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## Audit and Assurance

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- Q.1 (a) You are working in IT department of a firm of Chartered Accountants. The partners are concerned about the confidentiality of client data which is electronically transmitted by firm's staff from the clients' offices.
- Required:**  
Suggest controls over data transmission to ensure confidentiality of data. (03)
- (b) Discuss the auditor's course of action if management refuses to allow auditor to send confirmation request. (*Impact on audit report is not required*) (05)
- (c) In the context of control activities explain what is included in 'Performance reviews'. (03)
- (d) Explain the term 'Communication protocols'. (04)
- (e) Specify any **four** main categories of general controls that an auditor would expect to find in a computer based information system. (04)
- Q.2 (a) Discuss the external auditor's responsibility relating to fraud in an audit of financial statements. (04)
- (b) Sometime the management's attitude towards the audit/auditors is indicative of the possibility of material misstatement in the financial statements due to fraud. Give **four** examples of such attitude/circumstances. (04)
- (c) You are the auditor of Information Limited (IL), which is engaged in the development of customized software. During the last three years IL has become the leading software developer in the industry due to completion of large number of projects.
- During the initial meeting the client has informed that:
- IL has achieved a growth of 60% as compared to the growth target of 30% set for the financial year ended 30 June 2016 and the board of directors are considering to distribute 25% of the profit to the management staff as performance bonus.
  - one of the competitors has shown its willingness to acquire IL.
- Required:**  
Identify the fraud risk factors in the above situations. (03)
- Q.3 (a) State the auditor's responsibility in respect of 'Assembly of final audit file'. (03)
- (b) The audit report of Salim Limited was signed on 30 April 2016. After issuance of the audit report, the auditor was informed that a major debtor has become bankrupt.
- Required:**  
Specify the matters that the auditor would be required to document in the above situation. (03)

Q.4 (a) Specify the procedures that an auditor should perform to ensure completeness of the list of related parties provided by the directors. (06)

(b) As part of audit procedure you have requested the management of Energy Limited to provide specific representation relating to completeness of related parties and related party transactions.

The management is of the view that since the auditor has carried out a detailed review in which no undisclosed transactions were identified, a written representation is not necessary.

**Required:**

Evaluate the above situation, comment on the management's stance and suggest the appropriate course of action available to the auditor. (06)

Q.5 In relation to the audit report on financial statements and the contents thereof (under revised/new ISAs), discuss the appropriateness or otherwise of the following statements:

(a) The management is only responsible for preparation of financial statements in accordance with the financial reporting framework and for such internal controls as management determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. (03)

(b) Reasonable assurance is a high level of assurance and is a guarantee that if audit is conducted in accordance with ISAs, it will always detect a material misstatement whenever it exists. (03)

(c) The auditor obtains an understanding of controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances and also for the purpose of expressing an opinion on the effectiveness of the entity's internal control. (03)

(d) The description of the auditor's responsibilities for the audit of the financial statements should be included within the body of the auditor's report. (03)

(e) The audit report can only be signed in the personal name of the auditor. (02)

(f) Key audit matters are determined from the matters communicated with the management of the entity that required significant auditor's attention in performing the audit. In making that determination, the auditor shall take into account the effects on the audit of significant events or transactions that occurred during the current year and prior period presented. (03)

Q.6 Briefly state test of details for verifying the valuation assertion of tangible non current assets where the company follows revaluation policy for valuation of such assets. (08)

Q.7 Daud and Company, Chartered Accountants (DC), has received an offer for appointment as auditor of Jamal Limited (JL). Wife of Daud is a Shareholder and Director in Royal Limited (RL).

**Required:**

In accordance with the requirements of the Companies Ordinance, 1984, state whether and under what circumstances DC could accept the audit, under each of the following situations:

(a) JL holds 51% shareholding in RL. (03)

(b) JL is an associated company of RL. (05)

(c) One of the directors in JL also holds 10% shareholding in RL. (02)

- Q.8 Identify the threats which may be involved and suggest appropriate safeguards, if any, in each of the following scenarios:
- (a) The planning phase of the annual audit of ABC (Private) Limited for the year ended 30 June 2016 is in progress. The engagement partner intends to include Kamran as a member of audit team who joined the firm last month. Before joining the firm Kamran was employed in the finance department of ABC. **(05)**
  - (b) Nasir is the audit manager on the audit of Diamond Limited (DL) for the year ended 30 June 2016. Nasir has informed that his father owns 10,000 shares in DL. **(04)**
- Q.9 State any **eight** key procedures which are performed during a review engagement of historical financial statements. **(08)**

**(THE END)**