



BERJAYA BUSINESS SCHOOL

FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) : _____

Course Code & Name : **ACC3413 AUDITING**
Trimester & Year : May – August 2018
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

One day at a train station, your friend Fatimah who is an engineering student approaches you. She is reading the independent auditor's report (please refer to Appendix A) of Top Glove Corporation Berhad 2016 but it hardly makes any sense to her. Fatimah would like to purchase some shares of the Company but she remains uncertain until she understands the independent auditors' report.

Required

Explain to Fatimah the independent auditor's report of Top Glove Corporation Berhad 2016 (please refer to Appendix A) so that Fatimah would comprehend the report before making any decision to invest in Top Glove Corporation Berhad.

[25 marks]

[Total: 25 Marks]

QUESTION 2

a) In November 2016, Companies Commission of Malaysia ("CCM") has seek feedback on the practice directive 1/2017 on the criteria for audit exemption for private companies under the newly reform Companies Act 2016 (Act 777). According to CCM, while some respondents have expressed their agreement that audit may be exempted for dormant companies; some have also suggested that the proposed threshold be revised therefore audit should be applicable for small private companies.

Required

In your opinion, should audit for private companies be exempted?

[10 marks]

b) The auditor should obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion (ISA 500 "Audit Evidence", paragraph 2). Elaborate on this statement.

[7 marks]

c) Define "Materiality" in the context of the International Standards on Auditing in particular ISA 320 and briefly discuss why it is difficult to apply the concept of materiality in practice?

[8 marks]

[Total: 25 Marks]

QUESTION 3

a) Explain the components of audit risk and, for each component, state an example of a factor which can result in increased audit risk.

[6 marks]

b) Case Study: Charis Sdn. Bhd.

Charis Sdn. Bhd. develops, manufactures and sells a range of health care products and has a wide customer base across Malaysia, Yemen, Zimbabwe and India. You are the audit manager of Gloria Joy &

Associates, and you are planning the audit of Charis Sdn. Bhd. whose financial year end is 30 June. You attended a planning meeting with the finance director and engagement partner and are now reviewing the meeting notes in order to produce the audit strategy and plan.

Revenue for the year is forecasted at RM25 million. During the year the company has spent RM2.2 million on developing several new products. Some of these are in the early stages of development whilst others are nearing completion. The finance director has confirmed that all projects are likely to be successful and so he is intending to capitalise the full RM2.2 million.

Once products have completed the development stage, Charis Sdn. Bhd. begins manufacturing them. At the year ending it is anticipated that there will be significant levels of work in progress. In addition, the Company uses a standard costing method to value inventory; the standard costs are set when a product is first manufactured and are not usually updated. In order to fulfill customer orders promptly, Charis Sdn. Bhd. has warehouses for finished goods located across Malaysia, Yemen, Zimbabwe and India; approximately one third of these are third party warehouses where the Company just rents space.

In December, a new accounting system was introduced. This is a bespoke system developed by the information technology (IT) manager. The old and new systems were not run in parallel as it was felt that this would be too onerous for the accounting team. Two months after the system changeover the IT manager left the Company; a new manager has been recruited but is not due to start work until March.

In order to fund the development of new products, Charis Sdn. Bhd. has restructured its finance and raised RM1 million through issuing shares at a premium and RM2.5 million through a long term loan.

There are bank covenants attached to the loan, the main one relating to a minimum level of total assets. If these covenants are breached, then the loan becomes immediately repayable. The Company has a policy of revaluing land and buildings, and the finance director has announced that all land and buildings will be revalued as at the year end.

The reporting timetable for audit completion of Charis Sdn. Bhd. is quite short, and the finance director would like to report results even earlier this year.

Required

- i. Using the information provided in the case of Charis Sdn. Bhd., identify and describe **FIVE (5)** audit risks and explain the auditor's response to each risk in planning the audit of Charis Sdn. Bhd.
[15 marks]
- ii. Describe substantive procedures you should perform to obtain sufficient appropriate evidence in relation to:
 - a. Inventory held at the third party warehouses; and [2 marks]
 - b. Use of standard costs for inventory valuation [2 marks]

[Total: 25 Marks]

QUESTION 4

a) In certain audit, an auditor may modify an auditor report by including an “emphasis of matter”.

Required

- i. Explain the purpose of including an “emphasis of matter” to an audit report. [2 marks]
- ii. List any three (3) circumstances where the auditor may decide to include an “emphasis of matter” in his/her report. [3 marks]

b) You are the audit engagement partner and you noted the following during the review of the audit of the following four mutually exclusive cases.

- i. Client A refused to provide an allowance for a material amount owed by a customer who is now in liquidation. [5 marks]
- ii. The audit team on client B could not observe the inventory count that was held at the year end since the firm’s appointment as auditors was made after the company’s year end and no alternative procedures could be used to confirm the inventory balance. [5 marks]
- iii. A customer of client C has sued the company for supplying faulty products. The company does not maintain a warranty provision and is contesting the claim. The outcome of the case could not be settled as the date of signing of the audit report. [5 marks]
- iv. A new regulation and restriction imposed by the Government has raised serious concerns about the ability of client D to continue as a going concern. [5 marks]

Required

In each of the above circumstances, state the type of audit report and the reasons for issuing such a report. [Total: 25 Marks]

QUESTION 5

Auditors have a responsibility under ISA 265 Communicating Deficiencies in Internal Control to those Charged with Governance and Management, to communicate deficiencies in internal controls. In particular SIGNIFICANT deficiencies in internal controls must be communicated in writing to those charged with governance.

Required:

- i) Explain examples of matters the auditor should consider in determining whether deficiency in internal controls is significant. [5 marks]

Greystone Co is a retailer of ladies clothing and accessories. It operates in many countries around the world and has expanded steadily from its base in Europe. Its main market is aimed at 15 to 35 year olds and its prices are mid to low range. The company’s year end was 30 September 2014.

In the past the company has bulk ordered its clothing and accessories twice a year. However, if their goods failed to meet the key fashion trends then this resulted in significant inventory write downs. As a result of

this the company has recently introduced a just in time ordering system. The fashion buyers make an assessment nine months in advance as to what the key trends are likely to be, these goods are sourced from their suppliers but only limited numbers are initially ordered. Greystone Co has an internal audit department but at present their only role is to perform regular inventory counts at the stores.

Ordering process

Each country has a purchasing manager who decides on the initial inventory levels for each store, this is not done in conjunction with store or sales managers. These quantities are communicated to the central buying department at the head office in Europe. An ordering clerk amalgamates all country orders by specified regions of countries, such as Central Europe and North America, and passes them to the purchasing director to review and authorise.

As the goods are sold, it is the store manager's responsibility to re-order the goods through the purchasing manager; they are prompted weekly to review inventory levels as although the goods are just in time, it can still take up to four weeks for goods to be received in store.

It is not possible to order goods from other branches of stores as all ordering must be undertaken through the purchasing manager. If a customer requests an item of clothing, which is unavailable in a particular store, then the customer is provided with other branch telephone numbers or recommended to try the company website.

Goods received and invoicing

To speed up the ordering to receipt of goods cycle, the goods are delivered directly from the suppliers to the individual stores. On receipt of goods the quantities received are checked by a sales assistant against the supplier's delivery note, and then the assistant produces a goods received note (GRN). This is done at quiet times of the day so as to maximize sales. The checked GRNs are sent to head office for matching with purchase invoices.

As purchase invoices are received they are manually matched to GRNs from the stores, this can be a very time consuming process as some suppliers may have delivered to over 500 stores. Once the invoice has been agreed then it is sent to the purchasing director for authorisation. It is at this stage that the invoice is entered onto the purchase ledger.

Required:

- ii) As the external auditors of Greystone Co, write a report to management in respect of the purchasing system which:
 - (a) Identifies and explains **FOUR (4)** deficiencies in that system;
 - (b) Explain the possible implication of each deficiency;
 - (c) Provides a recommendation to address each deficiency.

A covering letter is required.

Note: Up to two marks will be awarded within this requirement for presentation.

[14 marks]

- (iii) Describe additional assignments that the internal audit department of Greystone Co could be asked to perform by those charged with governance. [6 marks]

[Total: 25 marks]

END OF QUESTION PAPER