



Audit and Assurance

Instructions to examinees:

- (i) Answer all **EIGHT** questions.
 - (ii) Answer in **black** pen only.
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Q.1 Your firm is the statutory auditor of Astore Limited (AL), a listed company, for the year ended 31 December 2022. AL deals in fast moving consumer goods (FMCG). In recent times, the FMCG sector has experienced significant growth with numerous new players entering the market and established companies expanding their operations, resulting in a fiercely contested industry. AL has consistently endeavored to meet ever-evolving needs and preferences of consumers by adapting to changes in the market.

Effective this year, AL has commenced importing raw materials for its new category of consumer products. Some of these raw materials have a short-shelf-life and could become harmful if used after their expiration date. However, AL has successfully captured the attention of consumers with its exceptional finished products in this category, resulting in significant increase in sales.

During the year, AL has commenced the expansion of its production facilities and the implementation of an ERP system to integrate its operations with financial reporting process. These initiatives are being financed through additional borrowing facilities.

Required:

Identify and discuss the business risks and the related audit risks from the above scenario. (12)

Q.2 (a) Your firm is the external auditor of Hoper Limited (HL) for the year ended 28 February 2023. HL has set a strict deadline for the completion of audit. Due to this time limitation, one of the audit team members has prepared the fixed asset schedule himself to ensure prompt completion of the audit for this account and efficient transition to other areas.

Required:

In the light of the Code of Ethics for Chartered Accountants, identify and explain the threats to the fundamental principles. (06)

(b) Chilas Insurance Limited has approached your firm for appointment as a statutory auditor for the year ending 31 December 2023. If your firm accepts this client, it will be the firm's first client in the insurance industry. Apart from the audit partner, there is only one audit supervisor who have the previous experience of handling insurance clients.

Required:

In the light of the Code of Ethics for Chartered Accountants, identify the threats to the fundamental principles and discuss how your firm would evaluate these threats in the context of accepting the engagement. Also briefly discuss the safeguards available to your firm to address the threats. (10)

- Q.3 (a) State the advantages of sampling using stratification and discuss how misstatements are projected where stratification is used. (04)
- (b) An auditor is required to identify and assess the risks of material misstatement at both the financial statement and assertion levels. Briefly discuss the risk at financial statement level and provide **two** example of such risk. (03)
- (c) In a recent audit engagement, the audit manager completed the final assembly of audit file. Subsequently, the audit partner expressed the intention to remove certain review remarks.

Required:

Discuss whether the audit partner can remove his review remarks. (04)

- Q.4 Your firm is the statutory auditor of Bashu Clothing Limited (BCL) for the year ended 31 December 2022. BCL is a manufacturer of active wear. The draft financial statements show profit before taxation of Rs. 300 million.

During the audit, it was observed that there was an outstanding receivable of Rs. 0.3 million from Shigar (Pvt.) Limited (SPL) since June 2022. On inquiry, the management informed your team that this represents a receivable from SPL for management services related to supply chain management and human resource management. Further inquiry revealed that SPL was referred to BCL by one of BCL's director who also holds the same position in SPL. This was because SPL is a newly incorporated business and required assistance in setting up these departments.

Required:

- (a) Evaluate the above transaction and discuss the course of action that the audit team should take. (*Reporting implications are not required*) (12)
- (b) State the representation(s) which your firm should obtain from BCL. (04)

- Q.5 Your firm is the external auditor of Passu Limited for the year ended 31 December 2022. The draft financial statements show profit before tax of Rs. 250 million.

During the audit, it was observed that the management has not provided depreciation on one of its production plant for the months of November and December 2022 which has been temporarily shut down due to reduction in demand. The depreciation on the plant for these two months was Rs. 5 million.

Required:

- (a) Briefly evaluate the above situation and state any **four** key audit procedures which may be performed by your audit team. (06)
- (b) Discuss the possible impact on the audit report. (04)

- Q.6 You are the auditor of Ghizer Limited for the year ended 31 December 2022. During the audit, you have been informed that the Federal Board of Revenue has seized the accounting records pertaining to revenue and production for further investigation into the alleged charges of tax evasion.

Required:

Evaluate the above situation and discuss the implications on the audit report. (10)

- Q.7 (a) Briefly discuss the reason(s) for inclusion of ‘emphasis of matter paragraph’ and ‘other matter paragraph’ in the audit report. *(Examples are not required)* (04)
- (b) Under the provisions of the Companies Act, 2017, list the persons from whom the auditor has a right to require such information or explanations as he thinks necessary for the performance of his duties as an auditor. (04)
- (c) Briefly discuss how the objectivity of the internal audit function can be evaluated. (04)

- Q.8 (a) Your firm is the statutory auditor of Naltar Dairy Limited (NDL) for the year ended 31 December 2022. NDL manufactures and sells various dairy products including ice-cream.

The audit team is currently planning to perform the test of controls in respect of the ice-cream division’s inventory. Following information has been provided by the management:

- (i) Upon receipt of inventory at the warehouse, a process is performed to ensure its accurate verification by counting, matching it with purchase orders, performing quality inspection, entering it into the inventory system and proper storing it in a designated area of the warehouse.
- (ii) On a weekly basis, the warehouse manager, Fahad Baqer, randomly selects a warehouse area for inventory counting. By rotating the designated areas, each area is counted at least once every quarter. This count is carried out in a manner that prevent the warehouse staff from knowing the expected quantity of items in each area. Furthermore, the inventory is also inspected for damages and expiry dates to ensure product quality.
- (iii) Fahad conducts a comparative analysis between the inventory count and quantity of items in the inventory system. If any differences arise, he delegates the same counting task to a separate team for rechecking. Once it is established that the count is correct, adjustments are recorded after the approval of Fahad himself and the finance manager.

Required:

Identify the controls relating to the existence of inventory and suggest the test of controls to be performed to verify that the controls are operating effectively. (08)

- (b) NDL has provided the audit team with year-end inventory records, showing for each product: the date of the last purchase, date of the last sale, cost, selling price, quantity and year-end valuation.

Required:

List any **five** substantive tests that the audit team can perform on the above information. (05)

(THE END)