

Solved by: CA Arvind Jain, Jain Classes, Jamsedpur



Solved Answer Audit CA PCC June 2009

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Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate who has not opted for Hindi medium, answers in Hindi, his answers in Hindi will not be valued.

Answer all questions.

Qn 1. State with reasons (in short) whether the following statements are True or False. [10 x 2 = 20 Marks]
(Answer any ten) :

- (i) The principle of confidentiality precludes auditor to disclose the information about the client to third party at all circumstances without any exception.

Ans:- False, As per AAS – 1 Confidentiality is one of the basic principle governing an audit. Which refers during course of audit an Auditor should not disclose information about client to third party unless there is legal or professional duty to disclose. It means the auditor can disclose the information about the client to others if it allowed under any law or with the consent of the client the information can be disclosed.

- (ii) Auditing in depth implies that the auditor vouches almost all transactions in a manner that the chances of not checking any transaction are left at minimum.

Ans:- False, Examination in depth implies examination of few selected transactions from beginning to the end through the entire flow of transactions i.e. from ignition to the completion of transaction by receipt of the payment of cash and delivery or receipt of the goods.

It helps to evaluate the control of each stage of transactions but does not ensures all transactions covered for checking.

- (iii) Taking management representation is a convenient, economical and equally acceptable auditing method even where the direct access by auditor to audit evidence is possible.

Ans:- False, As per AAS – 11 on "Representation by Management" is considered when auditor is not able to obtain sufficient appropriate audit evidence.

It is the duty of auditor to report on true and fair view of financial statement by using substantive and compliance procedure of audit evidence. Management representation is not a substitute for other audit evidences. He should seek and apply normal audit procedure and verification from internal or external audit evidence.

- (iv) An auditor of a company in which not less than 25% of authorized capital is held by public financial institution is to be appointed by a special resolution in general meeting.

Ans:- False; As per section 224 (A), an auditor can be appointed by passing Special Resolution only in case of a company, in which not less than 25% of subscribed Share Capital held by an Public financial institution, government company, nationalized banks, general insurance company. But in this question 25% of authorized capital is held by the public financial institution and not 25% of subscribed capital therefore there is no need to pass special resolution by the company to appoint the auditor. The auditor can be appointed by passing ordinary resolution only.

- (v) It is no part of subsequent auditor's duty to verify opening balances of Ledger accounts of current years, on the basis of Balance Sheet audited by Previous Auditor.

Ans:- False, Tracing the opening balances from previous year's records is a part of audit of ledgers. According to AAS-10 Auditor will continue to be responsible for forming opinion on financial information if he uses or rely on work performed by other Auditor provided he has exercise adequate skill. Therefore non verification of opening balances of ledger account since audited by previous auditor is not acceptable.

- (vi) AAS 25 on 'comparatives' is applicable to corresponding previous years figures and not to comparative Financial statement.

Ans:- True, AAS 25 'Comparatives' establishes standards on Auditor's Responsibility for comparatives and reporting on them under 'corresponding figure' framework and doesn't establish standards on 'Comparative Financial Statements' framework for presentation of comparative financial information.

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- (vii) AAS 10 – “Accounting for fixed Assets” is also applicable to wasting assets like quarries, minerals and oil and natural gas.

Ans:- **False** → “Accounting for Fixed Assets” deals in AS-10 rather AAS-10. On the contrary, AS-10 is also not applicable for wasting assets like quarries, minerals, ail and natural gases.

- (viii) 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.

Ans:- **True**, AS - 12 refers Government grant. If the grants are received in form of assets and free of cost, these assets are recorded in the books of accounts at nominal value.

- (ix) Contingent liabilities are provided for in the accounts if they crystallize between the end of the accounting year and the date of signing the audit report.

Ans:- **True**, As per AS-4 Contingencies and events occurring after the Balance Sheet date, any event which was contingent at the end of financial period as contingent liability which crystallizes in between the time of signing report, are classified as Events occurring after the balance sheet date. These events if existed on the date of balance sheet and if any further information is provided after the balance sheet date, they are called adjusting events and needs to be adjusted in the Accounts.

- (x) The fixed deposit held with bank by a company is to be shown under the head investments in Balance Sheet as per the requirements of part I of schedule VI to the Companies Act, 1956.

Ans:- **True**, although the fixed deposits are held by the bank, it is an asset of the company. Therefore the amount of fixed deposits of the companies held by bank are shown under the head Investments as per the requirements of part – I Schedule VI of the Companies Act, 1956. But in that case it is the auditor's duty to check the genuineness that why the investments are held by the bank ? He should increase his area of examination to check the authenticity & ownership of the Investments since it is not held by the company.

- (xi) A branch auditor is a joint auditor according to AAS 12 and his relationship with the company auditor is governed by the said standard.

Ans:- **False**, The practice of appointing more than one auditor to conduct audit of large entities is in vogue these days. Such auditors, known as joint auditors, conduct audit jointly and report on financial statements of the entity. AAS-12 deals with the joint auditors and not with relationship between statutory and another branch auditor.

- (xii) Disclaimer of opinion is issued when an auditor confronts a different stand by management in respect of a material issue which auditor does not approve of.

Ans:- **False**, Disclaimer of opinion means when auditor doesn't expenses his opinion on certain matters included in financial statement as a whole. He abstains from repressing his opinion due to limitation on scope of audit and inadequacy/absence of sufficient appropriate evidence. But if there is any conflict between auditor and management in respect of a material issue then the auditor should give a qualified opinion or adverse opinion depending upon the seriousness of the matter.

Qn 2. Comment on the following situations

[8 marks]

- (a) Sri Limited charged depreciation on its plant and machinery comprised in fixed assets at rates different from what had been specified in schedule XIV to the Companies Act, 1956. The auditor insisted that the rates of depreciation adopted should be mentioned in the notes to the account, else, he would make qualification in his audit report. The Management of the company contended that there is no impact in profits due to its omission to disclose the fact and hence on considerations of principle of materiality, the auditor is wrong in mentioning this omission in his report by way of qualification.

Ans:- The rates of depreciation in Schedule XIV are the **minimum rates**. A company will not be allowed to charge lower rate than the rates given in Schedule XIV. If however, on the basis of **bonafide technological evaluation**, higher rate are justified, they may be provided by way of a note forming part of annual accounts.

In this question Sri Limited charged depreciation on its plant and machinery comprised in fixed assets at rates different from what had been specified in schedule XIV to the Companies Act, 1956. In that case the company should

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disclose the fact in the notes on accounts. Therefore the auditors contention is correct about the disclosure of rates of depreciation.

Accounting standard-6 requires to disclose in the financial statements along with disclosure of Accounting Policies : -

- (i) Cost of assets
- (ii) Total depreciation
- (iii) Accumulated depreciation
- (iv) Depreciation rates or useful lives of assets.

Sri Limited is not complying with the Accounting Standard requirements by not mentioning rate of depreciation. Hence , Auditor's qualification is justifiable.

- (b) On 31.12.2008, Amudhan Company Limited has invested Rs. 45 lakhs in cumulative fixed deposits of Algar Bank Ltd. The deposits carry interest @ 10% per annum compoundable quarterly and amount of interest is added to the principal and is due and payable at the maturity date which is 5 years from the date of investments.

For the year ended 31st March, 2009, the company did not book any revenue of interest on the ground that interest amount is not available at their disposal till maturity date of investment. [6 marks]

Ans:-

- (ii) As per **Accounting Standard 1** certain accounting assumptions underline the preparation and presentation of financial statements. As per AS 1, there are three generally accepted fundamental accounting assumptions
- a. Going Concern,
 - b. Consistency and
 - c. Accrual basis.

Accrual basis is a fundamental accounting assumption and followed by all accountants. Accrual basis refers income or expenses is recorded on the period of arising not receiving. Therefore, auditor will direct to Amudhan Company limited to record interest income in the credit side of Profit and Loss Account and in Balance Sheet accrued interest as assets.

As per **Section 209** of Companies Act, it shall be deemed that the company has not maintained proper books of accounts, if:-

- (a) there are not kept such books as are necessary to give a true and fair view of the state of affairs of company or branch office, as the case may be, and to explain its transaction.
- (b) if such books are not kept on accrual basis and according to the double entry system of accounting.

Therefore in this case since the company has not provided the interest in its profit & loss account as income, the auditor has to qualify the audit report.

- (c) P, the first auditor of XYZ Ltd. resigned as auditors of the Co. Board of Director appointed Mr. Q as statutory auditors in their place. [6 marks]

Ans:- Selection 224 (6) provides that board of directors may fill any casual vacancy in the office of an auditors but where such vacancy is caused by resignations of any auditor, the vacancy shall only be filled by Company in general meeting. Casual vacancy may arise due to several reasons eg. Death, disqualification, dissolution of firm of auditors etc. Casual vacancy also arises in case of resignation by the auditors but Companies Act specifically preclude the board of directors to fill up the vacancy in this case. Only the shareholders have the powers to appoint the auditor in this case.

P, Auditor of X Y Z Ltd. resigned as Auditor and such casual vacancy by resignation as per 224(6) will be filled by general meeting rather by the board of directors. Hence, appointment of Mr. Q is void.

Qn 3. In auditing, the auditor checks the specific assertions of the items appearing in the financial statements and opines about the overall assertions they signify. Explain specific assertions and overall assertions- in this context.

[10 marks]

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Qn 4 (a) M, Statutory Auditors of ABC Ltd. wants to verify cash on hand as on 31st March, 2009. [4 marks]
The Management informs Mr. M. that it is not possible to cooperate, as cashier has been hospitalized.
Advise Mr. M., how to deal with the situation.

Ans:- As per "**Guidance note on audit of cash & bank balances**", the auditor should carry out physical verification of cash at the end of the year. If it is not practicable then it should be carried out on surprise basis on or before end of year and a reconciliation statement should be prepared. Surprise check should also be carried out at any other time during the year.

It means verification of cash is very important and if the management does not co-operate, the auditor has to qualify his report.

Since cash is highly fraud prone area, the auditor should follow following procedures :

1. All cash balance at same location should be verified simultaneously. when petty cash is maintained by one or more officials, they should be advised to deposit the same with the cashier at the end of the year.
2. If IOU's (I owe you) is found during physical verification, the auditor should obtain explanation from the senior official as to reason for such IOU. It should be ensured that they are not shown as cash in hand.
3. If it comes to knowledge of auditor that entity is continuously maintaining unduly large balance of cash, he should carry out surprise verification of cash more frequently to ascertain whether actual agree with books. If don't agree, then obtain explanation of senior official. In case not sufficiently explained, the auditor should qualify the report. The entity may be advised to deposit whole/major part of cash in bank at reasonable interval.

Without cooperation of cashier, if it is possible to follow the above procedures and if Mr. M is satisfied he will give clean report otherwise qualified report will be given for cash and the audits should give reasons also for his qualified report.

(b) As an auditor of a Limited Company, you observe that during the month of March, 2009, sales invoices were not recorded in books of accounts. You also observe that payment of wages was much higher compare to last year. Keeping in mind above, analyze possible ways of manipulation of accounts. [6 marks]

Ans:- It is a case of **Window Dressing**. Misrepresentation of Accounts with a view to show a picture of state of affair other than what it really is ,is called window dressing . Detection of such window dressing is difficult to locate as top management is generally involved with this .

It can be done for many reasons like :

- (1) To show more profit for giving more managerial remuneration.
- (2) To attract more loan, credit from bankers by showing better position.
- (3) To avoid income tax by showing less profit.
- (4) To declare dividend even when profits are not adequate .
- (5) To attract investors for public issue .

The ways of doing window dressing may be selection of inappropriate a/cing policy, capitalization of revenue exps etc.

In this question, it seems that management wants to decrease profit. Therefore it has understated its sales and overstated its wages payment.

Regarding wages following are the possible ways of manipulation of accounts :

1. Payroll and total emoluments payable to the employees may be manipulated.
2. Few employees may not be paid according to terms of employment, their salary may be less but may be paid more as compared to their terms of employment.
3. Net Pay may not be properly ascertained as Gross Emoluments Less All deductions like PF, ESI, LIC, Advances Recovery, Loan Recovery, TDS etc.
4. Dummy employees may be shown against which cash and other benefits may be manipulated by pocketing the salary of such employee. TDS may not be properly deducted.

Sales invoices not recorded can also be manipulated is many ways.

1. Goods sold and cash received may be pocketed and hence may be shown as goods destroyed by fire or pilferage and cash bill may be cancelled.

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2. Actual amount recovered as sales may be less and may be sold for a higher amount, extra amount not recorded as sales may be misappropriated.

Qn 5. (a) Mention any six points to be considered for good internal control for collection of tuition fees from students of college. **[6 marks]**

Ans:- Good internal control is an important aspect in every organisation. Good internal control for collection of fees from student of college are mentioned below : -

- (i) Fees structure of college, school, university should be as per decision of governing body and applicable regulations. For eg. State govt. While giving grants to educational institutions imposes restrictions regarding fees structure.
- (ii) Employee who collects fees should not permitted to access books of Account. Another person will enter the amount in accounts and deposited in bank by different employee. This type of internal control system help in preventing fraud and embezzlement of cash because there is not all authority in the hands of one employee.
- (iii) Change in fees structure and any concession in fees is authorized by proper authority.
- (iv) System must be developed to issue serially numbered receipt against each amount of receipt.
- (v) Counter – foil of such receipt must be maintained.
- (vi) Unused receipt should be under proper custody.

(b) XYZ Ltd. has purchased plant and machinery costing Rs. 1 crore in the month of October, 2008 out of working capital limits sanctioned by Bank. **[4 marks]**

What are reporting requirements by Statutory Auditors of the Company in this regard, keeping in mind the provisions of CARO 2003.

Ans:- XYZ Ltd has purchased plant & machinery costing Rs.1 crone in the month of oct 2008 out of working capital limits sanctioned by bank. As per CARO 2003, the auditor should verify whether the funds raised on short term basis have been used for long term investments. If yes the nature & amount of such items should be disclosed separately by the auditor.

Here, the company has used short term funds for long term investments hence the statutory Auditor needs to see whether the amount of such items have been disclosed if not it have to be disclosed separately.

Qn 6. (a) A Limited Company has filed a suit against debtor from whom Rs. 25 lakhs are receivable.

A judgement is received from court in favour of the company after the date of Balance Sheet. Discuss auditor duty in this regard. **[6 marks]**

Ans:- According to AS-4 – “Contingencies and events occurring after the balance sheet date”, events occurring after B/S date are defined as those significant events, both favorable or unfavorable, that occur between the Balance Sheet date and approval date of financial statement by board of directors.

Some of these events either require adjustments to the Assets and Liabilities as on Balance Sheet date or proper disclosure. These may be of the following type: -

1. Events that provide additional information materially affecting determination of amount pertaining to existing conditions at the Balance Sheet date are adjusting event and need adjustments.
2. Events which don't pertain to the existing condition at the Balance – Sheet date, called non adjusting events, no need of adjustment , only disclosure through notes on account required.

In the given judgement from court is available in favour of company and it is an adjusting event occurring after Balance Sheet date. Auditor's duty in this regard –

- (a) To see that such event has been properly identified and divided as adjusting event
- (b) To confirm that Assets and Liabilities have been suitably adjusted as at Balance Sheet date –
 - (i) If Debtor of Rs.25 lakhs were already included in the debtors list than, deduct the amount if cash has received and
 - (ii) If this amount had been considered as bad or doubtful debt them credit the amount of Rs.25 lakh in profit and loss account as bad debt recovered to lesser the amount of bad debt.
- (c) Confirm that cash amount (if already received) has been increased with Rs.25 lakhs.

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(b) While conducting audit of a bank, you find that bank has advanced loan for purchase of machinery on the basis of valuation report prepared by a civil engineer. Will you approve the action taken by bank ? Justify the answer.

[4 marks]

Ans : In given case bank has advanced loan for purchase of machine on the basis of valuation report prepared by a civil engineer. AAS 9 "USING THE WORK OF AN EXPERT" will be applicable here. The said AAS says that auditors education and experience enable him to be knowledgeable about business matters in general, but he is not expected to have expertise of a person trained for, or qualified to engage in, practice of another profession or occupation. When auditor uses work of an expert employed by him, he is using that work in the capacity as expert and not of delegation of work to assistant.

The Auditor's duty is to verify the value of the machine. He may use work of an expert provided he exercise adequate skill. After considering following step approval shall be given. As per AAS 9 –

- (i) Skill and competence – Auditor should satisfy himself as to the skills and competence by considering the experts-
 - * Professional qualifications, licence, membership in an appropriate body
 - * Experience and reputation in the field in which the evidence is sought.
- (ii) Objectivity → Objectivity of an expert should be considered. Civil engineer is not employee of bank and related in other way.
- (iii) Appropriate audit evidence → Auditor should seek reasonable assurance that engineer's work constitute appropriate audit evidence in support of the financial information, by considering
 - * Source data used
 - * Assumptions and methods used.
 - * Result of engineer's work in the light of auditor's overall knowledge of the business and of the result of his audit procedures.

If auditor is satisfied from above enquiry he will approve action taken by bank and if he considers expert is inconsistent with information in the financial statement or doesn't constitute sufficient appropriate audit evidence, auditor will qualify the report.

Qn 7. How would you vouch/verify the following (Answer any two)

[5 x 2 = 10 marks]

(a) Production incentive paid to workers.

Ans:- Production incentive to worker may be verified by adopting following procedures :-

1. Internal control system must be ascertained and evaluated for the incentive schemes launched by the management for its workers.
2. Auditor must check that the workers are paid according to the incentive scheme applicable for him.
3. Time keeping department must check the attendance properly. Auditor can check on test basis the productivity of the workers by seeing the standard time allowed to each worker and the actual time taken by them.
4. Wages of labourers are computed after taking into account the statutory deductions such as provident fund, ESIC, TDS etc.
5. Check the certificate regarding work done by the labourers has been given by the proper person in case the labour are appointed on production basis.
6. Acknowledgements must be received for all the payments made to all labourers.
7. Treatments of abnormal idle time should also be done.
8. Reconciliation through personal department records with no. of labour to ensure that there are no dummy workers.

(b) Goods lying with third party.

Ans:-

1. The auditor should refer to the memorandum record to confirm that on the receipt of acceptance from third party, his account has been debited and the sales account correspondingly credited.
2. He should examine that the value of stock lying with third party should be recorded for the in the accounts.
3. Stock with consignee as on the Balance Sheet date should be recorded in company's books. If goods are sent on invoice price they should have been recorded at cost or market value which even is less.

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4. Goods sent on sale or return on approval should be recorded as stock, at cost or market value whichever is lower. See whether adequate records for the same has provided for in the books of A/cs. If till the date of preparation of Balance Sheet (that is closing of accounting period) stock with customer check whether it has been approved or not. Is approved should be excluded from closing stock and included as sales at invoice price. Regarding the profit booked, the auditor has to see whether appropriate accounting regarding the same has been done as not.

5. As per the "GUIDANCE NOTE ON AUDIT OF INVENTORIES", when significant stock are held by third party, the auditor should examine that third parties are not such with whom it is not proper that stock of entity are held. He should obtained directly from third party written confirmation of stock held.

(c) Bad debt

Ans:- Bad debts → Following points to be consider to verify bad debts :

- (i) Schedule of bad debts → Verify whether the amount of bad debts has been shown in the bad debts schedule of the preceding years.
- (ii) Again schedule of debtors → If debtor's is more than three years than consider it bad.
- (iii) Required step → Auditor should assess to recover such amount, whether proper steps has been taken by competent authority.
- (iv) Counterfoil → Cross tally with sales and debtor register and amount shown as bad debts is authentic. Check counterfoil of cash book.
- (v) Examine correspondence with debtor & other documentary evidence.
- (vi) Check the agreement of balances as shown in the schedule of debtor with those in the ledger account.

OR

Proposed dividend.

Ans:-

- (i) Examine special provision, if any, in the Memorandum and Articles of Association regarding payment of dividend.
- (ii) Provision of Companies Rules, 1975 have been complied with,
- (iii) Examine board's minutes regarding rate of dividends.
- (iv) Examine Companies procedure for payment of dividends and ensure that they are not paid without adequate safeguard as to identification of payee, checking of payee's claim and this connection, internal control of company should be examined.
- (v) Verify shareholder's register and ensure that the name of all shareholders who are entitled to receive dividend has been included.
- (vi) Check the computation of dividend with reference to rate of dividend and number of shares held.
- (vii) Check counterfoil of cheques for amount paid to shareholder.
- (viii) Examine, Sec 205, 205A, 205 B have been complied with.

Qn 8. Write short notes on the following (answer any two) :

[5 x 2 = 10 marks]

(a) Physical attendance by auditor during inventory taking

Ans:- Physical verification of inventory is responsibility management. However, when inventory are material and auditor places reliance upon physical verification of management, he should attend the stock taking. This extent will depend when his assessment of relevant ICS, result of examination of stock records and the analytical review procedures.

Before commencement of verification, the management should issue appropriate instruction to stock taking personal. Such instructions cover all areas of physical count, should be in writing and should be formulated in consultation with auditor.

If auditor is present at stock taking, he should observe the procedure of physical verification to ensure that instruction issued have been followed. The auditor should test Count inventories giving special attention to higher value and physical condition of inventories.

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Auditor should insure proper cut-off procedures have been adopted by management. Goods purchased but not received has been included in inventories and liability has been provided goods sold but not dispatched has been excluded from inventory.

The auditor should review original physical verification sheet and trace selected items including more valuable once into the final inventory, compare with stock records.

Review the discrepancy noticed are properly accounted for. Determine procedure for identifying defective, damaged, obsolete, excess and slow moving items of inventory are well designed and operates properly.

There are two principal methods of stock taking continuous stock taking and periodical stock taking. Where continuous stock taking follow auditor should lay special attention to ascertain that the management –

- (i) maintain adequate records that are kept adequate
- (ii) has satisfactory procedure for physical verification of inventory
- (iii) investigate and correct all material differences between book records and physical count.

(b) Letter of Weakness

Ans:- This letter is issued by auditor to management. This letter is also called Internal control letter or Management letter.

While checking internal control system, an auditor may come accross a number of weaknesses in the said system. The auditor should invite attention of showing these weaknesses to management. In this letter, auditor should also give suggestions to management for removing said weaknesses of internal control system.

The basic purpose of this letter is that if any charge is made on auditor that he had not carries out audit properly, he can prove that he had issued letter of weakness to management.

But auditor must state in the letter that the weaknesses stated in letter are only those weakness which came to his knowledge while checking the internal control system for his audit purpose. He must state that he had not checked internal control system for finding weaknesses therein for the purpose of management.

He must state that even after issue of these letter, there may be some mistakes which are still there in the internal control system.

(c) Knowledge of Client's business

Ans:- AAS-20 knowledge of the business : (Effective from 1.4.2000)

1. Purpose : To establish standard on

- (i) What is knowledge of the business.
- (ii) Why it is important,
- (iii) How auditor obtains and uses the knowledge.

2. Knowledge of the business – It is a frame of reference within which the auditor exercise professional judgement. His knowledge would include a general knowledge of economy and industry within which entity operates and a more particular knowledge of how the entity operates which will enable the auditor to identity and understand the events, transactions, practices may have a significant impact on financial statement.

3. Such knowledge is used by the auditor in assessing inherent and control risks and in determining the nature, timing and extent of audit procedures.

4. The auditor can obtain such knowledge from various sources

- * Discussion with internal audit personal, legal advisor, knowledgeable person outside the entity,
- * Publication relation to industry
- * Relevant regulations and legislation,
- * Visits to be entity premises and plant etc.



5. For continuing engagement → These information should be updated and re-evaluated.
6. Some areas in which these information's are useful : -
- * In developing overall audit plan and audit consideration and skills are required,
 - * In assessing inherent and control risk.
7. It should also be ensured that the audit staff, assigned to an audit engagement also obtains sufficient knowledge of the business to enable them to carry out audit work delegated to them.

OR

Responsibilities of Joint auditors.

Ans:- SEVERAL RESPONSIBILITIES of Joint Auditor

- 1. Allocated Work Areas:** In respect of audit work divided among the Joint Auditors, each Joint Auditor is responsible only for the work allocated to him, whether or not he has prepared a separate report on the work performed by him.
- 2. Analysis of Internal Control:** It is the responsibility of each Joint Auditor to Auditor to -
 - (a) Study and evaluate the prevailing system of internal control; and
 - (b) Determine the nature, timing and extent of audit procedures to be applied in relation to the area of work allocated to him.
- 3. Sampling:** Each Joint Auditor should decide issues such as appropriateness of using test checks or sampling, in relation to his own area of work. This responsibility is not shared by the other Joint Auditors.
- 4. Review of Branch Audit Reports:** Where Branch Audit Reports / Returns are required to be scrutinized by different Joint Auditors in accordance with allocation of work, it is the specific and separate responsibility of each Joint Auditor -
 - (a) To review the Audit Reports / Returns of the divisions / branches allocated to him; and
 - (b) To ensure that they are properly incorporated into the accounts of the entity.
- 5. Branch Audit:** Where Branch Audits are separately assigned to the various Joint Auditors, they may agree among themselves as regards the division of work relating to the review of such branch returns. It is the separate and specific responsibility of each Joint Auditor to exercise his judgment with regard to the necessity of visiting such divisions / branches in respect of which the work is allocated to him.
- 6. Management Representations:** Where specific divisions, zones or units are allocated to different Joint Auditors, it is the separate and specific responsibility of each Joint Auditor to obtain appropriate information and explanations from the Management in respect of such divisions / zones / units and to evaluate the information and explanations so obtained by him.

JOINT AND SEVERAL RESPONSIBILITY of all Joint Auditors arise in the following situations -

- 1. Common Areas of Work:** When the audit work is not divided among the Joint Auditors and is carried out by all of them.
- 2. Common Decisions:**
 - (a) When decisions are taken by all the Joint Auditors as to the nature, timing or extent of the audit procedures to be performed by any of the Joint Auditors, all of them are responsible only in respect of the appropriateness of the decisions concerning the nature, timing or extent of the audit procedures agreed upon among them.
 - (b) Proper execution of audit procedures is the separate and specific responsibility of the Joint Auditor concerned.
- 3. Communicated Matters:** When matters, brought to the notice of other Joint Auditors by any one of them, on which there is an agreement among the Joint Auditors.

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4. Disclosure Matters: To examine compliance of the Financial Statements of the entity with the disclosure requirements of relevant statute.

5. Reporting Matters : To ensure that the report with the requirements relevant statute.

6. Management Representations : When the responsibility as regards obtaining and evaluating information and explanations from the Management is shared by all the Joint Auditors. However, there is no joint and several responsibility if, they agree upon a specific pattern of distribution of this responsibility.