



Certificate in Accounting and Finance Stage Examination

10 March 2025
3 hours – 100 marks
Additional reading time – 15 minutes

Audit and Assurance

Instructions to examinees:

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

Q.1 Your firm is the external auditor of Bright Future Educational Trust (BFET), a non-profit organization that operates schools in Pakistan. BFET receives 80% of its funding i.e., Rs. 400 million from government education grants, while the remaining 20% comes from tuition fees and private donations. Notably, Rs. 30 million in tuition fees remained uncollected at year-end.

Recently, BFET implemented a new Financial Information System (FIS). During the implementation of the FIS, Rs. 15 million in grants were identified as misallocated. Despite this implementation, the fee collection records at some schools still do not reconcile with bank deposits, and handwritten corrections were found on some donation receipts.

Furthermore, the latest government funding report to be submitted by BFET was delayed due to the implementation of the FIS.

Required:

Identify and discuss the audit risks in the above scenario.

(10)

Q.2 (a) Your firm is the auditor of Metro Textile Limited (MTL) for the year ended 31 December 2024. The management of MTL has provided your team a revenue schedule, the extracts of which are as follows:

Invoice no.	Customer name	Invoice date	Revenue type	Invoice amount	Revenue recognized	Deferred revenue	Payment received	Time of recognition
				----- Rs. in million -----				
24-023	ABC Fashion Inc.	01-12-24	Export	50	50	-	50	Point-in-time i.e., shipping
24-267	Retail Direct Ltd.	05-12-24	Retail	90	90	-	60	Point-in-time i.e., cash sales
24-705	Style ME Pvt Ltd.	10-12-24	Wholesale	100	60	40	60	Over time of the contract
24-799	TexCorp Europe	31-12-24	Export	25	25	-	-	Point-in-time i.e., shipping

Required:

List any **eight** substantive audit procedures that the audit team can perform on the above information.

(08)

- (b) You are the audit senior assigned to the audit of Omega Limited, a mid-sized retail company for the year ended 31 December 2024. During the audit of cash and bank balances, you observed several matters, which are detailed below:
- (i) The bank reconciliation for December 2024 shows an unexplained reconciling difference of Rs. 2.5 million, which remains unresolved. The finance manager suspects that this is due to timing issues in recording transactions.
 - (ii) The cash book contains cheques issued more than six months ago that still remain outstanding. Some of these stale cheques are related to suppliers' payments, which have already been paid through alternative methods.
 - (iii) The petty cash ledger shows a balance of Rs. 0.5 million, but a physical cash count revealed a balance of Rs. 0.4 million.

Required:

State **three** audit procedures that should be performed to address each of the above matters. **(09)**

- Q.3 You are the audit senior assigned to the audit of Cantilever Limited (CL), a manufacturing company that specializes in industrial equipment. During the audit, you reviewed the accounts receivable aging report and noticed that one of CL's customers, Aqua Limited (AL), had been granted a credit period of 180 days, which is significantly longer than CL's standard credit terms of 60 days for other customers.

Upon further investigation, you came to know that AL was added as a customer during this financial year. The total sales to AL amount to Rs. 180 million. CL's sales director informed that AL is a reputable customer introduced by one of the directors and that the extended credit terms were provided to encourage business growth. Moreover, he is confident that AL settles its invoices on time.

Required:

Evaluate the transaction with AL and discuss any **eight** substantive audit procedures that you would perform. **(10)**

- Q.4 Your firm is conducting an internal control review for QuickBuy Supermarkets Limited, a national grocery chain with multiple locations. As part of the evaluation, your team visited several stores and reviewed key financial and operational processes. Your team has made the following observations:

- (i) At the checkout counters, cashiers manage the cash registers throughout the day and prepare the end-of-day reconciliation reports, which they submit directly to the accounts department.
- (ii) The procurement manager is responsible for placing inventory orders and approving supplier invoices for payment.
- (iii) The accountant can modify system-generated invoices even after they have been recorded. This is usually done to rectify incorrect entries posted in the general ledger.

Required:

Identify the control deficiencies and the risk(s) associated with each deficiency. Also, recommend any **two** controls to mitigate each control deficiency. **(09)**

- Q.5 Your firm is the external auditor of Fast Track Logistics Limited (FTL), a company that provides delivery services across Pakistan, for the year ended 31 December 2024. The following information is available:

	2024	2023
	----- Rs. in million -----	
Revenue	4,500	3,000
Receivables	1,125	600
Cash and cash equivalents	700	1,100
Number of deliveries (in '000)	12,000	10,000

Additional information:

- (i) FTL has been facing intense competition, leading to aggressive pricing strategies, offering discounts and expansion to three new regions.
- (ii) A major shareholder sold his shares before year-end due to dispute with other shareholders.
- (iii) The FTL's CFO resigned midway through the year, and the position remains vacant.

Required:

Discuss the fraud risk factors that are present in the above scenario.

(08)

- Q.6 You are the audit manager in a firm of Chartered Accountants. The following independent matters are presently under your consideration:

- (a) Your firm is the auditor of Sugar Biscuits Limited (SBL) for the year ended 31 December 2024. During the audit, your team identified that SBL's bank loans were due in the last month, and the management has not provided any evidence of either the renewal of the existing agreement or the obtaining of a new one to cover these obligations. Management has not yet provided a detailed restructuring plan or any survival projections to demonstrate how SBL will continue to operate in the foreseeable future. Management has expressed confidence in their ability to resolve the financial difficulties, yet they have not provided any evidence to support this claim.

(06)

- (b) Your firm is the auditor of MedLife Pharmaceuticals Limited (MPL) for the year ended 31 December 2024. MPL maintains a significant stock of a particular over-the-counter medicine, reported at a cost of Rs. 150 million in the financial statements. This medicine has been a major contributor to MPL's revenue of Rs. 1,530 million and net profit of Rs. 306 million.

The government has implemented a new regulation effective from 1 December 2024, which reclassifies this medicine as a prescription-based drug. This change is expected to significantly reduce the demand for the product, as it will no longer be easily available to customers without a prescription. It is estimated that 30% of the stock at MPL will not be saleable before its expiry date.

(06)

Required:

Evaluate each of the above independent situations and discuss the implications for the audit report.

- Q.7 (a) Your audit firm, FNZ & Company Chartered Accountants (FNZ) is currently conducting the annual audit of Champion Oils Limited (COL), a listed oil and gas company, for the year ended 31 December 2024. COL has recently decided on an early implementation of sustainability-related reporting standards.

To strengthen the knowledge of the firm's audit staff, FNZ has scheduled formal training on the sustainability standards with a renowned trainer on 31 March 2025. The trainer has suggested to incorporate the real-world scenarios from the firm's audit clients into the upcoming training to help staff understand the practical implications of the sustainability standards.

Required:

In light of the ICAP Code of Ethics for Chartered Accountants, discuss the threat(s) and the fundamental principle(s) affected by these threats. Also, evaluate the significance of the threat(s).

(10)

- (b) You are the audit engagement partner for the audit of Sports Wear Limited (SWL), one of the most significant clients of your firm, contributing 16% of the firm's total audit revenue. You have been informed by the managing partner of the firm that the board of SWL wants to complete the audit within one month after year-end. He instructed you to complete the audit within this timeline, as this would help us maintain a strong client relationship.

Required:

In light of the ICAP Code of Ethics for Chartered Accountants, discuss the threat(s) and the fundamental principle(s) affected by these threats.

(06)

- Q.8 (a) Discuss the placement and presentation of emphasis of matter paragraph in the auditor's report when a key audit matter section is included.

(03)

- (b) Specify the documentation required if the auditor decides to use the work of the internal auditor.

(05)

- (c) State the principles for determining the reliability of audit evidence.

(05)

- (d) Discuss why it is important to obtain written representation as close as possible to the auditor's report date. With the help of **three** examples, explain what potential issues can arise if written representations are obtained early.

(05)

(THE END)