UNIVERSITI POLY-TECH MALAYSIA
UPTM

FINAL EXAMINATION
MASTER OF ACCOUNTANCY

COURSE	:	**SEMINAR IN AUDITING**
COURSE CODE	:	**AUD5094**
DURATION	:	**3 HOURS**

INSTRUCTIONS TO CANDIDATES:

1. This question paper consists of **TWO (2)** questions.
2. Answer **ALL** questions.
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 4 printed pages including the front page

QUESTION 1

"Auditors have also been accused of the practice of setting initial audit fee below the total current costs on the initial audit engage ment, widely known as 'low balling' in the auditing literature. Regulators such as the SEC alleged that 'low balling' on initial engagements impairs auditor independence. However, DeAngelo (1981) demonstrates that 'low balling' does not impair independence; rather, it is a competitive response to the expectation of future quasi-rents to incumbent auditors.

Large audit fees create an economic dependence that may cause auditors to compromise their independence and report favorably to retain valuable clients. A large amount of audit fees also poses greater potential reputational and litigation risks in the event of audit failure. Similarly, Higgs and Skantz (2006) investigate whether the earnings response coefficient (ERC), a proxy for arnings quality, is associated with engagement profitability. Their results indicate that organizations with abnormally high audit fees have significantly higher ERCs on average compared to organizations with abnormally low audit fees, which suggests that the market perceives abnormally high audit fees as a signal that a firm is voluntarily acquiring unusually high levels of audit services that enhance earnings quality. Simunic (1980) provides evidence that price competition prevails throughout the market for the audits of public companies, regardless of the shares of a market segment that is serviced by the big audit firms.

Similarly, an auditor auditing the client's financial statements should refrain from being too economically dependent on non audit services that the auditor provides to the same client. In response to a number of corporate accounting scandals such as Tyco, Enron and WorldCom, Congress passed the landmark Sarbanes-Oxley Act (SOX) in 2002, which mandates non-audit service (NAS) restrictions on auditors. Before the SOX, the SEC attempted to curtail auditors from providing non-audit services by requiring public companies to disclose audit and NAS in proxy statement filed on or after 5 February 2001. These fee data have been used to test whether auditor independence is impaired when the external auditor provides non-audit services to a client. The intent of these regulatory changes has been to curtail the potential threat to auditors' independence, thereby improving the accuracy and reliability of financial disclosures."

Sources: Subedi M. (2022) Independent Audit Matters: Mitigation of Auditors' Independence Issues and Biases, The EDP Audit, Control, and Security Newsletter.

Required:

a. Assess **THREE (3)** potential of threats to auditors from the above articles along with corresponding safeguards.

(15 marks)

b. Analyse **TWO (2)** challenges to the auditor's independence from above article and propose appropriate preventive measures to address those challenges.

(10 marks)

c. Recommend **TWO (2)** strategies for mitigating the biases from the above article.

(10 marks)

d. Evaluate **FIVE (5)** ethical elements that help to uphold the auditor's independence throughout the audit engagement process.

(15 marks)

(Total: 50 marks)

QUESTION 2

Corporate governance is defined as the process and structure used to direct and manage the business and affairs of the company towards promoting business prosperity and corporate accountability with the ultimate objective of realising long-term shareholder value while taking into account the interest of other stakeholders. Corporate governance provides a framework of control mechanisms that support the company in achieving its goals, while preventing unwanted conflicts. The pillars of corporate governance such as ethical behavior, accountability, transparency and sustainability are important to the governance of companies and stewardship of investors' capital. Companies that embrace these principles are more likely to produce long-term value than those that are lacking in one or all. Proper corporate governance identifies the distribution of rights and responsibilities among different participants in the company and outlines among others the rules and procedures for decision-making, internal control and risk management. Corporate governance is not only concerned with shareholder interests but requires balancing the needs of other stakeholders such as employees, customers, suppliers, society and the communities in which the companies conduct their business.

Sources: Malaysian Code on Corporate Governance
Securities Commission Malaysia 2021

Required:

a. Assess **FIVE (5)** benefits and drawbacks of corporate governance to the organization.

(15 marks)

b. Analyse **TWO (2)** corporate governance principles with appropriate justification on how those elements affect the quality of audit.

(10 marks)

c. Evaluate **TWO (2)** factors affecting the quality of external auditors that play a crucial role in the corporate governance framework along with its implications.

(10 marks)

d. Evaluate **FIVE (5)** methods by which digitalization can strengthen external auditors' skepticism in corporate governance throughout the auditing process.

(15 marks)

(Total: 50 marks)

(TOTAL: 100 MARKS)

END OF QUESTION PAPER