



Audit, Assurance and Related Services

Instructions to examinees:

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

Q.1 You are the audit manager responsible for the audit of Alpha Communication Limited (ACL) for the year ending 31 December 2022. ACL has been operational in Pakistan since 2012 and is a subsidiary of a public listed company incorporated in China. ACL's principal activity is to manufacture, distribute and provide servicing of smart phones, tablets, accessories and allied products.

In a recent audit planning meeting with the Chief Financial Officer, following information has been provided to you:

- (i) Extracts of statement of financial position:

	Forecasted 2022	Audited 2021	Audited 2020
	----- Rs. in '000 -----		
Trade receivables	873,370	419,572	361,974
Loan from parent company	1,650,000	1,650,000	1,950,000

- (ii) Extracts of income statement:

	Forecasted 2022	Audited 2021	Audited 2020
	----- Rs. in '000 -----		
Sales revenue	2,680,000	1,963,346	2,330,097
Interest expense	(264,000)	(245,000)	(234,000)
Exchange loss	-	(7,084)	(33,464)

- (iii) The increase in current year's sales revenue is mainly due to a large order from the government for procurement of 100,000 android tablets at Rs. 13,000 each, for conducting census throughout the country. Another order of 100,000 android tablets is expected to be received in January 2023 which would be required to be delivered within 30 days. Considering the tight delivery timeline, the management has decided to manufacture the tablets in December 2022.
- (iv) During the year, a manufacturing plant malfunctioned several times and consequently several orders were fulfilled by importing the smart phones from the parent company. This plant was purchased at the commencement of operation in 2012.
- (v) During the last two years, the staff turnover in the accounts department has been high due to job stress and long working hours. Except the Chief Financial Officer and the Senior Cost Accountant, all three remaining employees have not stayed with the company for more than two years. Temporary employees are often hired in the department to ensure that the recording of daily transactions are kept up-to-date.
- (vi) In May 2022, ACL has installed and commissioned fixed asset and human resource modules but none of the modules has yet been integrated with the general ledger system.
- (vii) ACL is presently negotiating with its bank to renew the existing running finance facility which is being expired on 15 December 2022.

Required:

Identify and discuss the audit risks that exist in the above scenario and how you would respond to these risks. (20)

- Q.2 You are the audit manager responsible for the audit of Apparel (Pvt.) Limited for the year ended 30 September 2022.

During the audit, your team has observed that some unusually high amounts of cash sales were made to distributors, against which only distributors' purchase orders, sales invoices and cash receipts are available for audit verification. On inquiry, your team observed that the management had a defensive and unusual stance in responding to audit team's questions. The team has also noted that these distributors had similar delivery addresses and were mostly located in the residential areas.

Required:

- (a) Analyse your team's observation regarding above cash sales transactions and advise the course of action that your team should follow. (11)
 (b) Discuss the implication(s) of the above, on the audit report. (06)

- Q.3 You are the audit engagement partner for Canister Products Limited (CPL) which is a subsidiary of a local group.

During the audit, your team has identified that some payments posted in the marketing expense ledger, were made to few customers. On investigation, it was revealed that there were breaches of the customers' data which was in non-compliance with the requirements of the confidentiality agreement signed with these customers and data protections laws. The management has informed you that these payments were made as compensation to customers in order to avoid any negative public attention which may affect CPL's reputation and business.

Required:

In the light of ICAP's Code of Ethics, identify and evaluate the threats involved in the above situation and explain the course of action which should be taken to resolve the issue. (15)

- Q.4 You are the audit manager responsible for the audit of Active Sports Limited (ASL) for the year ending 31 December 2022. ASL specializes in the manufacture and sale of sportswear and sports equipment. ASL has separate manufacturing facilities for sportswear and sports equipment located in Faisalabad and Sialkot respectively.

During the planning meeting, you have been informed that on 1 November 2022, ASL's board of directors announced to discontinue the sportswear business. Following are the key decisions taken in the board meeting:

- (i) Sell the manufacturing facility in Faisalabad. However, the machinery for packing of finished goods would be shifted to Sialkot in January 2023 and would be deployed in the plant for manufacturing of sports equipment.
 (ii) Recognize a provision of Rs. 90 million for expected restructuring costs, including contract termination benefits and relocation (including machinery) expenses. Except for a few, all the employees would be laid off. As compensation, they would be paid lump sum amount and would also be entitled to receive a specified amount of ASL equity shares, which will be calculated based on the last drawn salary. The employees which are not laid off would be relocated to Sialkot.

Required:

Evaluate the key decisions taken in the board meeting and state the audit procedures that should be performed in this respect. (15)

Q.5 You are an audit partner in a firm of Chartered Accountants. The following independent matters are currently under your consideration:

- (a) In the draft auditor's report of Galaxy Limited (GL), a listed company, your firm has expressed a qualified opinion with regards to incorrect application of an accounting policy resulting in overstatement of revenue and profit for the year.

While reviewing the draft annual report of GL, you observed that the directors' report has shown the figures of revenue and profit as per the statement of profit or loss.

Required:

Discuss the reporting implication(s) due to the above matter.

(03)

- (b) Your firm has been the statutory auditor of Mamta Oils Limited (MOL) for the year ended 30 June 2022. Your firm issued the audit report for the year ended 30 June 2022 in which you included a paragraph on "Material uncertainty related to going concern".

MOL is a subsidiary of a company incorporated in England. MOL needs to submit its financial statements to its holding company, prepared in accordance with the guidelines issued by the holding company. After the conclusion of the annual audit, MOL has prepared its financial statements for the year ended 30 June 2022, in accordance with the guidelines given by the holding company. MOL has approached your firm to issue an audit report on the financial statements that are prepared in compliance with the guidelines issued by the holding company.

Required:

Discuss the changes that need to be made in the audit report in comparison to the statutory audit report issued earlier to MOL.

(08)

- (c) Your firm has issued an adverse opinion on the financial statements of Alpha Limited (AL) for the year ended 30 June 2022 because of misstatements in inventory, revenue and receivables. On 30 November 2022, AL has approached your firm to issue an audit report on AL's property, plant and equipment as at 30 June 2022, for the purpose of submission to AL's lenders.

Required:

Discuss the opinion to be expressed, considering the fact that you have obtained sufficient appropriate evidence that there is no material misstatement in property, plant and equipment.

(04)

- (d) Your firm has been engaged by Accenture Human Resource Limited (AHRL) to provide an assurance report on the description, design and operating effectiveness of the controls at AHRL.

AHRL is in the business of providing human resource management and payroll services to various corporate clients. AHRL has established an independent and effective internal audit function to ensure operating effectiveness of the controls. Considering the effectiveness of the internal audit function, your team has used the work of internal auditor during the assurance engagement.

Required:

Discuss whether a reference to the work of internal auditor can be made in the assurance report.

(05)

- Q.6 You are the audit manager responsible for the audit of Progressive Terminal Limited (PTL), a listed company, for the year ended 30 June 2022. On completion of audit work, the audit team presented the audit working papers including draft audit report to be issued to the shareholders of PTL. Following are the extracts from the draft audit report:

Opinion

We have audited the annexed financial statements of Progressive Terminal Limited (the Company), which comprise the statement of financial position as at June 30, 2022, and the statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Opinion section of our report the statement of financial position, the statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows and together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017) as at June 30, 2022.

Basis for Opinion

The Company's property, plant and equipment are carried in the statement of financial position at Rs. 33,379 million. Management has not recorded an impairment loss of Rs. 400 million, which constitutes a departure from IFRSs. The Company's records indicate that, had management recorded the impairment, the property, plant and equipment and the net profit would have been reduced by Rs. 400 million and Rs. 284 million respectively.

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

We have determined that there are no key audit matters to communicate in our report.

Other Information

[Reported in accordance with ISA 720]

Emphasis of Matter

We draw attention to Note 5 of the financial statements, which describes the effects of acquisition of two subsidiaries which took place on April 15, 2022 and July 15, 2022. Our opinion is not modified in respect of this matter.

Required:

Identify and explain the shortcomings in the audit report drafted by the audit team.

(13)

- Note:**
- *Ignore the shortcomings related to Other Information.*
 - *You are NOT required to re-draft the extracts from the auditor's report.*

(THE END)