



## Audit and Assurance

- Q.1 (a) You are the audit manager in a firm of chartered accountants. During the audit of a client for the year ended 31 December 2018, the audit team has prepared the following schedule to summarize the responses from the debtors:

S.No.	Debtor	Debtor account balance	Balance confirmed by the debtor	Management explanation
(i)	AB	Rs. 500,000	Rs. 500,000	No explanation.
(ii)	CD	Rs. 800,000	Rs. 700,000	Consignment of Rs. 100,000 was shipped on 31 December 2018 and received by customer on 01 January 2019.
(iii)	KL	Rs. 600,000	Rs. 250,000	Consignment of Rs. 600,000 was shipped on 27 December 2018 but goods amounting to Rs. 350,000 were returned due to quality issues, subsequent to year end.
(iv)	YZ	Rs. 400,000	No reply received	No explanation.

**Required:**

Describe the steps (if any) which the audit team may perform in respect of each of the above debtors.

(05)

- (b) Tariq Limited (TL) is in dispute with one of its suppliers Hamid (Private) Limited (HPL) over a claim of Rs. 10 million; due to quality issues with the product. The management has informed you that negotiations with HPL have concluded and HPL has agreed to pay Rs. 7 million whereas the rest of the amount would be written off. TL's management has provided a written representation to the auditor with respect to the said receivable. However, they want to preclude the auditor from sending a confirmation to HPL.

**Required:**

Evaluate the appropriateness of written representation as audit evidence and determine the course of action available to the auditor in the above situation.

(07)

- Q.2 Respond to the following independent situations in the light of International Standards on Auditing:

- (a) Risk of overstatement in revenue was considered as significant risk and was also communicated to those charged with governance. *Discuss whether it should be included in the key audit matters section.*

(04)

- (b) No such matter arose during the audit which needs to be reported as key audit matter. *Discuss whether the auditor still needs to include key audit matters section in audit report.*

(02)

- (c) A qualified opinion has been expressed. The details of the qualification are also mentioned in the key audit matters section. *Is it appropriate to do so?*

(03)

Q.3 You are the audit manager in a firm of chartered accountants. Your audit client Zakir Textile Mills Limited (ZTML) has emailed you its draft financial statements for the year ended 31 December 2018 along with certain explanations. The information provided by ZTML is summarized below:

(i) **Extracts from statement of financial position**

	2018	2017
	----- Rs. in '000 -----	
<b>Equity and Liabilities</b>		
Equity and reserves	29,287	22,000
Long-term loan	8,000	12,000
Provision against litigation	1,100	1,000
Trade and other payables	6,400	6,500
	<b>44,787</b>	<b>41,500</b>
<b>Assets</b>		
Property, plant and equipment	25,100	22,818
Loans to employees	1,000	800
Trade debtors	8,500	8,000
Inventory	7,600	7,000
Cash and bank balances	2,587	2,882
	<b>44,787</b>	<b>41,500</b>

(ii) **Extracts from statement of profit or loss**

	2018	2017
	----- Rs. in '000 -----	
Sales	84,000	73,000
Cost of sales	60,400	54,750
<b>Gross profit</b>	<b>23,600</b>	<b>18,250</b>
Expenses	12,850	10,950
<b>Net profit before taxation</b>	<b>10,750</b>	<b>7,300</b>
Taxation	3,463	2,555
<b>Net profit</b>	<b>7,287</b>	<b>4,745</b>

- (iii) At the start of the year, ZTML had increased the sale price of its products by 13%.
- (iv) The entire long term loan was obtained in 2017. The principal is payable in three annual instalments along with the amount of interest.
- (v) Increase in property, plant and equipment represents additions made during the year, net of depreciation. There were no disposals during the year.
- (vi) ZTML has a policy of giving interest free loan to its employees. The loan entitlement was reduced during the year from 8 times the gross salary to 5 times of gross salary.

**Required:**

Using analytical procedures, identify unexplained fluctuations and inconsistencies in the above scenario. State the key audit procedures which you would perform to address the issues identified by you. *(Maximum of three key audit procedures are required for each issue)* (11)

Q.4 (a) Under the Companies Act, 2017, state the procedure to be followed if the board of directors decides to recommend the reappointment of existing auditor for the next year. (02)

(b) The board of directors of Alpha Limited intends to re-appoint the existing auditor for the next year. However, Javed, a shareholder of the company, wants to appoint a different auditor.

**Required:**

Briefly explain the procedure that Javed should follow. Also state the responsibilities of the board in this regard. (06)

Q.5 You are the audit manager in a firm of chartered accountants. While reviewing the audit working papers of a client you came across the following audit program on property, plant and equipment:

S.No.	Audit procedures	Related assertion
(i)	Verify reconciliation of ledger balances with the fixed asset register.	Completeness
(ii)	Obtain schedule of fixed assets showing opening balances, additions, disposals, depreciation and closing balances.	Accuracy
(iii)	Verify the cost of additions to fixed assets and capital work in progress with the related invoices.	Accuracy
(iv)	Physically inspect the additions made during the year.	Existence & Ownership
(v)	On sample basis select assets and check the depreciation calculation.	Accuracy

**Required:**

Critically review the audit program and suggest changes or additional audit procedures as may be necessary. *Assume that the assets are carried at cost, no disposal was made during the year and no impairment testing is required.*

(11)

Q.6 (a) You are the audit manager in a firm of chartered accountants. Your firm has been appointed as the auditor of a listed company, Rustam Raees Limited (RRL) for the year ending 31 December 2019. RRL has been publishing their annual financial statements within one month of the year end and have set strict deadlines for the completion of audit. Further, this year, RRL has changed its accounting policy relating to property, plant and equipment, from historical cost to revaluation model.

**Required:**

List the matters (related to the given scenario only) which you would like to include in the engagement letter, along with their justification.

(04)

(b) Ameer Welfare Trust (AWT) is engaged in providing education and three daily meals to the underprivileged citizens of the society. Donation collection kiosks have been established at various public spots which collect donations predominantly in cash.

The constitution of AWT states that administration costs should not exceed 10% of its income. Due to this restriction, AWT has employed only one accountant who works on part time basis.

The constitution further requires AWT to maintain separate bank accounts for donations collected for education and meals. Donors are requested to mention the purpose of donation. Donation received for a specific purpose cannot be spent for any other purpose.

**Required:**

Identify the risks which AWT’s auditor would need to consider.

(05)

Q.7 (a) Discuss the term ‘performance materiality’ and the purpose for which it is used.

(03)

(b) State the matters to be documented by the external auditor if he uses the internal auditor for providing direct assistance on the audit.

(04)

Q.8 Expert Limited (EL) is an unlisted public company engaged in production of various products. In January 2018, an equipment malfunctioned which caused severe injuries to some of the workers. EL had paid compensation to the workers but a case for violation of safety regulations had also been filed by the regulator. On the basis of legal advice, EL had recorded a provision of Rs. 5 million in its financial statements for the year ended 31 December 2018.

The board of directors approved the financial statements on 01 March 2019 and on the same date your firm expressed an unmodified opinion. EL plans to issue the financial statements on 5 March 2019. On 3 March 2019 the court imposed a penalty of Rs. 15 million on EL. Management of EL informed the auditor accordingly.

**Required:**

Evaluate the need for amendment in financial statements and state the procedures which the auditor would need to perform in the above situation. (09)

Q.9 (a) Chand Travels (CT) is a tour operator, which provides airline ticket bookings, hotels reservations and customized tour packages. CT has recently implemented a software for maintaining its financial records.

**Required:**

What do you understand by logical access controls? Briefly describe **four** logical access controls that CT should employ. (07)

(b) Describe **four** controls which CT may employ to reduce the possibility of disruption of operations. (04)

Q.10 (a) You are the audit manager at a client Exim (Private) Limited (EPL). During the finalisation meeting with the client, the CFO of EPL admired the performance of the audit team. He informed that a junior member of the audit team gave valuable suggestions regarding a trading business which EPL is considering to launch in the near future, as he had worked as an intern in a large business house involved in similar business. The CFO also informed that the audit junior has offered to arrange a warehouse on reasonable rent as he works part time in his brother's estate agency.

**Required:**

Identify the threats in the above scenario and suggest appropriate safeguards. (05)

(b) A firm of chartered accountants sometimes issues public notices and advertisements on behalf of the clients. Further, it also communicates with the prospective clients while negotiating the services to be offered.

**Required:**

Under the Code of Ethics for Chartered Accountants:

- prepare brief guidelines about the basic principles and matters to be kept into perspective while making any such communications. (03)

- list the activities/statements which should be avoided in order to adhere to the above principles. (05)

(THE END)