

AUDIT & ASSURANCE

March-April 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. Rojina & Razzak, Chartered Accountants appointed you as an Audit Senior. Your firm has been appointed auditor of MGMCL Plc., a mining company, and you have been assigned as Audit Senior on the audit of the financial statements for the year ended 31 March 2024. You recently joined Rojina & Razzak, Chartered Accountants after resigning from MGMCL Plc. where you worked as Chief Accountant. The Senior Partner in Rojina & Razzak, Chartered Accountants is a Non-Executive Board member of the board of Directors of MGMCL Plc. The acquisition of MGMCL Plc. as an audit client will contribute 16% of the firm's total income. This is the first time that your firm will be involved in an audit of a company in the mining industry. MGMCL Plc. is in gemstone mining on the Copperbelt. The company holds large quantities of unpolished gemstones and has a Polishing Department which polishes gem stones for sale. The mining license specifies the area within which the mining activities should be conducted. The mining license also provides that at the end of the mining activities the company will be required to rehabilitate the area in which mining activities are taking place. The financial statements include a provision for land rehabilitation.

The bulk of MGMCL Plc.'s polished gemstones are sold outside the country by way of auction using an auctioneer based in the United Kingdom. The company has an overseas dollar bank account and transfers funds for operational use to the local Taka bank account. The company is required to declare the quantity and value of polished gemstones exported for auctioning and tax is computed based on the annual revenue. Under declaration of exported gemstones could result in heavy penalties by the revenue authority and consequently could result in the withdrawal of the mining license.

In the pre-audit meeting with the Management of MGMCL Plc., the management proposed that the audit engagement should be for a limited assurance rather than a reasonable assurance. Management argued that this would be cheaper for the company and that the company has an internal audit department which performs pre-audits of all accounting transactions. The Chief Executive Officer of MGMCL Plc. went on to argue that even if your firm conducts a full audit of the financial statements, it will not guarantee that the financial statements are correct.

At the time that Rojina & Razzak, Chartered Accountants accepted appointment as auditor of MGMCL Plc. it requested Management to provide written representations acknowledging its responsibilities. Rojina & Razzak, Chartered Accountants commenced the audit before receiving the acknowledgement of management's responsibilities. Efforts to get the representations by the audit team failed and this has been brought to the attention of the firm's senior staff.

Requirements:

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| a) Explain four ethical matters in the audit of the financial statements of MGMCL Plc. and for each matter suggest a suitable safeguard. | 4 |
| b) Explain the pre-conditions for an audit that must have been met by MGMCL Plc. before Rojina & Razzak, Chartered Accountants accepted appointment as auditors of MGMCL Plc. | 3 |
| c) i) Explain why a limited assurance will not be appropriate for an audit of historical financial statements. | 2 |
| ii) Explain reasons why Rojina & Razzak, Chartered Accountants cannot give an absolute assurance after the audit of the financial statements of MGMCL Plc. | 2 |
| 2. a) Diamond Ltd is a private limited company. In respect of its volume of business it is classified as a SME. As per the requirements of the Companies Act, Diamond Ltd appointed ABC & Co. Chartered Accountants as auditor of the company. After one year the company felt necessary to appoint a tax consultant. The management of the company assigned 'ABC & Co.' for tax service too and the firm agreed to provide such tax service. The 'Board of Directors' decided to review the periodical financial statements of the company, but the management was unable to prepare such financial statements in time. Therefore, again, for this purpose the management sought professional service from the appointed audit firm. After two years the 'Board of Directors' | |

decided to install a computerised accounting system. The Board of directors called the audit firm and sought their consultancy in this regard.

Requirements:

- i) Describe how each of the engagements as mentioned above compromises auditors' independence. 4
- ii) Describe the ways in which the audit firm can minimise the effect that the provision of other services suggests on independence. 4
- b) Being manager in an audit engagement in Attires Ltd., a readymade garments manufacturer, you discovered that the payroll officer had been defrauding the client through not deleting leavers from the payroll records until two months after departure. By doing it, he was pocketing the money for himself.

Requirements:

- i) What should you do with regard to informing the client? 2
- ii) What should you do with regard to the audit report? 3
- c) 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. You are asked to precisely describe the threats so mentioned in the booklet of IESBA Codes. 3
- d) "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. Please elucidate the various means which create such safeguards for the accountants. 3
- 3. a) Explain four factors which influence the reliability of audit evidence. 4
- b) XYZ & Co., Chartered Accountants, your firm, was appointed auditor of Lovely Ltd. at the last annual general meeting of the company. Your firm recently recruited new Audit Assistants and most of them will be conducting audits for the first time. During the pre-audit meeting, one of the newly recruited Audit Assistants, who is a graduate in Economics, wanted to know if as auditors they have any rights in the conduct of audits.

You are leading a team of auditors assigned to the audit of the financial statements of Lovely Ltd. for the year ended 31 March 2024. During the current year, Lovely Ltd. introduced the use of petty cash for the first time. Previously, money from sales proceeds was used to meet petty cash payments and this caused a lot of problems reconciling revenue. The introduction of the use of petty cash was made based on the recommendations of the previous auditors. The following is the petty cash system in use:

A float of Tk.1.5 million was approved and this is under the custody of the Chief Cashier who is also responsible for receiving and banking sales proceeds. The petty cash is kept together with the rest of the cash except that when banking, the balance for petty cash is retained and not banked. Payments out of petty cash are based on un-numbered petty cash vouchers signed by the recipients of the money. It is required that once funds have been spent, the receipts/invoices should be retired to the cashier who then will pass the accounting entries for the expenditure. When the float is almost exhausted, the cashier raises a payment voucher amounting to the expenditure to date as re-imburement.

You have been provided the draft financial statements for the year ended 31 March 2024 from which the following figures were extracted:

Accounts payables and accruals:	(Tk.)
Accounts payables	18.0m
Accrual for water & electricity	2.1m
Provision for legal case	1.8m
General provision	2.4m
Total	Tk. 24.3m

A schedule of the accounts payables showing the breakdown has been provided and an accounts payables control account is maintained.

You would like to assign the audit of the accounts payables and accruals amount to one of the Audit Assistants. You need to prepare the audit plan showing the work that should be done for the assistant to follow for audit.

Requirements:

- i) Explain four control activities for the management of petty cash in Lovely Ltd. and suggest a suitable test of control for each control activity. 4
- ii) Suggest four substantive audit procedures for the amount of accounts payables in the financial statements of Lovely Ltd. and state the assertion being tested for each procedure. 4
- iii) Suggest four substantive audit procedures for accruals in the financial statement of Lovely Ltd. 4

4. a) While approaching an audit, to reduce the level of risk that the financial statements might be wrong, the auditors have to build up audit confidence based on sufficient appropriate audit evidence. The critical sources of audit confidence include Internal Controls, Tests of details and Analytical procedures including data analytics routines. Of these sources, reliance on internal controls is the most talked about one.

Requirement:

List out the factors that you would consider in deciding at the planning stage of the audit whether to seek to rely on internal controls as part of the audit. 5

- b) You are the group auditor of Fair Nature Holdings Plc, a listed company having components in Bangladesh and other countries in the region, many of which are audited by other firms. All components are involved in the manufacture and distribution of environmentally friendly metal goods. All these components maintain the same accounting period aligning with the Fair Nature Holdings Plc.

Requirement:

Describe why you would wish to review the work of the auditors of components not audited by your firm and detail the work you would carry out in that review. 8

- c) Khan Grandsons Ltd. is a renowned household accessory manufacturing company. Having a wide range of customer bases at both whole sale and retail market bases, the annual turnover of the company reached Tk.1.4 billion for the year ending 31 December 2023. Credit sales constitute about 85% of the overall sales of the year. Though realization track is reasonably good, there remains a sizable amount of outstanding balance in the balance sheet at every year end.

Requirement:

To avoid misstatement in the published financial statements, the company management has practice to provide for allowance for receivables at each balance sheet date. As a statutory auditor, you are required to explain how you would approach the audit of an allowance for receivables. 5

5. a) The Engineers Ltd is a Civil Engineering Company that provides long road and bridge construction works. It uses much heavy plant, equipment and machinery, and is subject to the strict provisions of health and safety at work regulations:

Requirements:

- i) Identify the risks to which breaches of those regulations could expose of the company. 3
- ii) Describe the implications for the audit in the event of breaches. 3
- b) The standard does not specify a methodology for determining materiality for the financial statements as a whole. However, in practice, auditors set a computed level of materiality based on ranges, such as profit before tax 5%, Gross Profit and Revenue 0.5%-1%, Total Assets 1%-2%, Net Assets 2%-5% and Profit after tax 5%-10%. But some matters may be material by nature though the involvement of such matters is Taka 1.00.

Requirement:

You are required to provide the details of such matters which are material by nature. 3

- c) In general terms, it is clearly impossible to be sure how risky a client may be if an auditor does not understand the client. Your firm has been appointed as the auditor for the financial year 2024-2025 of ABC Ltd. Before starting the audit work you will have to understand the business of the ABC Ltd.
- i) Which benefit you will achieve through understanding the business of ABC Ltd. in context of performing audit work? 3
 - ii) How will you be able to understand the business of ABC Ltd. before starting audit work? 4

6. a) Auditors report per ISA-700 (revised) requires critical focus on the matter of going concern while performing an audit. Although some financial reporting frameworks do not contain an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern, IAS-1 requires management to make an assessment of an entity's ability to continue as a going concern. In our market, various regulators have mandated companies to prepare their financial statements in accordance with International Financial Reporting Standards. Hence, in our market auditors are left with responsibilities to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern as per International Standards on auditing-570.

Requirement:

Describe the reporting responsibilities of auditors at different situations as per International Standard on Auditing (ISA) 570 (Revised): Going Concern.

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- b) You are the Director-Audit Supervision in Prabir Chowdhury & Co. Chartered Accountants which has seen its revenue decline steadily over the past few years. The firm is looking to increasing its revenue and client base. It has been advertising for new audit clients and has recently received an offer to become auditors of Chamelibag Ltd.

You are aware that during the audit, auditors are required to use either statistical sampling techniques or non-statistical sampling techniques to obtain sufficient and appropriate audit evidence. This evidence only becomes useful if it is relevant and reliable.

During the year, a number of Chamelibag Ltd.'s significant customers experienced a drop in sales revenue, and consequently they purchased fewer items from Chamelibag Ltd. As a result, Chamelibag Ltd. paid a number of its suppliers later than usual and twenty-five of them withdrew credit terms and required cash on delivery. Ten of Chamelibag Ltd.'s main suppliers are threatening to take legal action to recover the debts owed.

As a result of the increased level of payables, Chamelibag Ltd.'s current ratio has fallen below 1 to 0.5. Chamelibag Ltd. produced a cash flow forecast for the next twelve months and this shows negative cash flows.

The Finance Director of Chamelibag Ltd. informed the Audit Manager that there is a possible change in legislation which will result in the discontinuance of the top three product lines as it may not comply with the proposed law. Despite this, management of Chamelibag Ltd. prepared the financial statements on a going concern basis.

Requirement:

Describe the audit procedures which the auditor should perform in assessing the going concern ability of Chamelibag Ltd.

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- c) Your firm has just been appointed auditors of Supachill Ltd after the previous auditors were removed following a dispute with the directors. This dispute related to certain costs capitalised by the directors, which the auditors believed should have been written off. (Last year's auditors report was qualified because of the disagreement). During the year the auditor also discovered that a material amount of research expenditure has been capitalised as an intangible asset in contravention of IAS 38 intangible assets. The finance director refused to derecognise the research expenditure as an intangible asset and include it in profit or loss. Auditor has also identified that there is an allegation as regards to infringement of certain patent rights and claiming royalties and punitive damages, where the company is the defendant. The company has filed a counter action and preliminary hearings and discovering proceedings on both actions are in progress. You did note nothing about to write in the area of Key Audit Matters (KAM) in the report.

Requirements:

As auditor of Supachill Ltd you are required to:

- i) How the basis of opinion paragraph will be addressed in the auditors' report?
- ii) Draw the emphasis of matter paragraph of the auditors' report.
- iii) What will be written in Key Audit Matters (KAM) paragraph of the auditors' report?

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