JGi JAIN DEEMED-TO-BE UNIVERSITY | CMS BUSINESS SCHOOL

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18JBS311: Audit & Assurance

Case Let -1

The auditor of ITC Ltd, engaged in FMCG (Fast Moving Consumable Goods) obtains an understanding of the control environment. As Part of obtaining this understanding, the auditor evaluates whether:

a. Management has created and maintained a culture of honesty and ethical behaviour and
b. The strengths in the control environment elements collectively provide an appropriate foundation for the other components of internal control.

Advise what is included in control environment. Also explain the elements of control environment.

Case Let -2

Maize ltd has a branch office in Malaysia. The company has appointed Mr. Akshay , who is qualified to audit accounts as per Malaysian laws. Mr. Z, the statutory auditor objects to the same, contending that he alone can audit the branch office accounts. Discuss.

Case Let - 3

R & Co, a firm of Chartered Accountants have not revised the terms of engagements and obtained confirmation from the clients for last 5 years despite changes in business and professional environment.

Required Elucidate the circumstances that may warrant the revision in terms of engagement.

Case Study -1

You are a recently appointed audit partner in a large independent firm of accountants. You are delighted that you are now a partner and can't wait to sign off your first set of accounts. Your firm recently won an audit tender for a medium-sized family owned company, A Ltd, and the firm's managing partner has allocated the client to you. The managing partner is reasonably close to the family which owns A Ltd and you believe that this is at least part of the reason why the company decided to appoint your firm.

As is normal, you go through all the firm's new client procedures which include writing to the previous auditors and also obtaining sets of statutory accounts for the previous 3 years. When you receive the written reply from the previous auditors, you note that they have nothing to report other than any matters addressed in their audit report. This seems strange, so you quickly review the company's set of financial statements for the previous year and note that the company's audit report was qualified on the basis of non-compliance with an accounting standard. The audit report highlights that the company owns a property and advises that the

directors, on cost grounds, decided not to have an FRS 16 valuation performed. The audit opinion adds that the auditor is unable to quantify the impact of this non-compliance with FRS 16. You wish that you had access to the working papers of the predecessor auditors but the relevant audit regulation was not applicable at this time.

You are considering the impact of this issue when Mr X, the Managing Partner, comes into your office. He provides you with an oral briefing on A Ltd and then asks you whether you have any queries. You inform Mr X what you have found. Mr X replies: “I do not see any problems; if the client does not believe that it is worth paying for this information then who are we to tell them otherwise: it is a family business after all. If we have to, we can adopt the same approach as the previous auditors and qualify the audit report on the same grounds.”

That is when you inform him that you have doubts as to whether the audit qualification issued was appropriate in the circumstances. The previous auditors issued an “except for – disagreement with accounting treatment – due to non compliance with an accounting standard” and you believe that a “limitation of scope” opinion may have been more appropriate. You are not sure but you surmise that this may be because of the requirement that if a client places a limitation of scope on the work of the auditors which will require the auditor to issue a disclaimer of opinion, in advance of the auditors accepting that appointment, then unless the restriction is removed, the auditor should not continue in office for that particular client. Mr X replies that you should go ahead and reassess the position once the audit fieldwork has been completed by your team.

However, he adds: “Bear in mind that although the Managing Director (MD), is an acquaintance it has taken me a number of years to get him to use our firm as auditors – I do not want to do anything that would upset him unnecessarily and jeopardise our business relationship.”

You are now reviewing the audit files of A Ltd for the year in question. The company has a turnover of around $18 million and is showing a profit of$2,900,000 for the year after taking account of the proposed audit adjustments. However, you notice that the directors have once again refused to obtain an FRS 16 valuation and therefore no gain or loss on revaluation is reflected in the accounts. You realise that the lack of an FRS 16 valuation will mean that you will have to qualify your first audit opinion. Whilst this concerns you, what really worries you is the type of qualification that will be required i.e. a limitation of scope. If the extent of this limitation leads you to issue a disclaimer of opinion, then your firm would not be able to act for this client going forward unless the client changes its stance on obtaining FRS 16 valuations. Mr X will be furious if you adopt this approach.

What do you do now?

Analysis of Scenario: What are the readily-identifiable ethical issues for your decision?

(Source: *This case study was published by the Technical Policy Board of The Institute of Chartered Accountants of Scotland (ICAS), and adapted by the Institute of Certified Public Accountants of Singapore (ICPAS) with the permission of ICAS.)*