#### **QUESTION 1 (a)**

Auditing can be conducted for different purposes. List FIVE (5) types of audit.

#### Answer

Types of audit

- Financial Statements audit /
- Operational audit/Performance audit/
- Compliance audit/
- Shariah Audit/
- Tax Audit/

# QUESTION 1 (b)

Discuss the disqualification of an Auditor as stated in section 264(1)(c)

#### Answer

Disqualification of Auditors – Section 264(1)(c)

- He is not an approved auditor /
- He is indebted to the company or to the corporation in an amount exceeding RM25 000. /
- He is or his spouse is: an officer of the company, a partner or employee of an officer of the company, a shareholder of the corporation whose employee is an officer of the company /
- He is responsible in keeping the register of members or the register of debenture holders of the company. /

\*Each point with simple elaboration

# QUESTION 1 (c)

Write the process of termination of an auditor

#### **Answer**

- The termination or removal of an auditor requires the company to send a copy of the special notice/ it received of the ordinary resolution to remove an auditor to the auditor concerned and to Companies Commission of Malaysia (CCM) as requires under Section 277 (2). /
- The concerned auditor may within 7 days of receipt of the special notice / make representations in writing to the company/ and request a copy of the representations to be sent to every member of the company to whom notice of the meeting was sent prior to the meeting /. A copy of auditor's written representation must be forwarded to Bursa Malaysia at the same time./
- The auditor may require that the representations be read out at the meeting unless the CCM orders otherwise. /
- The company must notify CCM in writing using From 11 of the removal of an auditor from office. / CCM will appoint an auditor for the company if the company fails to appoint one to fill the vacancy/. The auditor appointed to fill the vacancy will hold office until the conclusion of the next general meeting./

# QUESTION 2 (a)

The primary objective of an auditing is to form an independent opinion on the financial statements whether the financial statements show a true and fair view, and have been properly prepared in accordance with accounting standards. State **FIVE** (5) ways of proving the true and fairness of the financial statement.

2

/ = 1mark total 5marks

 $/ = 2 \frac{1}{2}$  marks total 10 marks

/=1 mark total 10 marks

# **Answer**

Proving true and fairness of the Financial Statement can be done by:

1. Examining the system of internal control/

- 2. Checking arithmetical accuracy of books of accounts, verifying posting, casting, balancing, etc./
- 3. Verifying the authenticity and validity of transactions.
- Checking the proper distinction between capital and revenue nature of transactions. /
- 5. Confirming the existence and value of assets and liabilities.
- 6. Verifying whether all the statutory requirements are fulfilled or not. /

# **QUESTION 2 (b)**

An auditor should comply with the MIA By—Laws (On Professional Ethics, Conduct and Practice) and the Code of Ethics for Professional Accountants issued by the IFAC as the general principles in conducting audit work. Explain the FIVE (5) fundamental principles which the auditor is required to comply.

# **Answer**

#### INTEGRITY /

Being straightforward and honest in all professional and business relationships. The principle of integrity imposes an obligation on all professional accountants to be straightforward and honest in all professional and business relationships. Integrity also implies fair dealing and truthfulness. /

# OBJECTIVITY /

 Not to allow bias, conflict of interest or undue influence of others to override professional or business judgments. /

#### PROFESSIONAL COMPETENCE AND DUE CARE /

To maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional services based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards. /

#### CONFIDENTIALITY /

 To respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties. /

# PROFESSIONAL BEHAVIOR. /

• Comply with relevant laws and regulations and avoid any action that discredits the profession. /

# QUESTION 2 (c)

Assertions are characteristics that need to be tested to ensure that financial records and disclosures are correct and appropriate. Assertions are evaluated in transaction-level assertions, account balance assertions and presentation and disclosure assertions. Write the elements that need to be highlight in presentation and disclosure assertions.

/ = 1 mark any 5 point

/ = 1 mark total 10 marks

<sup>\*</sup> any other relevant answer is accepted

#### Answer

Presentation and Disclosure Assertion

1. Accuracy:/ All information disclosed is in the correct amounts, and which reflect their proper values./

/= 1 mark Total 10 marks

- 2. Completeness: / All transactions that should be disclosed have been disclosed. /
- 3. Occurrence: / Disclosed transactions have indeed occurred /
- 4. Right and obligations: /Disclosed rights and obligations actually relate to the reporting entity /
- 5. Understand ability: / Information included in the financial statements has been appropriately presented and is clearly understandable /

## QUESTION 3 (a)

Categorize the types of audit file and express TWO (2) purpose for each file

# Answer

- 1. Permanent audit file\*
  - To record item applicable over a period of many year /
  - To provide a summary of policies and the organization of the entity/

 $*= \frac{1}{2}$  marks /= 1 mark Total 5 marks

- 2. Current audit file\*
  - To keep records and information for the current audit only /
  - To support the conclusion reached/

# QUESTION 3 (b)

Construct the weaknesses in internal control that might be happen in an organization

#### **Answer**

*Judgement\** – The effectiveness of control will be limited by decisions made with human judgment under pressures to conduct business based on the information at hand //

**Breakdown\*** – Even well designed internal control can break down. Employees sometimes misunderstand instructions or simply make mistakes. Error may also result from new technology and the complexity of computerized information system //

Management override\* – High level personnel may be able to override prescribed policies and procedures for personal gain or advantage. This should not be confused with management intervention, which represents management actions to depart from prescribed policies and procedures for legitimate purposes //

*Collusion\** – Control system can be circumvented by employee collusion. Individual acting collectively can alter financial data or other management information in a manner that cannot be identified by control system //

4

\* = ½ mark / = 1 mark

Total 10 marks

#### **OUESTION 3 (c)**

Control activities are policies and procedures that help to ensure that necessary actions are taken to address risks to the achievement of the entity objectives. Illustrate the following control activities:

#### **Answer**

i. adequate separation of duties

Adequate segregation of duties that reduce opportunity to allow any person to be in the position to both perpetrate and conceal error or irregularities in the norm of his duties /

/ = 2.5 marks Total 10 marks

ii. Proper authorization of transactions and activities

There must be clear policies for the purpose of controlling transaction and activities to helps ensure that all company activities adhere to established guide lines unless responsible managers authorize another course of action.

iii. Adequate documents and records

provide evidence that financial statements are accurate. Controls designed to ensure adequate recordkeeping include the creation of invoices and other documents that are easy to use and sufficiently informative; the use of prenumbered, consecutive documents; and the timely preparation of documents.

iv. Physical control over assets and records

To helps protect the company's assets with taking all the available steps or precautions to protect assets and records from possible loss or damage./

## **QUESTION 4 (a)**

Express the meaning of audit evidence and determine THREE (3) purpose of having audit evidence

#### Answer

Audit evidence

all information used by an auditor in arriving the conclusions on which the auditor's opinion is based /. Audit evidence includes both information contained in the accounting records underlying the financial statement and other information/

/ = 1 marks Max 5 marks

The purpose of having audit evidence

- ISA 500 defines the audit evidence is all information used by an auditor in arriving the conclusions on which the auditor's opinion is based./
- Audit evidence includes both information contained in the accounting records underlying the financial statement and other information /
- Other information consists of information obtained from other source such as previous audits, or firm's quality control procedures for example minutes of meeting and control manual /
- Accounting records are records of initial accounting entries and supporting records such as cheques, invoices, contracts and record of electronic fund transfer/

# QUESTION 4 (b)

Explain FOUR (4) factors to be consider when planning the audit

# **Answer**

a) Staffing requirement and use of expert \*

The overall audit strategy must clearly set out the resources required for specific audit areas, such as the use of experienced team member for high risk areas or the involvement of experts on complex matters. //

\*=1/2 mark /= 1 mark Total 10 marks

# b) Considerations of materiality and risks \*

When planning the audit, the auditor considers what would makes the financial statements materially misstated. A preliminary assessment of control risk is necessary for the auditor to plan the nature, timing and extent for further audit procedures. //

## c) Going concern issue \*

The auditor should consider the going concern assumption at the early stage of the audit and during planning because this would allow the auditor to have more timely discussion with management and review their plans for resolving the going concern issues. //

## d) Develop an overall audit strategy\*

The strategy should consider the reasons for the audit, including engagement staffing and any required audit specialists. Setting a strategy help the auditor determine the resources required for the engagement. //

\*Any reasonable answer will be accepted

### **OUESTION 4 (c)**

Find the meaning of audit risk and differentiate types of risks below:

# <u>Answe</u>r

Audit risk

Audit risk is the risk that auditors issued the incorrect audit opinion to the audited financial statements. //

# i. Inherent risk (IR)

The risk of a material misstatement in the financial statements arising due to error or omission as a result of factors other than the failure of internal controls //

# / = 1 mark Total 10 marks

## ii. Control risk (CR)

The risk of a material misstatement in the financial statements arising due to absence or failure in the internal controls of the entity.//

#### iii. Detection risk (DR)

The risk that the substantive audit procedures will fail to detect material misstatement that exist in an account balance or class of transaction. //

# iv. Environment risk

Environment risk is inherent and control risks combined. Environment risk reflects the likehood of material misstatement occurring//

"If the working given is different from the solution given, make an appropriate adjustment to the marking scheme with approval from the Program Leader"