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Competition 2023

Reconnoitering Innovative Ideas in Postnormal Times

iTAC

2023

iTAC 2023
INTERNATIONAL TEACHING AID COMPETITION
E-PROCEEDINGS

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135. **REPLIT: A SIMPLE APPROACH TO REAL-TIME COLLABORATIVE CODING** **882**
Adeline Engkamat, Yii Ming Leong, Shirley Sinatra Gran
136. **KAD EASY INSURANS (KEI): PEMUDAHCARA DALAM PDPC MATEMATIK** **887**
Zulkifli Bin Salehudin
137. **IMPROVING AUDIT MATERIALITY USING E-MAT APPLICATION** **892**
Nurul Iffah Ghazali, Muthyaah Mohd Jamil, Nur Afiqah Md Amin
138. **THE DEVELOPMENT OF AUTOMATIC FISH FEEDER** **898**
Muhammad Adib Idham Bin Mohd Salehin, Rohidatun Mahmud @ Wahab, Norasikin Hussin , Nor Azirah Mohd Fohimi, Siti Shareeda Mohd Nasir
139. **MECHASONIC IRIS PROJECT CONSISTING OF A SMART LENS AND SMART STICK FOR VISUALLY IMPAIRED PEOPLE BY USING ARDUINO UNO AND AN ECO-FRIENDLY LITHIUM POLYMER BATTERY** **904**
Muhammad Isyraq Husaini Muliadi, Nik Salida Suhaila Nik Saleh, Farhani Nabihah Mohd Yazid, Syaza Nur Sharif
140. **PROMPTS FOR INTERNS' CRITICAL REFLECTIONS (PIR)** **912**
Mazliyana binti Zainal Arifin, Nor Shidrah binti Mat Daud, Zamnah Husin
141. **IMPROVING EDUCATION: LET'S LEARN ABOUT FARAIID** **918**
Nora Hafizah Binti Abas, Nur Syakirin Aini Binti Saifulaswat, Nurul Asna Damia Binti Md Jais, Verona Nattalye Szasza Tranica Binti Tedi, Amirah Hazimah Binti Borhanordin
142. **FINANCE PAYBUDDY: SMART PAYMENT BUDGETING APPLICATION WITH ARTIFICIAL INTELLIGENCE (AI) VIRTUAL ASSISTANT** **924**
Amir Sulaiman bin Sarif, Nurul Shareeza binti Roslan, Muhammad bin Zulkarnain, Muhammad Asyraf bin Abdul Rahman, Teuku Danialdi Didoh
143. **THE CREATION OF BIRD'S NEST DRINK PACKAGING** **930**
Wan Na'Iman Ikmal Wan Zukiman, Mastura Omar, Shalida Rosnan, Nur Aniza Mohd Lazim, Ellyana Mohd. Muslim Tan
144. **B.I.J.A.K BUKU IDEA JANA KEWANGAN** **936**

PREFACE

iTAC or International Teaching Aid Competition 2023 was a venue for academicians, researchers, industries, junior and young inventors to showcase their innovative ideas not only in the teaching and learning sphere but also in other numerous disciplines of study. This competition was organised by the Special Interest Group, Public Interest Centre of Excellence (SIG PICE) UiTM Kedah Branch, Malaysia. Its main aim was to promote the production of innovative ideas among academicians, students and also the public at large.

In accordance with the theme "Reconnoitering Innovative Ideas in Post-normal Times", the development of novel ideas from the perspectives of interdisciplinary innovations is more compelling today, especially in the post-covid 19 times. Post-pandemic initiatives are the most relevant in the current world to adapt to new ways of doing things and all these surely require networking and collaboration. Rising to the occasion, iTAC 2023 has managed to attract more than 267 participations for all categories. The staggering number of submissions has proven the relevance of this competition to the academic world and beyond in urging the culture of innovating ideas.

iTAC 2023 committee would like to thank all creative participants for showcasing their innovative ideas with us. As expected in any competition, there will be those who win and those who lose. Congratulations to all the award recipients (Diamond, Gold, Silver and Bronze) for their winning entries. Those who did not make the cut this year can always improve and join us again later.

It is hoped that iTAC 2023 has been a worthy platform for all participating innovators who have shown ingenious efforts in their products and ideas. This compilation of extended abstracts published as iTAC 2023 E-Proceedings contains insights into what current researchers, both experienced and novice, find important and relevant in the post-normal times.

Best regards,

iTAC 2023 Committee
Special Interest Group, Public Interest Centre of Excellence (SIG PICE)
UiTM Kedah Branch
Malaysia

IMPROVING AUDIT MATERIALITY USING E-MAT APPLICATION

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ABSTRACT

The detailed evaluation of materiality is a crucial aspect of the auditing process, as it determines the significance of financial information in relation to the overall financial statements. However, novice auditors frequently struggle to comprehend materiality due to the complexity of measurement processes. In addition, accounting students struggled to conceptualize the calculation of materiality level because they had never participated in an actual audit. This study focuses on the alternative solution 'E-Materiality Indicator' or E-MAT application designed to assist junior auditors and accounting students in assessing materiality levels effectively and efficiently. The tool's advantages are twofold. First, it equips novice auditors with the necessary skills and knowledge to evaluate materiality in various audit scenarios with confidence. With these materiality instruments, accounting students can gain a deeper understanding of the materiality level. It is anticipated that the standardized instrument and streamlined measurement technique will provide consistency across examinations, increase comparability, and reduce potential errors. Moreover, by enhancing the comprehension and measurement of materiality, this solution contributes to the professional development and effectiveness of novice auditors while enhancing accounting students' knowledge of materiality measurement.

Keywords: E-MAT, Materiality, Auditing tools, Accounting, Education

INTRODUCTION

The concept of materiality had evolved from concentrating on material misstatement from financial reporting to sustainability reporting initiatives (PricewaterhouseCoopers, 2021). The information considers as material when it can affect the users' decision making of the financial statements. This concept also helps the auditor to distinguish between important and unimportant information. The issue of no uniformity in determining materiality has been questioned among the scholars. Generally, the materiality will be based on the interpretation of the stakeholders, the current economic condition, and the stakeholders.

The European Union, through the Corporate Sustainable Reporting Directive (CSRD) had

forced 500,000 listed companies to disclose the reporting on Environmental, Social and Governance (ESG) in annual reports in 2004 (Jones, 2 June 2023). The disclosure of ESG reporting will be based on the concept of materiality. Auditors are responsible for determining the suitable indicators for determining materiality level.

There are various techniques in determining the materiality level used by the organisation (Perera-Aldama, 2023; Raith, 2023). The materiality level is determined based on financial information and non-financial information. It depends on the arguments of the auditors while performing the audit process (Hegazy & Salama, 2022). The use of auditors' arguments in determining the materiality level is open for further arguments by many scholars (Abhayawansa, 2022; Azad et al., 2023; Hegazy & Salama, 2022; Vagner, 2022). Therefore, this study illustrates the issues on materiality level and usage of the E-MAT application in solving the use of auditors' arguments in the context of determination of materiality level for the companies. This E-MAT application plan is to reduce the gap of misunderstanding this principle. Furthermore, E-MAT targeted the students to enhance the understanding of materiality and prepare them for the accounting and auditing professions.

ISSUES IN MATERIALITY CONCEPTS

Materiality is one of the major principles in the tolerable misstatements of financial statements. Scholars agreed that materiality could influence the decision-making of the auditors (Abhayawansa, 2022; Hegazy & Salama, 2022; Raith, 2023). However, several issues in this concept have been raised by previous studies, which are that there is no uniformity (Bolt & Tregidga, 2023; Perera-Aldama, 2023) and a lack of understanding of the usage (Bolt & Tregidga, 2023; Perera-Aldama, 2023).

Traditionally, materiality levels depend on the perception of stakeholders of the organisation. This principle did not specify the specific or uniform calculation on the materiality level (Bolt & Tregidga, 2023; Raith, 2023). The auditors and accountants use "common sense" in determining the right methods for the level of materiality (Bolt & Tregidga, 2023). Common sense is derived from day-to-day experiences in the workplace.

There is an argument that this perception will be inherited from year to year when the person wrongly selects the method to determine the materiality level (Bolt & Tregidga, 2023). This principle considered the time horizon whereby the materiality level will be double if the unsuitable method chooses from the beginning (Abhayawansa, 2022). This issue worsened when this principle expanded to corporate social responsibility (Raith, 2023). It is due to no financial data for corporate social responsibility organised by the companies.

The last issue is a lack of understanding of the usage of the principles (Perera-Aldama, 2023). This dynamic principle incorporates qualitative and quantitative elements in deriving the materiality level (Abhayawansa, 2022). The qualitative element required the accountants to recognise the suitable information to be used. The information determines the scope of nature,

schedule and audit methods (Azad et al., 2023).

The auditors have the right to evaluate the qualitative information the management provides (Azad et al., 2023). The auditors can order the management to stop performing any adjustments. The auditors must possess the knowledge to understand the principles of materiality to ensure the correct arguments are applied. The auditors can possess the knowledge through continuous training.

With the current technology usage, technology can be used as part of continuous training. This E-MAT application assists the auditors to possess knowledge of the concept of materiality. It also helps the students understand the principles of materiality inside the class. Therefore, this study introduces the application of E-MAT.

INTRODUCTION OF E-MAT APPLICATION

In order to improve the understanding of these principles, this study formulated the E-MAT application to improve the understanding of the material's principles. This tool only involves two steps, and it promotes an easier method to get the materiality level of the client's financial information.

Firstly, the student or junior auditor may key in all financial information in the yellow box according to the template given in the application. There are two common statements: the Statement of Profit or Loss (SOPL, Figure 1) and the Statement of Financial Position (SOFP, Figure 2).

| | 2022 | | |
|---------------------------------|--------|--|--------|
| REVENUE | | Allowance | - |
| Sales | 70,000 | Audit fees | - |
| SALES ADJUSTMENT | | Bank charges | - |
| Discount allowed | - | CCM fee | - |
| LESS: COST OF SALES | | Donation | - |
| Opening stocks | - | Fine and penalty | - |
| Purchases - oversea | 25,000 | Licence fee | - |
| Purchases - local | 5,000 | Postage and courier | - |
| Custom duties | - | Printing and stationery | - |
| Ocean freight | - | Repair and maintenance | - |
| Air freight | - | Professional fee | - |
| Import permit | - | Secretarial fees | - |
| Forwarding charges | - | Sundry expenses | - |
| Transport charges | - | Tax agent fee | - |
| Closing stocks | - | Telephone and fax | - |
| Stock written off | - | Travelling, toll and parking | - |
| GROSS PROFIT | 40,000 | Upkeep of office equipments | - |
| OTHER INCOME | | PROFIT/(LOSS) FROM OPERATION | 40,000 |
| Insurance claim | - | LESS: FINANCE COSTS | |
| Other creditors written off | - | Hire purchase interest | - |
| Gain in foreign exchange | - | Trust receipts interest | - |
| Refund of premium ass | - | LC charges | - |
| LESS: OPERATING EXPENSES | | Term loan interest | - |
| Staff costs | - | PROFIT/(LOSS) BEFORE TAX | 40,000 |
| Bonus | - | Taxation | - |
| EPF & SOCSO | - | NET PROFIT/(LOSS) | 40,000 |
| Salary and allowance | - | RETAINED PROFITS/(ACCUMULATED LOSSES) b/f | - |
| SOCSO | - | | |

Figure 7. Statement of Profit or Loss

| | 2022 |
|---------------------------------------|--------|
| FIXED ASSETS | |
| Plant, property and equipments | 12,300 |
| Investment | 15,000 |
| CURRENT ASSETS | |
| Inventories | 1,200 |
| Trade receivable | 1,500 |
| Other debtors and deposits | 10,000 |
| Amount due from related company | - |
| Amount due Holding company | - |
| Cash & bank balance | - |
| TOTAL ASSETS | 40,000 |
| CURRENT LIABILITIES | |
| Other creditors and accruals | - |
| Tax payable | - |
| CAPITAL AND RESERVES | |
| Share capital | - |
| Retained earning | 40,000 |
| TOTAL LIABILITIES AND EQUITIES | 40,000 |

Figure 2. Statement of Financial Position

Additionally, there are a few questions regarding qualitative factors (Figure 3), such as whether the client is ‘the first time being audited’ or ‘the amount involving fraud,’ that need to be answered by the user. These questions are designed to improve the materiality level of the client, which may be affected by qualitative factors. It is suggested for the auditor to lower the materiality amount if the amount shown in the dashboard menu is less than five (5). Nevertheless, this E-MAT also provides a question on the internal control analysis to identify the control level of the client’s operation.

Qualitative

| | Yes | No |
|---|-----|----|
| a) Amount involving fraud | | 1 |
| b) Bad consequences arising from contractual obligation | | 1 |
| c) Affect trend in earning | 1 | |
| d) Comply disclosure requirement | | 1 |
| e) Litigation case | | 1 |
| f) First client | | 1 |
| g) Internal control weak | | 1 |
| h) Management turnover | | 1 |
| i) Market pressure | | 1 |
| g) Bankruptcy risk | 1 | |

| Manager Evaluation | High | Medium | Low |
|--|------|--------|-----|
| a) Is there internal control on sales system | | 1 | |
| b) Is there any control on assets | | | 1 |
| c) Is there any control on inventory | | 1 | |

Figure 8. Qualitative Factors and Manager's Evaluation

Next, the user may analyse the result based on the criteria chosen in the dashboard menu (Figure 4). There are four most commonly used bases, which are "sales," "total assets," "income before tax," and "gross profit." They may choose any percentage of materiality level on each base shown by the graph on the dashboard. They may also decide on the percentage of tolerable misstatement, whether 3%, 4%, 5%, 10%, 15%, or 20%, according to professional judgement and risk assessment by the auditor. Consequently, the graph will change once the user chooses another percentage of the tolerable misstatement. Besides, this E-MAT will also show the overview level of internal control implemented by the client, either weak, strong, or medium.

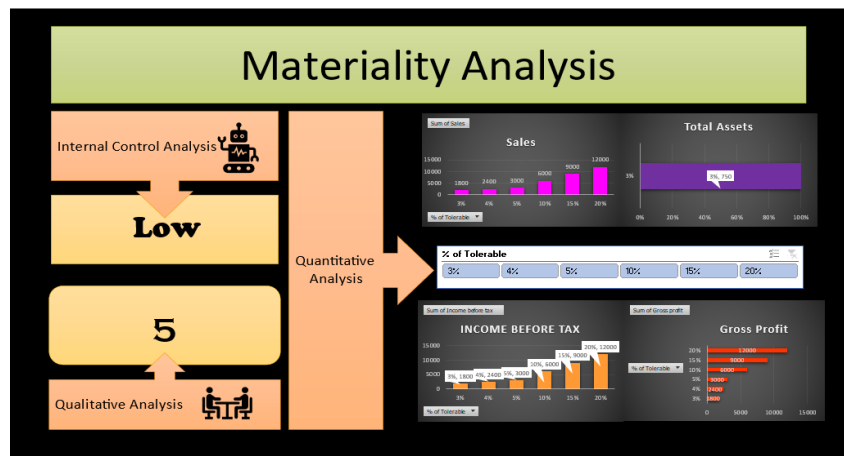


Figure 9. Dashboard of E-MAT

CONCLUSION

As materiality plays a significant role in the auditing process, E-MAT is anticipated to assist users in calculating the materiality amount. It will aid auditors and students in gaining a deeper comprehension of the concept of materiality and enhance the accounting and auditing professions.

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