

## SOLUTION OF AUDIT TEST OF 10 SAs

1. As per SA 230 Documentation refers to preparation and presentation of audit working paper. The ownership i.e. the property of working paper lie with auditor and so also has the responsibility to keep them in the safe custody.

Disclosure of working paper: a) To ICAI – compulsory whenever ICAI wants

b) To Client or other auditors – Optional

c) To Others – Disallowed as it will leak clients

confidentiality

In the given case, Managing Director of PQR Ltd is demanding the working paper from its auditor RK& Co. It is to be noted that as SA 230 has no right to demand but only request the auditor to show working paper. If auditor want he may give the copies of working paper but he is not bound to do.

Hence from the above discussion we conclude that auditor is not bound to oblige the Managing Director PQR co. Ltd.

2. Confidentiality is one of the basic principles governing an audit as per which auditor cannot leak client confidentiality at any cost without client consent.

In the given case study auditors disclosed the imported price of raw material to chamber of commerce on the grounds national interest. It is to be noted that an auditor occupies the same position of a lawyer who as per Indians Evidence Act can neither himself disclose nor can be compelled to disclose evidence against the client wishes.

Thus from the above discussion we conclude that the auditor is guilty under (1) of part 1 of schedule II of Chartered Accountants Act 1949.

**3 a. True** As per Sa 500 Auditor must express his audit opinion on the basis of sufficient appropriate audit evidences. Sufficiency refers to quantum, appropriate – here refers to relevance & reliability .Whether audit evidence are sufficient or not depends on the five factors size of the organisation, Nature of the item, Materiality of the item, Internal control, Experience of Auditors

**3 b. False** As per SA 580 auditor should always ask for written representation because written representation is better than oral representation.

**4.** An expert is a person, association or firm having specialized knowledge, skill and training in fields other than accounting and auditing. As per SA 620 objectivity of expert should be to remain impartial, the chances of which get impaired (hampered) in 2 cases :-

- i) when expert is related to client
- ii) when expert is employed by the client.

**5.** Audit documentation refers to preparation and preservation of audit working papers. As per Sa 230 It is mandatory that auditor makes working proper and file in either permanent or current audit file. It is nowhere written in SA 230 that working paper must be kept in physical form which mean auditor may maintain it electronically. However full care should be taken that electronically maintained document are password protected along with proper backups so that it remain under proper custody & its confidentiality is not endangered.

**6. Inherent Limitation of Audit :-**

- 1)Auditors primary duty in not to detect any fraud &errors
- 2) Auditor doesn't give any guarantee
- 3) Explain audit risk SA 230
- 4) explain sampling risk SA 530

**7. As per SA 210 Terms of Audit Engagement :-** these are the classification made by auditor to his client before accepting the Audit.

Following are the some of the terms of Audit engagement:-

- i) Accounting is the responsibility of management.
- ii) Internal control is the responsibility management.
- iii) auditor responsibility is only to form an opinion on financial statements
- iv) auditor has an unrestricted access to the books of accounts.
- v) auditor is not an employee of clients

As per recurring audit means same clients financial statements audited year after year

Terms of audit engagement should not be sent to the client in case of recurring audit except in following two situation:-

- a) When the management changes
- b) when auditors feel that old management has forgotten the terms of audit engagement.

**8. Utility of working paper-** Following are the advantages / importance of working paper

- i) It helps in future reference of the article and assistance.
- ii) It helps in legal reference when any case is pending against the auditor in front of the either disciplinary committee of ICAI OR in the court of law.
- iii) It also help in audit planning

**Ownership and Custody of working paper** - The ownership i.e. the property of working paper lie with auditor and so also lies the responsibility to keep them in the safe custody.

**Retention of working paper-** working paper must be compulsorily preserved for minimum 7years. (Before amendment it was 10 years)

**9.** An auditor must follow the following basic principle governing an audit.

**i) Integrity, objectivity, & Independence :-** An auditor should maintain his integrity by being honest sincere & Straight forward .He should always maintain his Objectivity of forming an impartial opinion. He should be independent in his approach .A person is said to be independent only if judgment are not subordinate to anybody wishes are direction.

**ii) Confidentiality:-** Cannot be leaked at any cost

**iii) Skill & Competence :-** An auditor should conduct the audit carefully by exercising Due reasonable skill &care.

**iv)Documentation (SA – 230):-**Refers to preparation & presentation of audit working papers.

**v)Audit Evidence(SA 500):-** Audit Opinion has to be formed on the basis of Audit Evidence which are collected by performing Audit procedures of compliance &Substantive.

**vi) Audit planning(SA -300) :-**Auditor must consider following four factors for audit planning :-

- a) Acquiring the knowledge of clients business
- b) Establishing the Degree of reliance on clients internal control
- c) Determine the nature, timing,& extent of audit procedure to be performed
- d) Coordinating work of articles & assistance of Using the work of others auditors SA per SA-600 and of expert As per SA-620

**10.** As per SA 200 the primary responsibility of an auditor is not to detect the frauds &errors but rather it is to comment and form an opinion whether the financial statements are showing true & fair view or not. However while applying the audit procedure of any situation comes which hints the auditor that fraud or error might have occurred in that area. Then auditor should extend his auditor procedure in that area either to confirm or dispel such fraud

or error ,Even if auditor discover any fraud or errors ,client cannot rely on auditor for discovering all frauds and errors because that is not his duty. It is to be noted that as per section -143 of companies Act,2013 if auditors has noticed any fraud or error which is more than either 2% of turnover or 5% of net profit then it should be reported by auditor to audit committee and central government.

**11)** As per SA 200 the primary responsibility of an auditor is not to detect the frauds & errors but rather it is to comment and form an opinion whether the financial statements are showing true & fair view or not a guarantee or assurance. The users of financial statements must understand that auditors must not guarantee the future availability (existence) of the enterprise and also does not assure about the effectiveness and efficiency with which management operation have been conducted.

Hence if any investment suffer and find a loss because of his investment in client auditor cannot be held liable.

## **12. Types of Audit evidence**

**Based on source:-** a) Internal – There audit evidence are collected within clients entity

b) External - There audit evidence are collected from external sources e.g bank debtor, creditor etc

**Based on nature:-** a) Visual – collected after observation

b) Documentary- Collected after inspection

c) Oral - after inquiry

Normally external evidences are more reliable than internal but if internal control are satisfactory then auditor will place equal reliance on both .

If different audit evidences are consistent then reliable will be more but if they are inconsistent then auditor should perform further audit procedure to collect further audit evidences to resolve the inconsistency.

**13.**As per As 1 some accounting policy must be followed year after year as per the principle of consistency. However it may be changed in following three situation

- a) If change is demanded by any accounting standard
- b) If change is demanded by any statute
- c) for better presentation & disclosure

**14.** Areas in which different accounting policies may be encountered are:-

Method of depreciation, depletion and amortization-Straight Line Method, Written Down Value method.

- Valuation of inventories – FIFO, LIFO, weighted average etc.
- Treatment of goodwill – write off, retain.
  
- Valuation of investment –at cost, market or net realizable value etc.
- Treatment of retirement benefits-Actuarial, funded through trust, insurance policy etc.
- Valuation of fixed assets-historical cost, revaluation price, exchange fluctuation etc.

**15.** True As per SA 500 Sufficiently refers to quantum, appropriate – here refers to relevance & reliability .Whether were audit evidence are sufficient or less depends on the five factors.

**i) Size of the organization-**If large size than more and vice-versa

**ii)Nature of the item-** If item is complex then more audit evidence is required but if simple then less.

**iii) Materiality of the item-** If item is material then more audit evidence is required otherwise less

**iv) Internal control-** If strong then less audit evidence is required if work then more.

**v) Experience of Auditors** – Will guide whether collected audit evidence are sufficient.

**16.** As per SA 520 whether auditor will place more reliance on the result of the ratio depends on the following factors:-

- a) If item is material then reliance on ratio's result will be less
- b) If item is complex then less reliance
- c) if internal control is strong then more reliance
- d) If expected actual result tallies then more reliance
- e) If other audit evidences are consistent then more reliance

**17 a. Substantive Procedure** – Substantive procedure is type of audit procedure. It is of two types

- i) Vouching/verification
- ii) Analysis of key financial Ratios

i) Vouching refers to checking of income and expenses whereas verification refers to checking the assets & liabilities E.g. – purchase vouching, cash verification.

ii) Analysis of key financial ratio helps the auditor to find out whether he has to check going concern assumption of client or not.

**17 b.** As per SA 230 documentation refers to preparation and preservation of audit working papers.

Following are the advantages / important of working paper

- iv) It helps in future reference of the article and assistance.
- v) It helps in legal reference when any case is pending against the auditor in front of the either disciplinary committee of ICAI in the court of law.
- vi) It also help in audit planning

Audit working papers are preserved in either of the two audit files

- a) Permanent audit file

b) current audit file

The ownership i.e. the property of working paper lie with auditor and so also lies the responsibility to keep them in the safe custody.

**17 c.** As per SA 200 auditor should be independent in his approach. A person is said to be independent only if judgment are not subordinate to anybody's wishes or direction. Following are the advantages of auditors independence;

- 1)It gives confidence to investors
- 2)It keeps a moral check on employees
- 3)It helps in negotiating in bank loans and settlement of taxes

**17 d.** Audit working papers are preserved in either of the two audit files

- a)Permanent audit file
- b) Current audit file

Permanent audit file records those non recurring audit matters which generally does not change year after year. Following are the contents

- i) Memorandum of association
- ii) Articles of association
- iii) Significant of accounting policies of client
- iv) Significant audit observation
- v) Significant ratios & trends

Current audit file records those recurring audit matters which generally changes year after year following are its contents:-

- i) Result of ratio and trends
- ii) Result of vouching
- iii) Result of verification
- iv) Communication with experts
- v) Communication with others auditors

**17 e.** As per SA 580 management representative are ascertain claim facts and explanation made by management to the auditor during the course of audit

Two types :-

a) Unsolicited – Representation made by on own motion i.e. without being asked by auditors.

b) In response to specific queries- representation made by management on being asked by auditors

Management Representation is not a substitute of others audit evidences. It is just one of the many audit evidences available and evidences any types of management representation he should perform following three audit procedures

- i) Seek corroborative Audit evidences
- ii) Compare them with management's representation
- iii) Check whether management who made the representation was himself well informed on the matter or not

Two modes:-

- i) Oral representation
- ii) Written representation

Auditor should always ask for written representation.