accounting clerk and the company’s supplier were engaged in a fraudulent scheme whereby they diverted the receipt of materials to a public warehouse and sent the invoices to the client.

After the completion of the audit, the client subsequently discovered the fraud and decided to take legal action against the auditor.

**Required**

Based on the four elements, discuss the legal implications and liabilities of KKY & Co as a result of the above scenario.

(11 marks)

**[TOTAL 25 marks]**

## QUESTION 2

AseanAir X (AAX) is a company incorporated in Malaysia. During the peak of the pandemic in 2020 which affecting the global business particularly on tourism related industry, AAX has undergoing restructuring of the company which includes debts restructuring, capital commitments such as termination of contracts with the aircraft lessors, deferment of capital expenditures and contingent liabilities, and cost cutting measures to preserve the operating cash flows. For the financial year ended 31 December 2020, the debts have been accumulated to RM30 billion and the company will be in the position of inability to continue as a going concern.

After the date of the financial statements, one of the aircraft lessors filed a law suits against AAX for breaching of contract amounting to RM10 million.

As the auditors of AAX for the financial year 31 December 2020, the audit included the performance of procedures designed to respond to the assessment of the risks of material misstatement of the financial statements and on the various business processes that related to the financial statement items.

Upon completion of auditing, auditors are to identify contingent liabilities and capital commitments, review subsequent events, evaluate going concern, perform final analytical procedures and obtaining a letter of representation from the client.

### **Required**

- a) Explain the importance of identifying contingent liabilities and capital commitments to the users of financial statements, namely the creditors and investors. (5 marks)
- b) List **TWO** (2) examples each of contingent liabilities and capital commitments. (4 marks)
- c) State **THREE** (3) sources of audit procedures used to identify subsequent events. (3 marks)
- d) State the **TWO** (2) reasons for performing analytical procedures during the audit completion phase. (3 marks)
- e) Explain **TWO** (2) types of subsequent events. Based on the above scenario, state an example each. (10 marks)

**[TOTAL 25 marks]**

### QUESTION 3

“Audit firms are generally permitted to provide non-audit services to their audit clients, as long as doing so does not conflict with independence requirements or existing professional standards, or otherwise compromise the auditor’s independence, either in fact or in appearance. Such non-audit services are referred to as permissible non-audit services”. (*Ernst & Young, 2013*)

#### **Required**

- a) List **TWO** (2) non-audit services that audit firms commonly provide. (2 marks)
- b) Explain **FOUR** (4) arguments against auditors providing non-audit services to the companies they audit. (8 marks)
- c) Explain how audit firms can safeguard themselves in the event they are providing both audit and non-audit services to a client. (6 marks)

If the external auditor plans to use the work of the internal auditors, the external auditor must discuss the planned use as a basis for coordinating their respective activities.

#### **Required**

- d) Describe **THREE** (3) procedures external auditors may perform to evaluate the quality of the work in addition to re-performance. (9 marks)

**[Total 25 marks]**

### QUESTION 4

Ahmad Yusof Sdn Bhd (AYSB) sells electronic devices in the state of Selangor which consists of 10 branches. Each branch has up to 10 employees which six of them are full time. The company has provided the accounting system. All accounting systems, apart from petty cash, are computerised, with the internal audit department frequently advising and implementing controls within those systems.

The company has an internal audit department of ten staff, all of whom have been employed and experience for more than six years. Previously, the chief internal auditor appoints staff within the internal audit department, while the chief executive officer (CEO) is responsible for appointing the chief internal auditor. The chief internal auditor reports directly to the finance director. The finance director also assists the chief internal auditor in deciding on the scope of work of the internal audit department.

The external auditors concerned about the amount of non-audit activities work performed by the internal department and the recent years the work performed increased by 20%. Below are the activities:

- The bank statement of the corporation is reconciled each month by one of the internal auditors.
- The internal auditors are asked to review the budget for approval. In addition, the internal auditor needs to check the variances with justification.

- The internal auditor assists the complex transactions before the transactions are recorded.

The new director, Noah recommends to outsource the internal audit to reduce the impairment of the independence.

**Required**

- a) Define internal auditing. (4 marks)
- b) Explain **FOUR (4)** issues limit the independence of the internal audit department in AYSB and recommend a way of overcoming each issue. (16 marks)
- c) Discuss **TWO (2)** drawbacks if the company plans to outsource the internal audit. (5 marks)

**[TOTAL 25 marks]**

**END OF QUESTION PAPER**