

[N.B. - The figures in the margin indicate full marks. Questions must be answered in English. Examiner will take account of the quality of language and of the manner in which the answers are presented. Different parts, if any, of the same question must be answered in one place in order of sequence.]

Marks

1. Professional accountants in practice in recent days have been constantly finding their fates under the magnifying glasses of various regulators and related stakeholders for their reports and opinions provided to diverse categories of clients. Accountants that are in the business too face manifold criticisms of failure to fairly report all facts and information underlying the entities they work for.

It is indeed undeniable that accountant communities with representation both in practice and in the business have immense responsibilities towards functionalities/non-functionalities of good governance practice in the corporates. An accountant can perform his/her roles properly in this regard only if s/he has careful read of applicable ethical codes and underlying threats.

- a) Gentlemen Ethics & Co. Chartered Accountants (GEC) is the auditor of High Standard Islami Bank Ltd. (HSIBL) for the year ending 31 December 2023. In the recent past, there were number of news in the national level newspapers as regards some financial scandals where this HSIBL was one of major affected banks. Being a listed company, the management has been putting substantial effort to defend the scandals issuing press notes and various advertisements. This bank has a small overseas branch in New York which in fact does not produce any remarkable (less than 1% of revenue) business for the bank. On the other hand, of the top five branches (4 in Dhaka and 1 in Khatunganj, Chittagong), the Khatunganj branch alone contributes 15% of gross revenue of the bank.

As part of the audit process the firm planned to visit and work in a total of seven branches. While sitting with the management selecting branches, the DMD of the bank offered the Engagement Team of the firm to cover their New York branch. The DMD also offered to bear costs of business class air tickets and accommodation in the five-star hotel for the audit team. Mr. Honest, the Engagement Partner, having contemplated the matter, accepted the offer and finalized 7 branches including the New York one. Surprisingly the highest revenue generating branch did not get considered for separate review hence missing in the list. During the audit, Mr. Honest accompanied by one professional staff flew to NY and came back after 15 days with the audit results.

Requirement:

Comment on this audit with respect to code of ethics for the professional accountants in practice.

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- b) It is often, a professional accountant in public practice is asked to provide a second opinion on the application of accounting, auditing, reporting or other standards or principles to specific circumstances or transactions by or on behalf of an entity that is not an existing client. Very often regulators seek such a service from the professional accountants in public practice. Embedded self-interest threat in such an offer may create threats to compliance with the fundamental principles.

Requirement:

What actions would you prefer as safeguards to address such self-interest threat?

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- c) You are working as a senior audit manager of firm 'XYZ & Co. Chartered Accountants'. Presently you are given an audit assignment of a food manufacturing industry named PQR Ltd. During the course of audit, you have observed that the inventory valuation system of the client is not in line with the International Accounting Standards. The issue has been raised several times to the engaged audit manager who have been dealing the client since last couple of years. The manager is not giving proper attention to your concern of inventory valuation. The engagement partner has left the firm two months ago. Other partners of the firm are very much dependent on the audit manager as he has been dealing the client since long.

Requirement:

As a professional accountant you are required to comment on the situation described above.

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- d) Beta Ltd is a private limited company but as per Financial Reporting Act, Beta Ltd is a Public Interest Entity. Your firm is the auditor of Beta Ltd. The Managing Director of Beta Ltd has discovered that one of the junior staff of Accounts Department of the company has been utilizing company's money for the personal purpose through performing some fraudulent activities. Such fraudulent activities are being carried on since last couple of years. Although the amount is not material in the context of the financial statements, however the Managing Director of the company has expressed his deep concern about the performance of the external auditor and has requested a meeting to discuss the matter.

Requirement:

Based on the Beta's fraud as an example, you are required to compare and contrast the responsibilities of the auditors in respect of the fraud with the perception and expectation of the Managing Director.

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2. You are Audit Manager in Chowdhury & Co. Chartered Accountants. The Managing Partner is responsible for assignment of work to Engagement Partners. The Engagement Partners are responsible for the audits under their supervision and are responsible for the assignment of audit team members and for ensuring that audits of a required standard are performed which will form the basis of the audit opinion. All staff is subjected to annual staff appraisals and remuneration of staff is based on satisfactory performance. Training needs are identified during staff appraisals and training is organized by the training department of the firm in the first quarter of each year. Currently, audit team members rely on previous years' working papers in deciding the approach and the work to be done in the current audit. A review of the recent staff appraisals conducted showed that a majority of staff are not familiar with the fundamental principles for accountants and the lack of a code of ethics by Chowdhury & Co. Chartered Accountants appears to be the main reason for this.

You are responsible for client acceptance and continuance. In the current year, you are considering continuing with the audit engagement of Kingston Ltd. one of your firm's audit clients. You have completed the continuance client checklist, and you have no reason not to continue with the engagement. You formally wrote to Kingston Ltd. informing them of your decision to continue as auditors. The Chief Financial Officer was very happy and committed to pay for a three-day holiday for you, your wife and the rest of the audit team to be assigned at a leading hotel in Livingstone.

The following information relates to Kingston Ltd. whose audit for the year ended 31 December 2023 is about to commence.

Kingston Ltd. is a company that is in the manufacturing industry, and it is involved in the manufacture of books and other forms of stationary. The company has been, until recently, the major supplier of stationary to most of the stationary shops across the country. It was resolved that Kingston Ltd. should have its shares listed on the Dhaka Stock Exchange and that Chowdhury & Co. Chartered Accountants be engaged to underwrite the issue of the shares to speed up the raising of the much-needed working capital for the company. Furthermore, as a short-term financing arrangement Chowdhury & Co. Chartered Accountants was requested to give a short-term loan to Kingston Ltd. which will be repaid when the audit fee for the current audit will be paid.

Kingston Ltd. is a subsidiary of a foreign company whose Head Office is in England. The company has in the recent past faced stiff competition from a company recently established and which imports finished products from the Far East and selling at lower prices than those of Kingston Ltd. The company does not want to cease manufacturing and start to import finished goods on account that it is still servicing a five-year loan it obtained from its bank.

Kingston Ltd. imports its raw materials from Srilanka and they are subject to high import duties. Bangladesh, which is a member of a regional trade association under which it enjoys the benefits of a free trade area within the region whereby imports from member countries are not subjected to import duties. At a board meeting attended by M Ahmed, the Chief Accountant of Kingston Ltd., it was resolved that the company imports all its raw materials from its parent company in England. The parent company does not have the capacity to supply the raw material requirements of Kingston Ltd. It was resolved that the Head Office should procure the materials on behalf of Kingston Ltd. from Srilanka and re-export them to Kingston Ltd in Bangladesh which will benefit from free tariffs. England and Srilanka have a trade agreement of no duties between themselves.

During the current year, Kingston Ltd imported materials worth US\$1.5 million from its Head Office and the country of origin was stated as England on all the import documents. One of the conditions for enjoying the free trade area is that the importing company should use local transporters to transport its goods. Kingston Ltd. called for tenders from reputable transporters to be engaged to transport its raw materials from England. The award was subject to a tender committee to which M Ahmed, the Chief Accountant of Kingston Ltd is a member. A transport company in which M Ahmed's wife has shares tendered for the offer of transport services.

Requirements:

- a) (i) Describe the elements of the assurance engagement with Kingston Ltd. 5
- (ii) Discuss five ethical matters in the operations and audit of the financial statements of Kingston Ltd. 5
- b) Evaluate the quality control systems in Chowdhury & Co. Chartered Accountants against the provisions of ISQM 1 Quality control for firms that perform audits and reviews of financial statements and other assurance and related services engagements. 5

3. Smart Sports Ltd., a popular sports accessories manufacturing company, has been in the business for over the last two decades. Before setting up the current manufacturing industry, Rahin Chowdhury, the Chairman of the company used to procure various types of sport accessories from both local and foreign sources under his proprietorship business license and sell through his own outlets in the Dhaka city. Alongside building trading skill, the enterprising personality Mr. Chowdhury started gaining knowledge on various technical aspects of his goods and accessories on the shelves.

Geared by the increased demand, Mr. Chowdhury set up his mind as regards expanding his business to a bigger size to be able to manage supplying goods to his existing customers as well as potential new ones. Then about two decades ago, he planned to form a new company inviting a few new investors and finally built this manufacturing set up. The company has been doing formidably good business since the inception of the company. However, with the increase in the demand, over last half decades, alongside regular entry of new traders in this field number of global brands have also opened their business in the cities resulting in a decreasing trend in the growth of the business of Smart.

Some key financial numbers picked up from the books of Smart are:

Amount in '000			
Particulars	Ref.	2023 (Taka)	2022 (Taka)
Revenue		920,000	910,000
Cost of goods sold		500,000	480,000
Gross profit		420,000	430,000
Administrative expense		42,000	39,000
Selling expenses		200,000	180,000
Distribution expenses		23,000	22,000
Property, Plant and Equipment		2,300,000	2,430,000
Receivable		280,000	220,000
Cash and cash equivalents		12,000	20,000
Creditors		230,000	190,000

Given the regulation of the auditors' rotation, the company has appointed Efficient Sincere & Co. Chartered Accountants to be their statutory auditor for the year ended 31 December 2023.

Requirements:

With a view to ensuring successful completion of the audit, you, being the engagement manager of the firm, are asked to:

- a) Describe the critical requirements underlying planning an audit as per ISA 300 6
- b) Write in brief about the way you would understand the business with a view to ensuring good planning. 4
- c) Given the facts above, narrate a few areas of potential risks to be covered in the planning memo. 5
- d) By exercising analytical procedures, based on the financial information, make indicative notes for the audit team. 5

4. Your firm is the auditor of Omex Bank Plc. On compilation of the audit the report has been submitted in due time. After two months the central bank has identified that the bank has given a guarantee of BDT 50 million (five crore) in favour of Roads and Highway Authority against a construction contract awarded to MNO & Co. Ltd. which is owned by one of the directors of the bank. But no disclosure was available in the audited financial statement which was required under related party disclosure. Mentioning the issues, the Central Bank has wanted clarification from your firm. After receiving the letter from the Central Bank, the engagement partner of the firm again has reviewed the whole working papers and observed that, though in the audited financial statement really there was a lack of required disclosure of related party transaction but there was no negligence of audit work. The engagement partner replied to the Central Bank's queries and based on the reply the authority of the Central Bank is also in a view that auditor is not negligent in such lack of disclosure in the audited financial statement.

Requirement:

You are required to identify which audit evidence obtained by the auditor during audit proves that despite having missed related party disclosure of substantial amount the auditor is not negligent in his work.

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5. Azad Products Ltd is a manufacturer of school desks and the company has grown over the last three years because of increased demand for school desks in the country. The turnover has increased from TK2.5 million per year three years ago to TK50 million currently. The manufacturing of desks is carried out in Dhaka where the head office is located, and the company has sales outlets in each of the Divisions of Bangladesh. The company uses a standard costing system and values its inventory at standard cost.

Due to the growth in the company, purchasing and stores departments have been established. The stores department is under the supervision of a Stores Manager. The department is responsible for the custody of raw materials, components used in production and finished products. The provincial outlets place orders for their needs of desks and these are transferred depending on availability. The purchasing department, under the supervision of the Purchasing Manager is responsible for the procurement of raw materials and components. Deliveries of raw materials and components are made directly to the stores department.

Bwalya & Associates have been auditors of Azad Products Ltd from the time the company was established ten (10) years ago. The company obtained a stock exchange listing two years ago and there have been changes in the management of the company since then. At a recent board of directors meeting, it was resolved that the auditors of Azad Products Ltd should provide actuarial services to the company in addition to conducting the audit of the financial statements.

You are the Audit Manager for the audit of the financial statements of Azad Products Ltd for the year ended 31 March 2024. In reviewing the audit working papers, you noted a high incidence of written representations having been obtained by the audit team to support other evidence obtained. There was a decrease in the number of accounting estimates made by management during the year. During the year under audit, Azad Products Ltd had business dealings with a subsidiary company, Azad Furniture Ltd., from whom it buys raw materials and there was a significant amount owing to the subsidiary at the period end. The related party relationship was discovered during the process of conducting audit procedures by the audit team. The management of Azad Products Ltd did not make any disclosure of related parties and related party transactions.

Requirements:

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| a) Explain four areas in the audit of the financial statements of Azad Products Ltd where professional skepticism should have been applied. | 5 |
| b) Evaluate and justify the need to change the contents of the engagement letter with Azad Products Ltd. | 5 |
| c) (i) Suggest four control activities in the purchasing system of Azad Furniture Ltd. | 3 |
| (ii) For each control activity suggested in (i) above, explain the control objective. | 3 |
| (iii) For each of the control activities in (i) above, describe a suitable test of control. | 4 |

6. a) Mr. Rafiq FCA is the CFO of Gama Finance and Investment Company Ltd (GFICL). GFICL is a fund management company with approval of Securities and Exchange Commission (SEC). Your firm has been appointed as auditor of GFICL. During the course of audit, senior audit team members have noted that in the financial statement there is a huge amount of provision shortfall (exceeding materiality level) against investment due to fall of capital market. CFO of the company in a meeting with the partners informs that they will not make full provision in the financial statement rather the issue of provision shortfall will be disclosed in notes to the financial statement. As reason of such non-provision, the CFO has informed that the company has applied to SEC seeking approval to defer the requirements of making provision. Your partner drafted the audit opinion as modified (qualified) opinion. The CFO of the company has urged that you cannot issue 'qualified opinion' because application has been made to defer the requirements of provision and the response is yet to be received. Therefore, the requirements of provision is uncertain. As per International Standards on Auditing 706 (revised) paragraph A5 the auditor may consider it necessary to include an Emphasis of Matter paragraph if "An uncertainty relating to the future outcome of exceptional litigation or regulatory action". So, you can at best include an "Emphasis of Matter" paragraph in the auditors' report.

Requirements:

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| i) Based on above situation do you agree with the arguments of the CFO? | 2 |
| ii) Mention your detailed clarification in support or against the CFO argument. | 5 |
- b) You are the auditor of Sparrow Ltd, whose principal activities are sale of vehicle and vehicle repairing workshop.

During the current year, the company has suffered a significant fall in revenue and gross profit, leading to a trading loss. The company is also facing serious cash flow problems. You have been informed by the managing director that the fall in revenue is due to:

- the loss, half way through the year, of a long-standing customer to a competitor
- a decline in trade in the vehicle repair business

Due to the reduction in the repair business, the company has decided to close the workshop and sell the inventory of equipment and spares.

During the year the company replaced a number of vehicles, funding them by a combination of leasing and an increased overdraft facility. The facility is to be reviewed early next year after the audited accounts are available.

The draft accounts show a loss for the current year but the forecasts indicate a return to profitability in 2025, as the managing director is optimistic about generating additional revenue from new contracts.

Requirements:

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| i) Explain why an auditor is to pay so much importance to considering an entity's ability to continue as a going concern. | 2 |
| ii) Describe the audit work you would undertake in order to ascertain whether Sparrow Ltd is a going concern. | 4 |
| iii) Explain the effect on your auditor's report on the financial statements of Sparrow Ltd if you: | |
| 1) agree with the director's assertion; and | 2 |
| 2) conclude that trading conditions will not improve. | 2 |
- c) On the emergence of ISA-700 (revised), it became mandatory for the auditors of listed company to determine Key Audit Matters (KAM) and mention on the face of the audit report. As Engagement Manager of your firm on the audit of Household Commodity Ltd., a listed company, you are asked to describe as to how you would determine KAM for the respective audit report.
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