

December  
2022

YOUNG  
WATER  
ANDERSON



# AUDIT PLANNING MEMORANDUM

PREPARED FOR  
ST CITY HOTEL

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# INTRODUCTION

## PURPOSE AND SCOPE

Auditors are required by the International Standard on Auditing 260 to effectively convey information about an entity's audit to individuals that are charged with governance.

The objective of this report is to give information about the planned audit approach, the proposed means and modes of communication throughout the audit assignment, and to give a chance to discuss the assignment and the audit approach before the audit field work gets underway.

This report, which is intended solely for internal use in preparing and debating the audit of the financial accounts for the year ended 31 December 2022, is directed to those charged with governance of the ST City Hotel. This report may not be reprinted in its entirety or in part without previous explicit approval from Young Water Anderson.

# BACKGROUND TO APPOINTMENT

## GENERAL

Our engagement letter was issued on 13 June 2023. As detailed in our engagement letter, it remains effective until it is replaced.

## INDEPENDENCE

We can confirm that we are independent within the context of relevant regulatory and professional requirements and that there are no circumstances of which the firm is aware which might lead to impairment in the objectivity of either the audit engagement partners or audit staff.

## STAFF INDEPENDENCE

All our Staff must adhere to strict regulatory, professional and internal independence requirements related to investment or business relationships with clients. All staff and partners must certify their compliance with the independence rules on an annual basis.

Our staffs is authorized by ACCA to carry out statutory audits. Members of ACCA and other Accounting Bodies are bound by the Ethical Code which covers, objectivity, independence, confidentiality and integrity.

## QUALITY

Independent quality reviews of our audit work are performed throughout the year. The reviews include testing of the effectiveness and quality of our audit work and we maintain a continuous improvement programme to ensure that our standards are maintained and improved. In addition, external reviews are also carried out periodically by the Association of Chartered Accountant (ACCA). All staff undertake on going Continuous Professional Development via attendance at internal and external training courses and seminars.

# BACKGROUND TO APPOINTMENT

## ETHICAL STANDARDS

The aim of the Standards is to strengthen auditor independence and limit the range of services auditors can provide. The new Standard sees the independence threat changed from 'reduced to an acceptable level', to that of 'a level which it is probable that an objective, reasonable and informed third party would not conclude that independence would be compromised'. There is no need to disclose this in the Annual Accounts if the charity has 'informed management'. Based on our knowledge and experience of the Trustees we are satisfied that ST City Hotel has 'informed management' and therefore no disclosure will be required in the accounts

## RELIANCE UPON THE WORK OF AN EXPERT

In accordance with International Standard on Auditing 620, when relying upon the work performed by an expert the auditor should obtain sufficient appropriate evidence that scope of such work is adequate for the purpose of audit. 'Expert' means a person or firm possessing special skills, knowledge and experience in a particular field other than accounting and auditing

ST City Hotel maintains the hotel services as their main source of income in order to generate profit for the business. Hence, the ST City Hotel can be considered as a cash based business since there is many transactions have been made by cash either through the banking process or a cash. This involves some reliance upon the work of experts during the audit process. Since there is so many transaction occurs in one day so our audit will include a sampling in order to gain sufficient and appropriate audit evidence from the date of the balance sheet until the signing of the financial statements to ensure material differences in the market value of the investments are appropriately disclosed in the financial statements.

# AUDIT APPROACH

## AN EFFECTIVE AUDIT APPROACH

Our audit is primarily designed to enable us to express an opinion on the fair presentation of ST City Hotel's financial statements and service performance information. For further details on our global audit methodology refer to Appendix 1. The specific terms and scope of the external audit engagement are set out in our engagement letter dated 13 June 2023.

## OPINIONS TO BE ISSUED

Our audit will be conducted to provide reasonable assurance as to whether the financial statements for the year ending 31 December 2022 are free from material misstatements.

## INTERNAL CONTROL ENVIRONMENT

We will conduct an assessment of the design and operational efficiency of the key financial recording and reporting procedures used by ST City Hotel in compliance with the Auditor General's auditing requirements. We shall make sure that the Committee and management are promptly informed of any substantial shortcomings that are brought to our attention throughout the course of our audit.

During our audit, we will review our control findings from 2021 to make sure that management's recommendations were carried out as planned throughout the year.

# AUDIT APPROACH

## RISK OF FRAUD

Those charged with governance and the management of ST City Hotel are mainly responsible for the prevention and detection of fraud and errors. The management has a running initiative for fraud detection and prevention. As the external auditor, it is our duty to take fraud risk and associated variables into account to reasonably assure that the financial statements do not include any material misstatements due to fraud. We must follow specific processes that are intended to mitigate fraud risks, including the risk of management override, in accordance with professional standards.

While our external audit work does not focus primarily on uncovering fraud or other irregularities, we will disclose any issues we come across. We assess the possibility of management override and take into account the precautions made by management. We have made it our goal to properly address fraud concerns during the audit process. the management and the Audit & Risk Sub-committee will be notified if any changes occurred.

# AUDIT RISK

## RISK OF FRAUD IN REVENUE SOURCES, MARKET SEGMENT AND KEY CUSTOMERS.

There is a risk that customers may take the opportunity for not paying or delaying the payment as ST City Hotel will still accepting customers even have a bad credit rating.

This will affect the revenue being overstated and bad debt not recorded in the financial statement

### WORK TO DO

We will discuss with the management and enquire them with supporting document whether all the bad debt has been recorded in the financial statement.

## RISK OF INVOLVEMENT IN E-COMMERCE

There is risk error might occur during the transfer of data between the hotel and third-party reservation system. This could lead to loss of customer's information, which might result in customer's booking being incorrect, causing a loss of customer's goodwill.

### WORK TO DO

We will evaluate the controls in place to ensure the accuracy and completeness of data transferred between the hotel's internal system and the third-party reservation system.

We will also conduct testing procedures to assess the reliability of the third-party reservation system.



# AUDIT RISK

## RISK OF ERRORS RELATING TO KEY SUPPLIERS

ST City Hotel have a significant number of suppliers, amounting to 40.

The auditors may not be able to carry out the reconciliation work for all 40 suppliers on a timely manner. This would result in unreconciled amount being undetected, which will under or overstate the payable and purchase balances.

## WORK TO DO

We will assess which suppliers have a higher assessed risk of material misstatement. Once identified, the reconciliation work for the supplier will be prioritised.

For suppliers not tested, we will review the level of exception noted during the reconciliation and discuss with management any significant issues.

## RISK RELATING TO RESEARCH AND DEVELOPMENT ACTIVITIES

ST City Hotel is committed to invest in research and development activities during the year. There is a risk of misclassification between the research expenditure and development expenditure. This would result in over or understatement of expenses and assets.

## WORK TO DO

The company is committed to invest in research and development activities during the year. The capital and revenue expenditure need to be appropriately accounted for. There is a risk of the profit to be overstated.

# AUDIT RISK

## RISK IN ADOPTION OF INFORMATION TECHNOLOGY

There is a risk that the new system may not operate effectively, which may cause the data transfer to be incomplete and/or inaccurate. This would result in misstated opening balances.

### WHAT TO DO

Discuss with management the process of data transfer and perform sample testing to ensure data transfer is complete and accurate.

## RISK INVOLVING INVESTMENT ACTIVITIES.

The company is planning to invest more aggressively in overseas hotels and expand into the China market. Due to currency differences, the conversion rate used may not be accurate. This would result in profit and the valuation of investment to be misstated.

### WHAT TO DO

For a sample of investment, we will recalculate the amount to ensure that the conversion rate used is accurate.

## RISK INVOLVING FINANCING ACTIVITIES

ST City Hotel have obtained loans and finance lease for major capital expenditures. There is a risk that revenue and profit will be manipulated in order to meet the requirements of the loan agreement. This would result in overstatement of revenue and profit.

### WHAT TO DO

We will assign an experienced team member and allocate adequate time to the area of revenue and profits.

We will also maintain professional scepticism and be alert when auditing the area of revenue and profit.

# MATERIALITY

## CONCEPT AND DEFINITION

The concept of materiality applies to financial misstatements, disclosure requirements, adherence to proper accounting principles and compliance with statutory requirements.

The International Standards of Accounting 320 Audit Materiality states that "misstatements, including omissions are believed to be material if they, individually or collectively, could reasonably be expected to have an impact on the economic decisions of users of the financial statements."

An item may be deemed material if it had an influence on:

- Trends
- Loan covenant compliance
- Situations that call for higher accuracy

## CALCULATION AND DETERMINATION

Based on our professional judgement and knowledge of the ST City Hotel, we have determined what is material. We have considered aspects like member expectations, market developments, financial stability, and reporting requirements for the financial statements.

Materiality is determined to:

- Help us to determine the scope of the audit engagement
- Estimate the permissible degree of misstatement in the financial statements
- Help us in assessing the impact of likely misstatements in the financial statements.

We will finalise our materiality figure prior to the commencement of our audit. If in the specific circumstances of ST City Hotel Sdn Bhd, We believe there are particular transactions, account balances or disclosure where misstatements of less than materiality for the financial statements as a whole could be expected to influence the decisions of the users, we shall also determine the performance materiality level to be applied to those particular transactions.

# REPORTING OF AUDIT FINDINGS

## COMMUNICATION

Should a requirement arise, we may speak with the client directly as their external auditor. At the Annual meeting when the yearly accounts are discussed, audit results will be verbally presented. Additionally, following the completion of the audit field work, an Audit Completion Memorandum outlining the key audit findings will be created and sent to the client for their comments.

## AUDIT ADJUSTMENTS

The client shall be informed of any errors discovered because of the audit work completed that have not yet been corrected. If, following discussion, any significant uncorrected misstatements persist, formal confirmation from the client may be requested, together with an explanation of the reasons for the non-adjustment. When adjustments are believed to be necessary for the client to fulfil their governance responsibilities or when adjustments point to serious flaws in the system of internal controls, statements that have been found but adjusted will only be brought to their attention.

# AUDIT TIMETABLE

PLAN	DATE
Issue bank confirmation letter	12 Jun 2023
Audit planning meeting with client	13 Jun 2023
Issue audit planning memorandum	13 Jun 2023
Audit fieldwork commences	14 Jun 2023
Audit clearance meeting	16 Jun 2023
Provide completion documents	17 Jun 2023
Board papers issued	18 Jun 2023
Audit committee meeting	18 Jun 2023
Board meeting	19 Jun 2023

## PROPOSED FEES

ITEM	Proposed 2023	Actual 2022
	RM	RM
Audit Fees	25000	23900

# STAFFING

DANIAL HARIZ  
LEADER

YASMIN ZURAISHA  
ASSISTANT LEADER

TAN YONG SHEN  
AUDIT TEAM MEMBER

PHAM ANH THU  
AUDIT TEAM MEMBER

NUR BALQIS  
AUDIT TEAM MEMBER

MING YU  
AUDIT TEAM MEMBER

ARMAN  
AUDIT TEAM MEMBER

ARIF  
AUDIT TEAM MEMBER