

SULIT



**BAHAGIAN PEPERIKSAAN DAN PENILAIAN
JABATAN PENDIDIKAN POLITEKNIK
KEMENTERIAN PENDIDIKAN TINGGI**

JABATAN PERDAGANGAN

PEPERIKSAAN AKHIR

SESI JUN 2016

APA9014: AUDIT AND ASSURANCE

TARIKH : 28 OKTOBER 2016

MASA : 08.30 AM - 11.30 AM (3 JAM)

Kertas ini mengandungi **LAPAN (8)** halaman bercetak.
Esei (5 soalan)

Dokumen sokongan yang disertakan : **TIADA**

JANGAN BUKA KERTAS SOALAN INI SEHINGGA DIARAHKAN

(CLO yang tertera hanya sebagai rujukan)

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INSTRUCTION:

This section consists of **FIVE (5)** structured questions. Answer **ALL** questions.

QUESTION 1

You are an audit senior of Iskandar, Rahim & Co and are in the process of reviewing the inventory system documentation for your audit client, Gadget Berhad (Gadget) which manufactures computer equipment. The company's factory and warehouse are based on one large site, and their year end is 30 June 2016.

Gadget is planning to undertake a full inventory count at the year end of its raw materials, work in progress and finished goods and you will be attending this count. In preparation you have been reviewing the inventory count instructions for finished goods provided by Gadget. The count will be undertaken by 15 teams of two counters from the warehouse department with Gadget's financial controller providing overall supervision. Each team of two is allocated a number of bays within the warehouse to count and they are provided with sequentially numbered inventory sheets which contain product codes and quantities extracted from the inventory records. The counters move through each allocated bay counting the inventory and confirming that it agrees with the inventory sheets. Where a discrepancy is found, they note this on the sheet.

The warehouse is large and approximately 10% of the bays have been rented out to third parties with similar operations; these are scattered throughout the warehouse. For completeness, the counters have been asked to count the inventory for all bays and taking note on the third party inventories on separate blank inventory sheets, and the finance department will make any necessary adjustments.

Some of Gadget's finished goods are high in value and are stored in a locked area of the warehouse and all the counting teams will be given the code to access this area. There will be no despatches of inventory during the count and it is not anticipated that there will be any deliveries from suppliers.

Each area is counted once by the allocated team; the sheets are completed in ink, signed by the team and returned after each bay is counted. As no two teams are allocated the same bays,

there will be no need to flag that an area has been counted. On completion of the count, the financial controller will confirm with each team that they have returned their inventory sheets.

Required:

In respect of the inventory count procedures for Gadget Berhad:

- | | | | |
|------------|-----|---|-------------------|
| CLO2
C2 | i | Identify and explain FIVE (5) deficiencies; | [10 marks] |
| CLO2
C4 | ii | Recommend ONE (1) control to address each of these deficiencies; and | [10 marks] |
| CLO2
C3 | iii | Elaborate ONE (1) Test of Control the external auditors would perform to assess if each of these controls, if implemented, is operating effectively. | [10 marks] |
| | | | [30 marks] |

QUESTION 2

ISA 230 *Audit Documentation* requires auditors to prepare audit documentation for an audit of financial statements on a timely basis.

Required:CLO1
C1

- a) State **FOUR (4)** benefits of documenting audit work. [4 marks]

ISA 530 *Audit Sampling* applies when the auditor has decided to use sampling to obtain sufficient and appropriate audit evidence.

Required:CLO1
C1

- b) i) Define what is meant by 'audit sampling' [2 marks]
ii) Explain the purpose of audit sampling [4 marks]

[10 marks]

QUESTION 3

You are an audit supervisor of Prithini & Co and are currently planning the audit of your client, Alpha Berhad (Alpha) which manufactures elevators. Its year end is 31 July 2016 and the forecast profit before tax is RM 15.2 million.

The company undertakes continuous production in its factory, therefore at the year end it is anticipated that work in progress will be approximately RM 950,000. In order to improve the manufacturing process, Alpha placed an order in April for RM 720,000 of new plant and machinery; one third of this order was received in May with the remainder expected to be delivered by the supplier in late July or early August.

At the beginning of the year, Alpha purchased a patent for RM 1.3 million which gives them the exclusive right to manufacture specialised elevator equipment for five years. In order to finance this purchase, Alpha borrowed RM 1.2 million from the bank which is repayable over five years.

In January 2016 Alpha outsourced its payroll processing to an external service organization, Berjaya Payrolls Sdn Bhd (Berjaya). Berjaya handles all elements of the payroll cycle and sends monthly reports to Alpha detailing the payroll costs. Alpha ran its own payroll until 31 December 2015, at which point the records were transferred over to Berjaya.

The company has a policy of revaluing land and buildings and the finance director has announced that all land and buildings will be revalued at the year end. During a review of the management accounts for the month of May 2016, you have noticed that receivables have increased significantly on the previous year end and against May 2015.

The finance director has informed you that the company is planning to make approximately 65 employees redundant after the year end. No decision has been made as to when this will be announced, but it is likely to be prior to the year end.

Required:

- a) Discuss **FIVE (5)** audit risks, and explain the auditor's response to each risk, in planning the audit of Alpha Berhad.

[20 marks]

[20 marks]

QUESTION 4

Platinum Berhad (Platinum) specialises in manufacturing engine parts for motor cars and the company has a diverse customer base but seven significant customers. The company's year end was 30 September 2015.

During the year, a number of the company's significant customers have experienced a fall in sales, and consequently they have purchased fewer items from Platinum. As a result, Platinum has paid a number of its suppliers later than usual and some of them have withdrawn credit terms meaning the company must pay cash on delivery. One of Platinum's main suppliers is threatening legal action to recover the sums owing. As a result of the increased level of payables, the company's current ratio has fallen below 1 to 0.9 for the first time.

Platinum has produced a cash flow forecast to 30 June 2016 and this shows net cash outflows until May 2016. Platinum has a loan of RM 2.3 million which is due for repayment in full by 30 September 2016.

The finance director has just informed the audit manager that there is a possible change in legislation which will result in one of Platinum's top product lines becoming obsolete as it will not comply with the proposed law. The prepared cash flow forecasts do not reflect this possible event.

Required:

CLO1
C1

- a) Explain **FIVE (5)** potential indicators that Platinum Berhad is NOT a going concern. [10 marks]

CLO1
C2

- b) Describe **FOUR (4)** audit procedures which you should perform in assessing whether or not Platinum Berhad is a going concern.

[10 marks]

[20 marks]

QUESTION 5

You are the audit manager of Cyfaizan & Co and you are currently reviewing the audit files for several of your clients for which the audit fieldwork is complete. The audit seniors have raised the following issues:

Creative Designs Berhad (Creative)

Creative's year end is 30 September, however, subsequent to the year end the company's sales ledger has been corrupted by a computer virus. Creative's finance director was able to produce the financial statements prior to this occurring; however, the audit team has been unable to access the sales ledger to undertake detailed testing of revenue or year-end receivables. All other accounting records are unaffected and there are no backups available for the sales ledger. Creative's revenue is RM 15.6m, its receivables are RM 3.4m and profit before tax is RM 2m.

Fuchsia Berhad (Fuchsia)

Fuchsia has experienced difficult trading conditions and as a result it has lost significant market share. The cash flow forecast has been reviewed during the audit fieldwork and it shows a significant net cash outflow.

Management are confident that further funding can be obtained and so have prepared the financial statements on a going concern basis with no additional disclosures; the audit senior is highly sceptical about this. The prior year financial statements showed a profit before tax of RM 1.2m; however, the current year loss before tax is RM 4.4m and the forecast net cash outflow for the next 12 months is RM 3.2m.

Required:

For each of the two issues:

CLO2
C3

i) Discuss the issue, including an assessment of whether it is material; [6 marks]

CLO2
C4

ii) Recommend **THREE (3)** procedures the audit team should undertake at the completion stage to try to resolve the issue; and [6 marks]

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CLO2
C3

- iii) Elaborate the impact on the audit report if the issue remains unresolved. [8 marks]

Notes: 1 The total marks will be split equally between each issue.
2 Audit report extracts are NOT required.

[20 marks]

END OF QUESTIONS