

AUDIT & ASSURANCE

July-August 2025

Time allowed- 3:30 hours

Total marks- 100

[N.B. - The figures in the margin indicate full marks. Questions must be answered in English. Examiner will take account of the quality of language and of the manner in which the answers are presented. Different parts, if any, of the same question must be answered in one place in order of sequence.]

Marks

1. Alternative Power Generations Ltd (APGL), a listed entity, has been dealing with the business of assembling and selling Household and Industrial generators since 2012. In addition to selling whole assembled units, they have a formidable amount of revenue that comes from selling various spare parts of these generators. There is an after-sales service term applicable to each of their whole assembled items sold. They source their products and parts primarily from China, though sometimes they source some low-cost items from locally made varieties.

Given the supply and service terms, the company has a good reputation amongst its buyers. The management believes that alongside the reputation generated through business activities, annual financial statements and underlying audit reports also carry significant impact in the minds of the market stakeholders. In terms of that, the company always prefers to appoint reputed audit firms. APGL in their Annual General Meeting has appointed Analytics and Samples Chartered Accountants as their statutory auditor for the year end 30 June 2024.

Requirement:

As engagement manager, you are required to deal with suitably documenting the risk assessment activities as well as assessed risk underlying the audit. Do briefly write the notes as indicated in ISA 315 that really would guide you to obtain an understanding of the entity and its environment, the applicable reporting framework and the entity's system of internal control.

10

2. a) You are the auditor of Alpha Bank Ltd., a medium size commercial bank. Fraudulent activities have taken place in a branch of the bank. The person who, worked at the front office at cash counter, was responsible to collect cash against deposits and repayments of loans and disburse cash against deposits and credit cheques. He did not deposit the full cash which he had collected. Almost every day he kept some collected money in his pocket. These fraudulent activities were performed by him in connivance with the persons who were responsible for maintaining individual accounts of the depositors and the borrowers. By this way after three years when they left the bank it was discovered that a substantial amount, which exceeded the materiality level, was lost.

Requirements:

As the auditor of the bank you are asked to:

- i) Explain the responsibility of the management as regards to the above fraudulent activity.
- ii) Explain your responsibility.

3
3

- b) There are five fundamental principles in the IESBA Codes applicable to accountants in their fields of work. However, in complying with these principles accountants come across various threats in the circumstances in which they work.

Requirement:

You are asked to precisely describe the threats so mentioned in the booklet of IESBA Codes.

5

- c) "Safeguards are actions or other measures that may eliminate threats or reduce them to an acceptable level". It means, as there are circumstances where threats are potential blockers to compliance with the fundamental principles, accountants need to resort to some safeguards.

Requirement:

Elucidate the various means which create such safeguards for the accountants.

4

- d) Gentle & Co. Chartered Accountants (GentCo) has been appointed auditor for the Shahab Group of companies for the year ended 31 December 2024. The scope of the work of GentCo includes auditing and expressing opinion on the financial statements of Shahab Holdings Limited and 5 others out of 7 companies of the group. Under the engagement term, GentCo would remain responsible for issuing opinion on the consolidated financial statements of the group. 2 other companies are also very important and material to the reporting of the group but are being audited by other firms.

Under strict deadlines to finalise the audits, GentCo finds that they do not have adequate staff to run all audits in the engaged entities simultaneously. GentCo, under this unavoidable circumstance, has decided to sub-contract audit engagements for 2 companies and take loan of 8 staffs from other firms. GentCo has issued audit instructions to component teams where list of deliverables and timetable has been mentioned. Component teams are required to determine their own materiality level.

Requirement:

What are the ethical or professional issues arising from sub-contracting audit engagements and taking staff loans?

5

3. In the advent of tremendous development in the information technology systems, the corporate entities have not been able to stay away without embracing its support in the daily activities. Most of the functionalities, including daily bookkeeping to financial reporting of an entity, are mostly left into the computer system to deal with. To make computer systems more effective and faster, most of these are connected to internet-based mass networks. On the one hand services have been much faster, the underlying risk exposure has been enormous on the other too.

Cyber threats and cyber securities have been buzzing words in today's corporate environments where audit profession is getting tagged every day. Unlike times in the past, audit teams for major corporate entities will not be able to perform their activities effectively without having sufficient knowledge about the cyber risks the entity under audit is exposed to.

So, while planning such an audit, necessary care much be taken to address respective areas of concern.

Requirements:

- a) How do you define Cyber Security and what are the most significant risks an organization's IT systems might encounter? 5
- b) How do you sub-divide Cyber Security into aspects with a view to controlling them? 5
- c) Briefly narrate some of the practical measure organisations can take in combating IT risks. 6

4. a) IAASB has been relentlessly promulgating standards and pronouncements with a view to ensuring effective audit that communicates meaningful results to the users of the audit reports and underlying audited financial statements. Like many countries in the globe, our markets have also accepted International Standards on Auditing (ISA) and made it mandatory for the auditors to follow in performing their audits. Every often there comes a new standard in the existing list and too come revised ones with additional requirements or some modified requirements. So, it is encouraged that auditors remain updated about the latest promulgations as well as any changes being brought by a revised ISA.

ISA 260 (revised) deals with the auditor's responsibility to communicate with those charged with governance in an audit of financial statements. This standard prescribes for the auditors to communicate certain matters and underlying process with those charged with governance.

Requirements:

- i) Briefly discuss the matters that are necessary to communicate with those charged with governance. 5
- ii) Also discuss the process through which matters could be appropriately communicated. 4
- b) An audit is an examination of the financial statements with a view to forming an opinion on the overall accuracy. The auditor thus has to make a suitable plan that enables him to properly evaluate all findings in their merits and magnitude of impact on the expected accuracy.

ISA 450 Evaluation of Misstatements Identified During the Audit requires the auditor to accumulate misstatements identified during the audit unless those misstatements are trivial.

Requirement:

Describe in detail the requirements as stated that serve the purpose of this standard towards effective completion of an audit.

9

5. a) You are the auditor of Treetops Ltd. During the course of audit on the financial statements for the year ended 30th June 2024, your team has identified that sever fraudulent activities have taken place by some key staff of the company. Necessary audit evidence in this connection has been collected and since the amount is exceeding the materiality level the issue has been presented in the audit report. Based on the audit report, the company has started legal proceedings against those staff who are involved in the fraudulent activities. You have been asked by the regulators and legal department of the company to submit the audit evidence that you have collected in support of the identified fraud.

As regards to this, in the partners' meeting of your firm it has been discussed that the auditor's responsibility is to maintain confidentiality. The Code of Ethics states that the principle of confidentiality is not only to keep information confidential, but also to take reasonable steps to preserve confidentiality. The professional accountant should assume that all unpublished information is confidential.

Requirements:

Under the above situation you are required to explain:

- i) whether you should submit the audit evidence as wanted by regulator and legal department. 5
 - ii) the circumstances where the professional accountant is required to disclose confidential information. 5
- b) Your firm has been appointed as the auditor of Club Ltd. and as engagement partner you are involved in planning of such audit. The company has set up an internal audit department at the beginning of your audit period. From the initial discussion with the management of the company you have come to know that the internal auditor Mr. XYZ has completed several assignments and he has submitted his report to the Board of Directors.

Requirement:

Explain whether you can rely on the work performed by the internal audit department under the leadership of Mr. XYZ and what factors should be taken into accounts by you. 6

6. a) You are the audit in-charge of audit team for the audit of X Ltd., Y Ltd. and Z Ltd. After completion of the audit field work you are going to draw audit opinion and finalise the audit report of all the companies. The audit findings of all the three companies are as under:

- i) In case of company X Ltd., Going Concern assumption is appropriate but a material uncertainty exists about the ability to continue as a Going Concern and the management has adequately disclosed about uncertainty in the financial statements.
- ii) In case of company Y Ltd., the financial statements fail to give a true and fair view because it is inappropriate to use the Going Concern basis.
- iii) In case of company Z Ltd., Going Concern assumption is appropriate and the management does not disclose any material uncertainty in relation to Going Concern issue.

Requirements:

Based on the different circumstances mentioned above, you are required to answer the following questions:

- i) What will be your audit opinion in case of company X Ltd.? 4
 - ii) How will you address the Going Concern uncertainty issue in the audit report of the company X Ltd.? 3
 - iii) How will you form the audit opinion in case of company Y Ltd.? 4
 - iv) In case of company Z Ltd., how will you address the Going Concern issue in the audit report? 3
- b) Recently, lots of issues as regards to the bank and financial sectors are being discussed by various types of stakeholders. Specially a huge amount from the depositors money has been disbursed in the form of loans and advances over the last couple of years. Loans and advances were sanctioned and disbursed without following norms, rules and regulations. Loans and advances disbursed without any collateral security. Most of the amount has been taken by the persons applying their political and other influences. To remove such malfunction in the banks and financial institutions Board Members and top management of many entities have been changed. By the new Board Members and top management, it was discovered that the amount of default loan within the span of one year has increased abnormally. For example, the amount of default loan which was 15% in the immediate previous year has now arrived at 95%. Seeing this abnormal variation, it is being discussed that earlier year's financial results, disclosures as mentioned in the financial statements were not correct. Due to that reason, the respective auditors have been blamed because nothing has been described in their audit reports about such irregularities taken place during the sanctions and disbursements of such a huge amount of loans and advances. Some auditors have been able to explain their position by showing the disclosures in their audit reports and some are not.

Requirement:

On the basis of the position described above, you are required to explain:

How did the auditors, without describing in their audit report the facts of disbursing huge amount of loan only based on influence without following regulations, become successful to make the regulator and stakeholders understand that they have performed their duties properly? 6

---The End---