



FINAL EXAMINATION

COURSE : PRINCIPLES OF AUDITING

COURSE CODE : PAT3023

DURATION : 02 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 : _____

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

The question paper consists of 06 printed pages

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1. (15 points)

- A.
- i. Explain the definition of audit planning. (2 points)
 - ii. Explain **THREE (3)** purposes of audit planning (3 points).
 - iii. Explain **ANY TWO (2)** criteria in selecting audit staff for audit engagement in audit planning. (2 points)
- B. You are the senior auditor of Rahman Hamid & Partners. You have been assigned to lead an upcoming audit of Seri Purnama Sdn Bhd, a new audit client that operates in the food and beverages industry. As the lead auditor, you need to perform the initial audit planning before you start the audit work.
- i. Prepare the steps that you should perform for the initial audit planning. (4 points)
 - ii. Describe **FOUR (4)** information that you should obtain in order to understand the nature of business and industry of Seri Purnama Sdn Bhd. (4 points)

2. (15 points)

- A. i. Explain the definition of materiality. (4 points)
ii. Explain the qualitative factors that affect materiality. (3 points)
- B. Sarah is a senior auditor, currently auditing MG Electronics Sdn Bhd. The company manufactures and sells high-tech electronic devices. The company has recently introduced a new product line in the market. During the audit planning, Sarah has identified the following findings:

Findings
(a). The new product line involves advanced high technology that is difficult to value, and there is a risk of obsolescence due to rapid changes in the market.
(b). The company's internal controls over inventory management are not well-established, particularly concerning the new product line.
(c). The audit firm is concerned about the potential for misstatements in revenue recognition due to the complexity of the sales contracts associated with the new products. As a result, auditor should perform extra detailed audit procedures to complete the audit work.
(d). The audit firm has a low tolerance for audit failure due to the high profile of MG Electronics Sdn Bhd. in the market.

Required:

- i. Classify the most appropriate type of risks for each of the above findings. (4 points)
ii. Describe each type of risks that you have identified in (i) above. (4 points)

3. (15 points)

A.

- i. Identify **THREE (3)** purposes of internal control system (ICS) that has been established by the management of a company. (3 points)
- ii. Explain the term “*reasonable assurance*” in internal control auditing. (4 points)

B. Efficient Sdn Bhd is a company that distributes electrical appliances to the outlets. The following internal control practices have been applied by the company across its operation.

Internal control practices
(a). Each level of employees regardless of the superiors or subordinates has individual company email address in order to ensure the accessibility of information among them. The official emails should be used internally and externally.
(b). The company has displayed proper organizational chart. The job scopes for each position have been stipulated and documented in order to state the respective accountability and responsibility. All employees have been included in the chart without missing.
(c). The quality of performance of each department in the company is evaluated continuously and periodically. Separate evaluation is also conducted based on schedule whenever necessary.
(d). The management establishes the policies for specific transactions should require specific approval.

Required:

- i. Classify the most suitable component of internal control for the above practices. (4 points)

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C. The following internal control practices have been applied by a company.

Internal control practices
(a). A number of surveillance cameras have been installed in the warehouse to prevent unauthorized access and potential theft of goods.
(b). Goods are obtained by placing a purchase requisition with purchase department. All requisitions must be authorized by an appropriate manager.
(c). The employee who authorizes the acquisition of motor vehicles is different from those who processes the payments to the supplier.
(d). The supervisor counts the physical cash to confirm the amount of daily cash receipts recorded by cashier.

Required:

i. Classify the suitable type of control activities for the above practices. (4 points)

4. (15 points)

A.

- i. Identify **THREE (3)** objectives of audit report. (3 points)
- ii. Explain the meaning of “material and pervasive”. (4 points)

B. Assuming that you are the external auditor for the following clients:

Jazzling Ltd:

You found out that the financial statements of the company has not been drawn up in accordance with the provisions of the Companies Act 2016 and applicable approved accounting standards in Malaysia. The financial statements did not give an actual amount and fair view related to the affairs of the company as at 30 June 2023. Majority of the items in the financial statements were stated wrongly. You also disagreed with the client’s method in valuing the closing inventory at the year ended.

Guest Paradise Bhd:

Generally, you are satisfied with the overall results of the audit except for one issue. Your audit examination disclosed a reply from the company’s legal officer explaining that the company is still under pending legal action by the Malaysia Ministry of Environment for the alleged river pollution. The case is still under court hearing. The ultimate outcome of the case is not yet certain, hence no provision is made in the contingent liability.

Required:

- i. Classify the type of audit reports to be issued for each of the above clients. (2 points)
- ii. Interpret **ANY THREE (3)** relevant conditions for each of the audit reports for the above situations. (6 points)

END OF QUESTION PAPER