UNIVERSITI POLY-TECH MALAYSIA
UPTM

FINAL EXAMINATION

BACHELOR OF ACCOUNTANCY (HONOURS)

COURSE	:	**AUDIT AND ASSURANCE SERVICES**
COURSE CODE	:	**AUD3073**
DURATION	:	**3 HOURS**

INSTRUCTIONS TO CANDIDATES:

1. This question paper consists of **FIVE (5)** 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.
5. Please write your answer using permanent ink.

MYKAD/ PASSPORT NO. : ____________________

ID. NO. : ____________________

LECTURER : ____________________

SECTION : ____________________

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This question paper consists of 6 printed pages including the front page.

QUESTION 1

The following are additional information on two material events has just been presented to the auditor.

i. The company has a financial year end as at 31 December 2024, and the financial statements were authorised for issue on 20 March 2025. At 31 December 2024, the company recognised a provision of RM2 million for warranty claims based on historical defect rates. In February 2025, a design flaw was discovered in a product batch sold throughout 2024, significantly increasing the expected warranty cost to RM5.5 million.

ii. A class action lawsuit was filed by customers in November 2024 alleging data privacy breaches. Management assessed the outflow as possible and disclosed a contingent liability. On 15 January 2025, internal investigation reports confirmed that the breach occurred in October 2024 and affected a larger group of customers. Legal advisers now assess the likelihood of loss as probable, estimating damages at RM12 million.

Required:

a. For the above events, analyse whether the financial statement requires amendments. (8 marks)

b. Examine **TWO (2)** audit procedures that the auditors would use for each of the event listed above. (8 marks)

c. Explain **TWO (2)** functions of letter of audit enquiry. (4 marks)

(Total: 20 marks)

QUESTION 2

Ocean Berhad is a retail company that recently upgraded its Enterprise Resource Planning (ERP) system to handle increased transactions across multiple branches. The information technology (IT) department manages all user accounts, including financial system administrators who have full access to modify transactions. However, there is no formal approval process for creating new users, and periodic system activity logs are not reviewed.

Management relies heavily on the ERP system for generating financial statements, but there is limited monitoring of system changes. Staff occasionally request access without proper authorisation, and there are no automated alerts for unusual activity.

The lack of formal IT controls increases the risk of unauthorised access, data manipulation, and unreliable financial reporting, which could affect the auditor's reliance on system-generated information.

Required:

a. Explain **TWO (2)** risks arising from deficiencies in general IT controls.

(4 marks)

b. Discuss **TWO (2)** audit procedures to address the risks identified in (a).

(4 marks)

c. Determine **THREE (3)** consequences of weak general IT controls at Ocean Berhad in relation to financial reporting reliability, along with the improvement strategies for each consequence.

(12 marks)

(Total: 20 marks)

QUESTION 3

Sparkling Logistics Berhad (Sparkling Logistics) is a rapidly growing distribution company operating in several states. Due to its fast expansion, the company faces weaknesses in internal controls, such as inconsistent procedures, poor documentation, and higher operational risks.

The board, through the audit committee, has highlighted the need for a strong internal audit function to provide independent assurance on governance, risk management, and internal controls. The internal audit department conducts risk-based audits in key areas such as procurement, inventory, and payroll. Internal auditors report their findings to senior management and the audit committee, identifying control weaknesses and recommending improvements.

Required:

a. Discuss **THREE (3)** reasons why internal audit services are important to Sparkling Logistics. (6 marks)

b. Determine **THREE (3)** roles of internal auditors related to internal control. (6 marks)

c. Evaluate **TWO (2)** challenges to professional ethics, independence, and objectivity faced by the internal audit function at Sparkling Logistics along with **TWO (2)** possible consequences if these challenges are not properly addressed. (8 marks)

(Total: 20 marks)

QUESTION 4

Kiambang Berhad is a multinational agribusiness group with subsidiaries across Southeast Asia, Africa, and Eastern Europe. Rapid expansion through acquisitions has created a complex organisational structure and diverse regulatory requirements. Despite this growth, the board has not yet updated the governance framework to reflect the group's increased scale, risk profile, and accountability expectations.

Board activities are heavily focused on routine operational matters, with limited attention given to long-term strategy, risk oversight, or evaluation of internal control frameworks. Decisions on risk appetite, control improvements, and governance policies are frequently managed by senior management, with minimal structured review or critical challenge from the board. This has led to inconsistent governance approaches across subsidiaries and has indirectly weakened the effectiveness of internal controls.

The audit committee's oversight role is constrained, particularly over outsourced internal audit activities. Interaction between the committee and external auditors is limited, while audit plans are often prepared and approved by management. Follow-up on audit findings especially for high risk areas is inconsistent, and risk management processes are fragmented with no comprehensive assessment of principal risks. These circumstances have raised shareholder concerns about the effectiveness of governance, the independence of assurance functions, and the group's alignment with Malaysian Code of Corporate Governance (MCCG) 2021 Principles.

Required:

In respect of the corporate governance of Kiambang:

a. Explain **TWO (2)** key areas of MCCG 2021.

(4 marks)

b. Analyse **THREE (3)** deficiencies for the above corporate governance issues with an appropriate recommendation to address the issues.

(12 marks)

c. Determine **TWO (2)** ways how internal control mechanisms can support stronger corporate governance in the company.

(4 marks)

(Total: 20 marks)

QUESTION 5

Vista Manufacturing Berhad appointed a well-known audit firm as its external auditor. In addition to the statutory audit, management engaged the same audit firm to assist with the design of internal controls, preparation of financial statements, and implementation of a new accounting system. These services were requested due to the company's limited in-house accounting expertise.

Over time, the audit firm became closely involved in management decision-making, including advising on accounting treatments and approving key assumptions used in financial reporting. Although the audit firm did not take formal management responsibility, senior management relied heavily on the firm's recommendations when preparing the financial statements.

When the annual audit commenced, concerns were raised by the audit committee regarding whether the auditor could remain independent and objective, given its extensive involvement in non-assurance services. The situation highlighted potential threats to auditor independence and compliance with professional standards governing related services.

Required:

a. Explain **THREE (3)** types of services provided by the external auditor other than the statutory audit.
(6 marks)

b. Determine **THREE (3)** independence issues that may arise from the above situation.
(6 marks)

c. Evaluate **FOUR (4)** safeguards that should be implemented to address the independence issues.
(8 marks)

(Total: 20 marks)

(TOTAL: 100 MARKS)

END OF QUESTION PAPER