



Audit, Assurance and Related Services

Q.1 Your firm has been appointed as the auditor of Best Industries Limited (BIL) for the year ending 30 June 2019. BIL is a listed company and has three production plants. Plants A and B manufacture industrial chemicals whereas Plant C is used in manufacturing of various cosmetic and skin care products.

The following information has been gathered by the audit team:

- (i) Ghufran is the CEO and holds, directly and indirectly, majority of the shareholdings in BIL. There are seven other directors on the board who meet four times a year to approve the quarterly financial statements and endorse the decisions taken by Ghufran during the quarter.
- (ii) Considering the decline in demand of the products, BIL has taken the following decisions during the year:
 - Close Plant B with effect from 31 August 2019. The public announcement of this decision was made on 15 April 2019.
 - Introduce a new incentive package for distributors in January 2019 to boost the sales of industrial chemicals. The sales commission rate is dependent on achieving the various annual target levels set by the BIL's management.
 - Launch a customer loyalty program in February 2019 in which customers are awarded loyalty points on each purchase of cosmetic and skin care products from selected retail outlets and online stores. The management believes that this initiative would increase the demand of cosmetic and skin care products.
- (iii) Staff at production and marketing departments are hired at low salaries but they are given high annual bonuses on achieving their targets.
- (iv) Last year, BIL was selected for tax audit in which the income tax department had disallowed certain business expenditures. BIL filed an application against the order issued by the income tax department. However, it lost the first appeal and has recently filed a second appeal to the relevant income tax authority.

Required:

Discuss the audit risks that exist in the above scenario and suggest the key audit procedures that you would perform to address those risks.

(24)

Q.2 (a) Your firm has been hired by Pedro Limited to assist the management in preparation of certain financial information. You are in disagreement with some of the adjustments made by the management in the financial information and consider these to be inaccurate.

Required:

Discuss how you would resolve the disagreement along with the implication, if any, on the report.

(05)

- (b) You are the audit manager of a listed company, Brace Limited (BL). During your discussion with the audit team deputed on the review assignment of BL's interim financial statements for the half year ended 31 May 2019, the following matters are highlighted:
- (i) Auditor was not asked to attend the stock count at the end of the period. Consequently, the audit team relied on the physical count sheets provided by the management.
 - (ii) BL has significant accumulated losses and its current liabilities exceed the current assets.
 - (iii) Provision for bad debts is in line with the prior period. However, age-analysis of debtors has not been used.
 - (iv) Due to time constraints, the review of subsequent events has not been carried out by the audit team.

Required:

Discuss how you would deal with the above matters and the possible implications of each of the above matters on the review report. (10)

- Q.3 You are a partner in a firm of chartered accountants. Your firm has recently been approached by an off-shore entity incorporated in British Virgin Island for appointment as an auditor for the year ending 30 September 2019. The entity is following locally developed accounting standards in the preparation of its financial statements.

On your query regarding availability of records and information, the entity has informed you that they will electronically send the scanned copies of the records/information required for the audit purpose.

Required:

Discuss the matters that your firm should consider before accepting the above audit engagement. (11)

- Q.4 Alpha Textile Limited (ATL) is a long standing listed audit client of your firm. Haris has been the audit engagement partner of ATL for the last five years. The firm is considering to appoint Munir as ATL's engagement partner and Haris either as ATL's quality control review partner or client relationship partner.

Required:

In the light of Listed Companies (Code of Corporate Governance) Regulation, 2017 and ICAP's Code of Ethics, discuss the validity of Haris's appointment either as 'quality control review partner' or 'client relationship partner'. (08)

- Q.5 (a) On 25 March 2019, your firm issued the audit report on the financial statements of Noor Limited (NL) for the year ended 31 December 2018. During the first week of June 2019, NL's management has requested you to issue the report on summarized financial statements for the year ended 31 December 2018 for the use of its potential investor after incorporating the effect of a material litigation decided in favor of NL on 31 May 2019.

Required:

Discuss your firm's responsibility in respect of gathering the audit evidence and issuing a report on summarized financial statements. (05)

(b) The following situations have arisen at different audit clients of your firm. The year-end in each case is 31 March 2019:

(i) Afzal Limited is a listed company. During its audit of financial statements, the provincial sales tax authority has seized the accounting records of the company on the charges of tax evasion. (05)

(ii) Gems Limited (GL) is a leading manufacturer of jewelry made from precious stones. GL sources the stones from three suppliers located in Khyber Pakhtunkhwa (KPK). On 10 May 2019, a severe earthquake struck KPK destroying the mines and the stone extraction units located in KPK. GL's plant was also partially damaged due to the earthquake.

Upon discussion with the management, you came to know that one of the GL's plants was affected by the earthquake and due to adequate insurance, they would be able to claim the loss amount from insurance company. They further informed that GL could continue to use the other plants for production. (10)

Required:

Discuss your firm's course of action along with the implications on the audit report.

Q.6 During the audit of Shahid Limited, your IS audit team has reported the following issues:

- (i) The client did not have an approved business continuity plan.
- (ii) There were several program changes made during the year which were not approved by the higher management. However, a complete log of program changes was maintained.
- (iii) IDs of the employees who have left the company are not deleted on a timely basis.

Required:

Discuss the possible course of action that you may take in respect of the above identified issues. *(Reporting implications are not required)* (12)

Q.7 During the audit of consolidated financial statements of Voltage Limited (VL), for the year ended 31 May 2019, you have identified the following matters which will be reported as key audit matters in the audit report:

- (i) VL has acquired 65% shares in Pyrus Limited.
- (ii) VL has entered into a major project in relation to the development and maintenance of its electricity transmission infrastructure which is expected to be completed over a three year period.

Required:

Draft the key audit matters section to be included in the audit report of VL's consolidated financial statements. *(You may assume necessary details where required)* (10)

(THE END)