Audit and Assurance

Q.1  You are the Audit Incharge of Rehan Limited for the year ended 31 December 2015. While reviewing the working papers and discussion with audit team, you have noted the following:

(i) The audit team did not send balance confirmation requests for amounts below Rs. 100,000 because according to the client, lot of efforts were required to follow up the customers and the balances were also not material.

(ii) One of the conclusions drawn as per the working papers is “there are no unrecorded liabilities, as confirmations have been received from all selected parties and no differences were noted. Hence, no further test is required.”

Required:
(a) Discuss with reasons whether you agree with the approach adopted/conclusion drawn by the audit team.  (03)
(b) Provide brief guidance to the audit team in respect of each of the above situations.  (05)

Q.2  You are the CFO of a newly incorporated company which has recently established five supermarkets in the city. One of your responsibilities is to implement internal controls.

List six key controls:
(a) over cash sales and cash handling;  (06)
(b) to reduce possibility of misappropriation of inventory.  (06)

Q.3  (a) Because of its ability to exert influence, management is in a position to perpetrate fraud and prepare fraudulent financial statements.

Identify six different ways in which fraud may be committed by management through overriding of controls.  (06)

(b) Briefly state the audit procedures which may be performed to identify the risks of material misstatement due to fraud.  (05)

Q.4  Justify giving reasons whether the appointment of auditors in the following cases is in compliance with the requirements of Companies Ordinance, 1984.

(a) Kashif and Company, Chartered Accountants (KC) has received an offer for appointment as the auditor of National Electricity Limited (NEL). On the request of one of the partners of KC, NEL has allowed him to pay his last month’s electricity bill amounting to Rs. 150,000 in monthly instalments of Rs. 15,000 each.  (03)

(b) Zubair and Company, Chartered Accountants (ZC) has received an offer for appointment as auditor of Haroon Limited (HL). Saima, who is the wife of a partner of ZC, is the chief executive of Jameel Limited (JL). JL is an associated company of HL. Saima also holds 100,000 shares in JL.  (03)
Q.5 Identify the threats that may be involved and applicable safeguards, if any, in each of the following scenarios:

(a) Your firm is the auditor of Delicious Biscuits Limited (DBL) for the past three years. On previous year’s audit, Affan was the audit manager. He has recently joined DBL as GM finance. (05)

(b) ABC leasing company has a lease portfolio of Rs. 500 million. Atif, the Audit Manager on ABC, has obtained a lease finance amounting to Rs. 800,000 from ABC. (05)

Q.6 (a) State **five** key substantive audit procedures for verification of Provisions. (05)

(b) Briefly describe how an auditor evaluates the sufficiency of audit evidence. (04)

(c) Briefly explain how an external auditor would evaluate the adequacy of the work performed by the internal audit function. (04)

(d) List **six** physical access controls over an IT system. (03)

(e) Briefly discuss the concept of ‘Professional skepticism’. (03)

Q.7 Determination of materiality level requires professional judgement on the part of the auditor.

(a) Briefly describe the importance of materiality in the following stages of audit:
   (i) Planning stage (01)
   (ii) Reporting stage (02)

(b) What aspects of materiality should be documented by an auditor in the working papers? (04)

Q.8 You are the audit partner of XYZ & Company, Chartered Accountants. The following matters are under your consideration:

(a) Asif Limited has made certain investments and has classified them as long term investments. The management has also provided written representation in this regard. However, before the finalization of financial statements the company disposed of some of the said investments. (04)

(b) Mansoor Limited has entered into significant related party transactions during the year which are approved by the Board of Directors and appropriately disclosed. The management has also agreed to provide a written representation but you have not received it yet. (03)

**Required:**
Analyse the above situations and explain how you would proceed in the above matters.

Q.9 You are the audit manager in a firm of Chartered Accountants. Your firm is often required to engage an auditor’s expert for reporting on matters relating to the audits.

(a) List **four** key terms of engagement which should be agreed with the expert. (02)

(b) Specify the factors which should be considered in evaluating the adequacy of the work performed by the expert. (04)
Q.10 Briefly describe the following concepts:
   (a) Audit trail in a computerized environment (03)
   (b) Embedded audit facilities and its significance (04)

Q.11 You are the audit manager of the Educational University (EU) for the year ended
31 December 2015. EU has a student base of 2,500 students. It follows a policy of receiving
50% of the fees at the start of the semester and 50% in the middle of the semester. However,
10% discount is allowed to those students who pay the entire amount in advance. The cost
of course material is included in the fees. The semester starts in December and June each
year. You have noticed that 30% of the students who were registered in December 2015 had
not claimed the course material till 31 December 2015.

Required:
Discuss the audit risks in the above scenario and how you would deal with them. (07)

(THE END)