UNIVERSITI POLY-TECH MALAYSIA
UPTM

FINAL EXAMINATION

BACHELOR OF ACCOUNTANCY (HONOURS)

COURSE	:	**AUDITING**
COURSE CODE	:	**AUD2063**
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 : ____________________

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

This question paper consists of 8 printed pages including the front page.

QUESTION 1

Audit risk is the risk that an auditor gives an incorrect opinion when the financial statements contain material errors. To reduce this risk, the auditor must understand the entity, its environment, and its internal controls in order to identify and assess the risk of material misstatement. Effective audit documentation is important because it records the auditor's understanding, the risk assessment work performed, and the professional judgments made. Proper documentation helps the auditor evaluate inherent and control risks and design appropriate audit procedures, thereby reducing overall audit risk.

Required:

a. Describe **TWO (2)** ways to reduce detection risk during an audit engagement.

(4 marks)

b. Evaluate **TWO (2)** risks of material misstatement in the financial statements of Horizon Hospitality Group, given below:

Horizon Hospitality Group (HHG) operates a nationwide chain of hotels and resorts and is undergoing rapid expansion while implementing a new property management system (PMS). The system transition has caused data issues such as missing guest records, duplicate bookings, and delayed payment postings. HHG offers flexible payment terms, leading to increased overdue receivables, and experiences frequent cancellations and refunds that are not always properly recorded.

Revenue recognition is complex due to discounts, bundled services, and loyalty program redemptions, which are not consistently tracked. On the expense side, renovation and equipment costs are inconsistently capitalized, and damaged or obsolete assets have not been written down. A new finance team, heavy reliance on manual spreadsheets, and weak internal controls, especially poor segregation of duties, have raised board concerns about errors and fraud, particularly in revenue, receivables, and capital expenditures.

(6 marks)

c. Evaluate **TWO (2)** reasons for maintaining proper audit documentation in an audit engagement.

(5 marks)

(Total: 15 marks)

QUESTION 2

Audit evidence is the foundation upon which the auditor forms an opinion on the financial statements. To provide reasonable assurance, the auditor must apply professional knowledge, skills, and judgment to collect sufficient and appropriate evidence from various sources. This involves understanding the entity and its environment, assessing the risks of material misstatement, and designing procedures that are responsive to those risks. Reliable audit evidence not only supports the auditor's conclusions but also ensures that the audit is conducted in accordance with professional standards and provides confidence to stakeholders regarding the fairness and accuracy of the financial statements.

Required:

a. Identify **TWO (2)** types of confirmation letters.

(2 marks)

b. Discuss the levels of reliability of audit evidence.

(4 marks)

c. Evaluate the types of audit evidence and audit assertion for each of the following audit procedures:

i. Inquire of management about the entity's procedures for approving credit notes and ensuring they are issued only for valid returns.

ii. The auditor calculated the ratio of goods sold to sales of the audit client and compared it with the preceding year's performance.

iii. Review any new lease agreements to ensure assets are correctly treated as finance or operating leases.

(9 marks)

(Total: 15 marks)

QUESTION 3

GreenWave Manufacturing Sdn Bhd is a medium-sized consumer electronics manufacturer located in Penang. The company has recently expanded production to meet increasing overseas demand, placing pressure on its purchasing function to secure raw materials and components quickly.

Kevin, the Purchasing Manager, frequently approves purchase requests verbally to avoid delays, especially during peak production periods. As a result, several purchases are made without properly authorized purchase requisitions or documented purchase orders. The procurement team relies on a supplier master list that has not been updated recently, leading to repeated orders from unreliable suppliers with quality and delivery issues.

Sarah, a procurement executive, is responsible for selecting suppliers, preparing purchase orders, and updating supplier details in the system. Due to staff shortages, she also assists in recording invoices, creating opportunities for errors or manipulation. Meanwhile, Alex, a junior clerk, manually enters purchase orders and supervisors rarely review invoice data into spreadsheets, and his work.

One of the senior executives, Daniel, has a personal relationship with a supplier but has not declared this conflict of interest. He frequently influences supplier selection and approves high-value purchases without independent review. Goods received at the warehouse are checked for quantity but not quality before being released to production. Goods Received Notes (GRNs) are forwarded to Accounts Payable to process payments.

The accounts payable function is handled by Sarah, who prepares payment vouchers based solely on GRNs and supplier invoices, without performing a three-way match with purchase orders. Payment approvals are often delayed due to management's unavailability, resulting in late payments and strained supplier relationships. The lack of segregation of duties, outdated supplier records, weak authorization controls, and heavy reliance on manual processes increase the risk of errors and fraud within the purchase cycle.

Required:

a. Identify **FIVE (5)** transaction objectives of the purchase cycle.

(5 marks)

b. Discuss the following documents in the purchase cycle:

i. Purchase requisitions.

ii. Purchase order.

(4 marks)

c. Evaluate **FIVE (5)** deficiencies in control procedures and their possible implications and recommend **FIVE (5)** corrective actions for each deficiency.

(15 marks)

d. Justify **THREE (3)** importance of internal control from management's perspective.

(6 marks)

(Total: 30 marks)

QUESTION 4

You are the external auditor appointed to audit the cash and bank balances of Sunrise Retail Sdn. Bhd., a rapidly expanding chain of convenience stores across Malaysia. Due to the high volume of daily cash sales, each outlet handles significant amounts of cash receipts. Store supervisors are responsible for collecting cash, preparing daily cash summaries, and depositing cash into the bank. However, due to staff shortages, cash counts are sometimes skipped or performed by the same person responsible for recording sales. In addition, bank deposits are not always made daily, and some outlets retain cash on-site for several days. The company relies heavily on manual cashbooks and spreadsheets to record cash receipts and payments.

At the head office level, bank reconciliations are prepared monthly but are often delayed and not independently reviewed. There have been unresolved reconciling items, such as outstanding lodgments and stale cheques, remaining on the reconciliations for extended periods. Petty cash is also used frequently for minor expenses, although supporting receipts are occasionally missing or incomplete. As a result, management is concerned about the risk of cash misappropriation, errors in cash recording, and the accuracy of cash and bank balances reported in the financial statements.

Required:

a. Identify **FOUR (4)** documents related to the cash cycle.

(4 marks)

b. Explain **TWO (2)** possible misstatements associated with the cash cycle.

(4 marks)

c. Assess **FOUR (4)** audit procedures for verifying the accuracy of Sunrise Retail Sdn. Bhd.'s cash and bank balances.

(12 marks)

(Total: 20 marks)

QUESTION 5

Kiri & Co. is the appointed auditor for Jungle Sdn. Bhd., Ash Sdn. Bhd., Sully Sdn. Bhd. and Legacy Fire Sdn. Bhd. For the year ended 31 December 2025. After completing the audit, the following matters were identified for each company respectively.

Jungle Sdn. Bhd.
All the preparation of the financial statements had been prepared accordingly. Except that the management disagrees with changing the inventory valuation method from the previous standard method, FIFO to LIFO. However, the situation is immaterial and not pervasive, and unlikely to affect the user's decision.

Ash Sdn. Bhd.
The sales for the year are RM7 million, and the profit after tax is RM6 million. The company's sales are derived from Malaysia, Indonesia, Singapore, and Thailand branches. Due to government-mandated trade restrictions in Singapore, the auditor could not examine the sales generated from the Singapore branch. The sales amount generated from the Singapore branch was RM500,000. The auditor raised this issue with management, and management agreed with the auditor's decision to ignore the amount.

Sully Sdn. Bhd.
The sales for the year are RM2 million, and the profit after tax is RM500,000. During the year, it was discovered that one of the customers, River Sdn. Bhd. did not pay the amount owed of RM500,000 due to disputes on the quality of the goods received. The auditor requested that the management to review the amount. However, the Finance Director is confident that the issues can be resolved and refuses to write off the debt or exclude it from the number of sales generated.

Legacy Fire Sdn. Bhd.
The management of the company disagrees to capitalize major costs amounting to RM1.3 million to ensure that the old machine can be used. As a result of this, it had understated the retained profit, and the misstatement is so material and pervasive.

Required:

a. Explain the following key elements in an independent auditor's report.

   i. Report title.

   ii. Addressee.

(4 marks)

b. Compare between a qualified disclaimer opinion and an adverse opinion.

(4 marks)

c. Based on each of the cases above, evaluate the types of audit reports and the audit opinion with appropriate justification.

(12 marks)

(Total: 20 marks)

(TOTAL: 100 MARKS)

END OF QUESTION PAPER