DO OR DONT'S AUDIT

Nur Fatnin bt Mazelan
Faculty of Management and IT , University Sultan Azlan Shah
Tel: 01125427846 E-mail: fatninmazelan@usas.edu.my

PROLOG

14nd Sunday 2012, Sunday, 2.00 p.m. (Text messaging between Yahya and Syukri's at their house)

Yahya : Syukri, I would like buy a new sport shoes.

Syukri : If you say so,what if we go to aL-ikhsaN

Yahya : Okay, so tomorrow I will pick you up

Syukri : See you at my house at 9.00 p.m

Yahya : Sound nice to me

Syukri : ok

15nd Monday 2012, 9.00 p.m. Syukri's house

Yahya had already told Syukri beforehand that the moment he reach to Syukri's house, Yahya would take him to aL-ikhsaN to which Yahya had readily agreed.

The Visit:

Syukri was left with jaw hanging when he looked in the aL-ikhsaN ,they were variety of shoes,jersey and outfit in the store. Syukri felt a gush of cold air coming from inside.There was a huge crowd inside the store. At one particular corner, there was a cashier who in charged of petty cashier when Yahya is about to make a payment on shoes that he want to buy.

BODY OF THE CASE

BACKGROUND OF THE aL-ikhsaN

aL-ikhsaN Overview

aL-ikhsaN Sports was established in 1993 with a single 150 sqft store in Holiday Plaza, Johor Bahru. From **sole proprietorship enterprise, the company has evolved to Private Limited Company named as Al-Ikhsan Sports Sdn Bhd.**

Since inception, the business has grown up to 114 doors all over Peninsular Malaysia. In 2011, the company has been awarded with ASEAN Business Outstanding Award 2011 – Industry

Class Sector Sports Retail by ASEAN Retail & Franchise Federation. The Sports Good Intelligence Report ranked Al-Ikhsan as the 77th largest Sporting Goods Retailer In The Galaxy.

Steering aggressively to be the LARGEST Sports Retailer in South East Asia, Al-Ikhsan is differentiated from others by its exclusive and quality product range with competitive price, attained directly from the Suppliers (brand). Each store has a manager and customers pay cash in order to purchase goods from them.

The service charter to our customers is

"100% original guaranteed - we pay double of the purchase price if our goods are imitations"

Awarded with ASEAN Business Outstanding Award 2012 – Industry Class Sector Sports Retail by ASEAN Retail & Franchise Federation

EPILOG

25nd October 2017, wednesday, 8.00 p.m.

5 years later,syukri, proceed his carier in auditing after graduating from UiTM.He started his career with KPMG, One day, Syukri went to Aeon Shah Alam,stepped by one corner which is aL-ikhsaN.Something bothering in his mind.He try find out more about that aL-ikhsaN. He was really interested to know. In his mind, he was puzzled whether al-ikhsan has audited financial statement like adidas group or not.While searching on google,nothing has reached the web,plus aL-ikhsaN is a private limited company.He was more curious to know,so he search more on the google on the exemption of doing audit.

INSTRUCTOR'S MANUAL

CASE SUMMARY		In order for business to ensure the risks of material misstatement can be reduce at lower stage, the internal control should be improved and met with evolving risks.The problem with the small sport industry is that it do not aware of the audit importance and take it for granted,have issues on Internal control weaknesess as well as failure doing audit lead to financial statement does not showing true and fair view.The objective of the case study is that to ensure student able to argue whether small sport industry should do audit or not,to highlighted issues on Internal control weaknesess,to highlighted the issues on failure of doing audit lead to financial statement does not show true and fair view,to highlighted how to give awareness to small company of the exemption of doing audit. This case study was using secondary data which is internet (google) to find more on this issues by collecting secondary data: annual report and al ikhsan's website.The secondary data finding is that in Suruhanjaya Sekuriti Malaysia Al-Ikhsan have financial statement but it financial statement is keep private.Furthermore,the the case study finding is to work out whether small company like Al-Ikhsan doing audit or not as well as audit importance on internal control and to highlight the audit exemption.	
OBJECTIVES OF THE CASE		• To highlighted the argument do or don't do audit • To highlighted the importance of internal control • To highlighted the awareness exemption of audit to small company • To determined whether the small company especially Sdn Bhd is being audit or not	
BASIC PEDAGOGY		**COURSE**	ACC 4133 pengauditan 1
		LEVEL	Diploma
		POSITION IN THE COURSE	• Chapter 1: introduction of auditing • Chapter 4 : internal control
		PRE-REQUISITE	None

RESEARCH METHODOLOGY		Collecting secondary data: annual report and store's website.
DISCUSSION QUESTIONS		(1) Identify and elaborate the **name** of that store. (2) Discuss whether small company should do or don't do audit (3) Explain the importance of internal control (4) Explain FIVE (5) specific control as per ISA 315 (5) Give TWO (2) control in the case study that you find (6) Give TWO (2) test of control should al-ikhsan improved if its audit its company (7) Explain whether Al-Ikhsan is doing audit or not?
SUGGESTED RESPONSES		(1) The case study's store is al-ikhsan Al-Ikhsan Sports was established in 1993 with a single 150 sqft store in Holiday Plaza, Johor Bahru. From sole proprietorship enterprise, the company has evolved to Private Limited Company named as Al-Ikhsan Sports Sdn Bhd. Since inception, the business has grown up to 114 doors all over Peninsular Malaysia. In 2011, the company has been awarded with ASEAN Business Outstanding Award 2011 – Industry Class Sector Sports Retail by ASEAN Retail & Franchise Federation. The Sports Good Intelligence Report ranked Al-Ikhsan as the 77th largest Sporting Goods Retailer In The Galaxy. Steering aggressively to be the LARGEST Sports Retailer in South East Asia, Al-Ikhsan is differentiated from others by its exclusive and quality product range with competitive price, attained directly from the Suppliers (brand). Each store has a manager and customers pay cash in order to purchase goods from them. The service charter to our customers is "100% original guaranteed - we pay double of the purchase price if our goods are imitations" Awarded with ASEAN Business Outstanding Award 2012 – Industry Class Sector Sports Retail by ASEAN Retail & Franchise Federation

		(2) PD 3/2017 4 August 2017 QUALIFYING CRITERIA FOR AUDIT EXEMPTION FOR CERTAIN CATEGORIES OF PRIVATE COMPANIES This Practice Directive is issued pursuant to section 20C of the Companies Commission of Malaysia Act 2001 and subsection 267(2) of the Companies Act 2016 (CA 2016). OBJECTIVE This Practice Directive sets out the qualifying criteria for private companies from having to appoint an auditor in a financial year (audit exemption). BACKGROUND. Subsection 267(1) of the Companies Act 2016 requires every private company to appoint an auditor for each financial year of the company for purposes of auditing its financial statements. However, pursuant to subsection 267(2) of the CA 2016, the Registrar may exempt any private company from having to appoint an auditor according to the criteria and conditions as set out in this Practice Directive. PRACTICE DIRECTIVE NO. 3/2017 2 PD 3/2017 4 August 2017 QUALIFYING CRITERIA FOR AUDIT EXEMPTION FOR CERTAIN CATEGORIES OF PRIVATE COMPANIES. For the purpose of this Practice Directive, the following categories of private companies will be qualified for audit exemption: (a) Dormant companies (b) Zero-Revenue Companies Threshold-Qualified Companies Dormant Companies A dormant company is a private entity as defined by the Malaysian Accounting Standards Board (MASB) and the company is qualified for audit exemption if it has been dormant from the time of its incorporation; or it is dormant throughout the current financial year and in the immediate preceding financial year. For the purpose of paragraph 6, a company is dormant in a financial year if the company does not carry on business and there is no accounting transaction occurred; “Accounting transaction” means a transaction, accounting or other records of which is required to be kept under section 245(1) of the Companies Act 2016, excluding a transaction arising from any obligations 3 PD 3/2017 4 August 2017 that the company is required to abide by any laws to pay and its related costs to comply.

		Zero-Revenue Companies. A zero-revenue company is a private entity as defined by the Malaysian Accounting Standards Board (MASB) and the company is qualified for audit exemption if it does not have any revenue during the current financial year; it does not have any revenue in the immediate past two financial years; and its total assets in the current Statement of Financial Position (FS) does not exceed RM300,000 as well as in the FS of the immediate past two financial years. . For the purpose of paragraph 8— "revenue" does not include credit entries for reversal of accounting entries arising from earlier entries, accounting entries related to taxation, reversal of provisions made earlier and gain on derecognition of property, plant, equipment and investment property in the Statement of Comprehensive Income; a company ceases to be inactive where there are revenue received or receivable; and any expenses incurred in maintaining the company is disregarded. 4 PD 3/2017 4 August 2017 Threshold-Qualified Companies A threshold-qualified company is a private entity as defined by the Malaysian Accounting Standards Board (MASB) and is qualified for an audit exemption if – (a)it has revenue not exceeding RM100,000 during the current financial year and in the immediate past two (2) financial years; (b) its total assets in the current Statement of Financial Position (FS) does not exceed RM300,000 and in the immediate past two (2) financial years; and (c) it has, at the end of its current financial year and in each of its immediate past two (2) financial years end, not more than five (5) employees. For the purpose of paragraph 10, revenue includes revenue receivable during the year. Other condition, Where a company which is exempt from audit requirements ceases to be so qualified, it shall thereupon cease to be so exempt but it shall remain so exempt in relation to accounts for the financial years in which it qualifies. Notwithstanding anything in this Practice Directive, a company that is eligible for audit exemption shall be required to audit its accounts if it receives a notice in writing requiring the company to audit its accounts during a financial year but not later than one month before the end of that financial year from:– 5 PD 3/2017 4 August 2017 (a) any member or members eligible to vote and holding in aggregate of not less than 5% of the total number of issued shares of the company or any class of those shares; (b) not less than 5% of the total number of members eligible to vote in of the company; or (c) the Registrar who directs the company to have its accounts audited.

		REQUIREMENTS FOR THE SUBMISSION OF ACCOUNTS Any company that elects to be exempted from audit must lodge its unaudited financial statements with the Registrar accompanied with the required certificate in compliance with sections 258 and 259 of the Companies Act 2016. The unaudited financial statements prepared shall comply with applicable approved accounting standards pursuant to subsection 244(1) of the Companies Act 2016.The unaudited financial statements shall be lodged together with the directors' report, statement by directors and statutory declaration pursuant to sections 251 and 252 of the Companies Act 2016. In addition to paragraph 16, the unaudited financial statements must also be accompanied by a certificate stating the matters as set out in Appendix I within thirty days from the 6 PD 3/2017 4 August 2017 circulation date of the unaudited financial statements and reports are circulated under section 258 CA 2016. 18. The certificate is to be signed by a director certifying to the best of his knowledge and belief for the financial year ended 31 xxx 20xx, the company is entitled to exemption from audit under section 267(2) of the Companies Act 2016 relating to private companies and, where the director is not primarily responsible for the financial management of the company, the name of the person responsible should also be stated. This Practice Directive shall take effect as follows: (a) in the case of a dormant company,where the company is incorporated on or after 31 January 2017, the financial statements with annual periods commencing on or after 31 January 2017; where the company is incorporated on or before 30 January 2017, the financial statements with annual periods commencing on or after 1 September 2017; (b) in the case of zero-revenue companies, for financial statements with annual periods commencing on or after 1 January 2018; and 7 PD 3/2017 4 August 2017 (c) in the case of threshold-qualified companies, for financial statements with annual periods commencing on or after 1 July 2018. The exemption under this PD will not be applicable to an exempt private company which has chosen to lodge a certificate relating to its status as an exempt private company to the Registrar pursuant to section 260 of the CA 2016. REGISTRAR OF COMPANIES COMPANIES COMMISSION OF MALAYSIA 4 August 2017 PD 3/2017 4 August 2017

		APPENDIX I Audit Exemption Certificate (1) The certificate should state that :- (i) Members have not required the company to perform an audit of its accounts for that year. (ii) (ii) The directors acknowledge their responsibilities for complying with the requirements of the Companies Act 2016 with respect to accounting records and the preparation of financial statements. (iii) (iii) These financial statements have been prepared in accordance with applicable approved accounting standards issued by Malaysian Accounting Standards Board (MASB), namely the Malaysian Private Entities Reporting Standard (MPERS) and complies with the requirements of the Companies Act 2016. (2) The unaudited financial statements and reports made up to 31 XXXX 20XX required under the Companies Act 2016 have been circulated to the members on 30 XXXX 20XX. Regarding to the exemption above the small company who met above exemption should not be doing audit, but of course ,one of good corporate governance its better of do audit to ensure the financial statement showing true and fair view, as well as to improve company's internal control as external audit will be doing test of control in order to test whether the control is operating effectively, and if the control is bad ,external auditor will highlight it in the management letter,the bad side is,the external audit fee is quite expensive,therefore, company need to put aside funds to pay for the fees, and this is not worth as turnover of the small company is below RM100,000.It can be concluded,for small company its better of not doing audit but small company can seek professional advice to improve its internal control by time to time in order to met with evolving risks nowdays. (3) Internal controls play an integral role in a company's success, therefore internal controls should be in place in order to safeguard the assets,how to monitor those controls and make recommendations for the implementation of internal controls as this would help management monitor the effectiveness of the controls in an ever-changing environment. Internal control and risk management are critical in the process of setting and achieving operational, strategic, compliance and reporting objectives. Risk management identifies threats to the organization, while internal controls are designed to provide reasonable assurance regarding the achievement of operational objectives, such as the effectiveness and efficiency of operations, accurate and reliable

		financial reports, and compliance with applicable laws and regulations. (4) As per ISA 315 Control activities are the policies and procedures that help ensure that management directives are carried out. Control activities, whether within IT or manual systems, have various objectives and are applied at various organizational and functional levels. Examples of specific control activities include those relating to the following: • Authorization. • Performance reviews. • Information processing. • Physical controls. • Segregation of duties. Generally, control activities that may be relevant to an audit may be categorized as policies and procedures that pertain to the following: Performance reviews. These control activities include reviews and analyses of actual performance versus budgets, forecasts, and prior period performance; relating different sets of data – operating or financial – to one another, together with analyses of the relationships and investigative and corrective actions; comparing internal data with external sources of information; and review of functional or activity performance. Information processing. The two broad groupings of information systems control activities are application controls, which apply to the processing of individual applications, and general IT controls, which are policies and procedures that relate to many applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. Examples of application controls include checking the arithmetical accuracy of records, maintaining and reviewing accounts and trial balances, automated controls such as edit checks of input data and numerical sequence checks, and manual follow-up of exception reports. Examples of general IT controls ar program change controls, controls that restrict access to programs or data, controls over the implementation of new releases of packaged software applications, and controls over systems software that restrict access to or monitor the use of system utilities that could change financial data or records without leaving an audit trail.Controls in IT systems consist of a combination of automated controls (for

		example, controls embedded in computer programs) and manual controls. Further, manual controls may be independent of IT, may use information produced by IT, or may be limited to monitoring the effective functioning of IT and of automated controls, and to handling exceptions. When IT is used to initiate, record, process or report transactions, or other financial data for inclusion in financial statements, the systems and programs may include controls related to the corresponding assertions for material accounts or may be critical to the effective functioning of manual controls that depend on IT. Generally, IT benefits an entity's internal control by enabling an entity to: • Consistently apply predefined business rules and perform complex calculations in processing large volumes of transactions or data; • Enhance the timeliness, availability, and accuracy of information; • Facilitate the additional analysis of information; • Enhance the ability to monitor the performance of the entity's activities and its policies and procedures; • Reduce the risk that controls will be circumvented; and • Enhance the ability to achieve effective segregation of duties by implementing security controls in applications, databases, and operating systems. IT also poses specific risks to an entity's internal control, including, for example: • Reliance on systems or programs that are inaccurately processing data, processing inaccurate data, or both. • Unauthorized access to data that may result in destruction of data or improper changes to data, including the recording of unauthorized or non existent transactions, or inaccurate recording of transactions. Particular risks may arise where multiple users access a common database. • The possibility of IT personnel gaining access privileges beyond those necessary to perform their assigned duties thereby breaking down segregation of duties. • Unauthorized changes to data in master files. • Unauthorized changes to systems or programs. • Failure to make necessary changes to systems or programs. • Inappropriate manual intervention. • Potential loss of data or inability to access data as required.

Physical controls. Controls that encompass:

○ The physical security of assets, including adequate safeguards such as secured facilities over access to assets and records.

○ The authorization for access to computer programs and data files.

○ The periodic counting and comparison with amounts shown on control records (for example, comparing the results of cash,security and inventory counts with accounting records).

The extent to which physical controls intended to prevent theft of assets are relevant to the reliability of financial statement preparation, and therefore the audit, depends on circumstances such as when assets are highly susceptible to misappropriation.

Segregation of duties. Assigning different people the responsibilities of
authorizing transactions, recording transactions, and maintaining custody of assets. Segregation of duties is intended to reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of the person's duties.Smaller entities often have fewer employees which may limit the extent to which segregation of duties is practicable. However, in a small owner-managed entity, the owner-manager may be able to exercise more effective oversight than in a larger entity. This oversight may compensate for the generally more limited opportunities for segregation of duties.

(5) CONTROL	(6) TEST OF CONTROL
there was a cashier who in charged of petty cashier when Yahya is about to make a payment on shoes that he want to buy	Enquire the al-ikhsan's store manager who in charged for cash receipt at petty cashier for evidence of appropriate segregation of duties
We pay double of the purchase price if our goods are imitations"	Inspect compensate form for evidence of double payment compensate from al-ikhsan store for goods that being imitate

		(7) For the purpose of this Practice Directive, the following categories of private companies will be qualified for audit exemption: (a) Dormant companies (b) Zero-Revenue Companies Threshold-Qualified Companies Dormant Companies A dormant company is a private entity as defined by the Malaysian Accounting Standards Board (MASB) and the company is qualified for audit exemption if it has been dormant from the time of its incorporation; or it is dormant throughout the current financial year and in the immediate preceding financial year. For the purpose of paragraph 6, a company is dormant in a financial year if the company does not carry on business and there is no accounting transaction occurred; “Accounting transaction” means a transaction, accounting or other records of which is required to be kept under section 245(1) of the Companies Act 2016, excluding a transaction arising from any obligations 3 PD 3/2017 4 August 2017 that the company is required to abide by any laws to pay and its related costs to comply. Zero-Revenue Companies. A zero-revenue company is a private entity as defined by the Malaysian Accounting Standards Board (MASB) and the company is qualified for audit exemption if it does not have any revenue during the current financial year; it does not have any revenue in the immediate past two financial years; and its total assets in the current Statement of Financial Position (FS) does not exceed RM300,000 as well as in the FS of the immediate past two financial years. . For the purpose of paragraph 8— “revenue” does not include credit entries for reversal of accounting entries arising from earlier entries, accounting entries related to taxation, reversal of provisions made earlier and gain on derecognition of property, plant, equipment and investment property in the Statement of Comprehensive Income; a company ceases to be inactive where there are revenue received or receivable; and any expenses incurred in maintaining the company is disregarded. 4 PD 3/2017 4 August 2017 Threshold-Qualified Companies A threshold-qualified company is a private entity as defined by the Malaysian Accounting Standards Board (MASB) and is qualified for an audit exemption if (a)it has revenue not exceeding RM100,000 during the current financial year and in the immediate past two (2) financial years;

		(b) its total assets in the current Statement of Financial Position (FS) does not exceed RM300,000 and in the immediate past two (2) financial years; and (c) it has, at the end of its current financial year and in each of its immediate past two (2) financial years end, not more than five (5) employees. For the purpose of paragraph 10, revenue includes revenue receivable during the year. Other condition, Where a company which is exempt from audit requirements ceases to be so qualified, it shall thereupon cease to be so exempt but it shall remain so exempt in relation to accounts for the financial years in which it qualifies. Notwithstanding anything in this Practice Directive, a company that is eligible for audit exemption shall be required to audit its accounts if it receives a notice in writing requiring the company to audit its accounts during a financial year but not later than one month before the end of that financial year from:– 5 PD 3/2017 4 August 2017 (a) any member or members eligible to vote and holding in aggregate of not less than 5% of the total number of issued shares of the company or any class of those shares; (b) not less than 5% of the total number of members eligible to vote in of the company; or (c) the Registrar who directs the company to have its accounts audited. Regarding to the above exemption, it can seen that aL-ikhsaN Sports Sdn Bhd is not met with above exemption,therefore, Al-ikhsaN Sports SdN Bhd is compulsory of doing audit.