

THE PROFESSIONALS' ACADEMY OF COMMERCE

AUDITING

Topics: ISAs-560, 580, Test of Controls



Module: D

33 marks – 1 hour

Referral 7

Date: 17/01/2013

Question no 1

- a) Verification of assets of Comp Co. commenced on 27th June, 2011. During the confirmation of existence, the auditor came to know that a machine worth Rs.1,000,000 was not present. When the management was asked regarding the machine, it gave the reason that it had been sold 2 months ago because the company was facing a financial difficulty and needed cash fast. The sale was not supported by proper documents because the buyer was a small-sized entity and insisted that the sale be kept a secret. However, management has agreed to provide a representation in this regard. (4 marks)
- b) You have heard rumors that Comp Co. is planning to merge with a competitor. If accurate, this will have disclosure implications. Management has advised you that although they have had several meetings with the management of the competitor in question, no such merger is currently planned. Management has offered to make written representations in confirmation of their intentions. (3 marks)

Required:

Discuss the appropriateness of management's representation as audit evidence in this case. If representation is not sufficient in any case, what other audit procedures will you apply to obtain sufficient appropriate audit evidence?

Question no 2

State the representations that can be obtained from the management on the financial statements.

(4 marks)

Question no 3

State the responsibilities of the auditor in the following situations and how those responsibilities shall be fulfilled:

- Events occurring up to the date of the auditor's report;
- Facts discovered after the date of the auditor's report but before the financial statements are issued; and
- Facts discovered after the financial statements are issued.

(12 marks)

Question no 4

You are the audit senior on the audit of Luck Traders, a medium-sized entity, which trades in sea-shells and reef stones. You have been assigned two audit trainees who are currently assigned to test the controls on the sales and purchases systems of Luck Traders. As this is the trainees first time on an audit, Mr. Khan, your audit partner, has asked you to brief them on techniques to test the controls and obtain sufficient appropriate audit evidence.

Required:

State the tests of controls on the sales and purchases systems you would suggest to the trainees.

(10 marks)

In this case, because the opinion expressed on the prior year financial statements was modified, the Other Matter paragraph should also explain the reasons for that modification.

Question no 5

a) Audit report term

Modified: An auditor modifies an audit report in any situation where it is inappropriate to provide an unmodified report. For example, the auditor may provide additional information in an emphasis of matter (which does not affect the auditor's opinion) or qualify the audit report for limitation of scope or disagreement.

b) Different kinds of audit reports are as follows:

1. Qualified opinion

The auditor shall express a qualified opinion when:

- (i) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
- (ii) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

2. Adverse opinion

The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

3. Disclaimer of opinion

The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

(The End)