



**KOLEJ YAYASAN PELAJARAN JOHOR
FINAL EXAMINATION**

COURSE NAME : AUDIT
COURSE CODE : DAC2103
EXAMINATION : JANUARY 2024
DURATION : 3 HOURS

INSTRUCTION TO CANDIDATES

1. This examination paper consists of **THREE (3)** part:
 - PART A (15 marks)
 - PART B (35 marks)
 - PART C (50 marks)
2. Candidates are not allowed to bring any material to examination room except with the permission from the invigilator.
3. Please check to make sure that this examination pack consist of:
 - i. The Question Paper
 - ii. An Answering Booklet
 - iii. True/False Answer Sheet
 - iv. An Objective Answer Sheet

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO

*This examination paper consists of **15** printed pages including front page*



PART A

This part consists of **FIFTEEN (15)** questions.

Answer ALL questions in the True/False Answer Sheet.

1. Test of control is more appropriate for small companies with less segregation of duties.
2. Documentation is a form of evidence used in every audit because it is usually readily available to the auditor at a relatively low cost.
3. One reason why the auditor performs analytical procedures is to identify weaknesses in the internal control system.
4. Analytical procedures are substantive tests that examine the trends, unusual and inconsistencies relationships among data.
5. A pre-numbered purchased order is the least persuasiveness type of audit evidence.
6. The initial phase of an audit process is planning the audit.
7. Reasonable assurance is a concept relating to the accumulation of the audit evidence necessary for the auditor to conclude that there are no misstatements in the financial statement taken as a whole.
8. The auditor's primary consideration regarding an entity's internal control system is whether the system affects the financial statement assertions.
9. The appropriateness of evidence includes quantity of evidence collected.
10. In audit work, auditor only need to choose to carry out either test of control or substantive procedure.
11. Current audit file is an example of audit evidence.

12. Evidence, regardless of its form, is considered appropriate when it provides information that is both relevant and reliable.
13. Analytical procedures are substantives tests of financial information through a study and comparison of relationships among data.
14. Audit program is the detail instructions for the collection of the necessary types of audit evidence in order to support the auditor's report.
15. The quantity of evidence obtained determines its reliability.

[15 MARKS]

PART B

This part consists of **THIRTY-FIVE (35)** questions.

Answer ALL questions in the Objective Answer Sheet.

1. The auditor would usually perform a test of control in order to
 - A identify monetary errors in the recorded transactions.
 - B detect fraudulent financial reporting practices by the management.
 - C determine the effectiveness and efficiency of the operating procedures.
 - D detect material misstatements and non-compliance to the financial reporting standards.
2. Choose any of the following audit evidences which is considered as the least persuasive.
 - A Pre-numbered sales order form.
 - B Bank statement obtained from client.
 - C Test count of petty cash balance performed by the auditor.
 - D Correspondence from the client's solicitor regarding the status litigation case.

3. The audit procedures are carried out in order to obtain evidences supporting the management assertions contained in the financial statements. Determine which of the following assertions is likely to be tested when the auditor performs physical examination of the client's assets as at the financial year-end.
- A Validity.
 - B Existence.
 - C Completeness
 - D Rights and Obligations.
4. Choose the most appropriate audit procedure that may detect the inclusion of obsolete inventory in the statement of financial position.
- A Review the records of inventory movements.
 - B Obtain confirmation of inventory balance held by third party.
 - C Examine evidence of approval for the purchase of inventory.
 - D Inquire with the management on the procedures for ordering goods from the supplier.
5. The following circumstances would cause a scope limitation during the audit except
- A natural disaster has destroyed the client's accounting records.
 - B the auditor was unable to perform inventory count as at the year-end.
 - C the management refuses to provide the necessary accounting records.
 - D the company refuses to write off uncollectible accounts receivable balance.
6. Analytical procedures used in planning an audit should focus on identifying
- A material weakness of internal control.
 - B areas that may represent specific risks relevant to the audit.
 - C the predictability of financial data from individual transactions.
 - D the various assertions that are embodied in the financial statements.

7. Which of the following does not constitute persuasiveness of evidence?
- A Quantity of evidence collected.
 - B Documentation of such evidence.
 - C The reliability of the audit evidence obtained.
 - D Its relevance to the audit objective being tested.
8. The document that can be found in the current audit file is
- A flowchart.
 - B audit program.
 - C accounting manual.
 - D copies of important contract.
9. Tracing a small number of transactions through the system to confirm the recording of the system is known as a
- A test of control.
 - B substantive test.
 - C compliance test.
 - D walk through test.
10. The following are substantive tests conducted to ascertain the existence of payments of goods and services actually received except
- A examine cancelled cheque for authorized signature.
 - B reconcile recorded payments with payments on the bank statement.
 - C examine the supporting documents as part of the tests of acquisitions.
 - D review the payment vouchers, general ledger and accounts payable master file for unusual amounts.

11. Which of the following best describes the control environment of the internal control components?
- A Control environment is the process of identifying and responding to business risks.
 - B Control environment is a process to assess the quality of internal control performance over time.
 - C Control environment sets the tone of an organisation which reflects the attitude and actions of management.
 - D Control environment refers to policies and procedures that helps ensure that management directives are carried out.
12. Audit documentation provides an important source of information to assist the auditor in
- A assessing the client business risk.
 - B deciding whether to accept or continue doing the audit for the client.
 - C providing a set of principles and rules that offer guidance to members.
 - D deciding the appropriate audit report to issue in a given set of circumstances.
13. The comparison of prior years and current year's account balances in the Statement of Financial Position is an example of
- A test of control.
 - B test of details for disclosure.
 - C substantive analytical procedures.
 - D test of details of classes of transactions.
14. Internal control system is a process designed to provide reasonable assurance regarding the achievement of management's objective in the following categories except
- A reliability of financial reporting.
 - B compliance with laws and regulations.
 - C effectiveness and efficiency of operations.
 - D auditors able to detect misstatement in financial statements.

15. Which of the following audit procedures is ordinary performed last?
- A Confirming account payable.
 - B Testing the purchasing function.
 - C Reading the minutes of director's meetings.
 - D Obtaining a management representation letter.
16. The concept of materiality will be least important to an auditor in determining the
- A extent of the audit procedures.
 - B transactions that should be reviewed.
 - C facts or transactions that need to be disclosed.
 - D significant of an auditor's independence on his financial interest in the client.
17. An auditor's flowchart of a client's internal control system is a diagrammatic representation that depicts the auditor's
- A procedure of his fieldwork.
 - B documentation of substantive audit procedures.
 - C understanding on the types of irregularities that are problem in the system.
 - D understanding of the client's documents and the sequential flow of the organisation.
18. When considering the internal controls of an organization, an auditor must be aware of the concept of reasonable assurance which recognize that the
- A cost of internal control should not exceed the benefits expected to be derived therefrom.
 - B separation of compatible functions is necessary to ascertain the effectiveness of the internal controls.
 - C recruitment of competent personnel provides assurance that the management's control objective will be achived.
 - D establishment and maintenance of internal controls is an important responsibility of the management and not of the auditor.

19. Due to the risk of material misstatement, an audit of financial statements should be planned and performed with an attitude of
- A independent.
 - B impartial sceptism.
 - C objective judgement.
 - D professional sceptism.
20. Risk of material misstatement refers to a combination of which of the **two (2)** components of an audit risk model?
- A Audit risk and control risk.
 - B Audit risk and inherent risk.
 - C Inherent risk and control risk.
 - D Control risk and detection risk.
21. Which of the following is true about audit evidence?
- A Audit evidence is conclusive in nature.
 - B Sufficiency is a measure on the quality of audit evidence.
 - C Reliability of audit evidence refers to whether a particular type of evidence can be relied upon to reflect the true state of an assertion.
 - D Effectiveness of internal control of an entity does not affect the reliability of audit evidence as there are other procedures that can be performed.
22. Which of the following documents can be found in a current audit file?
- A Chart of accounts.
 - B Memorandum of Association.
 - C Bank reconciliation statement.
 - D Narrative notes on internal control.
23. The following types of audit procedures may be used by an auditor as tests of control except
- A analytical procedures.
 - B inspection of documents.
 - C observation of specific controls.
 - D inquiries of appropriate management.

24. Which of the following control procedures is most likely to address the completeness assertion for inventory?
- A Receiving report are pre-numbered and periodically reconciled.
 - B The work in process account is periodically reconciled with subsidiary records.
 - C Employees responsible for custody of finished goods do not perform receiving function.
 - D There is a separation of duties between payroll department and inventory accounting personnel.
25. Internal controls are not designed to provide reasonable assurance that
- A irregularities will be eliminated.
 - B transactions are executed as authorized by management.
 - C access to assets is permitted only in accordance with management's authorization.
 - D recorded accountability for assets is compared with the existing assets at reasonable intervals.
26. A test design to determined that the internal controls are operating according to the established procedures is known as
- A detailed test.
 - B test of control.
 - C substantive test.
 - D observation test.
27. Significant unexpected fluctuations identified by analytical procedures will usually requires the auditor to
- A issue a qualified opinion.
 - B explain in the letter of representation.
 - C further examine the account balances.
 - D understand the client's internal control system.

28. An auditor would obtain most assurance on the existence of inventories by
- A observing physical inventory counts.
 - B re-computing inventory extensions.
 - C confirming inventories in a public warehouse.
 - D requesting written inventory representations from the management.
29. All of the following are limitations of an audit except
- A fatigue and carelessness of auditors.
 - B audit conclusion is made on the basis of examining samples of evidence.
 - C the inability of the auditor to corroborate any representations of management.
 - D some evidence supporting dollar representations in the financial statements must be supported by oral or written representations of management.
30. Which of the following is not an example of fraud?
- A Entity personnel falsify accounting records.
 - B Entity personnel intentionally omit transactions.
 - C Entity personnel intentionally misapply accounting principles.
 - D Entity personnel make mistakes in the application of accounting principles.
31. To minimise the risk that material misstatements in the financial statements might not be detected, the auditor primarily relies on?
- A Test of controls.
 - B Substantive tests.
 - C Statistical analysis.
 - D Verbal communication with client's staff.
32. Analytical procedure is
- A substantive test designed to evaluate internal control.
 - B test of controls designed to evaluate the adequacy of internal controls.
 - C substantive tests designed to evaluate the reasonableness of an account balance.
 - D test of controls designed to evaluate the validity of management representations.

33. Which is the most reliable audit evidence?
- A Receiving report examines by auditor.
 - B Corporate's minute book reviewed by the auditor.
 - C The auditor's calculation of deferred income taxes.
 - D Bank reconciliation statement prepared by internal auditor.
34. The risk that the auditor may unknowingly fail to appropriately modify his or her opinion on financial statements that are materially misstated is
- A the audit risk.
 - B the control risk.
 - C the inherent risk.
 - D the detection risk.
35. In accordance with auditing standards, analytical procedures should be performed
- A at the planning stage of an audit.
 - B when the auditor intends to perform tests of control.
 - C when the auditor does not intend to perform substantive procedures.
 - D at the planning, gathering of evidence and the overall review stage of an audit.

[35 MARKS]

PART C

This part consists of **TWO (2)** questions.

Answer ALL questions in Answering Booklet.

QUESTION 1

The auditor's report is a document in which the auditor expresses his or her view on whether a company's financial statements are compliant with GAAP and free of material misstatement.

Required:

Suggest with reasons the type of auditor's report that may be issued in each of the **FIVE (5)** different given situations of Adriana Lee & Associates.

- i. The auditors found inadequate disclosure on the Property, Plant and Equipment (PPE) of Hassan Berjaya Berhad. The effect of the amount was significant and material to the company's financial performance. However, the management of the company refused to make the additional disclosure as requested by the auditors.
- ii. Upon completion of the audit on the financial statements of Jaya Bumi Berhad, the auditors agreed that the financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets, were properly drawn up in accordance with the provision of the Companies Act 2016 and applicable approved accounting standard.
- iii. Jester Berhad has just recently appointed Mr Aaron as the company's new CEO. During the audit, the auditors were unable to accumulate enough evidence to conclude whether the financial statements of Jester Berhad were prepared in accordance with the applicable rules and regulations. It was informed that Mr Aaron restricted the auditors' rights to obtain information that is crucial for the auditors to form their opinion from the company's key personnel.

- iv. Next, they have audited Super Profit Berhad. The auditors received satisfactory information and explanations required for the purpose of the preparation of the audited financial statements of Super Profit Bhd. However, the auditors were concern about the recent lawsuit faced by the company for alleged infringement of certain patent rights. The case is still on going and no provision for any liability disclosed in the financial statement.
- v. Upon the audit of Mesra Berhad's financial statements, the auditors noticed an item in the financial report was not recorded according to the applicable accounting standard. The non-conformity was considered to have material but not significant effect.

(25 marks)

QUESTION 2

D'Perantau Supermarket Sdn Bhd is a medium-size business with more than 100 employees including 30 cashiers. The recruitment of the cashiers and the payroll processing procedures are described below:

Recruitment of cashiers are usually conducted through a walk-in interview. The job applicants are required to fill in an application form and a job interview would be conducted by the operations manager. The terms of the employment such as the company rules and regulations, working hours, salary, allowances, and other benefits would be briefed by the operations manager during the interview. The operations manager may offer a different amount of starting salary to an applicant with adequate prior working experience. If the applicant agreed with the terms of the employment, he is required to undergo a medical check-up at a nearby panel clinic.

Upon receipt of a satisfactory medical report, the operations manager would set a suitable date for the applicant to start working. The operations manager would also inform the human resource manager through an e-mail regarding the detailed particulars of the employment so that the employee database system could be

updated accordingly. The probationary period for every employee is one year and during the period, the employer or the employee may terminate the employment by giving a 24-hour written notice to the other party. An official employment letter stating the detailed terms of the employment is issued by the Human Resource Department only to the employee who has undergone the probationary period successfully.

The company uses a special computer software application for recording the attendance of all employees. In the morning, every employee is required to use his/her personal smartphone to log in to a system for recording the attendance to work. Alternatively, the employee may also use the company's personal computer to log in to the system. At the end of every month, the attendance record of every employee is printed and checked by the human resource clerk. If there is any error or ambiguity in the record such as non-recording of attendance or late clock-in, the human resource clerk would inquire the respective employee and update the status in the computerised attendance system.

For the processing of monthly salary, a payroll clerk is responsible to extract the data and records from the attendance system and prepare a payroll master schedule, showing the detailed calculation of salary including any allowances and deductions, as well as the net amount of salary for a particular month. Next, the payroll master schedule is handed over to the accounts clerk for preparation of a credit transfer form. The credit transfer form gives instruction for the bank to deduct the company's current account and to credit the individual bank accounts of every employee with the amount of his/her net monthly salary. The form requires joint authorisation by the company's Accountant and the Finance Director before it is sent to the bank.

Although payslips are not issued to all employees, any employee may request for his/her payslip from the payroll clerk. As a detective control measure, a bank reconciliation statement is prepared by the accounts clerk on a quarterly basis.

Required:

- a. Identify any **five (5)** major weaknesses in the above internal control system.
(5 marks)

- b. Determine the possible effects for each of the weaknesses discussed above.
(10 marks)

- c. Derive recommendations to rectify each of the weaknesses discussed above.
(10 marks)

Present your answer using the following format:

a. Weaknesses	b. Possible effects	c. Recommendations

[50 MARKS]

END OF QUESTION PAPER



