



The Institute of
Chartered Accountants
of Pakistan

Certificate in Accounting and Finance Stage Examinations

1 September 2014
3 hours – 100 marks
Additional reading time – 15 minutes

Audit and Assurance

- Q.1 Khanewal Limited (KL) has requested your firm to submit engagement letter for KL's statutory audit. The engagement partner has asked you to establish whether preconditions for the audit of KL are present.

Required:

What matters would you consider in order to ensure that preconditions for the audit exist? (05)

- Q.2 Your firm is the auditor of ABD Limited (ABDL). After the acquisition of majority shareholding in HG Motors (Private) Limited (HGM), ABDL has decided to replace the existing auditors of HGM in the next annual general meeting and has approached you for appointment as HGM's auditors for the next year.

Required:

(a) In the light of the Companies Ordinance, 1984 explain the procedures to be followed and formalities to be complied with for appointment of your firm as the auditor of HGM. Also explain the rights of the existing auditors in this situation. (08)

(b) Explain the responsibilities of your firm and the existing auditors in the above situation under the Code of Ethics for Chartered Accountants. (05)

- Q.3 Your firm is the auditor of Cell Phones (Private) Limited (CPPL), which operates a chain of mobile phone retail outlets. About 25% of shareholding in CPPL is owned by Anwar and his wife. Anwar is the Chief Executive of CPPL and also looks after the finance and operations of the company. There are five other directors and each of them holds 15% shares in CPPL.

The Internal Audit Function comprises of three senior officers who are graduates. Their duties include checking of accounting records, physical stock taking, preparation of bank reconciliations, reviewing payments and verification of fixed and current assets.

During the planning phase, Anwar stressed the need for early completion of audit, in order to be able to submit the audited financial statements for seeking a long term finance. He was of the view that internal audit working papers would be of enormous help in performing and early completion of the audit.

Required:

(a) Identify and briefly describe the fraud risk factors in the above scenario. (06)

(b) State whether it would be advisable to use the internal audit working papers in the above situation and give **three** distinct reasons to support your decision. (06)

- Q.4 List any **five** substantive procedures for the verification of each of the following:

(i) Accrued expenses

(ii) Contingencies

(10)

Q.5 Your audit team members have attended the physical inventory count of Sutlaj Limited. Their observations are as follows:

- (i) Stock count was supervised by the warehouse incharge who reports to the production manager.
- (ii) In view of the various ongoing projects, temporary staff had to be hired to conduct the stock count.
- (iii) Pre-numbered count sheets were used by the staff which contained columns for inventory ledger balances, physical balances and excess/shortages.
- (iv) The staff was instructed to ensure that no item of inventory was counted twice and for this purpose they were asked to remain in constant contact with other staff.
- (v) On completion, all the count sheets were signed by the store incharge and the head of the administration department

Required:

Identify the weaknesses in the inventory count procedures and state the implications on the physical count. (08)

Q.6 You are the training manager in a firm of chartered accountants. Prepare brief presentation for newly inducted trainees, on the following:

- (a) Control Environment and its elements (04)
- (b) Walk through tests and why these are performed (03)
- (c) Materiality and Performance Materiality. (05)

Q.7 The management of Pioneer Textile Limited (PTL) has provided you with management representation that they have disclosed to you all known instances of non-compliances with laws and regulations that are relevant to the preparation of the financial statements.

However, during the field work your team identified a payment of penalty of Rs. 2 million to an environmental agency. PTL's management claims that the disclosure of the related non-compliance was inadvertently omitted.

Required:

Discuss the appropriateness of management representation and how would you deal with the above situation. (05)

Q.8 Deehan Super Stores has launched a sales promotion scheme. Accordingly, the customers who purchase a loyalty card gain reward points on every purchase. The points may be redeemed by adjusting the value of the available points in any subsequent purchase.

Required:

Draw a flow chart showing the payment process including point accumulation and point redemption. (09)

Q.9 Classify the following controls as preventive, detective, or corrective controls. Give brief reasons to justify your answers.

- (i) Training on applicable policies, department policy/ procedures
- (ii) Batch totals
- (iii) Segregation of duties
- (iv) Contingency planning
- (v) System logs
- (vi) System backup

(06)

- Q.10 (a) Briefly describe the term 'Integrity' in accordance with the Code of Ethics for Chartered Accountants. (02)
- (b) Briefly describe 'advocacy threat' and give an example thereof. (02)
- (c) Briefly state the difference between 'actual independence' and 'perceived independence'. (03)
- (d) The principle of confidentiality imposes an obligation on chartered accountants to refrain from disclosing confidential information. State **three** key exceptions to the above rule. (02)
- (e) Briefly describe the term 'systematic sampling'. (01)
- (f) State the conditions under which it may be appropriate to send negative confirmations. (02)
- (g) State any **three** procedures which are generally adopted by the auditor to obtain evidence in review engagement. (02)
- (h) State the auditor's responsibility with respect to events between the end of the reporting period and the date of the auditor's report. (02)
- (i) Give any **three** audit procedures to ensure completeness of list of related parties provided by the management. (02)
- (j) State any **two** factors which the auditor should consider to ensure reliability of audit evidence. (02)

(THE END)