UNIVERSITI POLY-TECH MALAYSIA
UPTM

FINAL EXAMINATION

DIPLOMA OF ACCOUNTANCY

COURSE	:	**AUDITING**
COURSE CODE	:	**AUD2053**
DURATION	:	**2 HOURS**

INSTRUCTIONS TO CANDIDATES:

1. This question paper consists of **FOUR (4)** 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 6 printed pages including the front page.

QUESTION 1

A. Alpha Manufacturing Berhad is a small manufacturing company producing plastic packaging materials. This is the first year the company is being audited by your audit firm.

During the initial meeting, the auditor notes that accounting records are poorly organised, staff frequently change, and there is no proper documentation of internal controls. Management also wants the audit to be completed quickly to meet the deadline for submission of financial statements.

Required:

i. Identify **FOUR (4)** matters the auditor should consider before accepting the audit engagement.

(4 marks)

ii. Explain **THREE (3)** reasons why proper audit planning is important for this audit.

(6 marks)

B. Good audit documentation is appropriately organized, and provides a record of work done, the audit evidence obtained. The significant professional judgements applied and the conclusion reached. Audit documentation should be as clear and understandable as possible, avoiding additional oral explanations.

Required:

Identify **FIVE (5)** contents of audit documentations.

(5 marks)

C. Auditors are responsible to design and perform audit procedures in such a way as to enable the auditor to obtain sufficient and appropriate audit evidence to draw reasonable conclusions on which the auditor's opinion are based on.

Required:

i. Identify the following documents based on their classification.

a. Tax returns.

b. Employee timesheet.

c. Legal correspondence.

d. Minutes of board meeting.

(4 marks)

ii. Determine **TWO (2)** types of inspection used in obtaining audit evidence.

(6 marks)

iii. Determine the types of audit evidence and the audit assertion for each of the following audit procedures.

a. The auditor reconciles the goods received notes (GRNs) with the purchase ledger and supplier invoices to ensure all purchases are recorded.

b. The auditors inspect damaged and obsolete inventory items and compares their condition with management's valuation of inventory recorded in the financial statements.

c. The auditor recalculates the provision for doubtful debts using the company's ageing report of trade receivables and applies the percentage provided in the company's policy.

d. The auditors examine goods received notes (GRNs) for items received shortly before and after year end and traces them to the purchase ledger to ensure they are recorded in the correct accounting period.

e. The auditor attends the year-end physical inventory count and inspects selected inventory items on hand, tracing the quantities counted to the inventory records maintained in the accounting system.

(10 marks)

(Total: 35 marks)

QUESTION 2

Prysm Berhad is a company engaged in the production of industrial components and regularly purchases raw materials from various suppliers to support its operations.

The purchasing process begins when the production department identifies the need for raw materials and submits a purchase requisition to the purchasing department. Upon receiving the purchase requisition, a purchasing officer is involved in identifying suppliers, preparing the purchase order, and approving the purchase before it is issued to the selected supplier.

When the materials are delivered, the receiving department prepares the goods received note (GRN) based on the delivery order provided by the supplier. Physical inspection of the quantity and condition of the goods is not consistently carried out at the time of receipt. The GRN is then forwarded to the accounts department for inventory and accounting records.

The accounts payable department records transactions upon receipt of supplier invoices. In processing the invoices, the department mainly relies on the information stated in the supplier invoice, and the related supporting documents are not always reviewed together before the invoice is recorded. Payments may be processed even when some supporting documents are not fully available.

Payment processing is handled by the finance department. The same finance officer prepares cheques, authorises payments, and releases payments to suppliers. Payment vouchers are prepared to support these payments, but they are not independently reviewed prior to payment.

Required:

a. Identity **SIX (6)** general audit objectives for purchase and payable balances.
(6 marks)

b. Compare between supplier's invoice and supplier's statement.
(4 marks)

c. Evaluate **FIVE (5)** deficiencies in control procedures and their possible implications in Prysm Berhad. Recommend **FIVE (5)** actions for each deficiency.
(15 marks)

d. Determine **TWO (2)** importance of segregation of duties in purchase cycle.
(4 marks)

e. Analyse **THREE (3)** methods used to document understanding of internal controls.
(6 marks)

(Total: 35 marks)

QUESTION 3

Auditor should understand the business functions related to inventory transactions since it will help auditors to determine the necessary internal controls over inventory transactions. The entity should place internal control systems over inventory to prevent intentional and unintentional misstatements.

Required:

a. Identify **FIVE (5)** documents in inventory cycle.

(5 marks)

b. Describe **TWO (2)** potential misstatements in inventory cycle.

(4 marks)

c. Determine **THREE (3)** types of substantive procedures that can be performed by auditor to obtain evidence regarding inventory valuation.

(6 marks)

(Total: 15 marks)

QUESTION 4

An audit report is a formal document that communicates an auditor's opinion on an organization's financial performance and concludes whether it complies with financial reporting regulations. Audit report to provide an independent assessment of an organization's financial statements and financial reporting to ensure transparency and accountability.

Required:

a. Identify **TWO (2)** alternative opinions that may be appropriate when the client's financial statements are not in accordance with Malaysian Financial Reporting Framework (MFRS).
(2 marks)

b. Explain the following elements of unmodified audit report:

   i. Opinion.

   ii. Auditor's responsibilities for the audit of the financial statements.

(4 marks)

c. For the following independent situation, assume you are the audit partner for the audit engagement. Determine the types of audit report and the audit opinion with appropriate justification.

   i. The auditor is unable to observe year-end inventory count for one warehouse due to travel restrictions. Alternative audit procedures provide partial but not complete assurance. The auditor is therefore unable to obtain sufficient appropriate audit evidence relating to the completeness and valuation of inventory held at that location.

   ii. Fifty Construction Berhad is engaged in a long-term infrastructure project accounted for using the percentage-of-completion method. The company overstates revenue from one major contract by failing to recognise foreseeable losses. The misstatement affects profit but does not impact other areas of the financial statements.

   iii. Delta Travel Berhad operates in the tourism and hospitality sector and experienced substantial operating losses following a prolonged downturn in international travel. The management has included a detailed note in the financial statements explaining the plans implemented to address these challenges, including cost-cutting measures and negotiations with lenders.

(9 marks)

(Total: 15 marks)

(TOTAL: 100 MARKS)

END OF QUESTION PAPER