



## Certified Finance and Accounting Professional Stage Examinations

The Institute of  
Chartered Accountants  
of Pakistan

8 June 2017  
3 hours – 100 marks  
Additional reading time – 15 minutes

### Audit, Assurance and Related Services

Q.1 Your firm is the external auditor of Namura Limited (NL), a listed company. Following information has been made available to you at the planning stage:

#### Extracts from statement of comprehensive income for the year ended 31 March 2017

	2017	2016
	----- Rs. in '000 -----	
Profit/(loss) before tax	161,990	(241,075)
Taxation	(50,000)	74,000
Profit/(loss) after taxation	111,990	(167,075)

#### Extracts from statement of financial position as at 31 March 2017

	2017	2016
	----- Rs. in '000 -----	
<b>Assets</b>		
Property, plant and equipment	1,472,690	1,475,000
Intangible assets	650,000	750,000
Investment in PCL Limited	75,000	250,000
Deferred tax asset	175,000	199,000
Current assets	850,000	723,015
	3,222,690	3,397,015
<b>Equity and liabilities</b>		
Share capital	700,000	700,000
Reserves	(378,010)	(490,000)
Long term debt	1,652,000	1,920,000
Current liabilities	1,248,700	1,267,015
	3,222,690	3,397,015

In February 2017, the company has increased its product prices by 20% after consultation with its legal advisor, which has resulted in additional revenue of Rs. 200 million. However, in March 2017, a Regulatory Authority has issued a show cause notice against the price increase and has fixed a date for hearing at 28 June 2017.

In 2013, NL had developed a product, Vital, at a cost of Rs. 350 million. Vital is a premium product which has a very large market with no significant competition. It was registered with the patent registration authority in the same year. The total useful life of the intangible is estimated as 10 years. A competitor has recently announced the successful development of a product which is expected to reduce the market share of Vital. NL's marketing director has informed that the product would be launched by the end of next year.

#### Required:

- Specify the information which you would like to obtain for evaluating the key issues arising from the above scenario. (10)
- Assuming that all matters identified by you have been resolved to a larger extent and you intend to issue an unqualified report, draft points to be included in the letter to those charged with governance specifying the significant matters which you would like to highlight. (10)

Q.2 Alpha Petroleum Limited (APL) has obtained a loan in foreign currency from Asian Development Bank. APL has entered into currency swaps contract to hedge foreign currency risk. APL carries its currency swap contract at fair value in the financial statements.

APL also has significant amount of staff retirement benefit liability (defined benefit plan) on the statement of financial position.

**Required:**

- (a) Specify the matters to be considered by the auditor in planning the audit of currency swap contract. (06)
- (b) Recommend the audit procedures in respect of the defined benefit plan liability and for valuation of currency swap contract. (09)

Q.3 (a) An audit client of Akbar Ali & Co. has approached your firm for appointment as internal auditor. Your firm and Akbar Ali & Co. Chartered Accountants have a common quality control department and share common quality control policies and procedures.

**Required:**

Discuss the above scenario in the light of Code of Ethics assuming the said client is a public interest entity. (07)

- (b) Sameer works as manager assurance in your firm. He has close personal relationship with Saqib, who is the CFO at one of your audit client. However, you haven't assigned that client to Sameer.

**Required:**

Evaluate the above situation and identify threat(s), if any, and related safeguards. (03)

Q.4 Spectrum Limited has patented a manufacturing process for the production of Product X. It has allowed Lava Company Limited (LCL) to produce and market product X against a royalty of 4% of the sales value. LCL is a large manufacturing concern and sells a number of products. It issues serially numbered invoices and each invoice contains a number of products. Different prices are charged from different categories of customers, according to price lists duly approved at the start of the year.

Spectrum Limited has engaged your firm to carry out agreed upon procedures relating to verification of the amount of royalty.

**Required:**

Draft a report of factual findings in accordance with the relevant standard. The report should contain at least **three** procedures and **three** findings. You may assume necessary details wherever required. (12)

Q.5 Your audit client Mars Pakistan Limited (MPL), is a multinational company. At the group level, a decision has been taken whereby the payroll function of all group companies has been outsourced to a payroll processing firm PayPro situated in London.

According to the terms of the contract, after processing, the payroll is sent to MPL for authorisation. PayPro shares type 1 report with all of its clients on an annual basis. Due to resource constraints for this engagement, it might not be possible for you to visit PayPro for testing their controls.

**Required:**

Evaluate the above situation and explain how would you test the operating effectiveness of controls over payroll applied by PayPro? (10)

- Q.6 (a) You have recently completed the audit of Naveed Limited, a listed company. Significant matters concerning the audit include classification of certain debts as long term. The debt covenants of the loans have been breached but subsequent to the year end the banks have confirmed verbally that they will not demand immediate repayment.

**Required:**

Evaluate the above situation and draft the modification, if required, for inclusion in the audit report. You may assume necessary details. (06)

- (b) The Board of Directors of an insurance company is very concerned about the increasing incidents of fraud in verification of claims by the surveyors.

**Required:**

Suggest controls that should be implemented by the company for claim verification. (05)

- Q.7 Your firm is the auditor of Noor Group of Companies which has three subsidiaries namely Venus Limited, Jupiter Limited and Sun Limited. Your firm is the auditor of all the group companies except for Sun Limited, which is incorporated in a foreign country.

**Required:**

Explain the procedures you would perform to decide the extent of reliance on the work of the auditor of Sun Limited. (10)

- Q.8 Delicacy Foods Limited (DFL) produces and sells ice cream and juices. It's ice cream plant is quite old and the management is planning to invest in an advanced technology for manufacturing ice cream, which would result in lowering the costs and would also enable the company to launch a new range of premium flavours. DFL has sufficient cash to fund 50% of the necessary capital expenditure and has approached its bank for a loan of Rs. 400 million to finance the remaining amount.

To meet the banks requirement DFL has prepared a forecast comprising of statement of comprehensive income for the next three years. It has asked your firm to provide a report on the forecast.

The following information is available to you in respect of the above:

- (i) The machinery is expected to be available for commercial production from 1 January 2018.
- (ii) DFL is expecting a decrease in production cost by 20% and plans to sell the new premium flavours at 30% above the price of regular flavours.
- (iii) Operating expenses mainly include staff cost, depreciation, repairs and maintenance.

**Required:**

State the examination procedures to be used in respect of the above forecast. (12)

(THE END)