



Audit and Assurance

Instructions to examinees:

- (i) Answer all NINE questions.
- (ii) Answer in **black** pen only.

Q.1 You are the audit manager responsible for the audit of NKL Limited for the year ended 28 February 2021. The audit team has prepared the following summary of debtors' balances for your review:

Summary of debtors' balances and their confirmed amounts as at 31 January 2021
Assertions verified: Completeness, Cut-off and Rights and Obligations

S.No.	Debtor(s)	Balances (Rs.)		Comments
		as per books	confirmed by debtor(s)	
(i)	Alpha	800,000	800,000	-
(ii)	Beta	900,000	900,000	Confirmation was returned by the courier on the grounds of invalid address. Confirmation was resent by the client through its rider. The reply was received directly by the auditor.
(iii)	Gamma	700,000	No reply received	Gamma has gone into liquidation.
(iv)	Small distributors	600,000	Not applicable	These represent various small distributors whose balances were below Rs. 30,000. Due to immaterial balances, they weren't selected for sending confirmation.

Required:

Assess the appropriateness of the work performed by the audit team. Also suggest the additional procedures (if any) which the audit team may perform.

(10)

Q.2 (a) Salman is the shareholder of Polkadot Limited (PL) and wants to appoint auditor other than the existing auditor as proposed by the board.

Required:

In the light of the Companies Act, 2017 briefly explain the process that Salman should follow in the above situation. Also discuss the requirements that PL should follow.

(05)

(b) Afaq & Co has been appointed as the auditor of Ethereum Limited (EL) in place of retiring auditor in the AGM.

Required:

List the additional matters that you should consider in the first year of EL's audit.

(04)

- (c) Your firm is the auditor of Monero Limited (ML).

ML's financial statements were issued on 28 February 2021. However, after receiving a High Court judgement on 2 March 2021, ML's management assesses its impact and has decided to revise its financial statements.

Required:

Discuss the documentation that is necessary to be included in the audit working file regarding the above matter. (03)

Note: Audit procedures are not required.

- Q.3 During the audit of Tether Limited (TL), the audit senior noticed that in one of the floors of the office building, a business other than that of TL was being run. On inquiry with TL's management, it was identified that the floor was given to the daughter of a director for six months for running her online business. No rent is being charged as it has been a vacant floor and carries no marginal cost to TL.

Required:

Evaluate the above arrangement and discuss the procedures which should be performed by the audit senior. (09)

- Q.4 Cardano Limited (CL) is engaged in the business of assembling motor bikes. CL has a fully integrated Computerised Accounting System (CAS). You have been given responsibility for reviewing the internal controls relating to procurement. In this respect, you have gathered the following information:

Ordering of inventory:

- Approved supplier's list is maintained in CAS. The list was last reviewed for changes two years ago. However, during the intervening period, any supplier whose performance is not satisfactory is timely removed from the list. As a control measure, the list is accessible and editable only by the employees of Procurement Department (PD).
- The Inventory Control Department (ICD) of CL generates a numerically sequenced Purchase Requisition (PR), when the quantity of a particular inventory item reaches re-order level. PR is electronically forwarded within the CAS to the PD.
- For all regular and routine orders, PD reviews the PR and selects a supplier from the approved supplier's list. A Purchase Order (PO) having a unique sequential order number is then generated for the selected supplier.
- For large or out of the ordinary purchases, a tendering process is carried out by the PD. Procurement Manager invites tenders through an advertisement in newspaper and the supplier offering the lowest price is selected by the Procurement Manager in consultation with Head of Procurement.

Receiving of inventory:

- When inventory items are received, the officer in ICD confirms that the inventory agrees to the PO. The CAS is then updated to confirm receipt of inventory and an electronic numerically sequenced Good Received Note (GRN) is generated. The physical inventory items are then transferred to store.

Required:

Identify any **six** weaknesses in the internal control system of CL and their possible effects. Also give your recommendations to overcome these weakness to CL. (12)

Q.5 (a) You are the audit senior on the audit of Nano Footwear Limited (NFL) for the year ending 31 March 2021. NFL is in the business of making a wide variety of footwear products. Your review of the last year working papers and initial meeting with the NFL management have revealed the following:

- (i) Due to a high influx of low priced Chinese products in the local market, NFL has been experiencing a decline in customers' demand and high degree of competition. The sales managers have been given aggressive sales targets during the year which are their key performance indicators and are considered in their annual appraisals.
- (ii) All the management and policy decisions such as human resources, accounting estimates and procurement are taken by the CEO himself.

Required:

Briefly discuss the possible 'fraud risk factors' from the above scenario. (06)

- (b) Discuss what actions that an auditor should take on identification of the fraud risk factors. (05)

Q.6 You are a partner in a firm of chartered accountants. Following independent matters are under your consideration:

- (i) The draft financial statements of Elrond Pakistan Limited (EPL) for the year ended 31 January 2021 include inventory of Rs. 26 million that was purchased on 1 January 2021 for fulfilling a large specialized order of a foreign customer. Due to sudden imposition of import restriction in the foreign country, the customer cancelled the order on 28 January 2021. The draft financial statements show that EPL's profit before tax is Rs. 130 million.
- (ii) During the audit of Stellar Limited (SL), the management informed the audit team that its largest customer, Ether Limited (EL) has recently notified that it will not renew its contract with SL, which is due to expire on 30 June 2021. Sales from EL constitutes 70% of the total revenue. The management has further informed that they are in negotiation with EL and are hopeful to retain the customer.

Required:

For each of the above independent matters:

- (a) state the audit procedures which may be performed by your audit team. (08)
- (b) discuss with reasons, the implication(s) on the audit report. (10)

Q.7 Your firm is the auditor of Iota Limited (IL) and audit report is expected to be signed on 10 March 2021.

IL's management has just informed you that due to certain personal reasons, CEO will not be available from 5 March 2021 to 15 March 2021. They have provided you with the following alternate options:

- (i) CEO will sign all the representations either on 4 March 2021 or 16 March 2021.
- (ii) CEO will call on 10 March 2021 to the engagement partner and will verbally confirm all the representations required by the auditor.

Required:

Comment on the acceptability of each option with reason(s) and suggest the best course of action for obtaining the representations in the above scenario. (06)

- Q.8 (a) Describe any **four** limitations of flow chart as a tool of system documentation. (04)
- (b) Companies having large in-house developed software, have a risk that new programs might be introduced without proper authorisation. Briefly discuss any **four** general IT controls to mitigate this risk. (04)
- (c) Discuss the effects on application controls where general IT controls are ineffective. (02)

Q.9 You are the Ethics and Quality Control Manager in an audit firm namely HMB Chartered Accountants. The audit manager responsible for the audit of Fantom Limited (FL), has started the audit planning for FL and come across the following matters for which he needs your guidance:

- (i) Fizza was planned to be the engagement supervisor for the audit of FL. She has received an employment offer from FL. However, she is considering not to accept FL's employment offer.
- (ii) FL is the main sponsor of the ongoing cricketing event. Being the main sponsor, FL has received some entry passes of VIP enclosure of the final match. It has offered three such passes to the audit team members.
- (iii) Your firm is under renovation process and about to procure two central air conditioning systems through tendering process. Your firm has received quotations from various vendors including FL. The total expenditures for purchase and installation of two central air conditioning units are expected to be Rs. 50 million.
- (iv) FL has offered your firm that the fee for taxation services of this year may be based on a percentage of tax saved.

Required:

Identify the threat(s) which may arise and evaluate their significance. Also recommend the course of action or the mitigating actions which may be taken by your firm. (12)

(THE END)