

AUDITING

(MARKS 100)

Module D

(3 hours)

- Q.1 (a) Discuss briefly the role of the following:
- (i) International Federation of Accountants (03)
 - (ii) International Auditing and Assurance Standards Board (03)
- (b) Briefly discuss the authority attaching to International Standards on Auditing (ISAs) with respect to audit of a limited company in Pakistan. (03)
- (c) While accepting an audit client, the auditor takes into account the integrity of the client. What are the matters that an auditor should consider in this regard? (04)
- Q.2 (a) You have received a letter from the company secretary of ABC Group of companies on March 04, 2006. The group consists of four public limited unlisted companies. The secretary requested you to advise him as to who will have the authority to appoint new auditors in following situations relating to different companies of the group:
- The auditors of Company A will be retiring in August, 2006 on the conclusion of the Annual General Meeting of the company.
 - The auditors of Company B were removed by the members on March 02, 2006.
 - The auditors of Company C became disqualified on February 14, 2006.
 - The auditors of Company D resigned on January 28, 2006. (08)
- (b) What would be the term of office of new auditors in the cases given above? (02)
- Q.3 You, as audit in-charge of Sindh Craft Limited, were assigned the job to perform preliminary engagement activities for the year 2005-06 soon after the completion of audit for the year 2004-05. An engagement letter is not sent to this client each year. You are requested to explain the following to your audit team members:
- (a) The activities an auditor performs as preliminary engagement activities. (03)
 - (b) What does an auditor ensure by performing these activities? (03)
 - (c) The possible justification for not sending an engagement letter to the client each year? (06)
- Q.4 Pak Tools Limited has a subsidiary in Dubai whose operation is significant to the company. You, as principle auditor, are responsible to express an opinion on the company's consolidated financial statements. The subsidiary was previously being audited by a local firm. However, the auditors were changed last year, and the current year's audit has been performed by a firm, which has been affiliated with your firm for a long time.

(2)

- (a) What difference do you expect in your audit procedures while using the work of other auditors in view of the above change? **(04)**
- (b) What basic information would you document in the working papers? **(04)**

Q.5 Give four examples of the circumstances when manual controls are given preference over the automated controls. **(04)**

Q.6 You, being auditor of World Limited were not provided with the management representation in respect of adjustments based on the fair values of investment in some listed securities of material amount.

The CFO of the client has requested you to explain:

- (a) What are the matters on which International Standard on Auditing prescribes it necessary to obtain management representation? **(05)**
- (b) What alternate, if any, is available to auditors in the absence of management representation in the above matter? **(03)**
- (c) What may be the impact on your audit opinion in such situation? **(02)**

Q.7 Indus Limited has a policy to change their auditors every year. Explain whether the auditors of Indus Limited should prepare proper working papers, despite the fact that they would not be appointed for the next term. **(03)**

Q.8 The reliability of each audit evidence is influenced by its individual circumstances. However, there are certain factors which are generally taken into consideration to determine the extent of reliability of audit evidences. Describe such factors briefly. **(06)**

Q.9 At a client, there are large number of debtors with small balances. The audit incharge is considering to send negative confirmation request.

- (a) What weakness do you see in such kind of confirmations? **(03)**
- (b) Is it appropriate to send negative confirmation request in the given case? Explain briefly. **(04)**

Q.10 (a) List down substantive procedures for the verification of 'liability against assets subject to finance lease'. Also mention the audit assertions addressed while performing each suggested procedure. **(06)**

(b) What do you understand by 'stratification'? **(02)**

Q.11 When and what type of audit procedures should be carried out by the auditors to identify subsequent events? State briefly. **(05)**

Q.12 While performing audit of Mehran Chemicals Limited you used the work of an expert for valuation of work-in-process and raw material inventory. Expert's report shows substantial differences in valuation of both. You have decided to qualify your report on the basis of the expert's opinion. Narrate the important matters that you should ensure while implementing the above decision. **(04)**

(3)

Q.13 You are manager incharge for the audit of Sehwan Marbles Limited. During audit you noticed that the company was sued for breach of contract by a customer claiming damages of Rs. 200 million. Based on the lawyer's opinion (received through management), the management asserted that there would be no significant liability at the balance sheet date in respect of the said breach and accordingly, no provision was made in the financial statements. However, while studying the case file you found a memorandum from the head of the legal department addressed to the managing director in which he had opined that the company will have to pay at least 50% of the damages claimed. You concluded that this note was a strong evidence indicating the existence of this liability, which should be provided for. Management considers that such note was nullified by the opinion of the company's legal advisor and as such there was no need to make any provision in respect of this contingent liability that was considered to be remote. Therefore, the CFO advises you that at the most there may be a disclosure of this contingent liability in the financial statements or perhaps an emphasis of matter paragraph in the auditor's report without qualification.

Required:

Write a memorandum containing your conclusion and recommendation for the decision of the partner as to the type of opinion that should be issued and why. (10)

(THE END)