

# THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Intermediate Examinations Autumn 2007



September 03, 2007

## AUDITING

(MARKS 100)

### Module D

(3 hours)

- Q.1 While carrying out the audit of a client you had found that direct confirmation from a major customer of the company had not been received. The management of the company has explained that due to a dispute which arose in the recent past, it is not advisable to pursue the customer as this would further aggravate the relationship. However, the management is willing to provide you copies of the statements received from the customer alongwith the reconciliation to verify the year end balance, which you may retain in your working papers as audit evidence.

In the given scenario, explain the guiding principles provided by the International Standards on Auditing.

(06)

- Q.2 The purpose of audit sampling is to draw conclusions about the entire population. The auditor adopts different methods to select a representative sample i.e. which has characteristics typical of the population. Briefly describe the principal methods of selecting the samples.

(09)

- Q.3 Describe the criteria given in the International Standards on Auditing, to evaluate the reliability of audit evidence.

(06)

- Q.4 List the audit procedures for the verification of fixed assets as appearing in the financial statements. Also give the related 'audit assertion' against each step.

(12)

- Q.5 (a) An auditor is required to establish overall audit strategy as part of developing the audit plan. The overall audit strategy sets the scope, timing and direction of the audit, and guides the development of more detailed audit plan.

Identify the matters, which should generally be considered in establishing the scope of audit engagement.

(07)

- (b) The auditor performs risk assessment procedures to obtain an understanding of the entity and its environment, including its internal controls. Briefly discuss all such procedures.

(09)

- Q.6 You are in-charge of a team engaged in the audit of a listed company. The engagement team is about to hold a meeting to discuss the susceptibility of the company's financial statements to material misstatement due to fraud. One of your team members is perplexed about the auditor's responsibility towards fraud. You are required to explain the following:

- (a) Auditor's responsibilities for detecting material misstatements due to fraud; and  
(b) The matters that would be considered in the above mentioned meeting.

(04)

(08)

- Q.7 Under the Companies Ordinance 1984, while reporting on the financial statements the auditor has to express an opinion whether the financial statements give a true and fair view in all material respect.

Briefly state the matters other than the above, on which the auditor is required to express his opinion as per the requirements of Section 255 of the Companies Ordinance, 1984. (08)

- Q.8 (a) In peculiar circumstances the client restricts the auditors from performing certain audit procedures. Discuss how the auditor should deal with such restrictions if the same are imposed:

- (i) at the time of appointment
- (ii) during the audit. (08)

- (b) Briefly state the circumstances when the audit report is modified without affecting the auditor's opinion. Also state how such modification is dealt with in the audit report. (08)

- Q.9 The auditor of a listed company is required to review the half yearly financial statements. You are required to explain:

- (a) the objectives of such review and how does it differ from audit; and
- (b) the procedures that are performed while carrying out such review. (07)

- Q.10 While reporting on the consolidated financial statements the principal auditor has to evaluate the financial statements of the subsidiary company also. At times, such financial statements are audited by other auditors. The local regulations applicable in such a case may allow the principal auditor to base his opinion solely on the report issued by the other auditor.

Describe the effect of such regulation on audit procedures and audit report to be issued by the principal auditor. (08)

**(THE END)**