



**THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF
PAKISTAN (ICPAP)**

Stage	Essentials	Course Code	E-302
Examination	Winter-2011	Course Name	Audit and Assurance
Time Allowed	03 Hours	Maximum Marks	100
NOTES: 1. All questions are to be attempted. 2. Answers are expected to be precise, to the point and well written. 3. Neatness and style will be taken into account in marking the papers.			

Question No 1:-

Moeen Co sells cars, car parts and petrol from 25 different locations in one country. Each branch has up to 20 staff working there, although most of the accounting systems are designed and implemented from the company's head office. All accounting systems, apart from petty cash, are computerized, with the internal audit department frequently advising and implementing controls within those systems.

Moeen has an internal audit department of six staff, all of whom have been employed at Moeen for a minimum of five years and some for as long as 15 years. In the past, the chief internal auditor appoints staff within the internal audit department, although the chief executive officer (CEO) is responsible for appointing the chief internal auditor. The chief internal auditor reports directly to the finance director. The finance director also assists the chief internal auditor in deciding on the scope of work of the internal audit department.

You are an audit manager in the internal audit department of Moeen. You are currently auditing the petty cash systems at the different branches. Your initial systems notes on petty cash contain the following information:

1. The average petty cash balance at each branch is Rs 5,000.
2. Average monthly expenditure is Rs 1,538, with amounts ranging from Rs 1 to Rs 500.
3. Petty cash is kept in a lockable box on a bookcase in the accounts office.
4. Vouchers for expenditure are signed by the person incurring that expenditure to confirm they have received re-imburement from petty cash.
5. Vouchers are recorded in the petty cash book by the accounts clerk; each voucher records the date, reason for the expenditure, amount of expenditure and person incurring that expenditure.

6. Petty cash is counted every month by the accounts clerk, who is in charge of the cash. The petty cash balance is then reimbursed using the 'imprest' system and the journal entry produced to record expenditure in the general ledger.
7. The cheque to reimburse petty cash is signed by the accountant at the branch at the same time as the journal entry to the general ledger is reviewed.

Required:

- a) Explain the issues which limit the independence of the internal audit department in Moeen Co. Recommend a way of overcoming each issue. (8 marks)
- b) Explain the internal control weaknesses in the petty cash system at Moeen Co. For each weakness, recommend a control to overcome that weakness. (12 marks)

(20 marks)

Question No 2:-

- a) Identify and explain FOUR assertions relevant to accounts payable at the year-end date. (6 marks)

You are the audit senior responsible for the audit of Have KFC, a company that runs a chain of fast food restaurants. You are aware that a major risk of their sector is that poor food quality might result in damage claims by customers.

You had satisfied yourself at the interim audit that the company's control risk as regards purchases of food and its preparation in the kitchen was low. However, during your final audit it comes to your attention that one month before the year-end, a customer has sued the company for personal injury caused by food poisoning, claiming an amount of Rs 200,000 in compensation. This amount is material to the stated profit of the company, but management believes that it has good defences against the claim.

Required:

- b)
 - i. State TWO controls that the company should have in place to reduce the risk associated with purchases of food and its preparation in the kitchen; and
 - ii. State TWO audit procedures you should carry out during controls testing to satisfy yourself that control risk in this area is low. (4 marks)
- c) In respect of the potential claim state THREE items of evidence you should obtain and explain how they might enable you to form a conclusion on the likelihood of the claim being successful. (6 marks)

Following your audit you have concluded that there is a possibility, but not a probability, that the claim will be successful. However, management has decided not to make a provision or disclosure in the financial statements in respect of this matter.

Required:

- d) Describe how the matter should be reported in the financial statements and explain the effect on your audit report. (4 marks)

(20 marks)

Question No 3:-

- a) Explain the purpose of a value for money audit. (4 marks)
- b) Bluesberry hospital is located in a country where healthcare is free, as the taxpayers fund the hospitals which are owned by the government. Two years ago management reviewed all aspects of hospital operations and instigated a number of measures aimed at improving overall 'value for money' for the local community. Management has asked that you, an audit manager in the hospital's internal audit department, perform a review over the measures which have been implemented.

Bluesberry has one centralized buying department and all purchase requisition forms for medical supplies must be forwarded here. Upon receipt the buying team will research the lowest price from suppliers and a purchase order is raised. This is then passed to the purchasing director, who authorizes all orders. The small buying team receive in excess of 200 forms a day.

The human resources department has had difficulties with recruiting suitably trained staff. Overtime rates have been increased to incentivise permanent staff to fill staffing gaps, this has been popular, and reliance on expensive temporary staff has been reduced. Monitoring of staff hours had been difficult but the hospital has implemented time card clocking in and out procedures and these hours are used for overtime payments as well.

The hospital has invested heavily in new surgical equipment, which although very expensive, has meant that more operations could be performed and patient recovery rates are faster. However, currently there is a shortage of appropriately trained medical staff. A capital expenditure committee has been established, made up of senior managers, and they plan and authorize any significant capital expenditure items.

Required:

- i. Identify and explain FOUR STRENGTHS within Bluesberry's operating environment; and (6 marks)
- ii. For each strength identified, describe how Bluesberry might make further improvements to provide the best value for money. (4 marks)
- c) Describe TWO substantive procedures the external auditor of Bluesberry should adopt to verify EACH of the following assertions in relation to an entity's property, plant and equipment;
- i. Valuation;

- ii. Completeness; and
- iii. Rights and obligations.

Note: Assume that the hospital adopts International Financial Reporting Standards. (6 marks)

(20 marks)

Question No 4:-

- a) Auditors have various duties to perform in their role as auditors, for example, to assess the truth and fairness of the financial statements.

Required:

Explain THREE rights that enable auditors to carry out their duties. (5 marks)

- b) List FOUR assertions relevant to the audit of tangible non-current assets and state one audit procedure which provides appropriate evidence for each assertion. (5 marks)

- c) List the audit procedures you should perform on the credit card receivables balance.

(5 marks)

- d) Describe the steps an audit firm should perform prior to accepting a new audit engagement. (5 marks)

Question No 5:-

- a) Why Audit evidence is obtained? (5 marks)

- b) Under what circumstances the evidence is reliable? (5 marks)

- c) What is "Qualification in audit report"? (5 marks)

- d) How an audit report can be made as qualified audit report. (5 marks)

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