

**CMA JANUARY 2022 EXAMINATION
 INTERMEDIATE LEVEL II
 AUDITING**

Course Code : AA133	Total Marks : 100
Reading Time : 15 minutes	Writing Time : 180 minutes

Instructions to Candidates

- You **MUST NOT** write anything during the reading time.
- You should attempt **ALL** questions.
- Answers should be properly structured and relevant.
- Carefully read **ALL** the requirements and sub-questions before attempting a specific question.
- **ALL** answers must be written in the answer book.
- **AVOID WRITING/MARKING** on the question paper at any time which may cause disciplinary action.
- Start answering each question from a fresh sheet.
- Answers should be clearly numbered with the sub-question number.

Allowable Materials

- Writing Stationeries
- Non-programmable Calculator

Assessment Structure

			<i>Sub-question</i>	<i>Marks</i>	<i>Expected Time Required</i>
Section A	Question 1	Multiple Choice Questions	10	10	20 minutes
	Question 2	Modified True/False	5	5	10 minutes
	Question 3	Matching	5	5	10 minutes
Section B	Question 4	Essay/Computational/Case	3	20	32.50 minutes
	Question 5	Essay/Computational/Case	3	20	32.50 minutes
	Question 6	Essay/Computational/Case	2	20	32.50 minutes
	Question 7	Essay/Computational/Case	3	20	32.50 minutes
Revision					10 minutes
Total				100	180 minutes

RESTRICTED USE

This paper **MUST NOT BE REMOVED** from the examination venue

Do not turn the page until instructed

SECTION A [20 MARKS]

THERE ARE 3 (THREE) QUESTIONS IN THIS SECTION. ANSWER ALL THE QUESTIONS IN THE ANSWER SCRIPT FOLLOWING THE EXAMPLE PROVIDED FOR THE SPECIFIC QUESTION.

QUESTION 1

[10 × 1 = 10 MARKS]

There are ten (10) multiple-choice questions with five options. Pick the option that best explains the given question. Write your answer on the answer script [DO NOT PUT ANY MARK ON THE QUESTION PAPER]. Follow the example given below in providing your answer.

Example:

- (i) ICMAB stands for the –
- (a) Institute of Cost Management Accounting of Bangladesh
 - (b) Institute of Cost and Management Accountants of Bangladesh
 - (c) Institute for Cost Managers and Accounting of Bangladesh
 - (d) Institute of Cost Management Accountants of Bangladesh
 - (e) Industrial Cost Management Accountants of Bangladesh

Answer: (i) (b)

- (i) **Which of the following audit procedures for obtaining audit evidence is correctly described?**
- (a) Recalculation involves the auditor's independent execution of procedures or controls which were originally performed as part of the entity's internal control.
 - (b) Confirmation consists of seeking information of knowledgeable persons, within the company or outside the company.
 - (c) Reperformance consists of checking the mathematical accuracy of documents or records.
 - (d) Observation consists of looking at a procedure or process being performed by others.
 - (e) Focusing on substantive procedure before testing the internal control system.
- (ii) **Which of the following is NOT an inherent limitation of internal control systems?**
- (a) Insufficient segregation of duties.
 - (b) Possibility that employees may collude together fraudulently.
 - (c) Possibility of human error in undertaking tasks.
 - (d) Inappropriate design of internal control system.
 - (e) Inappropriate authorization.
- (iii) **Which of the following statements relating to internal and external auditors is correct?**
- (a) Internal auditors are required to be members of a professional body.
 - (b) Internal auditors' scope of work should be determined by those charged with governance.
 - (c) External auditors report to those charged with governance.
 - (d) Internal auditors can never be independent of the company.
 - (e) External auditor cannot assess the internal control system.
- (iv) **Which of the following is NOT a responsibility of the auditor?**
- (a) To provide an opinion on the truth and fairness of the financial statements.
 - (b) To conduct an audit in accordance with International Standards on Auditing.
 - (c) To express an opinion on the company's going concern status when there is a going concern issue indicated by the audit evidences.
 - (d) To detect fraud and error in the financial transaction.
 - (e) To obtain sufficient appropriate audit evidences.

- (v) **Which of the following is NOT an advantage of a company outsourcing its internal audit function?**
- (a) There will always be a reduction in costs.
 - (b) Provides access to specialist skills.
 - (c) Can provide access to an internal audit team immediately.
 - (d) Outsourcing can be expensive.
 - (e) Disclosure to third party.
- (vi) **Who is the responsible party for the adequacy of the disclosure in the financial report and accompanying notes?**
- (a) Auditor in charge of fieldwork.
 - (b) The entity's board of directors.
 - (c) Auditor who signs the auditor's report.
 - (d) Securities and exchange Commission.
 - (e) Bangladesh Bank
- (vii) **The essence of a financial audit is to:**
- (a) Examine individual transactions so that the auditor may certify as to their validity.
 - (b) Detect fraud and error.
 - (c) Assure the consistent application of correct accounting procedures.
 - (d) Determine whether the client's financial reports are fairly stated.
 - (e) Improve the financial reporting standards.
- (viii) **The management has a responsibility to ensure that information in financial report is:**
- (a) True and fair.
 - (b) Relevant and reliable.
 - (c) Comparable and understandable.
 - (d) All of the above.
 - (e) None of above
- (ix) **Key criteria of an assurance engagement are**
- (a) Two party involvement say BOD and Audit Firm
 - (b) Three part involvement say Shareholders, BOD and Audit firm.
 - (c) Need not to require follow the Law & audit standards but need to obtain sufficient and appropriate evidence.
 - (d) Need to follow the Law & audit standards and require to obtain sufficient and appropriate evidence and thereafter drawn an Audit Report.
 - (e) Need to follow the Law & audit standards but need not to obtain sufficient and appropriate evidence.
- (x) **Risk assessment**
- (a) are not a part of an auditor's work and not include assessing the risk of a fraud.
 - (b) It is not the duties of an auditor to carry out a discussion of susceptibility of the entity's FS to assess the risk.
 - (c) auditor's will follow the audit procedure to assess the risk as a watch dog.
 - (d) a part of an auditor's work must include assessing the risk of a fraud.
 - (e) None of above

QUESTION 2**[5 × 1 = 5 MARKS]**

There are five (5) statements given under the question. Identify the statements as True or False. If the statement is false, rewrite the statement on the answer script to make it 'True'. Reasoning is NOT required. Follow the example given below in providing your answer.

Example:

(a) ICMAB stands for the Industrial Cost Management and Accounting of Bangladesh.

Answer:

(a) False. ICMAB stands for the Institute of Cost and Management Accountants of Bangladesh.

Note:

- You will not get any mark if you simply rewrite as ICMAB *does not* stand for the Industrial Cost Management Accountants of Bangladesh.
- If the statement is true, you need NOT to rewrite the statement rather only mention that the statement is *True*.

- (a) Internal auditors should report to the finance director as they understand internal controls and are best placed to implement any recommendations in a timely manner.
- (b) Audit risk is a function of three components, inherent risk, detection risk and control risk.
- (c) Most audit evidence is conclusive in nature rather than persuasive.
- (d) Auditors are responsible for designing the internal control system and implement such control system in the company which is capable of preventing, detecting as well as correcting fraud and error.
- (e) Audit sampling involves the application of the audit procedures to 100% of the items within a same class of transaction or accounts balances, such that all sampling units are selected.

QUESTION 3**[5 × 1 = 5 MARKS]**

Match the items of column A with the most suitable items of column B. Match only one item of column A with one item of column B. Write your answer on the answer script. Follow the example given below in providing your answer.

Example:

Column A	Column B
1. ICMAB	(a) Professional accountancy body (b) University

Answer: 1 (a)

Column A	Column B
1. Audit documentation	(a) credibility of financial information as well s FS would be enhanced.
2. Management responsibility	(b) provides management as well users the correctness assurance of FS
3. Auditor responsibility	(c) means to collect required sufficient and appropriate audit evidences-As per BSA 230
4. Audit of an entity	(d) to keep accounting records and internal control system of an entity
5. Management threat	(e) to identify the material misstatements in the FS and plan, perform and evaluate the work in order to have a reasonable expectation of detecting material misstatement in FS.
	(f) is interfering the works of an auditors and reduce the scope of works
	(g) arises when the audit firm undertakes works that involves making judgments and decisions which are the responsibility of management.

END OF SECTION A

SECTION B [80 MARKS]

THERE ARE 4 (FOUR) QUESTIONS IN THIS SECTION. ANSWER ALL THE QUESTIONS IN THE ANSWER SCRIPT. SHOW ALL RELEVANT COMPUTATION.

QUESTION 4

[4+6+(5+5) = 20 MARKS]

- (a) The need for environmental and social auditing is increasing globally due to the higher number of companies providing environmental and sustainability report in their annual reports.

Required:

What is environmental and social audit and how does it benefit both the society and the companies.

- (b) Define assurance engagement. What are the elements of assurance engagements? What are the benefits an entity may get by assurance engagement?
- (c) You are the audit manager of MS Rahman & Co and are reviewing the key issues identified in the files of two audit clients.

ABC Ltd.

ABC's year end was 30 June 2020 and the draft financial statements show revenue of Tk. 31 crore, receivables of Tk. 5.8 crore and profit before tax of Tk. 4.9 crore. The fieldwork stage for this audit has been completed. A customer of ABC owed an amount of Tk. 385,000 at the year end. Testing of receivables in July highlighted that no amounts had been paid to ABC from this customer as they were disputing the quality of certain goods received from ABC. The finance director is confident that the issue will be resolved and no allowance for receivables was made with regards to this balance.

PQR Ltd.

PQR is a new client of MS Rahman & Co, its year end was 30 June 2020 and the firm was only appointed auditors in July 2020, as the previous auditors were suddenly unable to undertake the audit. The fieldwork stage for this audit is currently ongoing. The inventory count at PQR's warehouse was undertaken on 30 June 2020 and was overseen by the company's internal audit department. Neither MS Rahman & Co nor the previous auditors attended the count. Detailed inventory records were maintained but it was not possible to undertake another full inventory count subsequent to the year end. The draft financial statements show a profit before tax of Tk. 2.4 Crore, revenue of Tk. 10.1 crore and inventory of Tk. 510,000.

Required:

For each of the two issues:

- (i) Discuss the issue, including an assessment of whether it is material, and recommend ONE procedure the audit team should undertake to try to resolve the issue.
- (ii) Describe the impact on the audit report if the issue remains UNRESOLVED.

QUESTION 5

[(5+5 + 10) = 20 MARKS]

- (a) ISA 300 Planning an Audit of Financial Statements provides guidance to auditors. Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Adequate planning benefits the audit of financial statements in several ways.

Required:

Explain the importance of audit planning.

- (b) Your audit firm has just won a new audit client, Golden Housing Ltd. and you have been asked by the audit engagement partner to gain an understanding about the new client as part of the planning process.

Required:

Discuss the information relevant to gaining an understanding of Golden Housing Ltd. and describe how this information will be used by the auditor.

- (c) You are planning the audit of **Glass Ltd.** for the year ending 30 June 2020. The principal activities of the company are the manufacture and distribution of a wide range of glass door and window systems and the component parts for these systems. Approximately 50% of the revenue is generated from foreign customers. During your preparation for the planning meeting with the finance director, the following matters have been highlighted as significant:

Operating Results

The Company has had a successful year to date with revenue, gross and operating margins up on the previous year.

	10 Months to 30 April 2020 (Tk. '000)	10 Months to 30 April 2019 (Tk. '000)	Year to 30 June 2019 (Tk. '000)
Revenue	22,656	19,597	22,557
Cost of Sales	13,367	12,472	14,313
Gross Profit	9,289	7,125	8,244
Operating Expenses	4,531	4,115	4,732
Operating Profit	4,758	3,010	3,512
Gross Profit Margin	41%	36%	37%
Operating Profit Margin	21%	15%	16%

Inventories at 30 April 2020 balance sheet were Tk. 43 lakh compared with Tk. 36 lakh at 30 April 2019 and Tk. 34 lakh at 30 June 2019.

New Computer System

During the year the company replaced its accounting software with a fully integrated standard package modified by its supplier according to the company's requirements.

Transactions with Related Party

Glass Ltd. frequently purchases frame rubbers from MC Co. in which the company has a substantial amount of investment that is shown as available for sale on the financial statements of the company. Glass Ltd. also has a supplier, that supplies raw material, with which the company has one director in common.

Incentive scheme

During the year the company introduced an incentive scheme under which the executive directors are entitled to a bonus based on pre-tax profits. The bonus will be paid 30 days after the audited accounts are available.

Required:

In respect of the above, identify and explain the potential audit risks and indicate the matters you would discuss with the finance director at your planning meeting.

QUESTION 6

[10+(2.5 x 4) = 20 MARKS]

- (a) You're the audit manager of ERL& Co. Chartered Accountants. Described below are situations which have arisen in three unrelated external audit clients of your firm. The year end in each case is 31 December 2020.

Moon Ltd.

Moon Ltd. builds and operates underground pipe lines which transport oil and gas. During the year end 31 December 2020, the company incurred costs of Tk. 41 lakh in respect of repair and maintenance to its pipe lines. These costs have been capitalized and included in non-current assets on the balance sheet. The director refused to make any adjustments in respect to this matter. The total assets of Moon Ltd. as at 31 December 2020 are Tk. 138 crore and the profit before tax for the year ended 31 December 2020 is Tk. 14.9 crore.

Sun Ltd.

The balance sheet of Sun Ltd. as at 31 December 2020 includes Tk. 24 lakh under cash & cash equivalents, which is held on deposit at a bank in the Madagascar Islands. A very strong Typhoon stroke the entire islands and severely disrupted the commercial and banking system, and you have been unable to obtain any direct confirmation of the balance of the deposits at 31 December 2020. The total assets of Sun Ltd. at 31 December 2020 are Tk. 1.1 crore and the profit before tax for the year ended is Tk. 42 lakh.

Mars Ltd.

The directors' report contains a statement without amplification that "the company's trading for the period resulted in a 10% increase in profit over the previous period's profit". However, the income statement shows that the company's profit for the period includes a profit of Tk. 35,000 which did not arise from trading activities but from disposal of non-current assets so far discontinued operation. Without this profit on the disposal of non-current assets, the company would have reported a profit for the year of Tk. 75,000 which resulted in a decrease in profit of 25% over the previous period's profit. The directors are unwilling to change any wording of the directors' report.

Required:

In each of the circumstances outlined above, reach a conclusion as to whether or not you would modify the audit report. Give reasons for your conclusions and outline the modifications, if any, to each audit report.

- (b) Write short notes on the following:
- (i) Forensic Audit
 - (ii) Auditor's Responsibilities on Fraud and Error
 - (iii) Role of Audit Committee
 - (iv) Information Risk Management (IRM) Audit

QUESTION 7**[5+10+5 = 20 MARKS]**

- (a) The IFAC code of ethics has been adopted by ICAB and used as the basis for audit quality development in Bangladesh. In the light of above explain five fundamental principles of IFAC code of ethics.
- (b) Proper Ltd is a small company which develops specialist software for the insurance and banking sector. Its finance director Mr Shouvik has recently been on a training course called Reducing the Stress of an Audit. He has returned to the office with a number of concerns which he had not previously known existed. As a result he has written to you as audit partner for clarification on the following issues.
- (i) Is it appropriate for a firm to continue as auditors when it also provides other services (most notably preparation of the company's corporation tax computation and dealing with the tax affairs of the directors)?
 - (ii) You have been invited you to attend company's regular board meetings, but you recognize that this may influence your audit opinion.
 - (iii) The client has often sought firm's advice on legal and accounting issues, with an assumption that it will be used for preparation of submissions to the bank for additional finance.

The last point has particular significance as the finance director letter also indicates that Proper Ltd has been very successful, and intends to improve its status by buying a larger ailing computer company.

Required:

Write a letter to the finance director which addresses the ethical issues arising from his concerns. The letter should be brief and deal with the major items only, as the intention is not to swamp the client with detail.

- (c) Describe the ethical repercussions arising from the potential change in size of Proper Ltd. in relation to your firm.

END OF SECTION B
