



## FINAL EXAMINATION

**COURSE : PRINCIPLES OF AUDITING**

**COURSE CODE : PAT3023**

**DURATION : 2 HOURS**

### **INSTRUCTIONS TO CANDIDATES :**

1. This question paper consists of **FOUR (4) STRUCTURED QUESTIONS**.
2. Answer ALL questions in the Answer Booklet provided.
3. Please check to make sure that this examination pack consists of:
  - i. The Question Paper
  - ii. An Answer Booklet
4. Do not bring any material into the examination hall unless permission is given by the invigilator.
5. Please write your answer using a ball-point pen.

**MYKAD NO :** \_\_\_\_\_

**ID. NO. :** \_\_\_\_\_

**LECTURER :** \_\_\_\_\_

**SECTION :** \_\_\_\_\_

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**DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE TOLD TO DO SO**

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*The question paper consists of 05 printed pages*

**MAR2024/D/PAT3023**

**STRUCTURED (60 points).**

**Answer ALL questions.**

**1.(15 points)**

- a. Explain preliminary analytical procedure. (3 points)
- b. Auditor assesses client's business risk before engagement of the audit work. Describe this task. (4 points)
- c. Qayyum has just reported duty as a junior auditor to Amni & Shahida Co. On the first day of work, X-Factor Sdn Bhd has approached the audit firm to audit the financial statements for the year ended 31 December 2023. The company involves in specialized industry related petroleum and mining resources. The audit manager, Miss Amni has given him the task to deal with the appointment.
  - i. Prepare the steps for Qayyum in order to accept the client. (4 points)
  - ii. Guide Miss Amni in the process of delegation the audit task for that client. (4 points)

**2. (15 points)**

- a. Explain factors that affect materiality in terms of quantitative and qualitative factors. (4 points)
- b. Calculate the missing figure related to the audit risk in the following table. (3 points)

	<b>Axis</b>	<b>Alpha</b>	<b>Aeries</b>
Acceptable audit risk	5%	ii.	10%
Inherent risk	50%	60%	40%
Control risk	80%	80%	iii.
Planned detection risk	i.	20%	30%

- c. Pamela, the CPA of Kemuncak Sdn Bhd found the following findings during her audit of the company.

<b>Findings</b>
1. The audit plan omits several necessary audit procedures.
2. The client fails to reconcile bank accounts to recorded cash balances.
3. The client lacks sufficient working capital to continue operations.
4. The auditor has identified numerous material misstatements during last year audit engagement.

**Required:**

- i. Classify the types of risks that are relevant to each of the above findings. (4 points)
- ii. Describe the types of risks that are relevant to each of the above findings. (4 points)

**3. (15 points)**

- a. Explain the control environment. (3 points)
- b. Discuss **TWO (2)** documents used by the auditor in order to obtain an understanding of internal control. (4 points)
- c. Raneya is an auditor for Excellent Sdn Bhd, a company distributing electrical appliances. During the audit, she discovered several issues in the company. Determine the type of inherent limitation for each of the following issues. (3 points)

<b>Issues</b>	
i.	The company has expanded the business by opening a new branch. But, the management still has not set up yet the control for daily operation of the branch.
ii.	The Human Resource Department is in need to hire new staff to handle the business operation. However, they did not conduct thorough review on the bad record of the staff.
iii.	Previous auditor has advised to improve major part of internal control practices in the company. Unfortunately, the management hold the idea due to huge amount of expenditure.

- d. Rayyan Grocery Market has adopted internal control practices for the daily operations. Classify the most suitable internal control activities for the following practices. (5 points)

<b>Internal Control Practices</b>	
i.	A payment voucher is approved by three different persons before a cheque is issued.
ii.	The supervisor counts the physical cash to confirm the amount of daily cash receipts recorded by cashier.
iii.	Credit sales transactions are recorded on a pre-numbered multiple copy invoice.
iv.	Daily cash receipts are kept in a safety box and secured in a locked room at the end of daily operation.
v.	The person who receives the goods should not be same with the person who made the payment.

**4. (15 points)**

- a. Describe **TWO (2)** benefits of unqualified audit report to the company. (4 points)
- b. Explain the term “*material and pervasive*” related to the audit report. (3 points)
- c. Assuming that you are the external auditor for the following clients:

**Diamond Sunshine Sdn Bhd:**

After the investigation, you and the audit teammates were not able to form an opinion on whether overall financial statements prepared by the client present a true and fair view or not. You found that the client did not practice proper accounting documentation. The confirmation of the credit customers failed to achieve major substantive tests conducted by the auditor. In addition, the observation of the existence of physical non-current assets and closing inventory quantities were not confirmed due to weak supervision of the client.

**Gegar Bombastic Ltd:**

You and the teammates were satisfied with all the evidences. As the result, the audit team is confident to come out with opinion. The opinion will be able to give reasonable assurance to the management, shareholders, creditors, lenders, investors, potential investors, and the government about the performance of the company. Besides, all the required financial information and statements were presented according to the required standards. In the view of the auditor, the financial statements of the company presented in true and accurate amount except the amount of receivable for Raihan Enterprise which was wrongly stated. But, the auditor just advised to correct the amount as it is considered minor error.

**Required:**

- i. Classify the type of audit report for each of the above clients. (2 points)
- ii. Interpret the relevant conditions for each of the audit report for the above situations. (6 points)

**END OF QUESTION PAPER**