

**FINAL EXAMINATION****BACHELOR OF ACCOUNTANCY (HONOURS)**

COURSE	:	INTERNAL AUDITING
COURSE CODE	:	AUD4083
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. : _____

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SECTION : _____

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

QUESTION 1

Chenta Berhad is a manufacturing company that produces electronic components for local and international markets. The company has expanded its business operations to several countries, including Indonesia and Thailand. Due to the expansion, the Board of Directors established an Internal Audit Department to improve governance, risk management, and internal controls in accordance with the Global Internal Auditing Standards 2024 issued by Institute of Internal Auditors.

The Chief Audit Executive (CAE) reports directly to the Audit Committee to ensure independence in audit activities. During the annual audit planning process, the internal auditors identified several high-risk areas such as cybersecurity weaknesses, inventory discrepancies, delays in supplier payments, and possible conflicts of interest in procurement activities. The Audit Committee requested the internal auditors to conduct a risk-based audit and report significant findings to management and the Board.

Required:

- a. Discuss **THREE (3)** elements of Domain II under Global Internal Auditing Standards 2024.
(6 marks)
- b. Explain **THREE (3)** reasons why independence is important for internal auditors in Chenta Berhad.
(6 marks)
- c. For each of the following independent situation, determine the ethical issue related to the ethics and professionalism of internal auditor:
 - i. An internal auditor shared confidential financial information about the company's planned acquisition with friends outside the organization.
 - ii. An internal auditor with no information technology audit knowledge conducted a cybersecurity audit without seeking assistance or training. As a result, major system vulnerabilities were overlooked.
 - iii. An internal auditor discovered fraudulent reimbursement claims made by a senior manager. However, the auditor intentionally omitted the finding from the audit report because the manager was a close friend.
 - iv. An internal auditor was assigned to audit the payroll department where she previously worked as Payroll Supervisor six months earlier. She ignored several control weaknesses to avoid criticism of her past work.
(8 marks)

(Total: 20 marks)

QUESTION 2

Perfect Shadow Berhad recently restructured its Internal Audit Department (IAD) after experiencing financial losses and operational inefficiencies. The company appointed Ms. Zara as the new Chief Audit Executive (CAE). However, the CAE reports directly to the Chief Financial Officer (CFO) instead of the Audit Committee.

During an audit of the procurement department, one internal auditor, Mr. Luth Mikhail, was assigned to review purchasing activities managed by his brother-in-law, who is the Procurement Manager. Mr. Luth Mikhail did not disclose the relationship and ignored several weaknesses involving supplier selection and approval procedures. In addition, the Internal Audit Department has only three auditors, and none of them possess information technology (IT) audit expertise even though the company recently implemented a new computerized purchasing system.

The Audit Committee became concerned that the Internal Audit Department may not be operating effectively and independently in accordance with professional internal auditing practices.

Required:

- a. Explain **THREE (3)** issues faced by the IAD in the situation above. (6 marks)
- b. Analyse **THREE (3)** possible consequences if the issues in the IAD are not addressed and determine **THREE (3)** actions to improve the effectiveness of the IAD. (9 marks)

(Total: 15 marks)

QUESTION 3

Software Empayer Berhad is a large retail company that operates physical stores and online shopping platforms throughout Southeast Asia. The company recently upgraded its operations by implementing cloud-based accounting systems, electronic payment systems, automated inventory tracking, and data analytics software.

The Internal Audit Department (IAD) was instructed to conduct an audit on the effectiveness of the new digital systems. To improve audit efficiency, the internal auditors used various technology-based audit tools and techniques such as Computer-Assisted Audit Techniques (CAATs), data analytics software, electronic working papers, continuous auditing systems, and cybersecurity assessment tools.

During the audit, the auditors discovered unusual duplicate payments to suppliers, unauthorized access attempts into the company's database, and inconsistencies between physical inventory and system records. However, some auditors lacked sufficient information technology (IT) knowledge to fully utilize the audit software and interpret large volumes of digital data.

The Audit Committee emphasized that internal auditors must continuously enhance their technological competency to ensure effective auditing in a digital business environment.

Required:

- a. Describe **TWO (2)** advantages of using technology-based audit tools and techniques in internal auditing.
(4 marks)
- b. Discuss **TWO (2)** ways the use of data analytics and continuous auditing systems can strengthen governance, risk management, and internal controls in an organization.
(4 marks)
- c. Analyse **THREE (3)** factors that internal auditors should consider before implementing technology-based audit tools and techniques in an organization along with **THREE (3)** strategies that an IAD can implement to remain effective in a rapidly changing digital environment.
(12 marks)

(Total: 20 marks)

QUESTION 4

Pharma Supplies Berhad is a pharmaceutical distribution company that supplies medical products to hospitals and clinics. The company recently implemented a new computerized inventory system to manage inventory records and warehouse operations more efficiently.

During a routine audit, the Internal Audit Department discovered unusual inventory adjustments involving high-value medical equipment. System records showed that large quantities of inventory were transferred between warehouses, but supporting transfer documents could not be located. Physical inspections also found that several medical items recorded in the system were missing from the warehouses.

Further investigation revealed that some inventory records had been modified after office hours using the account of a warehouse supervisor who was on long medical leave. The internal auditors suspected possible collusion among warehouse staff and weaknesses in system access controls. The Audit Committee requested the Internal Audit Department to conduct a detailed fraud investigation to determine the cause of the irregularities and identify control weaknesses.

Required:

- a. Identify **THREE (3)** pressure risk factors that may contribute to fraudulent schemes at Pharma Supplies Berhad.

(3 marks)

- b. Analyse **THREE (3)** red flags in the scenario that indicate the possibility of fraud within Pharma Supplies Berhad and **THREE (3)** investigation procedures that should be performed to obtain sufficient audit evidence.

(12 marks)

(Total: 15 marks)

QUESTION 5

- A. Lumut Sdn. Bhd. is a company producing packaged food products. The Head of Internal Audit planned an audit on the inventory management process because management noticed increasing inventory losses and differences between physical stock and system records.

The internal audit activity was conducted in accordance with the requirements of the Institute of Internal Auditors Global Internal Audit Standards 2024.

Required:

- a. Identify **THREE (3)** planning activities performed by the internal auditor. (3 marks)
 - b. Determine **THREE (3)** audit procedures used by the auditor during fieldwork. (6 marks)
 - c. Examine **THREE (3)** importance of follow-up activities in the internal audit process. (6 marks)
- B. Unique Boutique Sdn. Bhd. operates retail clothing outlets across shopping malls. During an internal audit observation at the sales counter, auditors noted that cashiers handle both cash collection and daily sales reconciliation without independent review.

At the end of the day, cash is counted by the cashier alone before being deposited into the bank. There is no closed-circuit television (CCTV) monitoring or supervisor verification during cash counting. In addition, some refund transactions are processed without approval from store management.

Required:

- a. State **THREE (3)** objectives of internal audit report. (3 marks)
- b. Analyse **THREE (3)** possible implications for the above deficiencies, along with **THREE (3)** recommendations to resolve the deficiencies. (12 marks)

(Total: 30 marks)

(TOTAL: 100 MARKS)

END OF QUESTION PAPER