

<b>ISA 200</b>		
<b>T.MARKS= 41</b>	<b>AUDITING</b>	<b>TIME: 1 HR</b>

**Question 1:**

Answer the following:

- a. Overall objectives of auditor? (02)
- b. Requirements for the preparation of the financial statements? (02)
- c. Define:
  - Audit evidence (02)
  - Fair presentation framework (02)
  - Compliance framework (02)
  - Misstatements (02)

**Question2:**

Why the attitude of professional skepticism is essential for an effective audit, also define and explain it? (06)

**Question 3:**

Briefly describe the meaning of professional judgment. Identify the three key decisions/areas where an auditor may need to apply professional judgment. (05)

**Question 4:**

Define audit risk and their components, explain the relationship that exists between the components of audit risk (06)

**Question 5:**

What is an inherent limitation? Explain the situations creating inherent limitation. (06)

**Question 6:**

What are the matters that assist the auditor to enhance the effectiveness of an audit procedure and of its application and their results? (04)

*Note: Scenario may be there from the areas of:*

*Inherent limitations like:*

- *The nature of financial reporting ( judgements,estimates)*
- *The nature of audit procedures ( info,falsifydocuments,no legal powers)*
- *The need for the audit to be conducted within a reasonable period of time and at a reasonable cost*

<b>ISA 210</b>		
<b>T.MARKS= 55</b>	<b>AUDITING</b>	<b>TIME: 1.5 HR</b>

**Question 1:**

Strawberry Pakistan Limited (SPL) was incorporated on March 1, 2011. The directors of SPL are in the process of appointing the first statutory auditor of the company. They have requested your firm to submit a proposal for the statutory audit assignment. A partner of your firm has asked you to draft the proposal after assessing whether the preconditions for the audit exist.

**Required:**

- (a) Briefly discuss the term 'preconditions for an audit. (02)
- (b) What are the steps that you would perform in order to ensure that preconditions for the audit exist?(10)
- (c) Discuss whether your firm may or may not accept the assignment if one of the preconditions for the audit is not present. (06)

**Question 2:**

Write down contents relating to:

- Recurring audit (05)
- Audit of Component (05)

**Question 3:**

Explain the contents of engagement letter with respect to following.

- Objective of letter (01)
- Person responsible for signing the letter (01)
- Addressee (01)
- Main contents of the letter (08)
- Time of sending /receiving of such letter (01)
- Requirement of renewal of such letter (02)

**Question 4:**

An auditor may agree to a change in the terms of engagement provided there is a reasonable justification for doing so.

**Required:**

- (a) List the circumstances in which the management may request the auditor to change the terms of an audit engagement. (04)
- (b) What factors should be considered by the auditor before accepting a change in the terms of the engagement? (03)
- (c) List the steps that the auditor should consider, if he is unable to agree to a change in the terms of engagement and also if he agrees. (06)

<b>ISA 300,220,230</b>		
<b>T.MARKS= 65</b>	<b>AUDITING</b>	<b>TIME: 1.5 HR</b>

### ISA 300

**Question 1:**

- a. The activities an auditor performs as preliminary engagement activities. (03)
- b. You have been appointed as the auditor of a company which was previously audited by another auditor. Being a new client, what additional considerations would you take into account while performing the preliminary engagement activities prior to commencement of the audit? (06)
- c. Briefly state the matters an auditor considers while developing overall audit strategy and plan of an initial audit engagement. (5+3)

### ISA 230

**Question2:**

- a. Write a brief note on the theme "Assembly of the Final Audit File". (07)
- b. The preparation of working papers is an integral part of the auditor's responsibilities. Identify the factors that the auditor should consider while determining the form, content and extent of audit working papers. (07)

**Question 3:**

Write a note or give contents of:

- Experienced auditor (03)
- completion memorandum (02)
- Significant Matters (04)

### ISA 220

**Question 4:**

Primarily, the audit engagement partner is responsible for the overall quality of audit. Briefly state the responsibilities and contents of engagement partner in respect of:

- i. Acceptance and continuance of client relationship (1+4)
- ii. Assignment of engagement team (2+4)
- iii. Engagement performance. (2+12)

<b>ISA 320</b>		
<b>T.MARKS= 23</b>	<b>AUDITING</b>	<b>TIME: 35MNT</b>

**Question 1:**

Define:

Materiality (02)  
Performance materiality (02)

**Question 2:**

Answer the followings:

How materiality is made? (02)  
While making materiality, what are the assumptions of the auditor about users? (04)

**Question 3:**

What are the Factors that may affect the identification of an appropriate benchmark for the determination of materiality? (05)

**Question 4:**

What are the Factors that may affect the determination of materiality Level or Levels for Particular Classes of Transactions, Account Balances or Disclosures (03)

**Question 5:**

Identify the possible causes which reduces the materiality level. (05)

<b>ISA 505</b>		
<b>T.MARKS= 42</b>	<b>AUDITING</b>	<b>TIME: 1 HR</b>

**Question 1:**

Write down the followings:

- Suggested format of letter of debtor confirmation by direct confirmation and how will you differentiate into negative and positive confirmation (6 + 2)
- Bank reports for audit purposes ( any ten with brief description) ( 10)

**Question2:**

Write down the steps taken by auditor in external confirmation also factors for its design (6)

**Question 3:**

**a.**

Indicate what would be the basis for selecting debtors for circularizing positive and negative requests for confirmations and how can the risk can be minimized that arises by using these. (6)

**b.**

List and give brief description of the procedures that should be adopted due to management's refusal to send a request for confirmation of balance. What would be the responses of auditor when refusal is reasonable and unreasonable? (8)

**c.**

Describe the alternative audit procedures which may be conducted if the customer does not reply to a request for confirmation. (4)

**Note: Scenario may be there from the areas of:**

- **Selection of positive & negative request for information.(Discus basis for their selection and relate it to scenario)**
- **Management refusal to send request. ( Relate these procedures and their reasonableness in scenario)**
- **Procedures in case of non response of request ( Give procedure as per standards and relate it to scenario)**

<b>ISA 530</b>		
<b>T.MARKS= 45</b>	<b>AUDITING</b>	<b>TIME: 75 MNTS</b>

**Question 1:**

- a. Define the following:
  - Audit sampling (01)
  - Population (01)
  - Stratification (01)
  - Tolerable misstatement and Tolerable rate of deviation (02)
  - Statistical or non-statistical sampling approach (03)
- b. Define sampling risk and what type of conclusions is drawn from this risk? (03)
- c. Define non-sampling risk and how this risk is arises? (03)
- d. What is anomalous error, how should it be treated at the time of projecting sample errors to the population? (04)
- e. Differentiate between Monetary Unit Sampling and Value-Weighted Selection. (03)

**Question2:**

Identify the factors which influence the sample size for:

- (i) Tests of controls
- (ii) Tests of details. (08)

**Question 3:**

What would be procedure of auditor if the auditor concludes that audit sampling has not provided a reasonable basis? (04)

**Question 4:**

Give the list of steps followed in auditing when audit is carried down by sampling techniques? (06)

**Question 5:**

What are the Principal Methods of Sample Selection, give the list and its brief description of all methods?(06)

*Note: Scenario may be there from the areas of:*

- *From the areas of Qus No 2 ( use increase or decrease in sample size to solve the scenario)*
- *Techniques used for selection of samples for testing*

<b>ISA 550</b>		
<b>T.MARKS= 44</b>	<b>AUDITING</b>	<b>TIME: 75 MNT</b>

**Question 1:**

As the auditor of a listed company with a number of related parties, what steps would you consider as part of your audit planning to ensure that all related party relationships and transactions are identified and disclosed in the financial statements. **(12)**

**Question 2:**

State any eight procedures which an auditor may perform for determining the existence of related parties or related party transactions. **(08)**

**Question 3:** Define related party. **(05)**

What are the responsibilities of auditor regarding related party transactions? **(03)**

**Question 4:**

What are the Indicators of dominant influence exerted by a related party **(05)**

**Question 5:**

What would be the procedures of the auditor if he identifies related parties or significant related party transactions that management has not previously identified or disclosed? **(05)**

**Question 6:**

What would be the procedures of the auditor regarding Identified Significant Related Party Transactions outside the Entity's Normal Course of Business? **(06)**

<b>ISA 560</b>		
<b>T.MARKS= 36</b>	<b>AUDITING</b>	<b>TIME: 1 HR</b>

**Question 1:**

Your firm has completed the external audit of the financial statements of Roses Ltd (Roses) for the year ended 31 December 2009 and an unmodified audit report was signed by the engagement partner on 1 March 2010. Your firm's audit report has been provided to the directors who plan to issue the financial statements and audit report to the shareholders on 30 March 2010. Whilst reading today's newspaper, 23 March 2010, you discover that Meadow Ltd (Meadow), a major customer of Roses, went into liquidation on 15 March 2010. You were the audit senior on the audit of Roses and you recall that Meadow owed a material amount to Roses, at 31 December 2009, for goods purchased. This amount remained outstanding at the conclusion of the subsequent events review. You have informed the engagement partner of your discovery.

Discuss the issues arising as a result of the newspaper article and state what, if any, action your firm should take. **(10)**

**Question 2:**

List the audit procedures that may be performed by the auditor in order to ensure that all events occurring after the date of the financial statements and before the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are identified and appropriately reflected in the financial statements. **(08)**

**Question 3:**

a.

Differentiate between and explain:

- a) Date of the financial statements **(01)**
- b) Date of approval of the financial statements **(01)**
- c) Date of the auditor's report **(01)**

Date of the financial statements are issued **(01)**

b.

Auditor may inquire as to the current status of items that were accounted for on the basis of preliminary or incomplete data and may make specific inquiries.

What are these additional procedures? **(06)**

**Question 4:**

As audit manager on the audit of Yaqoob Limited, you are supposed to assign the review of subsequent events to one of the members of the audit team.

(a)

Brief your team about the purpose and timing of reviewing events occurring after the balance sheet date. **(03)**

(b)

Describe some of the procedures that are carried out to identify events which may require adjustment of or disclosure in financial statements. **(05)**

**Note: Scenario may be there from the areas of:**

- **Facts Become Known after Date of Auditor Report and before Date of issuance of F/S**
  - **Facts Which Become Known to the Auditor after the Financial Statements Have Been Issued**
- ( scenarios may result towards these theoretical areas as given in books or their proper application. When proper application, you must go at 705 after writing these areas**

**For practical scenario:**

**Discussion with management about the issue and their treatment**

**Adjusting or non adjusting event with reasons**

**If they agree to amend the F/S**

**-In case of agreement, opinion will be clean with emphasis para on this disclosure**

**If they do not agree, opinion will be:**

**-When material effect .....qualified**

**-When material and pervasive.....Adverse**

<b>ISA 580</b>		
<b>T.MARKS= 36</b>	<b>AUDITING</b>	<b>TIME: 1 HR</b>

**Question 1:**

- a. Define:
- Engagement letter
  - Management letter
  - Letter of weakness **(06)**

- b. What is meant by written public statement? **(04)**

**Question2:**

What are the contents of written representation?

In what circumstances,its updating is required **(08)**

**Question 3:**

Write down the procedure of an auditor when written representation is not provided, not reliable or doubtful? **(08)**

**Question 4:**

What are the matter on which the written representations is required ? **(10)**

**Note: Scenario may be there from the areas of:**

- **Just from the areas as asked in question 3. Give and relate these areas to solve a practical scenario.**

<b>ISA 610</b>		
<b>T.MARKS= 44</b>	<b>AUDITING</b>	<b>TIME: 75 MNT</b>

**Question 1:**

When an external auditor intends to use specific work of internal auditor he is required to evaluate and test his work to confirm its adequacy for achieving his audit objectives. Summarize the steps an external auditor should perform for evaluating the adequacy of specific work of internal audit function. **(08)**

**Question2:**

You are audit in-charge of Marble Limited. The company has established an internal audit function, which is headed by a Chartered Accountant, who has significant internal audit experience. The head of internal audit also reports functionally to audit committee and administratively to the Chief Executive. Based on your preliminary review of the internal audit function, you consider that internal auditing activities are relevant to the risk assessment, and therefore, you are planning to obtain understanding and perform an assessment of internal audit. What are the important criteria that you would consider for assessment of internal audit function? **(10)**

**Question 3:**

Define internal audit function, also state the activities covered therein? **(08)**

**Question 4:**

- Give five examples of work of internal audit function that can be used by external auditor **(05)**
- Auditor shall make some significant judgments in audit engagements to avoid undue use of work of internal audit function .Write down these judgments. **(05)**

**Question 5:**

When external auditor plans to use the work internal audit function,when will it be useful and effective in:

- Discussion about the work **(05)**
- Coordination between them **(03)**

*Note: Scenario may be there from the areas of:*

- *Just from the areas as asked in question 2. When internal audit function is involved in some work and his expertise is there in that application, use this area to solve these issues.*

<b>ISA 700</b>		
<b>T.MARKS= 44</b>	<b>AUDITING</b>	<b>TIME: 75 MNT</b>

**Question 1:**

Differentiate between:

- I. Applicable financial reporting framework ; and
- II. General purpose framework?

And

- I. Fair presentation framework; and
- II. Compliance framework

**(08)**

**Question2:**

- a) In the light of ISA-700 “Forming an opinion and reporting on financial statements “, discuss the auditor’s responsibilities with regard to un-audited supplementary information presented with the audited financial statements? **(7)**
- b) List down the basic elements of an audit report as per ISA 700? **(3)**
- c) What are the matters to be evaluated before forming an opinion and also for conclusion? **(6)**
- d) Briefly describe the responsibilities of the auditors as described in the audit report as per ISA 700 **(5)**
- e) What are the contents included in introductory paragraph? **(5)**

**Question3:**

Write down the auditor’s report to the members as per companies’ ordinance, 1984

**(10)**

<b>ISA706</b>		
<b>T.MARKS= 20</b>	<b>AUDITING</b>	<b>TIME: 35 MNTS</b>

**Question :**

- a. Identify the situations in which an auditor may modify his report without affecting his opinion.
- b. Also define those situations.
- c. Explain how such a modification should be presented in the audit report.
- d. Give three examples of each situation.

**(20)**

<b>ISA 705</b>		
<b>T.MARKS= 60</b>	<b>AUDITING</b>	<b>TIME: 2 HR</b>

**Question 1:**

In what circumstances, disclosing the omitted information in the basis for modification would not be practicable. **(03)**

**Question2:**

What are the consequences in case of inability to obtain sufficient appropriate audit evidences due to limitation imposed by management? **(06)**

**Question3:**

An emphasis of matter paragraph is not a substitute for either:

- Opinion required by circumstances
- Disclosure in the financial statements

If , agree, write the circumstances in each case. **(04)**

**Question4:**

Define the following:

- Pervasive
- Practicality and possibility

**(08)**

**Question 5:**

You are the audit manager on the audit of Indus Limited. The audit senior has completed the audit of the company for the year ended **June 30, 2007**.What would be the form and contents of auditor's report when the opinion is modified due to:

- Misstatements
- Scope limitation

**(08)**

**Question6:**

Give the list of main areas covered under:

- Nature of Material Misstatements
- Nature of an Inability to Obtain Sufficient Appropriate Audit Evidence  
(Two examples of each area)

**(12)**

**Question7:**

What are the Exceptions to the reporting circumstances that would not contradict auditor's adverse/disclaimer of opinion? **(03)**

**Question8:**

In the following situation,describe its impact on auditor's report.

- (a) You are carrying out an audit of a company engaged in the manufacturing of pharmaceutical products. The company has two manufacturing plants, one of which has been temporarily closed owing to lack of demand. The management intends that depreciation should not be charged on the assets of the closed plant. The impact of not charging depreciation is material to the financial statements. **(04)**
- (b) During the year ended 31 August 2002, Worboys Ltd, an outdoor leisure retailing chain switched purchase of tents and waterproof clothing from Leakproof Products Ltd to another supplier. Two months later, Leakproof Products Ltd went into liquidation.

The liquidator of the company has issued a claim against Worboys Ltd for breach of implied contract and consequential losses. No amount has yet been put on the claim, but lawyers advised that it could be substantial and, although they are confident of successful defense, also advised that the case could go against WorboysLtd.This would have a serious effect on the Company.

Describe the effects this situation will have on the audit report of Worboys Ltd if the matter is:

(i) Fully disclosed in the financial statements; and

(ii)Not fully disclosed in the financial statements (08)

(c) During the audit, an entity has not allowed its auditor to carry out physical inspection of its fixed assets. Auditor is also unable to obtain sufficient and appropriate audit evidence through alternate audit procedures. Meanwhile, auditor has come to know a material error in inventory which management has refused to correct. Assume that effect of misstatement in fixed asset is both material and pervasive.

(04)

**Following may be the requirements of scenarios of opinion as per 705:**

1. **Impact on opinion**
2. **Impact on report**
3. **Auditor's action**

**Solution of Req 1:**

**in case of misstatement, two paragraphs are affected in the report:**

- 1.**Basis for modification**
- 2.**opinion ( Both if required)**

**in case of scope limitation, two paragraphs are affected in the report:**

- 1.**Basis for modification**
- 2.**opinion (Both if required)**

**( If opinion is modified then basis for modification paragraph is required otherwise not)**

**Solution of Req 2:**

**in case of misstatement, three paragraphs are affected in the report:**

- 1.**Auditor's responsibilities**
- 2.**Basis for modification**
- 3.**opinion ( Both if required)**

**in case of scope limitation, four paragraphs are affected in the report:**

- 1.**introductory paragraph**
- 2.**Auditor's responsibilities**
- 3.**Basis for modification**
- 4.**opinion (Both if required)**

**(In each of the above paragraph, their detail or description or particular data must be written. when opinion changes then this affects these paragraphs, so modified paragraphs ,as compare to originals in clean report, are written)**

**Solution of Req 3:**

- i. **Discussion of the matter with the management**
- ii. **Told them what they have done.**
- iii. **Then told them the actual treatment of matter.**
- iv. **Ask them to correct the treatment:**
  - **If they agree.....clean report ( there may Other or Emphasis of matter paragraph as per situation)**
  - **If they don't agree.....Modified, adverse or disclaimer as the case may be.**

<b>ISA 2410</b>		
<b>T.MARKS= 38</b>	<b>AUDITING</b>	<b>TIME: 50MNT</b>

**Question 1:**

The auditor should have an understanding of the entity and its environment to enable him to plan the engagement and select the inquiries, analytical and other review procedures. Required: State the procedures which an auditor may perform, to update his understanding of the entity and its environment, while carrying out an engagement to review interim financial information. **(10)**

**Question2:**

What are the procedures by auditor Inquiring of members of management responsible for financial and accounting matters, and others as appropriate and perform analytical and other review procedures for conclusion? **(10)**

**Question 3:**

What are the Analytical Procedures by the Auditor which he Consider When Performing a Review of Interim Financial Information **(08)**

**Question 4:**

Write Report on Review of Interim Financial Information on Complete Set of General Purpose Financial Statements Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation **(10)**

**Note:**

*You must have detailed knowledge of all others reports regarding reviews (ISA 2410)*

**COMPANIES ORDINANCE 1984****T.MARKS= 39****AUDITING****TIME: 1.5 HR****Question 1:**

Comment on each of the following independent situations in respect of appointment of auditors, with reference to the applicable rules and regulations of Co. Ordinance 1984.

A:

- Amrood and Company, Chartered Accountants, have received a request for appointment as auditor of Malta Bank Limited (MBL). Most of the partners of Amrood and Company maintain their accounts with MBL and are enjoying credit card facilities from them. The maximum outstanding balance on the credit card facility, due from any partner is Rs. 399,000.
- Khubani and Company, Chartered Accountants, have received an offer for appointment as auditor of Banana Limited. Mr. Pumpkin a director of of Banana Limited holds 25% shares in Water Melon Limited. The spouse of a partner also holds shares in Water Melon Limited.
- Mr. Akhroat, a legal practitioner, has received an offer for appointment as external auditor of Lychee (Private) Limited (LPL). The paid up capital of LPL is Rs. 1,500,000 of which 40% is owned by Blue Black Limited, a listed company.
- Walnut and Company, Chartered Accountants, have received an offer for appointment as external auditors of Baingun (Private) Limited (BPL), in place of the previous auditors, who were **removed before the completion of their term**. You may assume that BPL has completed all the legal formalities before removing the previous auditors.
- Mango and Co, Chartered Accountants, has received an offer to be appointed as the external auditor of Lady Finger Gas Company. The firm is indebted to the company as it has not paid the last two months' bills amounting to Rs. 4,860.
- After seventy days of incorporation, the directors of Strawberry Limited (SL) decided to appoint Mr. Potato as the company's statutory auditor. Mr. Potato was employed by SL before he started his own practice.
- The directors of Angoor (Pvt.) Limited having paid-up capital of Rs. 4.5 million have appointed Mr. Tomato to act as the external auditor of the company. Mr. Tomato has been awarded a diploma in IFRS by the Institute of Chartered Accountants of Pakistan and has completed the mandatory period of training from a leading firm of chartered accountants.
- All directors of Almond Associates (Pvt.) Limited are chartered accountants. The company has recently received an offer for appointment as the external auditor of Chilghoza (Pvt.) limited which has a paid-up share capital of Rs. 1,000,000.

(16)

B:

- Mr. Green, an MBA, have received an offer for appointment as auditor of Red Limited (a private company having paid up share capital of 1.3 million). Shocking pink limited, a listed company, holds 56% voting power in a Indigo Limited. Indigo limited and Red Limited holds 30% and 62% shareholding in shocking pink limited respectively.

- Gray limited is a Sui Gas Distribution company. Jet Black and Co, Chartered Accountants, has received an offer to be appointed as the external auditor of Light gray Limited. The firm owes two months' bills amounting to Rs. 500,002 to Gray limited. If the amount is paid within next 32 days, the payable amount would be reduced to Rs.475,000.
- Sky Blue and Company, Chartered Accountants, have received an offer for appointment as auditor of Black Limited. Mr. Purple a director of Black Limited holds 21% shares in White Limited. Mr.'s Yellow, wife of a partner Mr Orange, also holds shares in White Limited.
- Violet Limited was incorporated on July 2<sup>nd</sup>, 2012. On September 1<sup>st</sup> 2012, the directors of Violet Limited decided to appoint Mr. Off White as the company's statutory auditor. Mr. Off White was appointed by Mr. Dark Green, a director of Violet limited, some 3 months ago and is still in the employment of Mr. Dark green. (08)

**Question2:**

Company holds 60% voting power in Black Limited. A student naming light gray have invested 2% shares in Black Limited. Red limited and Crimson Limited holds 22% and 13% voting power in Dark Gray Limited respectively. Mr Jet purple runs a school where light gray is a student, subsequently you discovered that Light gray is the son of Mr Kanju, a partner in Kanju & Co. Chartered Accountants. Black Limited also holds 30% voting power in Crimson Limited. There are 2 government nominee directors are on the board of Red Limited. Mr Jet Purple, one of these nominee directors on the board of Red limited, is also a nominee director on the board of Light Red limited. As Mr Kanju has to drop his 15 years son Mr Light gray daily in the school owned by Mr Jet Purple, therefore he has started teaching in that school under employment contract with Mr Jet Purple.

Identify with proper reasons that whether Kanju & Co Chartered Accountant can be the auditor of following

- Red Limited
- Black limited
- Crimson limited
- Dark Gray Limited
- Light Red Limited

(15)

**Note:**

*When any scenario is given about the appointment of auditor, it must be answered in this way:*

*Appointment of Mr. Kanju is valid / invalid.*

**Reasoning:**

*Give provision from companies ordinance, 1984 or its theme as per situation and relate this provision to the scenario to prove your answer.*

*At end.....if there is any exception to the provision, due to which invalid can be valid e.g. disinvestment of shares in 90 days.it must be mention at end of solution. (it also carry marks)*

*Note: If there are more than one disqualifications of auditor, write all in the answer because all these carry marks.*

CODE OF ETHICS		
T.MARKS= 57	AUDITING	TIME: 1.5 HR

**Question 1:**

- a. Give the list of fundamental principles. (02)
- b. In what circumstances where chartered accountants are or may be required to disclose confidential information or when such disclosure are appropriate? (04)

**Question 2:**

When auditor complies with the fundamental principles, he may potentially be threatened by a broad range of circumstances.

- What are their categories, give the list. (02)
- Also give two examples of each circumstance (05)

**Question3:**

What is meant by safeguards? Give their main categories and three examples of each category. (08)

**Question 4:**

What are these concepts? Give their explanation and safeguards.

- i. Undercutting (03)
- ii. Referral fee or commission (04)
- iii. Conflicts of Interest (06)
- iv. Responsibilities of Existing and proposed Chartered Accountant (08)

**Question 5:**

**(15)**

Evaluate the ethical situation involved in the following and suggests appropriate safeguards, if required:

- a. Kamal was the audit manager during the last year's annual audit of Faisalabad Textile Mills Limited. He has joined FTML as their Manager Finance, prior to the commencement of the current year's.
- b. Elvis Textile Limited is listed company and your firm is the auditor of the company for the year ending June 30, 2013. During the month of December 2012, a customer filed a suit against the company accusing them of non-compliance with an agreement. Since you are supposed to verify the compliance with the agreement as part of your audit procedures, the company has asked you to represent them in the court to defend their position.
- c. You are the auditor of a Nusrat Foundation, a not for profit organization for the year ending June 30, 2013. Management of the foundation has asked you to prepare a report presenting certain expenses of the foundation for the period of six months ended December 31, 2012. The report of the assignment will be submitted to the donors of the organization

***If the threat is:***

- ***Insignificant.....Ignore***
- ***Significant.....Apply safeguards***

***Answer to the practical scenarios of code of ethics can be given as the usage of these common procedures that can fit in any situation but carefully: (These are sufficient procedures to answer any scenario)***

- ***Role or responsibility or value of relevant person in engagement team.***
  - ***His Influence on engagement team and on client.***
- ***Disclosing to TCWG of the client the nature of any issue***
- ***Discussing issues with management or those charged with governance of the client.***
- ***As per suitability of situation:***
  - ***The use of separate engagement teams***
  - ***Rotating senior assurance team personnel.***
  - ***Remove affecting team member from engagement team.***
- ***As per suitability of situation : (There may one ,two or all at same time)***
  - ***Regular review of application of safeguards by a senior individual not involved with relevant client(s)***
  - ***Involving an additional chartered accountant to review the work done.***
  - ***Involving another firm to perform or re-perform part of the engagement.***
- ***Terminating the financial or business relationship giving rise to the threat.***
- ***If threat cannot be reduced, do not accept the engagement or Withdraw as per situation suitability.***

## **Code of Ethics**

*If the threat is:*

- *Insignificant.....Ignore*
- *Significant.....Apply safeguards*

*Answer to the practical scenarios of code of ethics can be given with the usage of these common procedures that can fit in any situation but carefully: (These are sufficient procedures to answer any scenario)*

- *Role or responsibility or value of relevant person in engagement team.*
  - *His Influence on engagement team and on client.*
- *Disclosing to TCWG of the client the nature of any issue*
- *Discussing issues with management or those charged with governance of the client.*
- *As per suitability of situation:*
  - *The use of separate engagement teams*
  - *Rotating senior assurance team personnel.*
  - *Remove affecting team member from engagement team.*
- *As per suitability of situation : (There may one ,two or all at same time)*
  - *Regular review of application of safeguards by a senior individual not involved with relevant client(s)*
  - *Involving an additional chartered accountant to review the work done.*
  - *Involving another firm to perform or re-perform part of the engagement.*
- *Terminating the financial or business relationship giving rise to the threat.*
- *If threat cannot be reduced, do not accept the engagement or Withdraw as per situation suitability.*

## **Companies Ordinance, 1984**

*When any scenario is given about the appointment of auditor, it must be answered in this way:*

*Appointment of Mr. Kanju is valid/invalid.*

*Reasoning:*

*Give provision from companies ordinance, 1984 or its theme as per situation and relate this provision to the scenario to prove your answer.*

*At end.....if there is any exception to the provision, due to which invalid can be valid e.g. disinvestment of shares in 90 days. It must be mention at end of solution. (it also carry marks)*

*Note: If there are more than one disqualifications of auditor, write all in the answer because all these carry marks.*

## 705,706.....Opinions

*Following may be the requirements of scenarios of opinion as per 705:*

- 1. Impact on opinion*
- 2. Impact on report*
- 3. Auditor's action*

*Solution of Req 1:*

*in case of misstatement, two paragraphs are affected in the report:*

- 1.Basis for modification*
- 2.opinion ( Both if required)*

*in case of scope limitation, two paragraphs are affected in the report:*

- 1.Basis for modification*
- 2.opinion (Both if required)*

*( If opinion is modified then basis for modification paragraph is required otherwise not)*

*Solution of Req 2:*

*in case of misstatement, three paragraphs are affected in the report:*

- 1.Auditor's responsibilities*
- 2.Basis for modification*
- 3.opinion ( Both if required)*

*in case of scope limitation, four paragraphs are affected in the report:*

- 1.introductory paragraph*
- 2.Auditor's responsibilities*
- 3.Basis for modification*
- 4.opinion (Both if required)*

*(In each of the above paragraph, their detail or description or particular data must be written. when opinion changes then this affects these paragraphs, so modified paragraphs ,as compare to originals in clean report, are written)*

*Solution of Req 3:*

- i. Discussion of the matter with the management*
- ii. Told them what they have done.*
- iii. Then told them the actual treatment of matter.*
- iv. Ask them to correct the treatment:*
  - If they agree.....clean report ( there may Other or Emphasis of matter paragraph as per situation)*
  - If they don't agree.....Modified, adverse or disclaimer as the case may be.*

## **Substantive procedure**

*This method can be used to write procedures on any areas.*

*These are the assertions of Disclosures, Account Balance and Class of Transaction:*

<i>Cut off Classification Accuracy Completeness Occurrence</i>	<i>Existence Completeness Valuation Allocation Rights and Obligation</i>
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*These are the Audit Procedures for Obtaining Audit Evidence:*

<i>Inspection External Confirmation Analytical Procedures</i>	<i>Observation Recalculation</i>	<i>Inquiry Reperformance</i>
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*Memorize these assertions & procedures and their theme also.*

*Now the question is, How to write procedures on any area? So its answer is given below:*

*Suppose for fixed assets.*

*Take any one assertion like existence.*

*Try to check the existence of asset by using all procedures one by one as mentioned above. All procedures will not verify the existence of asset but some of them will verify this assertion. If verify now you have to write a substantive procedure from every verifying audit procedure, the procedures that do not verify the existence just ignore that procedure and carry on. For example:*

- *Inspection.....Yes, through documents      (now write this in proper procedure)*
- *Observation.....No, so ignore it*
- *Inquiry.....Yes, from management      (now write this in proper procedure)*
- *External Confirmation.....Yes, from supplier      (now write this in proper procedure)*
- *Recalculation.....No, so ignore it*
- *Reperformance..... No, so ignore it*
- *Analytical Procedures.....Yes, vertical and horizontal      (now write this in proper procedure)*

*Have you noticed? After using one assertion we found four substantive procedures. So when we will use any one assertion, it will give us minimum two or three procedures. So we can write 10 to 15 procedures through this method with very ease.*

*Therefore, use above mentioned method for every assertion with the help of audit procedures then you will be able to write substantive procedure without any cramming or any tension.*