

Module: D

33 marks – 1 hour

Referral 8

Date: 24/01/2013

Question no 1

Green and Company, Chartered Accountants have been asked to audit the financial statements of Encom Technologies Limited (ETL). ETL's business is carried out through various subsidiaries in different cities. Two such subsidiaries constitute nearly 40% of total business of ETL, significant portion of which is quite complex. Further, the firm has virtually no experience of auditing the business carried out at these subsidiaries, which are audited by other firms of chartered accountants. Moreover, there are certain doubts as regards the competence of the auditors of one of the above subsidiaries.

Required:

What consideration should be given by the firm while accepting the engagement?

(5 marks)**Question no 2**

During the course of the audit of the accounts of Zafar Corporation Limited for the year ended June 30, 2012, you have decided to use the work of an expert as audit evidence. However, before proceeding with same, you need to discuss this matter with the management of the corporation, and for that, you are expected to make a small presentation thereto which should include such matters as:

- Circumstances under which you would consider the need to use the work of an expert;
- Consideration which you will have in assessing the professional competence of management's expert; and
- Consideration which you will have in determining the need to use the work of an auditor's expert.

Required:

Address the above matters in your presentation.

(9 marks)**Question no 3**

- State the objectives of setting-up an internal audit function. **(4 marks)**
- 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:

Describe how you would evaluate the work performed, in order to determine the extent of reliance that may be placed thereon. **(5 marks)**

Question no 4 ***Talib e Dua: Arslan Ahmed***

- ISA 320 Materiality in Planning and Performing an Audit provides guidance on the concept of materiality in planning and performing an audit.

Required:

(i) Explain materiality. **(2 marks)**

(ii) Give examples of situations in which the auditor may adopt a lower level of materiality than materiality. **(3 marks)**

b) Iqbal is the audit senior on the audit of Ahsan Limited (AL). Upon his manager's instruction Iqbal had determined the acceptable materiality level to be Rs. 20 million at the initial planning stage. However, at the time of evaluating the results of audit procedures carried out at the interim stage, he has reduced the materiality level to Rs. 15 million.

Required:

i. Identify the possible causes which motivated Iqbal to reduce the materiality level. **(2 marks)**

ii. Discuss the impact of reduction in the materiality level on audit risk and the audit procedures to be performed. **(3 marks)**

(The End)



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Talib e Dua: Arslan Ahmed