



Auditing

Referral 6 - Solution

Question no 1

- a) After the assembly of the final audit file has been completed, the auditor shall not delete or discard audit documentation of any nature before the end of the retention period.
- The firm should establish its own policies and procedures for the retention of engagement documentation. The retention period for audit engagement ordinarily is no shorter than five years from the date of auditor's report.
- b) Changes in the audit documentation during the final file assembly process may only be made if they are administrative in nature. Examples of such changes include:
- Deleting or discarding superseded documentation;
 - Sorting, collating and cross referencing working papers;
 - Signing off on completion checklist relating to file assembly process;
 - Documenting audit evidence that the auditor has obtained, discussed and agreed with the relevant members of the engagement team before the date of the auditor's report.
- c) Under exceptional circumstances, the auditor performs new or additional procedures or draws new conclusions after the date of the Auditor's report. In this relation the auditor should document:
- The circumstances encountered.
 - The new or additional audit procedures performed, audit evidence obtained, and conclusion reached, and their effect on the auditor's report.
 - When and by whom the resulting changes to audit documentation were made and reviewed.

Question no 2

- a) We may consider writing an engagement letter this year too in the following situations:
- Any indication that the entity misunderstands the objective and scope of the audit
 - Any revised or special terms of the audit engagement.
 - A recent change of the senior management.
 - A significant change in ownership.
 - A significant change in nature or size of the entity's business.
 - A change in legal or regulatory requirements.
 - A change in the financial reporting framework adopted in the preparation of the financial statements.
 - A change in other reporting requirements.
- b) The following client screening procedures will be performed before making an acceptance decision:
- We will ascertain whether the preconditions for an audit are present or not
 - We will identify the reputation of the client's shareholders/owners, its top management and any related parties
 - We will assess the attitude of owners and key management towards accountability and reporting

- We will assess if there is any condition which causes us to believe that the management may limit our scope of work
- We will assess the reasons why the incumbent auditor was changed

Question no 3

a) Professional Skepticism is an attitude that includes a questioning mind, being alert to the conditions which may indicate possible misstatement due to fraud or error, and a critical assessment of audit evidence.

Professional Skepticism includes being alert to, for example:

- Audit evidence that contradicts other audit evidence obtained
- Information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence
- Conditions that may indicate possible fraud
- Circumstances that suggest the need for audit procedures in addition to those required by the ISAs.

b) **Leadership:**

The engagement partner shall take responsibility for the overall quality on each audit engagement to which that partner is assigned.

Ethics:

Throughout the audit engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team. If any non-compliance comes to engagement partner's attention, he shall determine appropriate action, in consultation with other partners in the firm.

Acceptance and Continuance:

Engagement partner should be satisfied that:

- Procedures regarding acceptance and continuance have been followed
- Conclusions reached are appropriate and have been documented

Assignment of Engagement Team:

Engagement partner shall be satisfied that team assigned to engagement collectively has appropriate competence and capability to perform the engagement in accordance with professional and legal requirements.

Engagement Performance:

Engagement partner should take responsibility for

- Direction
- Supervision



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- Review
- Consultation
- Engagement Quality Control Review
- Difference of Opinion

Question no 4

Matters considered by auditor in developing overall audit strategy:

Characteristics of the Engagement (Scope):

- Financial reporting framework
- Industry-specific reporting requirements
- Expected audit coverage including number and locations of components to be included
- Extent to which components are audited by other auditors
- The availability of the work of internal auditors and extent of reliance on it

Reporting objectives, Timing of the Audit and Nature of Communication (Timing)

- Entity's timetable for reporting
- Organization of meeting with those charged with governance and management to discuss the nature, timing and extent of audit work
- Expected type and time of report to be issued and other communication
- Expected type and time of report to be issued by auditors of components

Significant matters directing Audit and preliminary engagement activities (Direction)

- Significant developments and changes in
 - Industry (e.g. regulations and reporting requirements)
 - Business (impact of IT, changes in processes, mergers, acquisitions)
 - Financial Reporting Framework
 - Others (e.g. legal environment)
- Volume of transactions; determining whether it is more efficient to rely on internal controls
- Identification of audit areas where there is higher risk of material misstatements
- With respect to materiality:
 - Setting materiality for planning purposes
 - Setting and communicating materiality for auditors of components
 - Identify the material components and account balances

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