



**FINAL EXAMINATION**  
**MARCH 2024**

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| <b>COURSE TITLE</b>  | <b>AUDIT 1</b>                                       |
| <b>COURSE CODE</b>   | <b>AAUD2113</b>                                      |
| <b>DATE/DAY</b>      | <b>21 JUNE 2024 / FRIDAY</b>                         |
| <b>TIME/DURATION</b> | <b>03:00 PM - 06:00 PM / 03 Hour(s) 00 Minute(s)</b> |

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**INSTRUCTIONS TO CANDIDATES :**

1. Please read the instruction under each section carefully.
2. Candidates are reminded not to bring into examination hall/room any form of written materials or electronic gadget except for stationery that is permitted by the Invigilator.
3. Students who are caught breaching the Examination Rules and Regulation will be charged with an academic dishonesty and if found guilty of the offence, the maximum penalty is expulsion from the University.

(This Question Paper consists of 5 Printed Pages including front page)

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

This question paper consists of FOUR (4) questions. Answer ALL questions in the answer booklet provided. [100 MARKS]

**QUESTION 1**

**(25 Marks)**

Assurance service is defined as an independent professional service in which a practitioner expressed a conclusion designed to enhance the degree of confidence of intended users other than the responsibility party about the outcome of the evaluation or measurement of the subject matter against criteria. In general, audit of financial statements is a subset of assurance engagements.

**Required:**

- a) Briefly explain the definition of financial statement audit. (5 marks)
- b) Due to the concept of reasonable assurance, there will be inherent limitations in audit. Explain **TWO (2)** inherent limitations in audit that arise from this concept. (10 marks)
- c) Describe the demand for financial statement audit in monitoring the contractual relationship between an entity and its stakeholders. (10 marks)

**QUESTION 2**

**(25 Marks)**

In accordance with ISA 315, the auditor shall identify and assess the risks of material misstatement due to fraud at the financial statement level, and at the assertion level for classes of transactions, account balances and disclosures.

- a) Explain **TWO (2)** types of misstatements that may arise in financial statements. (10 marks)
- b) Using Fraud Risk Factors theory, describe **THREE (3)** motives behind fraud commitment by management and employees. (15 marks)

**QUESTION 3**

**(25 Marks)**

Audit evidence is obtained from the performance of an audit procedure that normally comprises an appropriate mix of test of controls and substantive test.

**Required:**

- a) For each of the following audit procedure, indicate the types of audit evidence being gathered of the following circumstances:

(10 marks)

- i. Sending a written request to the client's customer requesting that they report the amount owed to the client.
- ii. Comparing the current year's gross profit percentage with the gross profit percentage for the last two years.
- iii. Examining the new factory equipment to ensure that this major acquisition was received.
- iv. Watching client's warehouse personnel count the raw materials inventory.
- v. Tracing the prices used by the clients' billing program for pricing sales invoices to the client's approved price list.
- vi. Discussing the adequacy of the provision for doubtful debts with the credit manager.
- vii. Agreeing the total of the accounts receivable subsidiary ledger to the receivable's general ledger accounts.
- viii. Obtaining the letter from the client's solicitor indicating that there were no lawsuits in progress against the client.
- ix. Counting petty cash to make sure that the petty cash is intact.
- x. Calculated the ratio of cost of goods sold to sales as a test of overall reasonableness of gross margin relative to the preceding years.

- b) For each of the following situations, suggest an appropriate audit procedure that will be undertaken:

(10 marks)

- i. Purchase of goods and services not authorized.
- ii. Supplier's invoice improperly priced.
- iii. Sales transaction not properly classified.
- iv. Goods shipped or services performed for a customer of poor credit risk.
- v. The existence of new equipment.
- vi. Ownership of motor vehicles.
- vii. Accuracy of bank balances.
- viii. Recorded value of entries in the purchase journal.
- ix. Ownership of land.
- x. Physical existence of inventories.

- c) Determine the reason on audit evidence is persuasive rather than conclusive. (5 marks)

**QUESTION 4**

**(25 Marks)**

ISA 700 on Forming an Opinion and Reporting on Financial Statements states that an auditor is responsible to express an audit opinion and to describe the basis for that opinion through a written report.

**Required:**

- a) Define audit report. (4 marks)
- b) Briefly explain **THREE (3)** types of qualified audit report. (6 marks)
- c) For each of the following situations, identify the types of audit report that an auditor will issue, and the reason(s) to issue such an audit report.
- i. During the audit of Star Berhad, the Senior Account Manager of the company refuses to allow you to confirm account receivables because he is concerned about complaints from his customers. You as an auditor of the company are unable to satisfy yourself about the account receivables by other audit procedures and are concerned about the motive of Senior Account Manager. (3 marks)
- ii. Glade Berhad has excluded lease obligation from the company's statement of financial position. However, you are of the opinion that the item is significant to the overall financial statements and therefore it should be recognised as a finance lease in order to comply with the approved accounting standards. The client disagreed with you and refused to reflect the item accordingly in the financial statements. (3 marks)
- iii. Berjaya Berhad has overvalued its closing inventory. Later, the management has restated the inventory value after discussing it with you. After certain procedures have been performed, you have agreed with the restatement made by the management as it complies with the appropriate standard. (3 marks)
- iv. There has been a recent change in the credit risk profile of KCA Berhad. Due to this, the management of KCA Berhad does not allow the auditor to inspect the company's credit risk policy, citing a reason that the policy is outdated. The auditor

has persistently requested for the draft of any amended credit risk policy, but the request was left unattended.

(3 marks)

- v. The management of Hera Berhad has decided to exclude the statement of cash flows from its financial statements because they believe that the bankers does not find the statement to be useful.

(3 marks)

\*\*\* END OF QUESTION PAPER \*\*\*

  
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