



Audit, Assurance and Related Services

- Q.1 You are a partner in a firm of Chartered Accountants. Annual audits of various clients are at finalization stage and since this is the first time that ISA related to Key Audit Matters is to be applied, several issues have been referred to you for guidance. These include:
- (a) An adverse report is being issued in the case of Muneer Limited. The draft report also contains certain matters as Key Audit Matters. (02)
 - (b) A qualified report has been drafted by the audit manager of Nadir Limited as the company has failed to make adequate provision of contingency. The details of qualification are mentioned in the Key Audit Matters section. (03)
 - (c) The Key Audit Matters section of audit report of Zia Limited includes details of Key Audit Matters of only the current period. However, the opinion has been expressed on current as well as prior year. (03)
 - (d) At one of the listed clients, investigation by a Government agency against some of its staff members is in progress. Due to sensitivity of the matter the management has requested you to not to include such information in the Key Audit Matters section. (03)

Required:

Advise the concerned partners/managers with respect to the above matters.

- Q.2 You are the audit manager of Bolan Pharmaceuticals Limited (BPL) a listed company. For the year ended 30 September 2016, BPL has prepared its financial statements which indicate a net operating loss, current ratio of 0.79 and significant amount appearing as capital work in progress comprising of expenses incurred on acquisition and installation of plant and machinery. The following information is also available:
- (i) The operations of BPL are currently suspended due to Balancing, Modernization and Replacement (BMR) work.
 - (ii) The decision to carry out BMR was approved by the Board of Directors in 2015 with a completion deadline of 31 March 2016.
 - (iii) Due to certain technical issues, BPL has not been able to complete the project to date.
 - (iv) Because of the above situation, loan from a bank became overdue on 1 September 2016. Further, BPL had also not complied with certain key covenants.
 - (v) In this difficult situation BPL has requested its major shareholders to inject additional equity.

Required:

- (a) You have asked the client to give a comprehensive plan explaining the steps to counter the above situation. Briefly discuss what kind of details you would expect in the above plan. (12)
- (b) Besides the issue of going concern, state the other key matters that the auditor should consider with respect to the above situation. (05)

- Q.3 Your firm has been appointed as the auditor of New Cement Limited (NCL), for the year ended 30 November 2016. NCL is a listed company which owns one of the largest cement plants in the country. 60% of the company's shares are owned by the same family. The CEO, CFO and Director Operations belong to the family. Following are the extracts from the draft financial statements:

Extracts from statement of financial position

Assets	Rs. in million
Property, plant and equipment	21,115
Deferred tax	270
Trade debtors	4,700
Other current assets	2,753
Equity and liabilities	
Share capital	6,500
Reserves	(1,462)
Surplus on revaluation of fixed assets	2,000
Non-current liabilities	13,000
Current liabilities	8,800

Extracts from statement of comprehensive income

Turnover – net	17,210
Gross profit	1,417
Operating loss	(164)
Other income	223
Finance cost	(1,560)
Loss before taxation	(1,501)

Other information:

- (i) Sales have declined during the past two years because of lower exports, however, the decline in exports has been partially offset by slightly higher local sales. The management is hopeful of a significant increase in local sales in the coming years.
- (ii) NCL's debtors have increased by 25%. The debtors include an amount of Rs. 330 million due from a government owned entity. The amount became due on 30 June 2016. However, the amount has been rescheduled and is now recoverable in 6 equal instalments over a period of three years.
- (iii) On 1 November 2016, the management entered into a contract with a new supplier for supply of its main raw material. The new supplier has offered 15% lower prices. The contract with the previous supplier has been terminated. The audit team has also been informed that a senior member of purchase department was fired in September 2016.
- (iv) NCL revalues its plant and machinery after every three years. The last revaluation was carried out in 2014.
- (v) The internal audit department comprises of five staff members including Chief Internal Auditor, who is a Chartered Accountant. The Chairman of the audit committee is an independent director. The internal audit department has carried out number of assignments. The reports of the internal auditor include many good suggestions for improving the efficiency of the operations; however, they do not contain any serious deficiencies/adverse comments in any area.

Required:

- (a) Briefly evaluate the overall control environment of the company. (05)
 - (b) Based on the above information identify areas of risk for the audit and the planned audit approach. (15)
- (Note: Detailed audit procedures are not required)*

Q.4 Identify the differences between the auditor's report on financial statements of a listed company as compared to an unlisted company, based on International Standards on Auditing. (04)

Q.5 Dawood Limited (DL), a listed company, has approached your firm to provide a limited assurance on sustainability report of the company and presently you are verifying the following statement related to carbon emissions:

“Carbon emissions were within the limits allowed by the regulator.”

Required:

Determine how you would verify the above claim. (06)

Q.6 Your firm has been hired by Sensitive Products Limited (SPL), for an assurance engagement regarding compliance with regulatory requirements. SPL is engaged in the production of highly sensitive products and is required to comply with strict regulatory requirements. In this regard a report is submitted by SPL to the regulatory authority which contains certain information.

Required:

Draft a limited assurance report to be issued to the regulatory authority regarding the information provided to the authority by SPL. The report should contain a qualification and mention atleast three procedures performed by your firm. (14)

(You may assume necessary details, however any annexures to the report are not required)

Q.7 You are the audit manager responsible for the audit of Mechanic Engineering Limited, (MEL) which provides mechanical parts to different industries. The draft financial statements for the year ended 30 September 2016 show profit before taxation of Rs. 150 million (2015: Rs. 200 million) and total assets of Rs. 1.2 billion (2015: Rs. 1.1 billion).

Presently following matters are under your consideration:

(a) MEL has recognized a late payment surcharge of Rs. 2.5 billion on amount due from Government agencies. Last year, the audit report was qualified with respect to the recognition of late payment surcharge. The management has informed you that the Government authorities have conveyed their willingness to pay Rs. 2 billion instead of Rs. 2.5 billion and has provided you a written representation with respect to the said amount. MEL however wants to preclude you from sending a confirmation to the relevant agency. (07)

(b) During the year, MEL has sold one of its buildings to Natasha (Private) Limited (NPL) at a loss of Rs. 20 million. The building was purchased at a cost of Rs. 80 million seven years ago and was depreciated @ 5% per annum on straight line basis. The minutes of the meeting of the Board of Directors at which the sale was approved indicate that a director of MEL holds 20% shares in NPL. However, the minutes also indicate that he did not vote on the transaction due to conflict of interest. (09)

Required:

Evaluate the above situations and determine the course of action in respect of each of the above independent situations. *(Reporting implications are not required)*

Q.8 You are the partner in a firm of Chartered Accountants and presently following matters are under your consideration:

- (a) Annual audit of Kamran Limited (KL) for the year ending 31 December 2016 is due to commence in a few weeks. Jamal has been an audit team member for eleven years; two years as the job incharge, three years as manager and six years as partner.

KL was listed on the Pakistan Stock Exchange in July 2016.

Required:

- (i) Identify the threats in the above situation and discuss the significance thereof. **(06)**
- (ii) Discuss the need for rotation of engagement partner in each of the following situations:
- The firm has adequate resources and personnel who can replace Jamal as engagement partner but Jamal does not want to leave this assignment.
 - The firm is unable to find a suitable replacement. **(03)**
- (b) Your firm has received request from a listed audit client to assess the quality of the internal audit function and give recommendations as regards improving the structure of the internal audit department and the quality of its staff.

Required:

- Evaluate the above situation and identify threats, if any and related safeguards. **(03)**

(THE END)