



Auditing

Intermediate Examination
Autumn 2013
Module D

4 September 2013
100 marks - 3 hours
Additional reading time - 15 minutes

- Q.1 (a) Briefly describe the steps that an auditor should take in order to establish whether preconditions of an audit are present. (06)
- (b) Briefly explain any **six** methods for collecting audit evidence. (12)

- Q.2 (a) Hashim Industries Limited (HIL) is a manufacturer of household appliances. Its products are popular in the market mainly because the company provides a replacement warranty for three years.

HIL's auditor has verified that the basis of arriving at the warranty provision is same as in the previous year. However, the auditor has requested a written representation from the management that there is no significant change in circumstances necessitating a change in the basis of arriving at the amount of warranty provision. The management has yet to confirm acceptance of this representation.

Required:

Discuss the importance of written representation in the above situation and list the steps that the auditor should take and the possible impact on the audit report, if the management is not willing to provide the required written representation. (11)

- (b) NCCL is a subsidiary of HIL. HIL's auditor has now been appointed as the auditor of NCCL also.

Required:

State the factors that HIL's auditor would consider in determining whether a separate engagement letter should be sent to NCCL. (05)

- Q.3 Saleem is an audit manager in a firm of Chartered Accountants. He is faced with the following situations at two different clients.

- (a) PNTL Limited is a listed company where most of the managerial powers are exercised by two of its Senior Managers who are closely related. The company pays handsome bonuses based on profitability.

PNTL's management has requested Saleem not to send a request for confirmation of balance to GL who owed Rs. 40 million to PNTL, as that amount has been recovered subsequent to the year-end. (06)

- (b) In response to a request for confirmation, a bank has reported a saving account in the name of ABC Limited with a zero balance at the year-end. On inquiry, the client has advised that during the year, an amount of Rs. 5,000 was deposited in that saving account which was subsequently withdrawn. However, due to the negligence of a staff member, this transaction was not recorded. (04)

Required:

Briefly explain how Saleem should address each of the above situations.

- Q.4 (a) Briefly describe the extent of auditor's responsibility relating to subsequent events occurring between the date of the financial statements and the auditor's report. (03)
- (b) Identify any **five** procedures that the auditor may undertake to fulfill the responsibility as discussed in (a) above. (05)

- Q.5 Comment on each of the following independent situations in the light of the requirements of the Companies Ordinance, 1984:
- (a) Khan and Company, Chartered Accountants has received an offer for appointment as auditors of Good Bank Limited (GBL). Shahid is a partner in Khan and Company. He has obtained a personal finance of Rs. 450,000 from GBL and also holds GBL's credit card. The outstanding balance on his credit card is Rs. 100,000. (03)
- (b) Abid is a partner in AFL & Company, Chartered Accountants. AFL has accepted an offer for appointment as auditors of Saima Limited (SL). Saima, the wife of Abid, owned 11% shares in SL. She also works as SL's General Manager Marketing. Saima disposed of the shares held by her to Abid's father, within 30 days of the appointment of AFL but continues to remain employed in SL. (03)
- Q.6 State the key differences between an unmodified audit report issued in accordance with ISA 700 'Forming an Opinion and Reporting on Financial Statements' and the audit report issued under the Companies Ordinance, 1984. (13)
- Q.7 (a) Narrate the circumstances under which the auditor would resort to the following techniques while selecting items for tests of details and controls:
- (i) Selecting all items of a population. (03)
- (ii) Selecting specific items from a population. (05)
- (b) List the factors that may be relevant for the auditor while selecting specific items for testing. (03)
- Q.8 You are the audit incharge at Quick Enterprises Limited (QEL), a distributor of fast moving consumer goods. QEL supplies goods to retailers all over the country. The purchase procedure of the company includes the following:
- (i) Minimum stock levels are fixed on the basis of the changing demand for different brands which is monitored by the marketing department.
- (ii) At the minimum stock level, requisitions for stock purchases are generated by the marketing department and signed by the Marketing Manager.
- (iii) Pre-numbered purchase orders are generated in triplicate.
- (iv) Purchase Manager signs the purchase order after matching these with the requisitions signed by the Marketing Manager.
- (v) Purchase orders are faxed to the suppliers and copies thereof are forwarded to the stores and finance departments.
- (vi) On receipt of goods, pre-numbered Goods Receiving Notes (GRNs) are prepared and signed by the Store Incharge. Each GRN is compared with the relevant purchase order by the Store Incharge.
- (vii) GRN is forwarded to the finance department for recording in the stores ledger.
- Required:**
Identify the key internal controls that appear to be in place in the above system and test of controls required to evaluate each control. (08)
- Q.9 Discuss the categories of threats that may be involved in each of the following independent situations and advise the concerned engagement partners with regard to the possible course of action that may be adopted in each case.
- (a) Awesome Hotels Limited (AHL) is a listed company and is audited by Mansoor and Company, Chartered Accountants. The partners of Mansoor and Company stay in the hotels managed by AHL while they are travelling. (05)
- (b) An audit team member on Hunza Limited (HL) has inherited 100,000 shares in HL after the death of his father. (05)

(THE END)