

December 01, 2003

ADVANCED AUDITING
Module E and PE-1

(MARKS 100)
(3 hours)

- Q.1 Related parties relationship and transactions with related parties have significant impact on audits. As audit manager, you have been asked by your partner to brief your staff about various types of relationships and unusual transactions which may be carried out between such parties. Make a presentation to cover the above issues? (10)
- Q.2 (a) Describe what do you understand by the term “going concern”. Briefly discuss how would you as an auditor, evaluate management’s assessment of the entity’s ability to continue as a going concern. (03)
- (b) List the factors which may indicate that a company is not a going concern and briefly describe why each of these factors indicates going concern problems? (05)
- Q.3 Recently, there have been a number of highly publicized cases of alleged or actual management frauds involving misstatement in the financial statements that have adversely affected the reputation of the accountancy profession. As a result, the IFAC and other professional bodies have issued revised standards on “Auditors Responsibilities” in respect of fraud in the financial statements.
- Required:**
- (a) What are the responsibilities of an auditor and those charged with governance with respect to fraudulent financial reporting? (06)
- (b) What are the characteristics of management fraud that an auditor should consider to fulfill the auditor’s responsibilities related to detecting management fraud? (02)
- (c) Three factors that heighten an auditor’s concern about the existence of management fraud include (1) an intended public placement of securities in the near future, (2) management remuneration dependent on operating results, and (3) a weak internal control environment evidenced by lack of concern for basic controls and disregard of the auditor’s recommendations. What other factors should heighten an auditor’s concern about the existence of management fraud? (04)
- Q.4 You are required to certify the Statutory Report of Fresh Beverages Limited, a listed company in terms of Section 157 of the Companies Ordinance, 1984. State the audit procedures to be performed by you in this respect. (10)

Q.5 The Board of Directors of a listed company are concerned about declining profitability and have appointed a new Managing Director. The Managing Director has approached your firm to carry out a forensic investigation in certain areas where he believes that the company is losing revenue. The areas identified by him include:

- (i) Purchases of material from local sources.
- (ii) Payments made for advertising and other expenses.
- (iii) Payments for overtime and other staff related expenses.

Required:

- (a) Identify ways in which misappropriation of company's funds may be taking place in each of the above areas. (05)
- (b) Suggest appropriate internal controls to mitigate the risks of above mentioned misappropriation possibilities. (10)

Q.6 Nawab, a newly qualified chartered accountant has established an audit firm. In order to increase its base he decided to induct you as a partner in the firm. Before making any decision, you have carried out an assessment of the firm's practice. You have noted that Nawab does not care much of quality control in the firm. He believes that job should be profitable even at the cost of quality. You are well aware that such an attitude may expose the firm to severe penal action by the regulatory authorities. You have decided to convince Nawab for implementation of sound quality control policies in the firm as a precondition for joining as a partner. For this purpose, you are required to develop a paper containing:

- (a) Salient features of the Quality Control Program of the ICAP. (05)
- (b) Your recommendation for establishing the Quality Control Policies and Procedures in the firm. (05)

Q.7 One of the key responsibilities of an audit manager is to manage an effective client relationship. Briefly explain what factors would be important in managing this relationship and what steps should be taken by the audit manager to perform this task effectively? (10)

Q.8 Your firm has been approached by a large trading company to carry out a review of its prospective financial information:

- (a) What factors should be kept in mind while determining the extent of examination procedures for such a review. (05)
- (b) What will be the key contents of your report on this information? (10)

Q.9 Ahmed is an audit assistant at a large chain of shoe shop namely Fullstop. Fullstop is using on-line computer systems for entering transactions, making inquiries, updating master files and requiring reports. As Ahmed has no prior experience of auditing an entity using on-line computer system, he asked you, being the engagement manager of the audit, the following questions:

- (a) What is the effect of on-line computer system on audit procedures to be performed on this job? (04)
- (b) What are the matters of particular importance while auditing through on-line computer systems? (06)

Draft your replies to the questions raised by Ahmed