

**INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS
OF PAKISTAN**

PROFESSIONAL-III EXAMINATION-SPRING (SUMMER), 2005

Wednesday, the 1st June, 2005 **618**

AUDITING

Time Allowed—3 Hours

Maximum Marks—100

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- (i) Attempt SIX questions, including Question No. 5 which carries 20 marks and is compulsory. All other questions carry 16 marks each.
- (ii) Answers must be neat, relevant and brief.
- (iii) In marking paper, the examiners take into account clarity of exposition, logic of arguments, presentation and language.
- (iv) Read the instructions printed on the top cover of answer script CAREFULLY before attempting the paper.
- (v) DO NOT write your Name, Reg. No. or Roll No. anywhere inside the answer script.
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Marks

Special instructions for Q. 1:

- ZERO MARK will be awarded inspite of correct option selected, if the RATIONALE for choosing the answer is not given or is incorrect.
- An overwritten answer will carry no mark.
- Use the following format to answer this question:

S. No.	Your Choice	Rationale (Brief reason for your answer)
(i)		
(ii)		
and so on		

Q. 1 (a) Select the correct answer from the following:

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- (i) The risk that the auditor gives an inappropriate audit opinion when the financial statements are materially mis-stated is called:
- (a) Control risk
(b) Detection risk
(c) Audit risk
(d) Inherent risk

- (ii) The risk that arises from factors that cause the auditor to reach an erroneous conclusion for any reason not related to the size of the sample is called:
- Sampling risk
 - Non-sampling risk
 - Detection risk
 - Audit risk
- (iii) Information obtained by the auditor for arriving at the conclusions on which the audit opinion is based is called:
- Audit evidence
 - Audit finding
 - Significant information
 - Audit confirmation
- (iv) An intentional act by one or more individuals among management, employees, or third parties which results in a misrepresentation of statement is called:
- Error
 - Mis-statement
 - Fraud
 - Mistake
- (v) Compliance tests are designed by the auditor to:
- Test the effective implementation of controls
 - Test the transactions and balances
 - Test the possibility of errors existing in the system
 - Test the business budget with the actual results
- (vi) Application controls in computerized environment include:
- Input and output controls
 - Organizational controls
 - Software controls
 - Internal controls
- (b) Match each of the following terms with related description:

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<i>Term</i>	<i>Description</i>
(i) Disclaimer of opinion	(i) Auditor states that in his opinion, financial statements do not give a true and fair view.
(ii) Adverse opinion	(ii) Auditor states that he is unable to form an opinion.
(iii) Except to opinion	(iii) Auditor disclaims an opinion on a particular aspect of the financial statements.
(iv) Subject to opinion	(iv) Auditor expresses an adverse opinion on a particular aspect of the financial statements.

	<i>Marks</i>
Q. 2(a) "Analytical procedures provide particular assurance on specific figures in the accounts, thus allowing the level of other detailed testing to be reduced". Describe briefly the procedural guidelines, auditors normally follow while performing analytical review.	8
(b) "The auditor should obtain sufficient and appropriate audit evidence to draw reasonable conclusion there-from". Describe how the auditors conclude on sufficiency and appropriateness of audit evidence?	8
Q. 3(a) Explain the procedures adopted by the auditor to identify the existence of related parties.	6
(b) Describe audit tests applied by the auditor to identify previously unidentified related parties.	4
(c) What matters are normally considered by the auditor while using the work of an expert?	6
Q. 4(a) What steps should an auditor take before accepting an engagement to examine prospective financial information?	6
(b) What procedures do principal auditors perform when using work of another auditor?	6
(c) Why tests of controls are performed by the external auditor?	4
Q. 5(a) RS & Co., Chartered Accountants were appointed to investigate the possibility of misappropriation of cash taken place in the financial affairs of Ahmed Fruit Merchants and Co. Describe audit procedures required to be undertaken by RS & Co., Chartered Accountants.	15
(b) Shandar Merchants & Co. had established petty cash imprest of Rs. 100,000 as an arrangement for disbursement of day to day petty operating expenses at its Head Office. As an audit senior of the Shandar Merchants & Co. prepare an audit programme for verification of the petty cash imprest.	5
Q. 6(a) State the contents of Directors' Report to Members of the listed company as prescribed by the Code of Corporate Governance in Pakistan.	8
(b) Briefly discuss your understanding of the following concepts/terms:	
(i) Compilation engagement	4
(ii) Agreed-upon procedures governing engagement.	4

	<i>Marks</i>
Q. 7 (a) Briefly describe various types of audit files and state at least five contents of each type of audit file maintained by an audit firm.	8
(b) Discuss inherent limitations of internal control system.	8
Q. 8 (a) How would you verify following items appearing in the balance sheet of a listed company?	
(i) Cash-in-Transit	4
(ii) Bank Balance	4
(iii) Stores and Spares	4
(b) Weaknesses in the design of internal control system and non-compliance with identified control procedures result in incurrence of fraud and error. Briefly, state the conditions or events that increase the risk of fraud or error?	4

THE END