

## Semester “Spring 2011”

### “Fundamentals of Auditing (ACC311)”

Assignment No. 02

Marks: 15

#### “Audit Evidence”

### Question .No. 1 (5 marks)

Which financial Statement assertions are fulfilled through following audit procedure?

Sr. No	Audit procedure	Financial statement assertions
1	Physical inspection of inventory	?
2	Review of bank reconciliation statements	?
3	Verifying cash transactions through vouchers receipt	?
4	Verification of the deeds of fixed assets	?
5	Match the events with relevant periods	?

#### Requirement:

Just mention the name of “assertions” on blank space, no need to provide detailed information.

### Question .No. 2 (10 marks)

Let suppose you have just completed your CA (chartered Accountant degree) and start practice as an auditor. A company named as “Sadaqat enterprises” appointed you as an external auditor. According to Law you have the responsibility to obtained reasonable assurance for audit evidence to express your true and fair opinion. For obtaining the relevant audit evidence what procedure should be adopt by you as a professional.

**Requirement:**

Discuss at least five (5) valid points, try to avoid unnecessary detail.

## Solution

### Question .No. 1

Sr. No	Audit procedure	Financial statement assertions
1	Physical inspection of inventory	Existence
2	Review of bank reconciliation statements	Completeness, valuation
3	Verifying cash transactions through vouchers receipt	Occurrence
4	Verification of the deeds of fixed assets	Right (ownership)
5	Match the events with relevant periods	Cutoff

### Question .No. 2

According to law as an external auditor, I adopt the following procedure for obtaining reasonable audit evidence to express my true and fair opinion.

**(1) Inspection of Records or Document**

It consists of examining record or document whether internal or external, in paper form, electronic form or other media. It provides evidence of degrees of reliability depending upon their nature and source and in case of internal record, on effectiveness of control over their production.

**(2) Inspection of Tangible Assets**

It consists of physical examination of the assets. It provides reliable audit evidence of their existence.

**(3) Inquiry**

It means seeking information of knowledgeable person (client's staff) throughout the entity or outside the entity. Those may be formal written or informal oral.

**(4) Confirmations**

Confirmation is basically a response in result of inquiry. It is a process of obtaining representation of information or any existence condition directly from third party. Confirmations are sought from debtors, creditors, bankers, legal advisors etc.

**(5) Computation or Recalculations**

It means checking of mathematical accuracy of documents or record. This mathematical manipulation of data includes addition, subtraction, multiplication and division.

**(6) Re-performance**

It is auditor's independent execution of procedures or controls that we originally performed as part of entity's internal control. This can be done either manually or by using of CAAT's. e.g. re-performing the aging of account receivable.

**(7) Analytical review or Analytical procedure**

It consists of studying significant ratios and comparison of financial information with prior periods and investigating unusual fluctuations.