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## Audit and Assurance

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- Q.1 (a) The auditor is required to identify and assess the risk of material misstatement at both the financial statement and assertion levels.
- State what is meant by risk at financial statement level and assertion level. Give one example of risk at each level. (03)
- (b) The audit engagement letter specifies objective and scope of audit, responsibilities of auditor and management, applicable financial reporting framework and form and contents of audit report. State any four additional matters that may be included in the engagement letter. (04)
- (c) The external auditors are normally appointed by the shareholders at the annual general meeting (AGM) of the company. State the exceptions to this rule. (03)
- (d) Describe deployment and opportunity flowcharts. (04)
- (e) Identify the matters that need to be considered by the auditor at the time of designing and performing substantive analytical procedures. (04)
- (f) State the matters that auditor needs to consider where the written representation provided by the management is inconsistent with other audit evidence. (03)
- (g) What are the matters which the auditor should consider while designing an audit sample, determining its size and selecting the sampling units? (03)
- Q.2 Comment on each of the following situations with reference to the appointment of external auditors in accordance with the requirements of the Companies Ordinance, 1984.
- (a) ABC Limited and DEF Limited are associated companies on account of common directorship. Salman and Company, Chartered Accountants (SCC) have received an offer for appointment as the auditor in ABC. Salman, a partner in SCC is the spouse of Naveen, who is an employee in DEF. (02)
- (b) All the partners of Kashif Associates are Cost and Management Accountants. The firm has received an offer for appointment as the auditor of Nihal (Private) Limited (NPL). NPL has a paid-up capital of Rs. 500,000 and 30% of its shares are held by Siyal Limited which is a public company. (03)
- Q.3 While reviewing the final audit file of XYZ Limited for the year ended 30 June 2014, you have identified that certain amendments were made in the final audit file after the date of the auditor's report.
- Required:**  
Comment on the above situation in the light of International Standards on Auditing. (07)

Q.4 Mineral Limited (ML) has incorporated a liability for gratuity payable to its employees on the basis of actuarial valuation carried out by Professionals Limited (PL). As the audit partner of ML you are not satisfied with the valuation report prepared by PL, and have decided to appoint Experts Limited (EL) to carry out the valuation exercise again.

**Required:**

- (a) State the matters that you would consider regarding:
  - (i) The competence, capabilities and objectivity of EL. (03)
  - (ii) Evaluation of the adequacy of EL’s work. (03)
- (b) Briefly discuss the course of action in case you are not satisfied with the work performed by EL. (03)

Q.5 The audit of Sehat Pharmaceutical Limited (SPL) is in progress. Based on the previous experience with the client and the initial tests of control, the auditor has assessed a low risk of material mis-statement in the area of debtors.

The debtors circularization summary depicts the following information:

Customer segment	No. of customers	Balance outstanding	Confirmations sent	Amount covered	Nature of confirmations	Confirmations received
----- Rs. in ‘000 -----						
Distributors	12	75,200	8	70,500	Positive	7
Wholesalers	105	52,500	30	12,500	Positive	28
Hospitals and clinics	250	31,200	75	20,300	Negative	4
Retailers	130	12,500	50	7,000	Negative	12

Analysis of confirmations received is as follows:

- 3 out of 7 confirmations received from distributors did not agree with the amount outstanding in SPL’s ledger.
- One of the distributors, Saleem Distributors (Private) Limited (SDPL) has gone into winding up. The balance receivable from SDPL is outstanding since last one year.
- Replies received from the hospitals did not agree with the balance outstanding in SPL’s records. However, the differences were reconciled by the audit staff.
- All the 12 confirmations received from the retailers showed disagreement with the records of SPL. However, only 2 could be reconciled.

**Required:**

- (a) Evaluate the decision regarding sending of negative confirmations. (04)
- (b) Determine the course of action the auditor should consider in case of balances agreed, balances not agreed and replies not received. (05)
- (c) State the procedures that need to be performed in case of amount due from SDPL. (03)

Q.6 You are the audit manager on the audit of a listed company, Kamil Limited (KL). Prior to completion of audit, you came across a prospectus issued by Neelum Limited (NL) according to which a director of KL is the chief executive of NL. However, the name of NL was not included in the list of related parties provided by KL. On being confronted the management has advised that the name was omitted inadvertently as the appointment took place just two months prior to the year end.

**Required:**

Discuss your course of action in the above situation. (07)

- Q.7 Discuss the categories of threats that may be involved in each of the following independent situations and advise the partners of the concerned firm with regard to the possible course of action that may be followed in each situation:
- (a) Ahmed has recently joined a firm of Chartered Accountants. The firm intends to depute him on the audit of Masoom (Private) Limited (MPL). Prior to joining the firm, Ahmed had been providing accounting and taxation services to MPL for many years, in the capacity of a consultant. (04)
  - (b) It has been discovered that father of one of the trainees posted on the audit of Chalak Limited (CL), has a financial interest in CL. (04)
  - (c) Hoshiyar Limited (HL), an audit client of your firm has recently advertised certain vacancies in its accounts department. The said positions have been applied for by number of individuals including two staff members who are posted on the audit of HL. (04)
- Q.8 You have been assigned to plan the test of controls in respect of receiving of goods and invoices from suppliers of Bhurban Limited. In this regard, you are required to identify the following:
- (a) The related risks (03)
  - (b) Controls that you expect to see to address the above risks (04)
  - (c) Audit procedures that you need to perform to test the controls (03)
- Q.9 While reviewing the audit files of four different clients you confronted the following situations:
- (i) Due to tough competition in the market, the company has been unable to increase the prices of its products since last 5 years.
  - (ii) Addition to intangible assets, amounting to Rs. 500 million include research cost of Rs. 10 million which is duly supported by invoices from suppliers.
  - (iii) During the last three years, the Chief Executive and higher management has been earning handsome bonuses, based on the profitability of the company.
  - (iv) Physical stock take on 31 December 2014 included goods sold but not despatched amounting to Rs. 52 million. The delivering of goods was stopped on the request of a distributor. Upto 20 January 2015, the distributor has taken delivery of goods amounting to Rs. 2 million.
- Required:**
- (a) In each of the above situations, identify with justification whether it represents a risk of fraud. (06)
  - (b) Describe what actions are to be taken by an auditor on identifying a fraud risk factor. (04)
- Q.10 Controls over data transmission help to ensure that transmitted data is complete, secure and unaltered.
- Required:**  
State any five controls over data transmission which help to ensure that the data is secure and unaltered. (04)

(THE END)