

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Intermediate Examinations Autumn 2006



September 08, 2006

AUDITING

(MARKS 100)

Module D

(3 hours)

- Q.1 (a) Analyze the following independent situations with reference to qualification of statutory auditor:
- (i) Mr. Zakir Ali, a practicing chartered accountant, has been offered appointment in Heera Limited as external auditor. He was an employee of the company before he started his own practice.
 - (ii) Diamond Associates (Pvt) Limited, a consultancy company, the majority of whose directors are chartered accountants, have been offered appointment as external auditor in Lal (Pvt) Limited whose share capital is less than Rs. 1.5 million.
 - (iii) Miss Fatima Khan, a practicing chartered accountant, has been offered appointment in Neelam Limited as external auditor. She was an employee of the company's director two months before the offer.
 - (iv) Mr. Farid Hussain is a partner of Farid & Company, Chartered Accountants. The firm has been offered appointment in Feroza Limited as external auditor. Son of Mr. Farid holds shares of Feroza Limited. (08)
- (b) Your assistant has an understanding that under the Companies Ordinance, 1984 only a Chartered Accountant can be appointed as auditor of a limited company. What is your understanding of the law in this regard? (03)
- Q.2 Briefly describe the following:
- (a) Entity's risk assessment process (05)
 - (b) Monitoring of controls (05)
- Q.3 (a) International Federation of Accountants (IFAC) provides leadership to the worldwide accountancy profession in serving the public interest. What activities are undertaken by IFAC to achieve this aim? (04)
- (b) You have been offered to audit an entity, where management has not made any decision regarding the applicable financial reporting framework. Explain the importance of financial reporting framework at the client acceptance level. (03)

- Q.4 You are audit in-charge of Marble Limited. The company has established an internal audit function, which is headed by a Chartered Accountant, who has significant internal audit experience. The head of internal audit also reports functionally to audit committee and administratively to the Chief Executive. Based on your preliminary review of the internal audit function, you consider that internal auditing activities are relevant to the risk assessment, and therefore, you are planning to obtain understanding and perform an assessment of internal audit. What are the important criteria that you would consider for assessment of internal audit function? (08)
- Q.5 Your audit client Aqeeq Limited, a large manufacturing company that has substantial investment in plant and machinery, has used the services of Mr. Samad Hussain, a qualified engineer, for assessing the remaining useful life of a major plant. This plant, which was installed during the year, is expected to double the production capacity of the company. The assessment of useful life of the plant will have significant impact on estimation of depreciation expense for the year. You noted that Mr. Hussain has been in the employment of the company for the last four years.
- Brief your audit team about using the above work of Mr. Hussain. (06)
- Q.6 (a) Explain the term 'error' with examples. (02)
- (b) Fraudulent financial reporting often involves management override of controls. Describe some techniques that are used by management to override controls. (05)
- Q.7 (a) What information is considered material with reference to an audit? (03)
- (b) Why does an auditor establish a materiality level? (02)
- Q.8 (a) What is meant by sufficient and appropriate audit evidence? (04)
- (b) The auditor obtains evidence about the operating effectiveness of internal controls from tests of controls. What matters he should consider in determining the extent of such tests? (05)
- Q.9 (a) An auditor considers various factors while designing and performing analytical procedures as substantive procedures. These factors include assessing whether the expectation is sufficiently precise to identify a material misstatement.
- Briefly discuss the matters which the auditor considers while making such assessment. (05)
- (b) How does an auditor use a conclusion drawn from analytical procedures, at the end of the audit? (03)

Q.10 In the course of verification of 'trade creditors' of Mirpur Limited, you sent fifteen positive confirmations to the suppliers. The results have been summarized as under:

- (i) Three suppliers confirmed the balance. You came to know that bulk of the sales of these suppliers is made to Mirpur Limited.
- (ii) Five suppliers confirmed the balances over telephone.
- (iii) No replies have been received from the remaining suppliers.

Briefly discuss how you would deal with each of the above situations. (09)

Q.11 As audit manager on the audit of Yaqoob Limited, you are supposed to assign the review of subsequent events to one of the members of the audit team.

(a) Brief your team about the purpose and timing of reviewing events occurring after the balance sheet date. (04)

(b) Describe some of the procedures that are carried out to identify events which may require adjustment of or disclosure in financial statements. (05)

Q.12 (a) In what circumstances an auditor expresses the following:

- (i) an unqualified opinion
- (ii) a qualified opinion (05)

(b) An audit report contains title, addressee, date, auditor's opinion, auditor's address and auditor's signature. Describe the other essential elements of audit report. (06)

(THE END)