

Auditing
Descriptive Questions *(120 minutes)*

Question 1

Financial statements of ABC Co. (Public Limited Company) comprising balance sheet as at 19th March, 2016, and income, comprehensive income and cash flow statements for the year then ended and accompanying notes 1 to ... showing total assets, revenues and net profit of IRR 4,000 bn., IRR 2,000 bn. and IRR 600 bn., respectively, were approved by the board of directors and submitted to the auditors on 29th June, 2016. Auditors completed their field work on 5th July, 2016. Materiality has been set at IRR35 bn. The auditors/ legal inspectors' findings are as follows:

1. The Company acquired two percent shares of a listed company for IRR 300 bn. on 21st April, 2015, as quickly traded securities to be kept for a short-term period. The market value of this investment as at 19th March, 2016, is IRR 341 bn. and is reflected as such in the balance sheet using market value method.
2. The Company has capitalized IRR 20 bn. expenditures of an internal development project and IRR 17 bn. expenditures of an internal research project as Intangible Assets. The development project is to be used by the Company.
3. ABC Co. acquired 10 million IRR 1,000 par value shares of XYZ Co. for IRR 1,000 bn. on 10th June, 2015. XYZ Co. extraordinary general meeting on 1st August, 2015, approved a cash capital increase of 100 percent and the company issued relevant pre-emptive rights on 21st August, 2015. The market value of each share and pre-emptive right on that date was IRR 10,600 and IRR 9,600, respectively. ABC Co. sold all of its pre-emptive rights for IRR 96 bn. on 24th August, 2015. and recorded a gain of IRR 86 bn. in other non-operating income and expenses account.
4. The annual general meeting of fiscal year 2014 was held on 21st May, 2015, and approved the financial statements and IRR 300 bn. as dividends payable to shareholders. The board has scheduled the payment of dividends based on the number of shares held by each shareholder and has paid IRR 100 bn., 110 bn. and 90 bn. to shareholders during December 2015, January and February 2016, respectively.

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5. Insurance coverage for fixed assets has been disclosed in the notes but is not adequate (material).
6. As a result of fire in the warehouse in May, 2015, IRR 65 bn. of raw materials have been lost. An impairment loss of IRR 40 bn. has been recognized for the inventories in the financial statements and the matter is fully explained in the notes.
7. The Company's net income of IRR600 bn. includes IRR 540 bn. for operational income (out of which, IRR 400 bn. is taxable and the remaining IRR 140 bn. is tax-exempt) and IRR159 bn. for other non-operating income (out of which, IRR40 bn. is taxable and IRR 119 bn. is tax-exempt and subject to a separated flat rate of tax) after IRR 99 bn. tax deduction. Considering the above information and the number of company shares being 2 bn. the basic EPS has been reported as IRR 225 and IRR 75 in the income statement as operating and non-operating activities, respectively.
8. In compliance with Anti-Money Laundering law and related directives and instructions, the Office of Financial Information has requested the company to provide documents about identification of one of its customers on 2nd January, 2016. The company has provided electronic copy of the documents on 12th January, 2016, to the Office.
9. More than 90 percent of share capital of MNO Co. belongs to ABC Co. and the reporting company has control over MNO Co. All shares of the reporting company belongs to a parent company which publishes consolidated financial statements in accordance with accounting standards. Therefore, the reporting company has not prepared consolidated financial statements including MNO Co. As at 19th March, 2016, MNO Co. assets and liabilities were IRR 300 bn. and IRR 130 bn., respectively, and its revenues and expenses were IRR 140 bn. and IRR 100 bn., respectively.
10. According to an announcement published in one of national newspapers on 14th may, 2015, the annual general meeting of the Company has been held on 21st May, 2015, to decide about financial statements. The minutes of the meeting has been sent to the Registrar of Companies on 20th June, 2015, and gazetted a day later.

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11. The Company has prepared a set of financial statements in accordance with IFRS in addition to the financial statements prepared in accordance with Iranian Accounting Standards and the auditor has issued a separate audit report on the IFRS set of financial statements.
12. During the year under audit, the Company exchanged one of its division manufacturing machinery with cost and accumulated depreciation balances and fair value of IRR 220 bn., IRR 80 bn. and IRR 210 bn., respectively- with some pieces of land of another company with fair value of IRR 240 bn. and paid boot cash of IRR 30 bn. The exchange is of commercial substance. The Company has recognized IRR 30 bn. as loss on exchange in its financial statements.
13. Results of confirmation requests for accounts receivable and payable balances as at balance sheet date are as follows:

	Book Balance	Confirmed Balance	Variance
	IRR bn.	IRR bn.	IRR bn.
Accounts Receivable	100	134	34
Accounts Payable	70	92	(22)
Net Variance			12

There are no reconciliation statement for the above variances and other audit procedures could not determine the reasons for variances.

14. Related Party Transactions subject to Article 129 of Commercial Code are properly disclosed in the notes. Considering the procedures performed, the transactions have been approved by the board of directors and the minutes of the meetings are approved and signed by all members of the board and the transactions have been undertaken in the ordinary course of business.
15. Management representation letter has been provided on 28th June, 2016. The report of the Board about the activities and state of the company according to Article 232 of the Commercial Code has been provided to auditor and legal inspector on 10th July, 2016, after completion of field work and before issuance of the audit report. The information included in the report has not any material inconsistency with documents presented.

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Required:

Prepare Auditor and Legal Inspector's Report on the financial Statements of ABC Co. (Public Limited Company) for the year ended 19th March, 2016, with due consideration of the above information.

In case of non-inclusion of any of above information in you report, explain the reason(s) under the report.

60 marks

Question 2

If the parent Company, after preparation of its separate financial statements and receiving auditor/legal inspector report on it, prepares group financial statements to the same auditor/legal inspector requesting independent auditor's report, what actions, if any, should he/she take?

5 marks

Question 3

What are the benefits of general audit softwares?

5 marks

Question 4

If prior year annual/interim financial statements are not audited/reviewed or are audited/reviewed by another auditor, what would be the auditor's consideration of the above in his/her review report on current period interim financial statements?

5 marks

Question 5

The auditor should, in addition to assessed risks of material misstatements, design and perform substantive tests for each group of transactions, account balances and material disclosures. What fact is behind this requirement?

5 marks

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Question 6

The higher the risk of material misstatement or reliance on controls, most probably the shorter the length of time between previous audit tests of controls and re-testing the controls. Identify the factors that may shorten the length of time between previous test of controls and re-testing them or cause the auditor not to use audit evidence obtained during previous audits.

6 marks

Question 7

According to Iranians Standards on Auditing, the auditor should determine whether the un-corrected misstatements, separately or in aggregate, are material. What matters should the auditor evaluate in this regard?

4 marks

Question 8

If the group audit team concludes sufficient appropriate audit evidence will not be obtained by:

- a. Work performed on significant segments information,
- b. Work performed on group general controls and consolidation process, and
- c. Analytical procedures at group level,

what action(s) should be taken?

5 marks

Question 9

In an examination of prospective financial information, on what subjects the auditor should obtain sufficient appropriate evidence?

5 marks