



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 has been appointed as the statutory auditor for Team Textile Limited (TTL) for the year ending 31 March 2024. TTL operates an extensive network of retail outlets across the country. Recently, TTL has encountered challenges such as market saturation and declining profit margins within its sector. In response, TTL has implemented several cost-reduction strategies, which include reducing employee wages and benefits, among other cost saving measures.

TTL, a company with high leverage, faces additional challenges due to the country's exponential rise in interest rates, a consequence of high inflation rate. In light of these financial pressures, the key shareholders of TTL are considering divesting their majority stake in the company as a strategy to diversify their investments.

Following the CEO's recommendation, TTL has shifted from the cost model to the fair valuation model for all its properties, including the retail outlets. The CEO is actively working with independent valuers to ascertain the fair value of TTL's properties. Furthermore, on 1 March 2024, TTL entered into a bill and hold agreement with one of its customers. This agreement is anticipated to substantially increase TTL's revenue for the year.

Required:

Identify and discuss the fraud risk factors in the given scenario.

(08)

Q.2 Consider each of the following independent situations:

(a) AA and Company Chartered Accountants, recently received an invitation to audit Polka Limited (PL), a listed company. An examination of PL's shareholding structure revealed that a not-for-profit trust owns 3% of PL's shares. Azhar, a partner at the firm, serves as an independent trustee on this trust's audit committee.

(08)

(b) Usman, serving as the Head of Human Resources at Iqbal and Company Chartered Accountants, recently proposed that the firm may consider accepting an audit engagement for an e-commerce store. This store is operated by Usman's wife, who holds the position of CEO.

(06)

Required:

Analyze above situations in light of the requirements of the ICAP's Code of Ethics for Chartered Accountants and evaluate the significance of the threats.

(c) Aslam and Company Chartered Accountants were reappointed as the auditors of Tasty Foods Limited (TFL) for the year ending 31 December 2024. However, following the directors' election on 1 March 2024, the newly elected board decided to replace the auditors. They reasoned that Aslam and Company had served as auditors for the past decade. Consequently, the board passed a resolution to remove the auditors and tasked the Company Secretary to inform them.

Required:

As TFL's Company Secretary, how would you respond to the board of directors regarding their decision in the light of Companies Act 2017?

(06)

- Q.3 Your firm serves as the auditor for Appolo Limited (AL) for the year ended 31 December 2023. AL operates within the specialized market of small private jet planes, catering primarily to large corporate clients and high-net-worth individuals through its charter flight services. AL's fleet consists of six Gulfstream-III aircraft models, along with a helicopter.

Some major airports restrict the operation of Gulfstream-III aircraft due to concerns over harmful emissions and noise pollution. This restriction poses operational challenges for AL in accessing certain airports. Adding to the complexity, aviation authorities in Pakistan issued a notification on 30 December 2023, stipulating that these Gulfstream-III aircrafts must be phased out by 30 June 2024.

Required:

Evaluate the impact of notice issued by the aviation authority, on the audit of AL. Also, suggest relevant audit procedures. *(Reporting implications are not required)*

(12)

- Q.4 You are an audit senior on the audit of Health Care Limited (HCL) for the year ended 31 December 2023.

HCL is a well-established entity in the pharmaceutical sector. Operating in a highly competitive environment, it manages manufacturing facilities across Pakistan and abroad. A distinctive aspect of HCL's corporate governance lies in its board of directors, which primarily consists of family members. This approach also extends to operational roles, with family members assuming key positions within HCL.

Required:

Using the above information, discuss the matters that you would consider while obtaining an understanding of HCL and its environment related to:

- ownership structure
- governance structure
- regulatory requirements
- relevant industry factors

(08)

- Q.5 (a) Your firm serves as the auditor for Sindh Coal Limited (SCL) for the year ending 31 March 2024. SCL engages in coal mining operations, supplying coal to electricity generation power plants. The coal mined by SCL is stored in piles within a warehouse facility and is weighed only at the time of dispatch to customers. Accurately determining the weight of coal in piles poses a highly complex and technical challenge.

Recognizing the materiality of coal inventory to the financial statements, the audit team has made the decision to engage an auditor's expert. This expert will assist in accurately determining both the quantity and the net realizable value of SCL's coal inventory.

Required:

Discuss the appropriateness of audit team's decision to involve auditor's expert.

(07)

- (b) While reviewing the working papers prepared by audit team for the audit of Apple Limited, the audit manager has noted that the team solely relied upon written representation in the following cases:

- (i) Identification of related party transactions
- (ii) Inventories held by third parties

Required:

Discuss the quality of audit evidence obtained by the audit team.

(06)

Q.6 You are the audit manager in a firm of Chartered Accountants. The following independent matters for the year ended 31 December 2023 are presently under your consideration:

- (a) Your firm serves as the auditor of Karsaz Limited (KL). During the audit process, the audit team encountered a challenge in conducting the inventory count at one of the warehouses. KL failed to make necessary arrangements for inventory count at this particular location, citing the unavailability of relevant staff on the scheduled inventory count day. The inventory in the financial statements is reported at Rs. 600 million, whereas inventory in that warehouse is recorded at Rs. 150 million.

KL's profit before tax is Rs. 700 million. (05)

- (b) Your firm is the auditor of Malir Limited (ML). During the audit process, ML has notified the audit team that its human resource department has also been given the responsibility for managing the human resources of its subsidiary, Valeeka Limited (VL). This decision was made because the operational costs associated with running the human resource department at ML are relatively minimal, considering the scale of ML's business operations. Consequently, ML has not considered this transaction while preparing its financial statements. (05)

Required:

Analyze each of the above independent situations and discuss the related audit reporting implications if the issue could not be resolved. (*Audit procedures are not required*)

Q.7 (a) Bright Edge Technologies (BET), a rapidly growing tech gadgets retailer, operates both online and through physical stores. BET has recently expanded its product range and entered new markets. However, with this expansion, BET has experienced an increase in customer complaints. The two most common issues faced by customers are as follows:

- (i) Customers have reported receiving invoices with incorrect discounts applied.
(ii) Customers have complained of receiving the same order twice.

Required:

For each of the above issues, suggest **three** controls that can be implemented by BET. (06)

- (b) Suggest any **five** audit procedures that the auditor could perform to test whether related party transactions were conducted under the terms consistent with those of an arm's length transaction. (05)

Q.8 (a) The auditor normally selects a sample of debtors who are asked to provide confirmation of their balances. State any **six** audit procedures for selecting the sample and the confirmation process. (06)

- (b) State any **four** reasons for preparing sufficient and appropriate audit documentation. (04)

- (c) To ensure the effectiveness of an audit sampling exercise and to reduce the sampling risk, the sample must be appropriately designed. State **three** factors to consider while designing the sample. (03)

- (d) According to 'ISA 210 – Agreeing The Terms of Audit Engagements', certain matters **must** be included in the engagement letter when agreeing to the terms of engagement. State any **five** of such matters. (05)

(THE END)