

## ASSURANCE

Time allowed – 2 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 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. ISA 500 indicates that the reliability of audit evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained. As per ISA 505, depending on the circumstances of the audit, audit evidence in the form of external confirmation received directly by the auditor from parties is considered to be more reliable than evidence generated internally by the entity.
  - a. What are the generalized principles mentioned in the International Standards of Auditing (ISA) as regards to greater reliability of audit evidence? 5
  - b. What is the objective of external confirmation? What do you understand by the term external confirmation? Describe negative confirmation and positive confirmation. Does verbal response constitute an external confirmation? Justify. 8
  - c. Your firm is the auditor of ABC Enterprise, which showed 60% increase in current year's sales compared with the previous year. When enquired, you found that the company has recently introduced credit sales, which instigated the sharp rise in sales. When you further reviewed sales documents you found that credit sales are concentrated to a small number of corporate buyers. To confirm credit sales directly from buyers you arranged to send external confirmation requests as per ISA 505 but management refused to cooperate. What will be your alternative audit procedures in the above circumstances? 7
  
2. With the advancement in the field of technology, many easy to use and more efficient CAATs tools are available. Accountants of the present business world have found these tools very much convenient to use as the new upcoming tools come with the guide book.
  - a. What is CAAT? What are the advantages and disadvantages of using CAAT by auditors? 3+5=8
  - b. What is Test Data? Explain how Test Data are used for assurance. 3+3=6
  - c. What is audit software? Give 5 (five) examples of support that audit software can extend to the Auditor? 3+3=6
  
3. Auditors cannot always predict future events or conditions which may cause going concern problems. For this reason, the fact that an entity may cease to exist as a going concern after receiving an audit report that does not refer to a substantial doubt about going concern even within a year after the statement date. Similarly, the absence of a reference in an auditor's report to substantial doubt is not a guarantee as to the entity's ability to continue as a going concern.
  - a. During the time of economic downturn when investments are very sluggish, going concern matters become an area of heightened risk. What should auditors do for assessing going concern of clients? 5
  - b. How should auditor evaluate whether substantial doubt about going concern exists or not? Can you identify and list down what are the indicators of substantial doubt? In such situation what audit evidences should be collected and preserved in the working file? 4+5+4=13
  - c. As per ISA 570, justify whether substantial doubt about going concern exists in the following cases: 5x2=10
    - i. An International Oil Company (IOC) has decided to relinquish two deep-water blocks in Bangladesh after lengthy negotiations with state-owned Petrobangla failed to yield improved fiscal terms.
    - ii. The XYZ Energy Ltd., a coal mining company operating in the southern part of Bangladesh is stopped by a court of Bangladesh from carrying out operations in Bangladesh.

[Please turn over]

- iii. A Govt. owned Refinery is in serious cash flow problem but the government has provided with a sovereign guarantee to the refinery to help it out with all payments.
  - iv. The Rupayan Bank is in serious liquidity crisis and the government is not willing to bail it out. The Board of Directors has passed a resolution to liquidate the business.
  - v. The Basic Textile Ltd. has a current ratio below 0.5. One of its major suppliers has demanded a payment of Tk. 100 million, which the company could not meet. The supplier applied to the court for liquidation of the business and recovered his debt and the court granted the order.
4. Materiality – the acceptable error level below which the understanding and interpretation of the financial statements will not be significantly affected, and, on the other hand, the admissible error level that is accepted in order to decide whether the accounts are correct or not.
- a. Explain materiality in the context of an audit, from the point of view of an Auditor. 5
  - b. How should auditor determine materiality during a financial audit? Is there any golden rule to quantify materiality level? 4+3=7
  - c. How does materiality assessment and fixation help to control an audit? 3+2=5
5. Write down short notes on following terminology:
- a) Operational Audit. 5
  - b) Advocacy Threat. 5
  - c) Audit Engagement Letter. 5

– The End –