



KOLEJ YAYASAN PELAJARAN JOHOR
FINAL EXAMINATION

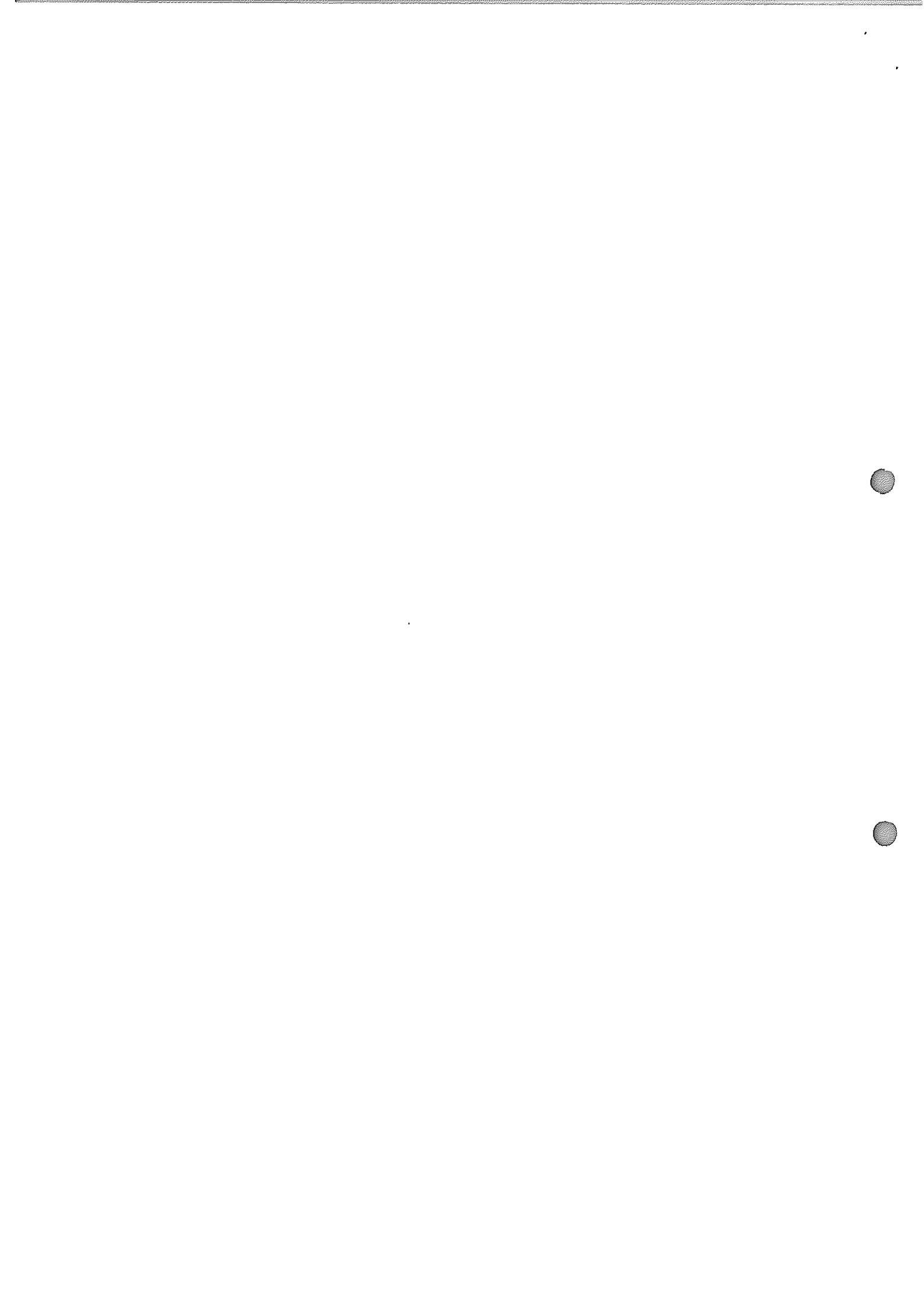
COURSE NAME : AUDIT
COURSE CODE : DAC2103
EXAMINATION : JUNE 2023
DURATION : 3 HOURS

INSTRUCTION TO CANDIDATES

1. This examination paper consists of **ONE (1)** part: PART A (100 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

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This examination paper consists of 6 printed pages including front page



PART A

This part consists of **FIVE (5)** questions. Answer all questions in the Answering Booklet.

QUESTION 1

Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Adequate planning benefits the audit of financial statements. This includes client acceptance and continuance and performing initial audit planning.

Required:

- a. State any **three (3)** reasons of audit planning. (3 marks)
- b. Explain briefly **two (2)** important factors in accepting prospective client. (4 marks)
- c. Assess any **two (2)** primary reasons for obtaining a good understanding of the client's industry and external environment. (4 marks)
- d. Determine the management assertions related to the specified balance-related audit objectives for the following sales transactions:
 - i. The recorded sales are for amount of goods shipped and are correctly billed and recorded.
 - ii. The sales transactions which include any returns and discounts are properly been recorded in the respective journals. (4 marks)
- e. Determine the most appropriate types of audit working paper for the following items:
 - i. Extracts or copies of company's documents such as agreements, contracts and statutory documents.
 - ii. Organization chart of every department in the company.
 - iii. Audit planning memorandum, abstracts and copies of minutes of board of directors meeting.
 - iv. Working trial balance with the pre and post audit adjustment figures.
 - v. The information related to the succession plan of the management team of the company. (5 marks)

(5 marks)
[20 MARKS]

QUESTION 2

The use of analytical procedures and materiality acknowledgement has increased nowadays because of the effectiveness at identifying possible misstatement at a low cost and required in the planning and completion phases of the audit.

Required:

- a. Define the term "analytical procedures".
(2 marks)
 - b. Discuss briefly **two (2)** reasons analytical procedures commonly used in the planning phase during audit process.
(4 marks)
 - c. An effective auditor recognized that risks exist and deals with those risks in an appropriate manner. Illustrate audit risk and its components.
(6 marks)
 - d. Explain the differences between sampling risk and non-sampling risk during the audit process.
(4 marks)
 - e. Explain briefly the concepts of materiality.
(4 marks)
- [20 MARKS]**

QUESTION 3

Paragraphs 6 and 7 of ISA 500 stipulated that it is the auditor who designs and performs audit procedures for the purpose of obtaining sufficient appropriate audit evidence and that, when designing and performing audit procedures, the auditor shall consider the relevance and reliability of the information to be used as audit evidence.

Required:

- a. State **five (5)** types of audit evidence that can be obtained by auditor in audit procedure performed
(5 marks)
 - b. Describe briefly the persuasiveness of audit evidence.
(10 marks)
 - c. Explain any **two (2)** reasons for audit evidence to be persuasive rather than conclusive.
(5 marks)
- [20 MARKS]**

QUESTION 4

An auditor's report expresses an opinion on the financial statements of a company's validity and reliability. An auditor's report aims to provide fair assurance that a company's financial statements are free from material misstatement.

Required:

- a. Demonstrate the circumstances in which the adverse opinion is issued by auditors.

(5 marks)

- b. Explain with justifications the type of auditor's report that may be issued in each of the following independent situations of five different in audit clients of AFWA & Associates:

- i. The auditors were satisfied with the financial statements prepared for Excellent Berhad. In their opinion, the financial statements were prepared in accordance with the applicable accounting standards. However, the auditors are concerned about the recurring operating loss suffered by Excellent Berhad.
- ii. The auditors and the management of Manis Harum Berhad have a disagreement about the amount of an item in the financial statements. The amount was significant and material to the company's financial performance. The management of the company refused to make the amendment as requested by the auditors.
- iii. Fly High Berhad has reshuffled the management team recently. During the audit, the auditors were unable to accumulate enough evidence to conclude whether the financial statements of Fly High Berhad were prepared in accordance with the applicable rules and regulations. Apparently, the personnel refused to give information relating to the tasks they have done while holding their previous posts.
- iv. The auditors received satisfactory information and explanations required for the purpose of the preparation of the financial statements of Forever Green Berhad. In their opinion, the financial statements were prepared in accordance with the applicable accounting standards.
- v. Upon the audit of Gilang Gemilang Berhad's financial statements, the auditors noticed an item involving a status of a contract with an external party which cannot be determined. The arrangement only worth RM100,000 which stands at 1% from the company's total long-term contract.

(15 marks)
[20 MARKS]

QUESTION 5

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

Present your answer using the following format:

a. Weaknesses	b. Possible effects	c. Recommendations

[20 MARKS]

END OF QUESTION PAPER

