THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Intermediate Examinations Autumn 2009

September 7, 2009

AUDITING **(MARKS 100)**

Module D **(3 hours)**

Q.1 (a) Briefly highlight the management's responsibilities relating to the financial statements? **(07)**

(b) During the audit team planning meeting, a member of the audit team passed a comment that based on past experience with the client, he was confident that the management of the client was honest and there was no issue as regards management integrity or risk of fraud in the Company. The audit manager responded that the auditor should always maintain an attitude of professional skepticism throughout the audit.

Required:
Briefly describe 'Audit Skepticism' and elaborate on the response of the audit manager. **(08)**

Q.2 During the course of audit an auditor is expected to be vigilant enough to develop understanding about the propriety of important transactions and to determine whether or not such transactions have appropriate business rationale.

Required:
Briefly describe the situations in which a transaction is indicative of fraud or an attempt to conceal fraud or fraudulent reporting. **(07)**

Q.3 (a) You are the audit manager on a client where an annual sale is Rs. 640 million. During the course of annual audit the following table was developed by an audit team member, to categorize the annual sales:

		Rs.
Category A	50 sales transactions to different customers	300 million
Category B	100 transactions to different customers	200 million
Category C	500 transactions to different customers	140 million
Total		640 million

Sohail, a team member, is of the view that if verification of all the transactions in category A is carried out, there is no need to perform further procedures. However, other team members do not agree and consider that proper sampling should be carried out from the total population and categorization should be ignored.

Required:
As an audit manager of the job, you are required to:
(i) Explain how audit efficiency could be improved by using the above table.
(ii) List other ways in which the sales population may be categorized and what precaution should be taken while carrying out such categorization.
(iii) Give your opinion on the views expressed by:
- Sohail
- Other audit team members. **(11)**

(b) Describe the circumstances in which an auditor may decide to examine entire population of items that make up an account balance. **(03)**

Q.4 During the audit of PQR Limited you have been assigned the task of evaluating the work performed by the internal audit department of the company on certain specific areas.

Required:

(a) Describe how would you evaluate the work performed, in order to determine the extent of reliance that may be placed thereon. **(06)**

(b) List the important differences between internal and external audit with respect to the following:
- Independence
- Objectives
- Reporting **(08)**

Q.5 You work as assistant manager in one of the leading firm of chartered accountants. Your partner has asked you to prepare a presentation for some of the newly recruited staff. As part of this presentation, you are required to explain the nature and objectives of maintaining 'Audit Documentation.' **(10)**

Q.6 You are the senior member of the audit engagement team, auditing the financial statements of a manufacturing company, Hard Stone Limited. List down the primary substantive procedures, which you would carry out in the verification of:

(a) trade debts (excluding receipts from customers). **(06)**
(b) stores and spares. **(06)**

Q.7 Describe the procedures that the auditor may perform, in order to ensure the completeness of the information provided by the management, about related parties. **(06)**

Q.8 The auditor's report as specified in form 35A in the Companies (General Provisions and Forms) Rules, 1985 includes the auditor's opinion on certain matters which have not been specified in the format of auditor's report given in the International Standards on Auditing.

Required:
List the additional reporting responsibilities of the auditor, as discussed in the preceding paragraph. **(08)**

Q.9 Sigma & Company, Chartered Accountants has carried out a review of the financial statements of Bilal Limited, a listed company, for the half year ended June 30, 2009. The job in charge has drafted the following review report:

Report on Review of Interim Financial Information

Introduction
We have reviewed the accompanying condensed interim statement of financial position of Bilal Limited ("the company") as at June 30, 2009 and 2008, and the related condensed interim statement of comprehensive income and condensed interim statement of cash flows together with the notes forming part thereof for the half year then ended in accordance with International Standards on Auditing applicable to review engagement. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan.

Scope of Review
A review of interim condensed financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as at june 30, 2009 is not presented fairly in all respects.

Because of the inherent limitations of our review engagement, this report is intended for the information of management and should not be used for any other purposes.

Emphasis of matter
Without qualifying our conclusion, we draw attention to note X to the financial statements. Management has informed us that inventory has been stated at cost which is in excess of its net realizable value. Management's computation, which we have reviewed, shows that inventory, if valued at the lower of cost and net realizable value as required by International Financial Reporting Standards, would have been lower by Rs. 20,000,000/-, and the reported net income and shareholders' equity would have decreased by Rs. 18,900,000/-.

Sigma & Company
Chartered Accountants

Required:
Highlight the deficiencies, if any, in the draft review report. **(14)**

(THE END)