

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

|                    |          |                          |
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| <b>COURSE</b>      | <b>:</b> | <b>INTERNAL AUDITING</b> |
| <b>COURSE CODE</b> | <b>:</b> | <b>AUD4083</b>           |
| <b>DURATION</b>    | <b>:</b> | <b>3 HOURS</b>           |

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

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*This question paper consists of 7 printed pages including the front page.*

## QUESTION 1

You are employed as an internal auditor at Fatonah Sdn. Bhd. During a routine review of payment transactions, you discover that a supplier has been overbilling the company. Further investigation reveals that a portion of the excess payments is being secretly passed to the company's Head of Purchasing. These transactions are not disclosed or reflected in the company's financial records.

You inform your audit supervisor about the issue. However, she advises you not to pursue or report the matter, explaining that the individual involved has a close relationship with senior management.

You recall that the 2024 International Professional Practice Framework (IPPF) stresses the importance of integrity, objectivity, and ethical conduct, requiring internal auditors to uphold professional standards and act ethically even when facing pressure from within the organisation.

**Required:**

- a. Discuss **THREE (3)** roles of the IPPF in guiding and supporting the work of internal auditors.  
(6 marks)
- b. Explain **THREE (3)** measures that can be implemented to protect the objectivity of internal auditors at Fatonah Sdn. Bhd.  
(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 auditor limits the distribution of audit results to the audit committee and authorised members of management only.
  - ii. An auditor discloses all audit findings truthfully, even when one of the findings may cause a delay in a department's project timeline.
  - iii. An auditor accepts a meal invitation from a vendor currently under audit, justifying that it is merely hospitality rather than an inducement.
  - iv. An internal auditor deliberately excludes a significant finding from the audit report to protect the reputation of the company's Chief Executive Officer.  
(8 marks)

(Total: 20 marks)

## QUESTION 2

The Internal Audit Unit (IAU) of Lulu Berhad is currently facing operational challenges. The Head of Internal Audit has directed auditors to focus mainly on high-risk areas such as revenue leakage, data privacy breaches, and fraud prevention due to recent industry incidents. However, several auditors believe that routine audits, including inventory controls and branch compliance reviews, are receiving insufficient attention. This difference in opinion has resulted in tension over audit planning and resource allocation.

In addition, the IAU is experiencing internal management issues, including an imbalance in audit assignments among staff, perceived bias in selecting auditors for high-profile engagements, and uncertainty regarding reporting responsibilities. These issues have led to delays in audit completion, decreased motivation among team members, and a decline in the overall performance of the internal audit function. If these challenges are not addressed, the IAU may struggle to fulfil its responsibilities effectively.

**Required:**

- a. Explain **THREE (3)** key roles of the IAU in Lulu Berhad. (6 marks)
  - b. Analyse **THREE (3)** advantages of outsourcing the internal audit function compared to establishing an in-house IAU. (9 marks)
- (Total: 15 marks)

## QUESTION 3

Amanah Sdn. Bhd. is considering adopting artificial intelligence (AI) in its internal audit department. Management believes that using AI can help auditors process large volumes of data faster, detect potential risks more accurately, and perform more thorough analyses of financial and operational information.

Currently, internal auditors use traditional audit methods such as sampling and manual data analysis. To improve the audit process, management is exploring AI tools that can review entire datasets, detect unusual transactions, and highlight potential risks automatically. The company expects AI to improve the quality and effectiveness of internal audits.

**Required:**

- a. Describe **TWO (2)** differences between traditional audit approach and AI-based audit approach.  
(4 marks)
- b. Discuss **TWO (2)** ways in which AI can improve the overall effectiveness of internal audit functions within an organisation.  
(4 marks)
- c. Analyse **FOUR (4)** potential threats that AI may pose to internal auditors along with a mitigation strategy for each.  
(12 marks)

(Total: 20 marks)

**QUESTION 4**

Rabiatul Anisah is the procurement and accounts supervisor of a medium-sized engineering firm. She is responsible for approving supplier invoices, processing staff expense claims, and updating vendor master files in the accounting system. Due to staff shortages, management allows her to perform multiple duties without independent review.

Over time, Rabiatul Anisah begins submitting inflated travel and entertainment claims by attaching receipts that are either duplicated or unrelated to business activities. At the same time, she creates several fictitious suppliers in the accounting system using names similar to legitimate vendors. Payments made to these suppliers are transferred to bank accounts under her control.

There is no regular review of expense claims against supporting documents, and supplier master files are not periodically verified. Management relies heavily on system-generated reports without performing detailed checks. Internal audits are infrequent, and exception reports are not reviewed. As a result, the fraudulent transactions continue for a prolonged period without detection.

**Required:**

- a. Identify **THREE (3)** elements of control environment that can be used to prevent fraud.  
(3 marks)
- b. Analyse **THREE (3)** possible implications of internal control deficiencies in the above situation and **THREE (3)** possible actions to address them.

(12 marks)

(Total: 15 marks)

## QUESTION 5

- A. An internal audit engagement has commenced at a retail company facing challenges with inconsistent inventory management. The organization manages a diverse range of products, and concerns have arisen regarding potential inefficiencies in stock handling, discrepancies between physical and recorded inventory, and non-compliance with established procedures. The internal audit team has been assigned to assess the adequacy and effectiveness of the company's inventory control processes. The audit will be conducted following the standard internal audit methodology, which includes the stages of planning, fieldwork, evaluation, reporting, and follow-up.

**Required:**

- a. Identify **THREE (3)** benefits of a structured internal audit process. (3 marks)
  - b. Determine **THREE (3)** key elements of engagement plan. (6 marks)
  - c. Examine **THREE (3)** roles of auditee in follow-up process. (6 marks)
- B. As part of the internal audit at Ringgo Sdn. Bhd., a review was carried out on the accounting department's internal control procedures, with emphasis on transaction authorization, segregation of duties, and reconciliation practices.

The audit revealed that a single accounts executive is performing several critical financial functions, including posting journal entries, reconciling the company's bank accounts, processing and approving supplier payments, and issuing credit memos for customer returns.

The finding reveals the following:

- i. Several unauthorized credit memos were issued to related parties without documented approval or evidence of actual returns.
- ii. There were instances of duplicate supplier payments, with no review or secondary verification before disbursement.
- iii. There is no formal approval workflow for high-value transactions or customer-related adjustments.

**Required:**

- a. State **THREE (3)** key elements of effective communication of internal audit report.  
(3 marks)
- b. Analyse **THREE (3)** causes of inconsistency for the above findings,  
along with **THREE (3)** recommendations to resolve the inconsistencies.  
(12 marks)

(Total: 30 marks)

**(TOTAL: 100 MARKS)**

**END OF QUESTION PAPER**

