

APPENDIX

Question 1

As an auditor comment on the following situations:

- (a) *As an auditor of PQR Ltd. you have asked your audit assistant to draw the audit programme. The assistant drew up the audit programme without going through the monthly report of the Internal Auditor on the plea that he is a Chartered Accountant and have found no serious irregularities and internal control system is running perfectly.* (8 Marks)
- (b) *Mr. T. a Chartered Accountant, was first time appointed the Auditor of XYZ Ltd. Mr. T. carried the audit procedure for verifying the opening balances only, but not the previous year's accounting policies as it is not needed.* (6 Marks)
- (c) *Mr. K. auditor of ABC Ltd. Is of the opinion that "Standards on Auditing" are meant only for references and it is not necessary to follow such Standards on Auditing.*

(6 Marks) (May 2007)

Answer

- (a) The contention of the audit assistant is not valid and contrary to the view and guidelines given in SA 200.

As per SA 200, the basic principles governing an audit are Integrity, objectivity and independence. Objectivity implies that auditor's opinion should be based on facts and evidences collected through audit procedure.

Skill and competence also requires an auditor to exercise due professional care in performing the audit.

The SAs also requires auditor to rely on internal control only after studying and evaluating them.

In the instant case all those basic principles have not been followed by the auditor.

Reliance based on position of the person and blindly accepting the soundness of the internal control violates the basic principles.

Only by evaluation the auditor will know whether the internal audit and related internal control is effective or not.

- (b) Contention of Mr. T, the auditor, is not correct and contrary to the SA -510 on "Initial Audit Engagements-Opening Balances".

As per the said SA it is the duty of the auditor, auditing the financial statements first time, to verify and obtain appropriate audit evidence that:

Appendix

- (a) The closing balances of the preceding period are correctly brought forward to the current period.
- (b) Whether any misstatement in opening balances is materially affecting the financial statements of the current period and
- (c) Accounting policies followed in the preceding period are also being followed in current period.

Hence, in view of the above guidelines of SA 510 Mr. T should verify the accounting policies also to ensure its continuity.

- (c) Contention of Mr. K is totally wrong and is against the fundamental assumptions and guidelines governing Standards on Auditing.

As per ICAI, while discharging their attest function, it will be the duty of the members of the Institute to ensure that the SAs are followed. The SAs will apply whenever an independent financial audit is carried out to express an opinion thereon.

The member of the Institute must follow the SAs. The auditors must draw attention to the material departures from SA in their audit report alongwith the reasons for such departure.

Auditors in their report has to mention that audit was conducted in accordance with "Generally accepted auditing standards" in Indian context.

Hence Mr. 'K' is duty bound to follow the SA.

Question 2

State with reasons (in short) whether the following statements are True or False.

- (i) SA 402 deals with responsibility of the auditor of the service organisation.
- (ii) For the purpose of SA600 "Principal Auditor" means the partner of the firm signing the Audit report.
- (iii) An expert for the purpose of SA620 is a person, firm or association of persons possessing special skill, knowledge and experience in auditing.

(2 marks each) (May 2008)

Answer

- (i) **False:** SA 402 is related to Audit Considerations Relating to an Entity Using a Service Organization
- (ii) **False:** For the purpose of SA-600, principal auditor means the auditor with responsibility for reporting on the financial information of an entity, when that financial information includes the financial information of one or more components audited by another auditor.
- (iii) **False:** An expert for the purpose of SA 620 is a person, firm or association of persons possessing skill, knowledge and experience in a particular field other than accounting and auditing.

Auditing

Question 3

Discuss in brief SA600 "Using the Work of another Auditor". (5 Marks) (Nov 2008)

Answer

When the accounts of the branch are audited by a person other than the company's auditor, there is need for a clear understanding of the role of such auditor and the company's auditor in relation to the necessity for a proper rapport between these two auditors for the purpose of an effective audit. In recognition of these needs, the Council of Institute of Chartered Accountants of India has dealt with these issues in SA 600, "Using the Work of Another Auditor". It makes clear that in certain situations, the statute governing the entity may confer a right on the principal auditor to visit a component and examine the books of accounts and other record of the said component, if he thinks it necessary to do so. Where another auditor has been appointed for the component, the principal auditor would normally be entitled to rely upon the work of such auditor unless there are special circumstances to make it essential for him to visit the component and/or to examine the books of account and other records of the said component. Further, it requires that the principal auditor should perform procedures to obtain sufficient appropriate audit evidence, that the work of the other auditor is adequate for the principal auditor's purposes, in the context of the specific assignment. When using the work of another auditor, the principal auditor should ordinary perform the following procedure:

- (a) Advise the other auditor of the use that is to be made of the other auditor's work and report and make sufficient arrangements for co-ordination of their efforts at the planning stage of the audit. The principal auditor would inform the other auditor of matters such as areas requiring special consideration, procedures for the identification of inter-component transactions that may require disclosure and the time-table for completion of audit; and
- (b) Advise the other auditor of the significant accounting, auditing and reporting requirements and obtain representation as to compliance with them.

The principal auditor might discuss with the other auditor the audit procedures applied or review a written summary of the other auditor's procedures and findings which may be in the form of a completed questionnaire or check-list. The principal auditor may also wish to visit the other auditor. The nature, timing and extent of procedures will depend on the circumstances of the engagement and the principal auditor's knowledge of the professional competence of the other auditor. This knowledge may have been enhanced from the review of the previous audit work of the other auditor.

Question 4

State with reasons (in short) whether the following statements are true or false.

- (i) SA 710 on 'comparatives' is applicable to corresponding previous year's figures and not to comparative Financial statement.

Appendix

- (ii) *AS 10 "Accounting for fixed assets" is also applicable to wasting assets like quarries, minerals and oil and natural gas*
- (iii) *When Government grants are received in the form of assets such as land, plant and equipments etc., free of cost, then, such assets should be entered in the books of accounts at nominal value.*
- (iv) *A branch auditor is a joint auditor according to SA 299 and his relationship with the company auditor is governed by the said Standard. (2 Marks each) (June 2009)*

Answer

- (i) **True:** As per SA 710 "Comparatives" with reference to financial statement presentation includes the corresponding previous year figures and are intended to be read on relation to the amounts and other disclosures relating to the current period.
- (ii) **False:** AS 10 "Accounting for Fixed Assets" clearly states that this Accounting Standard is not applicable to wasting assets like quarries, minerals oil and natural gas.
- (iii) **True:** According to AS 12 "Accounting for Government Grants " when Government grants in the form of non-monetary assets such as land, plant and equipments etc. are received free of costs then such assets should be entered in the books of account at nominal value.
- (iv) **False:** Branch auditor is not a joint auditor within the meaning of SA 299. He is another auditor within the meaning of SA 600.