



Audit and Assurance

Q.1 In response to an audit engagement letter sent to Roof Limited (RL), Mr. Aziz Aslam, the new chief executive of RL has requested your firm to provide absolute assurance in the audit report.

Required:

Draft an appropriate reply mentioning any **four** reasons why the above request cannot be complied with. (05)

Q.2 Your firm has recently been appointed as the external auditor of Door Limited. The engagement partner has planned a meeting with the audit team to discuss the overall audit strategy and finalize the audit plan.

Required:

List the planning activities which you would need to discuss with the engagement partner regarding the issues related to first year of audit engagement. (04)

Q.3 Discuss the threat(s) that may be involved and the related safeguards in each of the following situations:

(a) Anwar, an ex-trainee has recently rejoined your firm. He is interested in acting as the engagement manager on Curtains Limited, where he had been employed during the past two years. (04)

(b) House Limited (HL) owns the building in which the Karachi office of your firm is located. HL owns multiple projects across the city and provides its premises to various concerns on rental basis. HL has requested your firm to become its auditor for the year ending 30 June 2018. (05)

(c) Window Limited (WL), an audit client of your firm has approached the taxation department of your firm to review the income tax return to be filed by WL. (03)

Q.4 Your firm is the auditor of Bell Limited (BL) which is engaged in manufacturing and assembling of vehicles. BL has been encountering frequent stock-outs. To address this issue, it has developed an Inventory Management System (IMS) and connected it with the systems of all the suppliers. IMS generates and sends purchase orders to the suppliers automatically when the inventory reaches the reorder threshold.

Required:

(a) Discuss the risks to be considered due to the introduction of the above mentioned solution. (04)

(b) What controls would you expect in IMS to mitigate the above risks? (05)

Q.5 TS Limited is a small software house. Due to the nature of the business no significant human resources are required except the programmers and system analysts. The Managing Director (MD) oversees all the operations. Besides the programmers and system analysts there is only one manager, who reports to the MD.

Required:

Describe the key characteristics of such organisations with respect to internal controls and the risk which the auditor may face in such audits. (06)

Q.6 You are the audit manager responsible for the audit of Clocks (Private) Limited (CPL). While reviewing the draft planning document prepared by the audit senior, you observed that he has assessed risk of material misstatement due to fraud and risk of management override of control as low due to the fact that CPL has been an audit client of the firm for the last 10 years and no material misstatement had been reported in the previous years.

Required:

(a) Draft an email to be sent to the audit senior to guide him with regard to the above matter. (06)

(b) Suggest appropriate procedures with regard to risk of material misstatement due to fraud. (07)

Q.7 (a) Apart from profit before tax, list any **four** benchmarks which can be used to determine the materiality at the financial statement level. (02)

(b) Differentiate between review engagement of financial statements and the annual audit. (04)

(c) Identify **four** examples of situations which may require the engagement of an auditor's expert. (02)

(d) Describe the limitations of flowcharts as a tool of system documentation. (04)

Q.8 On the audit of Babar Limited (BL) you have noted a transaction whereby a loan payable to the holding company which was overdue for six months was settled by transfer of securities owned by BL.

Required:

Evaluate the above scenario and specify the audit procedures which need to be performed. (06)

Q.9 You are the audit partner of the firm and your manager has highlighted the following matters:

(a) The profit before tax of Tariq Limited (TL) for the year ended 30 June 2017 is Rs. 790 million. TL provides three year warranty to its customers and has made provision of Rs. 80 million in this regard. The management carries out the computation internally. The process is complex and based on various assumptions. Therefore, your firm has appointed an expert after following all the necessary procedures for assessing the competence, capability and objectivity of the expert. (08)

(b) Your firm has been appointed as the auditor of Yaqoob Limited for the audit of the year ended 30 June 2017. The audit team was not able to perform the inventory count at year end because the appointment was made on 15 July 2017. (07)

Required:

Describe the steps that will be performed in each of the above situation and discuss the possible implications of the above on the audit report. (*Drafting of audit opinion is not required*)

Q.10 You are the audit partner of GMP & Company, Chartered Accountants. The following matters are under your consideration:

(a) The CEO of a client is travelling out of the country on 20 September 2017 and would not be available on the date of signing of report which is 29 September 2017. However, he has offered to sign all the representations before leaving. (04)

(b) A client has modified the representation letter with regard to the responsibility of management to provide the auditor with all information relevant for the purpose of audit. It has been stated, that “except for the information destroyed in fire, we have provided all the necessary information for the purpose of audit”. (03)

(c) The managing director of a client which is a family owned business has sent the following email to the audit manager:

“I believe the financial statements we have provided to you are final. Although adjustments are required to correct some of the balances, but being immaterial, they would not affect the decision making of the owner. We therefore believe that the audit report may now be signed and the required corrections may be included in the representation letter”. (04)

Required:

Discuss how you would deal with the above situations.

Q.11 Open system interconnection (OSI) is a conceptual model that standardizes the internal functions of a communication system by partitioning them into seven logical layers. Identify and briefly describe each of these layers. (07)

(THE END)