Section one (compulsory)

Question One:

You are the audit engagement partner at Hamdi, a small firm of public accountants. You were recently appointed as auditor to a local company named Elbalal Ltd. The previous auditors, Hamid & Co, had resigned due to having so few audit clients that it was no longer commercially viable for the firm to retain its registered public accounting firm status. This had provided the opportunity for your firm to take on the client and you and your fellow partners were delighted to be gaining an audit client in what was proving to be a difficult business environment. Times were certainly tough and you were well aware that redundancies were not out of the question if more work was not picked up quickly. You had met Mr Mutasim, Elbalal Ltd's Managing Director (MD), at various local events and had a good personal relationship with him. Mr Mutasim was someone with a very good reputation in the local business community and was involved in a lot of charitable fundraising activities. You believed that this was a good client to win and, with Mr Mutasim` s considerable business connections, this might not be the only audit client that you would pick up in the coming months. Mr Mutasim had assured you that a good working pack would be prepared by his newly appointed finance director (FD) to support the figures in the draft financial statements. Additionally, the client would arrange for the final publication of the accounts.

Six months down the line, you are sitting at your desk reviewing the audit working papers of Elbalal Ltd. As you had imagined, the fieldwork had been done within budget and the files appeared to show that, as Mr Mutasim had earlier advised, the company had maintained a good set of records and produced appropriate documentation to support the draft figures. Some minor errors had been noted and added to the summary of unadjusted errors, but nothing of any significance, and you had all but finished your review. You looked at your watch, another 20 minutes would see you complete your task – the client was now keen to sign off in seven days time, three weeks earlier than had originally been envisaged. This had just allowed you time to review the files in advance of a meeting with Mr Mutasim and his FD later that week to discuss any major issues prior to signing.

You continued with the task at hand and opened the creditors section of the file and reviewed the lead schedule. Everything this year appeared in line with that of the previous year. There were no major variations and, to be honest, you had not expected any. There was, however, a note from the audit senior stating that a large accrual had been included for taxes – and indeed an accrual of SDG1,639,937 was included in the accounts. This appeared to consist of a charge of SDG150,000 for the year in question and the backlog of the amount which had been accrued in previous years. It was clear that the company had not made a payment of taxes for a period of 8 years. It had, however, ensured that the expense had been properly reflected in the accounts. You made a note of this and added it to your list of points to be discussed at the client meeting. You remembered that no mention was made of this fact in the consent letter which you had received from the predecessor auditor. You had not been given access to their working papers for the previous year.

Whilst the accounts appear to be correctly stated, on the premise that taxes are due to be paid, you are concerned that it would appear as though the company had never tried to resolve this issue with the tax authorities. You also have concerns about how this item will be treated in the corporate tax computation.

Required:

What are the readily-identifiable ethical issues for your decision? (35 marks)

Question Two:

You are reviewing your audit assistant's work for Elfashir Ltd for the year ended 31 December 2018, and note the following matters:

- Your audit assistant undertook a test of controls for 50 sales transactions. This test resulted in three errors. When planning the test, a tolerable error of 5 per cent had been established. The audit assistant's working papers noted that none of the errors found were materials, either individually or in aggregate, and he therefore concluded that the controls were reliable.
- Your audit assistant's working papers on the accounts payable testing contain the following notes and conclusion:

1. In order to test accounts payable, I selected all balances over SDG 100,000 and vouched these to supporting invoices. The sample selected comprised SDG 2,565,650 of total accounts payable of SDG 5,168,000. One invoice for SDG 102,500 had been incorrectly recorded on the accounts payable listing, as the goods were not actually received until after year end.
2. Given the error relates to only 4% of accounts payable tested, which would be a total error of SDG206,720 of the overall accounts payable balance, it is not material as this is less than the materiality level set for this audit and, therefore, no further work has been performed. I am satisfied that the accounts payable balance of Elfashir is fairly stated.

Required:

Comment on the appropriateness of your audit assistant's conclusions in each of the above situations.

(25 marks)

Section Two
Answer Two Questions only

Question (Three):

a) What is the due diligence report & when usually is required?

(4 marks)

b) What typically the due diligence engagement letter will cover?

(8 marks)

c) What information to be examined?

(8 marks)

Total (20marks)

Question (Four):

a) What are the main criteria to audit performance in the public sector departments?

(3 marks)

b) What are the main reasons for production of performance information?

(6 marks)

c) (i)What are the stages to produce performance information?

(5 marks)

(ii) select two of these stages and explain them and what examination is required?

(6 marks)

(Total 20 marks)

Question (Five):

Anti-money laundry, counter terrorism finance and fraud is the current issue; banks are required to have an a separate independent report as to compliance of these matters

What are the issues included in this independent auditor`s report? And how this will improve the client business?

(20 marks)