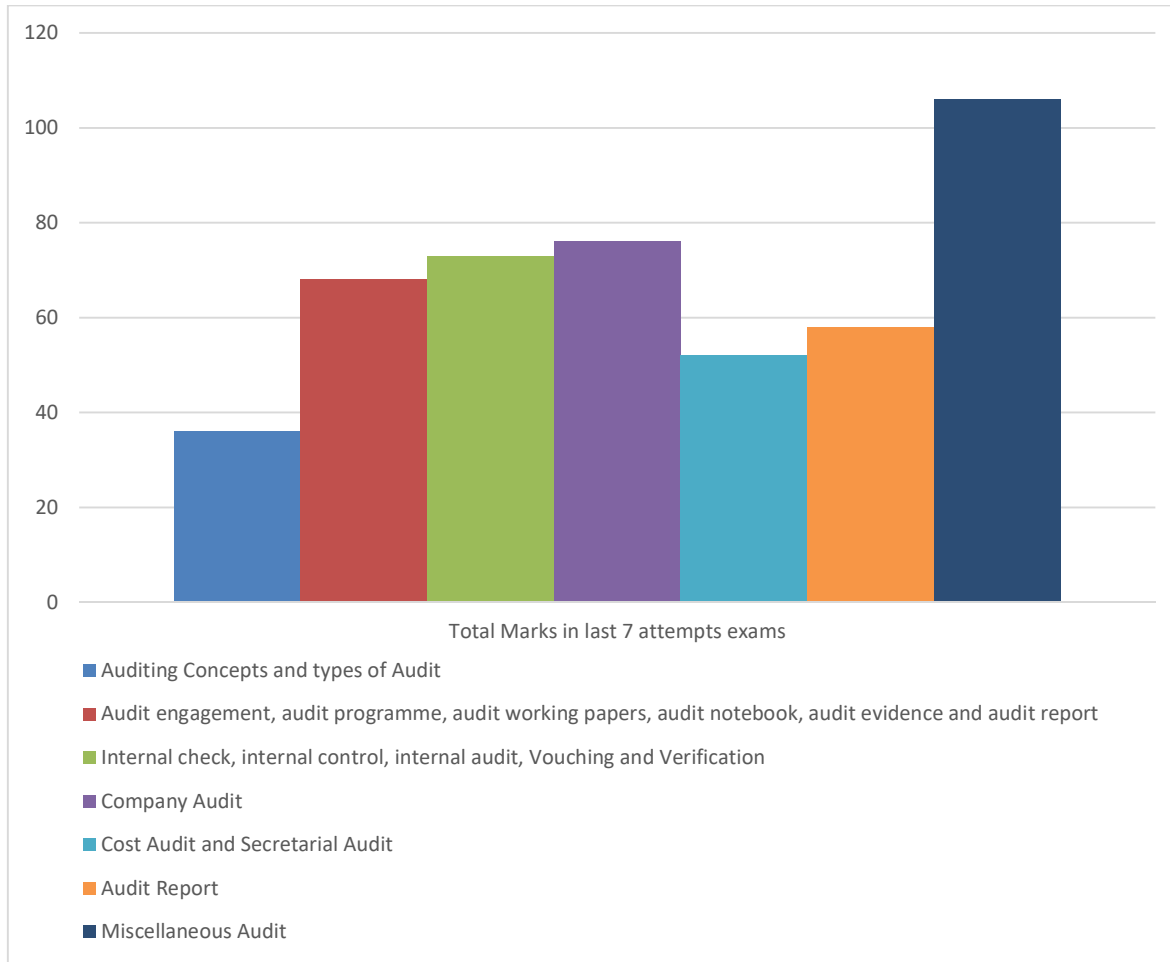


Audit

(Paper 12B of Intermediate Course - Syllabus 2016)


By CA CS CMA Nikkhil Gupta



Salient features of the book:

- Coverage of the entire syllabus, strictly as per the curriculum prescribed by the ICAI
- Lucid and practical examples to understand the applicability of the concepts
- Includes summary notes (KPTR), on each chapter, to aid quick revision during examination
- More than 250 objective type questions to practice the MCQs
- Includes examination questions of last 10 attempts
- Pen drive of the video lectures (studio recording) also available

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Earnest Gratitude

Dedicated to my grandfather Late Shri Sushil Chand Gupta who has been a constant source of inspiration for me throughout...

Special mention of my brother CA Mukul who has been a great support always...

Last but of course not the least my mother Meenakshi Gupta whose untiring efforts have always bore fruits for me...

Thanks Mom!!

List of Abbreviations

CG	Central government
FS	Financial statements
SFIO	Serious Fraud Investigation Office
TCWG	Those charged with governance
WR	Written representation
ROMM/RMM	Risk of material misstatement
CIS	Computer Information System
SEBI	Securities and Exchange Board of India
NCLT	National Company Law Tribunal
SA	Standards of auditing
SAP	Substantive analytical procedure
EOM	Emphasis of matter
CAG	Comptroller & Auditor General Of India
BOD	Board of Directors
NFRA	National Financial Reporting Authority
ICS	Internal Control System
RBI	Reserve Bank of India
IRDA	Insurance Regulatory & Development Authority

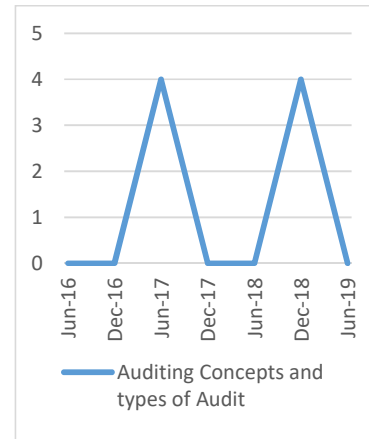
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Chapter 1 – Auditing concepts and types of audit

Chapter at a Glance

Audit	Evolution of audit, meaning, features and scope
	Objectives of Audit, Basic principles governing audit, Qualities of an auditor
	Distinction between audit and investigation, Significance and limitation of audit
Types of Audit	Classification on the basis of Organisational structure, objectives, timing and scope
	Definition, features, advantages and limitations of various types of audit
	Advantages of audit of a sole proprietorship and partnership firm



Evolution Of Auditing	<p>In the early days of commerce and business there was no existence of the concept of auditing. This was, may be due to the small nature of business and day to day personal control of the proprietor. Audit evolved after the industrial revolution (18th century) due to the following reasons:</p> <ul style="list-style-type: none"> ➤ Large scale of business organisations came into existence ➤ Dilution in regular and direct control of the proprietor ➤ Transactions were being recorded by the staff and representatives of the owners ➤ A need was felt to audit the public accounts
Auditing in India	<ul style="list-style-type: none"> ➤ Annual audit was introduced by the Joint Stock Companies Act, 1857 for the companies in India. ➤ Later, the Companies Act, 1913, made it compulsory. This Act was replaced by the Indian Companies Act, 1956, and now by the Companies Act, 2013 ➤ In 1965, the concept of Cost Audit was introduced ➤ The Income Tax Act, 1961, introduced the concept of Tax Audit in 1984 ➤ Sales Tax (VAT), Trust Act, Co-operative Societies Act etc. brought the concept of different audits into practice. ➤ Provision for Special Valuation audit section 14A and Section 14AA of Central Excise Act, 1944 regarding valuation and CENVAT respectively introduced in Central Excise Act, 1944 with effect from 26.05.95 and 14.5.97. ➤ In addition there is an Audit by the office of Controller and Auditor General of India under CAG, DPC (Act). ➤ Section 35(5) of the CGST/SGST Act have recently introduced the GST audit in India
Definition of Audit	<ul style="list-style-type: none"> ➤ Independent examination of ➤ the financial statements (includes Balance Sheet, profit and loss account, cash flow statement, notes to accounts) ➤ of any entity (whether profit making or non-profit making, whether large or small) ➤ with an objective to express an opinion

Ingredients of audit	<ul style="list-style-type: none"> ➤ An intelligent and critical examination of the books of accounts of business. ➤ It is done by an independent qualified person. ➤ It is done with the help of vouchers, documents, information and explanations received from the clients. ➤ The auditor satisfies himself with the authenticity of the financial accounts prepared for a particular period. ➤ The auditor reports that: <ol style="list-style-type: none"> a) The Balance Sheet exhibits a true and fair view of the state of affairs of the concern. b) The profit and loss account reveals the true and fair view of the profit or loss for the financial period. c) The accounts have been prepared in conformity with the concerned law. Like the provisions of Companies Act and related rules d) If he is not satisfied then reports in what respect he is not satisfied. 	
Features of auditing	<ul style="list-style-type: none"> ➤ It involves verification of the relevance, reliability and adequacy of evidence in support of financial information such as vouchers, documents, explanations. ➤ It is analytical, critical and investigative review of systems of Accounting & Internal Controls. ➤ The information audited may be financial or non-financial. ➤ Evaluation of the information should be in a systematic & scientific manner. ➤ The auditor should be competent and independent, qualified & possessing prescribed qualification & certificate of practice. ➤ It ensures reliability of information and authenticity of information in the financial statements relating to enterprises. 	
Nature and scope of Audit	<ul style="list-style-type: none"> ➤ Audit is not only restricted to audit of financial records but also extends to cost data (cost audit), managerial performance (management audit), internal operations (internal audit), energy efficiency (Energy audit), GST audit, tax audit, etc ➤ Audit is not only restricted to business organisations but also to non-business organisations <p>Scope Limitations</p> <ul style="list-style-type: none"> ➤ Auditor is not expected to perform duties which are beyond his scope of competence ➤ Auditor is not supposed to prepare the financial statements but only audit it. Auditing begins where accounting ends ➤ The auditor can only draw a reasonable conclusion (on the basis of evidence gathered), but not absolute certainty / assurance 	
Test Your Knowledge	<p>Case Study: M/s Badriprasad Ltd (BP) requested the auditor CA Mukund Madhav (MM) to provide for absolute assurance in respect of its ten branches scattered in Delhi and confirm that the financial statements are free from material misstatement due to fraud or error. Advise.</p> <p>Analysis: The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. This is because there are inherent limitations of an audit, which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive.</p> <p>Conclusion: In view of the above, CA MM cannot provide audit absolute assurance to BP Ltd in respect of its branches.</p>	
Distinction between accounting and auditing	Accounting	Auditing
	Analyze events and transactions	Review client's internal control system
	Management function	Auditor's function
	Record and summarize data in accounting records	Obtain and evaluate evidence on statement assertions

	Make financial statement assertions	Determine fairness of statements in conformity with recognized accounting principles
	Prepare financial statements as per recognized accounting principles	Prepare audit report on the findings
	Distribute Financial statements and Auditor's report to shareholders	Deliver audit report to client
	Accounting precedes auditing	Auditing starts where accounting ends
	An accountant works for/ under the management.	The auditor is an independent person answerable / liable to the owners / shareholders and not just to the management.
	Accounting is done as per the principles set by Indian Accounting standards (Ind AS)	Auditing is done as per the principle set in standards on auditing.
Qualities of an Auditor	<ul style="list-style-type: none"> ➤ Auditor should be professionally qualified. Eg. The Companies Act, 2013 requires the auditor of a Company to be a Chartered Accountant; the CGST Act, requires the GST Auditor to be a Chartered Accountant or a Cost Accountant. ➤ An auditor should have sound knowledge of other disciplines associated with the audit like accountancy, economics, mathematics etc. ➤ Auditor should possess integrity, honesty and objectivity ➤ The auditor must have the knowledge of the general principles of the Law governing the auditee enterprise, like the Companies Act, 2013 is applicable to all the companies, Banking Regulation Act is applicable to the Banking Companies. ➤ An auditor should also have an understanding of the special features which are peculiar to a particular client's business (like its industry and nature). [SA 300 (Revised) and SA 310]. ➤ Auditor should have basic human qualities like politeness, courtesy, professionalism. 	
Distinction between audit and investigation	Audit	Investigation
	It is an independent examination of the evidences underlying the financial statements to express an opinion on the financial statements	Investigation is an examination of accounts and records with a view to ascertain any fact for some special purpose
	The audit has a wide scope . In statutory audit, the scope is determined by the relevant law and in case of a private audit (e.g. management audit) by a client.	The scope is limited to the period or areas to be covered
	In audit, the accounts and records are verified as to their truth and fairness .	Investigation is for special purpose (e.g. investigation on the behalf of incoming partner)
	The audit is conducted in accordance with the generally accepted auditing principle .	Investigations involve an extended auditing procedure .
	An auditor will evaluate the accounting records predominantly based on persuasive evidence .	An investigator can draw his conclusions only on the basis of substantial or sometimes conclusive evidence .
	Auditor is sceptical and not suspicious. (Positive mindset)	Whereas an investigator starts with suspicion and collects evidence to either confirm or dispel that suspicion. (Negative mindset)
	Auditing is a routine exercise (normally conducted annually).	Investigation may spread over a gap period longer than one year. It occurs as and when required.
Aspects to be covered in audit	(i) Accounting and Internal Control System :- The auditor should develop an understanding of the accounting and the internal control system operating in the enterprise. Such an understanding will enable the auditor to ascertain the degree to which reliance can be placed on the information obtained during the audit.	

	<p>(ii) Examination of books, records etc: - The auditor should check the arithmetical accuracy of the books of accounts as well as the authenticity and the validity of transactions entered into the books of accounts. He should also check the underlying papers, documents and other evidence.</p> <p>(iii) Compliance with the relevant law (ie. Generally Accepted Accounting Standards) - The financial statements should be prepared in accordance with the requirements of applicable laws and the relevant Indian Accounting Standards, as well as the Companies Act and the relevant Rules made there under.</p> <p>(iv) Reporting - Once the audit is carried out, the audit findings need be communicated to the appropriate personal body (e.g. shareholders in case of company).</p>
Objectives of Auditing [SA 200]	<ul style="list-style-type: none"> ➤ Primary Objective: The main objective of an audit is to determine whether the financial statements presents a “true & fair view” of the financial position and financial performance of a business during the period. ➤ Secondary Objective: The auditor is also responsible for detecting frauds and errors in the books of accounts and financial records of the client’s business. He is also to report on the existence of such misstatement and their magnitude through his audit report.
Class Notes	
Basic principles governing an audit	<ul style="list-style-type: none"> ➤ Integrity, objectivity and independence:- The auditor should be straight-forward, honest, sincere and free from any influence on his audit work. He should maintain impartiality and be free of any interest. ➤ Confidentiality: - He should not disclose the client’s information to anybody without the client’s permission or under any regulatory requirement. ➤ Skills and competence:- The audit should be performed and audit report be prepared by adequately trained, experienced and competent person. ➤ Work performed by others:- The auditor should carefully supervise the work performed by others (such as his subordinates, other auditors, experts etc.) as he remains responsible for the work delegated by him to his assistants, other auditors or experts. ➤ Documentation:- Proper working papers should be maintained by the auditor to evidence the audit work. Working paper which is maintained is to demonstrate that the audit is in adherence to the basic principles. ➤ Planning: - The auditor should obtain the knowledge about client’s business to determine the nature, timing and the extent of the audit procedures. ➤ Audit evidence: - The auditor should obtain sufficient appropriate audit evidence through performing the compliance and substantive procedures. ➤ Accounting system and internal controls: - An understanding of the accounting system and the related internal controls help in determining the nature, timing and extent of other audit procedures.

	<ul style="list-style-type: none"> ➤ Audit conclusions and reporting:- On the basis of conclusions drawn from the audit evidence obtained the auditor should give unqualified report or qualified report or adverse report or the disclaimer report.
Significance of audit	<p>From legal point of view</p> <ul style="list-style-type: none"> ➤ Filing of Income Tax Return — Income Tax authorities generally accept the audited financial statements while assessing the tax liability of any entity. ➤ Borrowing of funds — Most of the financial institution sanctions various loans on the basis of audited financial statements. ➤ Statement of Insurance Claim — The insurance companies settle the claim for loss or damages on the basis of audited accounts of the previous year. ➤ Sales tax / GST payments — The audited books of accounts may generally be accepted by the sales tax / GST authorities. ➤ Action against bankruptcy — The audited accounts serve as a basis to determine action in bankruptcy and insolvency cases. <p>From internal control point of view</p> <ul style="list-style-type: none"> ➤ Quick discovery of errors and frauds — Errors and frauds are located at an early date, so that in future no attempt is made to commit such frauds as one is rather careful not to commit an error or a fraud as the accounts are subject to regular audit. ➤ Moral check on the employees — The auditing of the accounts keeps the accounts clerks and the accountants regular and vigilant as they know that the auditor would complain against them if the accounts are not prepared upto date or if there is any irregularity. ➤ Advice to the management — It may happen that the management may consult the auditor and seek advice on certain technical points although it is not the duty of the auditor to give advice. ➤ Uniformity in accounts — If the accounts have been prepared on an uniform basis, accounts of one year can be compared with other years and if there is any discrepancy, the cause may be enquired into. <p>From external affairs point of view</p> <ul style="list-style-type: none"> ➤ Settlement of accounts — The audited accounts would facilitate the settlement of accounts of a deceased partner. ➤ Valuation of assets and goodwill — If the business is to be sold as a going concern basis, there may not be much difficulty regarding the valuation of assets and goodwill as the accounts have already been audited by an independent person. ➤ Future trend of the business — From the audited books of accounts, the future trend of the business can be assessed easily with certainty.
Advantages of Audit of Financial Statements	<ul style="list-style-type: none"> ➤ Protects interest of various stakeholders (like shareholders, lenders, regulators, investors etc.) who rely on the audited financials to take decisions. ➤ It serves as a moral check on the employees from committing defalcations or embezzlements. ➤ The employees of the organisation remain alert and vigilant as regards the updating of books of accounts and other records. ➤ Audited accounts are considered more reliable by different cadres of Government. For example, the tax audit report filed with the Taxation authorities. ➤ Detection of wastages and losses and helps in instituting corrective actions. ➤ Audited accounts are taken to be more reliable and useful during corporate restructuring exercises, valuations etc.

	<ul style="list-style-type: none"> ➤ Banks, Financial Institutions and Government require audited accounts before granting any financial assistance to the enterprise. ➤ Audited accounts are taken to be more helpful in the settlement of accounts between the partners and thus avoiding any dispute amongst them.
Inherent limitations of audit	<ul style="list-style-type: none"> ➤ Audit is not as assurance as to the future viability of the enterprise or the efficiency or effectiveness with which the management has conducted the affairs of the enterprise. ➤ Audit does not guarantee that all the material misstatements will be detected because of the following inherent limitations of audit: <ul style="list-style-type: none"> a) Test nature of the audit; b) The audit evidence available to the auditor is persuasive rather than conclusive in nature; c) Inherent limitations of internal control, e.g. management may be in a position to override controls. ➤ Professional skepticism — Auditor should be vigilant enough to ensure that if something is wrong in the financials, it is detected. This behaviour of auditor may be jeopardised due to a) risk of fraud or error, (b) reliability of management's representations etc. The auditor is entitled to accept the records and documents as genuine unless there is some evidence to the contrary. This may cause a significant threat on the scepticism of the auditor. ➤ Materiality - Auditor has to report only material misstatements. Hence, the auditor has to constantly evaluate which misstatement is material and which is not. However, what is material in one circumstance, may not be material in another circumstances. Therefore, changes need to be done accordingly. This subjectivity is a threat to audit.
Fundamental concepts of auditing – True and Fair view, Materiality and Accounting policies	
True and fair view	<p>The phrase “true and fair” in auditor’s report signifies that the auditor is required to express his opinion as to whether the state of affairs and the results of the entity are truly and fairly represented in the accounts under audit.</p> <p>This requires that the auditor should examine the accounts with a view to verify that:</p> <ul style="list-style-type: none"> ▪ assets are neither overvalued nor undervalued according to the applicable accounting principles ▪ No material asset is omitted ▪ The charge, if any on assets are disclosed ▪ Material liability should not be omitted ▪ The financial statements have been prepared as per the applicable financial reporting framework. ▪ All unusual exception or non - recurring items have been disclosed separately. <p>What constitutes true and fair is a matter of an auditor’s judgement in the particular circumstances of a case</p> <p>True and correct view signifies ‘absolute assurance’, ie. 100% accuracy. However true and fair view denotes ‘reasonable assurance’, less than 100% accuracy.</p>
Materiality (SA 320)	<ul style="list-style-type: none"> ➤ This concept is applied by the auditor both at planning stage and performing stage. ➤ Material misstatement (either individually or put together) may influence the decision of the users of the financial statements (Stakeholders) ➤ Materiality is determined on the following factors: <ul style="list-style-type: none"> • Individually: It may be determined individually. E.g., a payment of Rs. 1000 may be material in a small business, but even Rs.1 lac could be immaterial for a big business entity. • Aggregate: It may be determined in aggregate. E.g., total income from investment in mutual funds could be more material than looking into each individual investment.

	<ul style="list-style-type: none"> • Legal Considerations: It depends on the statutory or legal considerations. E.g., where the terms of appointment of a whole time director are not according to law, the remuneration paid to him is a material item even if the financial implication is not much. • Legal Definition: It may be defined or described in law itself. E.g., Schedule III requires separate disclosure of items of all expenses exceeding 1% of turnover or to write off capital assets purchased for less than Rs. 5000. • Relative overall impact: It may depend on the relative degree of relevance to the overall accounts or the group, or class of transactions to which it pertains. E.g., short recoveries from debtors. • Qualitative: It may be qualitative and not often reckoned with respect to quantitative details alone. E.g., improper disclosure of an accounting policy in the Notes to the Annual Financial Statements may affect economic decisions. • Insignificant quantity but special context: It maybe of an insignificant quantity otherwise, but material in special circumstances. E.g., rounding off to the nearest rupee the fraction of 0.666 as 0.67 in computer software. It may be material in future due to cumulative effect even if insignificant now.
Fundamental accounting assumptions and principles	<p>An auditor should ensure that the financial statements have been prepared as per the following fundamental accounting assumption and principles:</p> <p>Fundamental accounting assumptions</p> <ul style="list-style-type: none"> ➤ Going Concern - It means that the enterprise has an intention to carry on its operations for the foreseeable future. There is no intention on the part of the enterprise to discontinue the business nor has any need arisen as to the liquidation of the organisation. ➤ Consistency - Accounting policies are followed on consistent basis from one period to another. ➤ Accrual - Revenues and cost are accrued, i.e., they are recognised when they are earned or incurred. Actual receipt or payment is not necessary. In other words, the accounts are maintained on 'mercantile system' only. <p>Fundamental accounting principles</p> <ul style="list-style-type: none"> ➤ Prudence - It states to 'provide for all losses and anticipate no profits.' ➤ Substance over Form - The transaction should be accounted for in accordance with its actual happening and the economic reliability. The legal form is not relevant. ➤ Materiality - Financial statements should disclose all the items and facts which are sufficient enough to influence the decisions of the user of the financial statements. <p>Any change in accounting policy which has a material effect should be disclosed. The amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable and if it is not ascertainable, either wholly or in part, the fact should be indicated.</p>

Important Questions – Audit - meaning, scope, objectives, advantages, limitations

Q.1	Auditor's primary responsibility is to detect error and fraud. Comment [June 2009]
	False – The primary responsibility of an auditor is to express an opinion on the financial statements. It is the secondary responsibility to detect errors and fraud.
Q.2	Fraud is more difficult to detect than error. Comment [Dec 2012]
	Fraud happens intentionally and error takes place unintentionally.

Fraud may be divided broadly into two classes:

- Defalcation, involving either misappropriation of money or goods.
- The fraudulent manipulation of accounts not involving defalcation.

Fraud generally involves complicated, and carefully organized schemes to hide the transactions from the eyes of the Auditor and/or the management, such as forgery, failure to records transaction, cooking up the vouchers for expenses etc.

Q.3 The concept of True and Fair view is a fundamental concept in auditing [Dec 2014]

Q.4 State the difference between Audit and Investigation [MTP June 2019]

Q.5 Statutory Auditor cannot avoid the generally accepted fundamental assumption underlying the preparation of financial statements. State such assumption and actions to be taken if not followed. [Dec 2011 (4 marks)]

Fundamental accounting assumptions

- **Going Concern** - It means that the enterprise has an intention to carry on its operations for the foreseeable future. There is no intention on the part of the enterprise to discontinue the business nor has any need arisen as to the liquidation of the organisation.
- **Consistency** - Accounting policies are followed on consistent basis from one period to another.
- **Accrual** - Revenues and cost are accrued, i.e., they are recognised when they are earned or incurred. Actual receipt or payment is not necessary. In other words, the accounts are maintained on 'mercantile system' only.

In case these assumptions are not followed, a disclosure is required to be made.

Types of Audit		
Classification of various types of audits	Basis	Types of Audit
	Organisational Structure	a) Voluntary Audit/ Private Audit – like audit of Sole Proprietorship, Partnership Firm, LLP/ NGOs b) Statutory Audit c) Government Audit
	Objective	a) Independent Financial Audit b) Internal Audit c) Cost Audit d) Management Audit e) Tax Audit f) Secretarial Audit g) Forensic Audit h) Information Security Audit i) Social Audit j) Environment Audit k) Performance Audit l) Propriety Audit m) Operational Audit
	Timing	a) Continuous Audit b) Annual Audit c) Interim Audit d) Balance Sheet Audit
	Scope	a) Complete Audit b) Partial Audit c) Detailed audit

Voluntary audit or Private audit	<ul style="list-style-type: none"> ➤ Organisations for which audit is not mandatory, like proprietorship firms, partnership firms, may opt for voluntary audit ➤ Such organisations opt for voluntary audit because of certain advantages of audit ➤ These audits are non-statutory in nature 			
Advantages of audit for sole proprietorship	<ul style="list-style-type: none"> ➤ It evaluates the internal control system and highlights the weaknesses, if any. ➤ It increases the reliability and authenticity of Financial Statements. ➤ It helps in timely finalization of Annual Financial Statements and tax assessments. ➤ It keeps a moral check on the working of employees. ➤ It helps them in obtaining funds easily from financial institutions, based on more reliable Financial Statements available to the banks and financial institutions. ➤ It helps in settling: a) Trade disputes; b) Labour disputes c) Insurance claims 			
Advantages of auditing for partnership firms & others	<ul style="list-style-type: none"> ➤ It helps in settlement of accounts among the partners on the basis of more reliable accounting records. ➤ It protects the interest of minors, sleeping partners/partners who are not involved in day to day operations, and keeps a check on persons who are working on behalf of others. ➤ It helps in partnership firms for settlement of goodwill at the time of admission, retirement and death of partners. ➤ It enables firm to get loans from banks, financial institutions as they rely on audited accounts of firm. 			
Statutory Audit / Balance Sheet audit	<ul style="list-style-type: none"> ➤ Mandatory / Statutory in nature ➤ They are provided for by the law of land, like as per the Companies Act, 2013, audit for mandatory for private and public companies. ➤ Audit of insurance companies, banking companies and cooperative societies are also compulsory under the specific statutes and IRDA/RBI respectively ➤ In the case of audit of a government body, the scope and audit programmes are set by the Comptroller and Auditor General (CAG) of India and the Companies Act, 2013. 			
Advantages of Statutory audit	<ul style="list-style-type: none"> ➤ The members/shareholders/stakeholders, for their economic decisions and for exercising their voting rights. ➤ For timely tax assessments. ➤ For determining the purchase or sale consideration in case of ongoing concern. ➤ Settlement of partners' accounts in case of admission, retirement or death of partner on account of goodwill or otherwise. ➤ Settlement of disputes with employees, creditors or debtors. ➤ For determining the actual value of business or shares in case of merger, acquisition, etc. ➤ For getting financial assistance from financial institutions, banks or investors. ➤ In case of non-profit organizations, for getting government grants and availing tax exemptions. ➤ Evaluation of the internal control systems and strengthening it by removing the inherent weaknesses, and checking the efficacy of the internal checks. ➤ For checking the integrity of the management which manages the funds and affairs on behalf of the real owners or shareholders. ➤ For other users of financial statements like creditors, investors and government agencies, it ensures that any assertions in the Financial Statements are neither overstated/understated nor misrepresented. ➤ For the proper distribution of profits by way of payment of wages and other benefits. ➤ For ensuring of proper distribution of profits as dividends. ➤ For ensuring that all legal requirements are fulfilled and statutory compliances are adhered. ➤ For settlement of insurance claims or other recoveries from government bodies or otherwise. 			
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%;">Basis</td> <td style="width: 40%;">Voluntary (Private) audit</td> <td style="width: 35%;">Statutory (mandatory) audit</td> </tr> </table>	Basis	Voluntary (Private) audit	Statutory (mandatory) audit
Basis	Voluntary (Private) audit	Statutory (mandatory) audit		

Distinction between voluntary audit and statutory audit	Appointing Authority	The management of the company. Discretionary audit.	Prescribed by different statute/ laws. Mandatory audit.
	Objective / purpose	Review of internal controls, Checks on employees, & Checking financial or non-financial operations.	Ensuring truthfulness and fairness of the Financial Statements.
	Approach	Proprietary oriented approach.	Compliance oriented approach
	Scope	Decided by the management documented through the Letter of Engagement.	Prescribed by the governing law.
	Report	Report is to be given to the management within the stipulated time as mutually decided. There is no specific format for report.	Report is to be given to the shareholder or owner within the stipulated time as stated by the statute The format is prescribed by the Law.
Government audit	<ul style="list-style-type: none"> ➤ Audit of financial statements of public entities ➤ Audit is governed / supervised by the Comptroller & General of India (CAG) 		
Types of Government Audit	<ul style="list-style-type: none"> ➤ Transaction audit – An audit of specified transactions of a given government company. Like expenditure audit, receipts audit etc ➤ Efficiency cum performance audit – This audit is specifically conducted to assess the efficiency and performance of the organisation 		
Characteristic of government audit (particularly transaction audit)	<ul style="list-style-type: none"> ➤ Audit against Rules & Orders: While conducting a government audit, the auditor has to ensure that the expenditure is incurred in conformity to - a) the relevant provisions of the statutory enactment and b) is in accordance with the financial rules and orders framed by the competent authority. ➤ Audit of Sanctions: The auditor has to ensure that each item of expenditure is covered by a sanction / approval, by the competent person / authority. In case expenditure exceeds the sanctioned limit, objection is raised. ➤ Audit against Provision of Funds: It contemplates that amount of expenditure should not exceed the provision of funds made for such expenditure. Further the auditor should ensure that the money has been spent for the specified purpose. ➤ Audit of financial propriety: The auditor has to ensure that the expenditure incurred are with respect to the recognized standards of financial propriety i.e. quantity, quality, morality and ethics. 		
Efficiency – cum-performance audit (EPA)	<ul style="list-style-type: none"> ➤ It is an examination of the financial and operational performance of an entity. ➤ It goes beyond checking the financial statements only ➤ It involves comparing the actual performance with the standards set by the entity. <p>Scope of EPA</p> <ol style="list-style-type: none"> i. Economy Audit - It ensures that entity has acquired the financial, human and physical resources economically. It implies that resources have been procured in appropriate quantity, quality and at minimum cost. ii. Efficiency Audit - It ensures that the entity has utilised the financial, human and physical resources efficiently and economically. It refers to the relationship between inputs and output i.e. the goods and services produced and resources used to produce them, yielding the expected results. iii. Effectiveness - It is an appraisal of the performance of schemes and projects with reference to the overall targeted objectives as well as efficiency of the ways and methods adopted for the attainment of objectives. 		
Propriety audit	<ul style="list-style-type: none"> ➤ A propriety audit is not just concerned with the truthfulness and fairness of the Financial Statements, but also ensures that the transactions entered into by the client, business practices and activities undertaken are not against public interest. ➤ It is an essential element of a Government Audit. 		

	<p>➤ The Comptroller and Auditor General (CAG) examines the propriety of all government expenditures to ensure that they have been incurred in the interest of the general public, and are not influenced by personal interests of the government authorities sanctioning it.</p>		
Difference between statutory audit and government audit	Basis	Statutory Audit	Government Audit
	Applicability	Applicable to (a) All private companies (b) All co-operative societies (c) Proprietorship and partnership concerns in some cases. E.g. Tax audit under section 44AB of the Income Tax Act, 1961.	Applicable to (a) Government departments (b) Statutory corporations (c) Government companies
	Appointing Authority	(a) In case of private companies: shareholders. (b) In case of sole proprietor and partnership: proprietor or partners. (c) In case of trust: trustee or Managing Committee. (d) In case of co-operative societies: Managing Committee with prior approval of the Registrar.	(a) In case of government departments: Comptroller and Auditor General (b) In case of statutory corporation: as per the provisions of the special statute for that corporation. (c) In case of government company: Company Law Board, on the advice of the Comptroller and Auditor General.
	Report	Report is submitted to the owners/ shareholders.	Report is submitted to the shareholders and a copy is given to the Comptroller and Auditor General
	Format	The format is prescribed by the Companies Act, 2013, in the case of Companies.	The format is prescribed by the CAG.
Internal Audit	<p>➤ Internal audit is an independent appraisal of the management function, ➤ It involves checking of the internal functioning (internal control system) of entity ➤ It aims to highlight the weaknesses and suggest improvements in the ICS. ➤ It not only includes matters related to finance but also critical appraisal of the policies and procedures of the company. ➤ It also seeks to check the compliances with the laws under which an entity is governed Internal Audit is based on principle of “early detection & prevention of further damage”.</p>		
Forensic audit	<p>➤ Forensic audit is the audit of financial statements, usually for investigation and prosecution of criminal acts such as embezzlement or fraud. ➤ Forensic audit seeks to gather conclusive evidence which could be used a proof before the court of law. ➤ Forensic audit involves blending the techniques of propriety audit, regularity, investigative and financial audits. ➤ The Companies (Auditors’ Report) Order, 2016, requires auditors to report, “whether any fraud on or by the company has been noticed or reported during the year. If yes, the nature and the amount involved are to be indicated”.</p>		
Social Audit	<p>A social audit is a way of measuring, understanding, reporting and improving an organization’s performance towards meeting its social and ethical objectives. Objectives of Social Audit i) Assessing the needs of the society and resources available for fulfilling them.</p>		

	<ul style="list-style-type: none"> ii) Spreading awareness among beneficiaries about the business' efforts towards attaining social objectives. iii) Increasing efficacy and effectiveness of the organization's Corporate Social Responsibility (CSR) programmes. iv) Scrutiny of policy decisions, keeping in view the interests of stakeholders. <p>Advantages of Social Audit</p> <ul style="list-style-type: none"> i) Encourages community participation among different business entities. ii) Ensures continuous efforts towards environmental protection and use of environment friendly production processes. iii) Builds customer satisfaction and trust through ethical business practices. iv) Promotes collective decision making and sharing responsibilities. v) Develops human resources by working towards improvement of workers' and the underprivileged persons' working/ living conditions.
Environmental audit	<p>Environmental audit may be defined as a systematic, documented, periodic and objective review by a regulated entity of facility operations and practices related to meeting environmental requirements.</p> <p>Scope and Objective of environment audit</p> <ul style="list-style-type: none"> i. To check emissions to air, land and water ii. To ensure compliance with the legal constraints iii. To analyse the effects on the neighbouring community, landscape and ecology iv. To verify the public's perception of the operating company in the local area v. It provides expert opinion on hazards in the environment vi. To analyse the associated risks vii. The measures that may need to be taken for the management and control of risks. <p>Different steps of an Environment Audit</p> <p>Pre-audit activities:</p> <ul style="list-style-type: none"> i. Selection and scheduling of facility to audit. ii. Selection of audit team. iii. Contact with facility. iv. Planning of the audit. <p>Site activities:</p> <ul style="list-style-type: none"> i. Understanding of internal controls. ii. Assessment of internal controls. iii. Gathering of audit evidence. iv. Evaluation of audit findings. v. Report of findings to facility. <p>Post audit activities:</p> <ul style="list-style-type: none"> i. Production of a draft report. ii. Production of a final report. iii. Preparation and implementation of an action plan. <p>ISO 14001 is a voluntary international standard for Environmental Management Systems (EMS). It provides the requirements for an EMS and gives general guidelines for its maintenance. An EMS meeting the requirements of ISO 14001:2004 is a management tool enabling an organization of any size or type to:</p> <ul style="list-style-type: none"> i. Identify and control the environmental impact of its activities, products or services. ii. Improve its environmental performance continually. iii. Implement a systematic approach to setting environmental objectives and targets, to achieving these and to demonstrating that they have been achieved.

Operational Audit	<p>Operational Audit involves examination of all the operations and activities of the entity.</p> <p>Objective</p> <ul style="list-style-type: none"> - Examination of the internal control structure of the entity. - It provides an appraisal of whether the department is operating in conformity with prescribed standards and procedures laid down by the management. - It checks whether standards of efficiency and economy are maintained. - It is concerned with formulation of plans and checking of the implementation of systems and controls in respect of other departments of the entity. - It checks whether capacity utilization in production department and achievement of short term targets in marketing departments and other activities are achieved as per the overall goals of the entity. <p>Scope</p> <ul style="list-style-type: none"> - Operational audit, in its initial stages, was developed as a branch of internal auditing. - Internal audit focuses on accounting operations of the entity but operational audit has a wider scope of working and covers all other operations, such as production and marketing too. <p>Advantages</p> <ul style="list-style-type: none"> - Operational audit is one of the management tools to get first hand information. - It is more useful in an entity where the management is at a distance from actual operations. - It is very useful in large organizations where management cannot control the actual operations due to layers of delegation of responsibility. - The management information system has various tools like routine performance report from department heads, internal audit reports, surprise checks, periodic inspections and investigation to control the managers responsible for their departments. - The operational audit is also one of the tools used in large or geographically vast entities to control the operation at first stage and to fill up the gaps of information provided by department heads through periodic reports.
Continuous audit	<p>Continuous audit may be defined as the examination of a firm's financial transactions, continuously throughout the year, at regular or irregular intervals.</p> <p>Features of Continuous Audit</p> <ul style="list-style-type: none"> - It is a process conducted throughout the year. - It is conducted at regular or irregular intervals. - It focuses on testing 100% of transactions. - Technology is important to enable it. - It provides advance notice about errors and irregularities detected. - Surprise visits by the auditor are involved. <p>Necessity of Continuous Audit – Continuous audit is necessary where:</p> <ul style="list-style-type: none"> - Internal controls are inadequate. - The transactions run in large numbers. - The management is interested in getting statements of accounts audited periodically for enabling better management of resources. <p>Advantages</p> <ul style="list-style-type: none"> - Early location of errors and frauds: It helps in detecting errors and frauds immediately on their occurrence, and not at the year end when it would become difficult to install corrective control mechanisms. - Quick rectification: rectification of errors at an early stage is possible. - Guidance: Continuous guidance to client.

	<ul style="list-style-type: none"> - Finalizations of accounts completion in time: Just at the end of the accounting period. - Moral check: Make employees of the client alert and more efficient in conducting their work. - Improves statutory auditor's focus: It relieves statutory auditors of routine testing and allows them to focus efforts on more valuable activities. - It eliminates the year-end workload. <p>Demerits of Continuous Audit</p> <ul style="list-style-type: none"> - The records and figures in the books of accounts, which have already been checked by the auditor, may be altered after the audit is over. - Frequent visits made by the auditor may cause inconvenience at work. - The client may suffer due to the clash of duties between his staff and that of the auditor clash of work. - It is more expensive because the auditor has to devote more time to this audit. - The work of audit becomes too mechanical and repetitive work.
Information systems audit	<p>Information systems audit evaluates IT asset safeguarding, data integrity, system effectiveness, and system efficiency in computer based information systems.</p> <p>Need for Information system audit</p> <ul style="list-style-type: none"> - Risk of losing the data resource; - The possibility of misallocating resources because of decision based on incorrect data or decision rules; - The possibility of computer abuse if computer systems are not controlled; - The high value of computer hardware, software, and personnel; - The high costs of computer error; - The need to maintain the privacy of individual persons; and - The need to control the evolutionary use of computers.
Final audit	<p>Final Audit is conducted at the end of the accounting year, after the books of accounts have been closed.</p> <p>Features</p> <ul style="list-style-type: none"> - It does not interrupt with the regular functioning of the client's accounting or operations functions and ensures completion of work in one session due to continuity. - The auditor may use statistical sampling methods and techniques which lead to time effectiveness. - The possibility of tampering with the books of accounts during the audit is considerably reduced as the audit work starts only after the books are closed. <p>Limitations and precautions</p> <ul style="list-style-type: none"> - Errors and frauds are found at the end of the accounting year, which makes it very difficult to fix responsibility for defalcations. - It delays the presentation of Audited Financial Statements to the shareholders - Auditor uses sample testing, which also reduces the possibility of detection of frauds and errors.
Interim Audit	<p>Interim audit is an audit conducted between two annual audits. It may be conducted for a specific period, such as a quarter or half year, with an interim object of declaration of interim dividend or valuation of shares on a certain date, in case of mergers.</p> <p>Use of Interim Audit</p> <ul style="list-style-type: none"> - Early detection and rectification of errors & frauds, - Publishing of interim results in some cases, - Timely completion of records and final audit, - Moral checks on employees.

	<p>Limitations and precautions</p> <ul style="list-style-type: none"> - The figures audited during an interim audit may be altered subsequently
Complete Audit	<ul style="list-style-type: none"> ➤ A complete audit is an audit where the scope of audit is not confined to specific limits, which may be set by the management or any other authority. ➤ The auditor is required to check all the possible aspects of a business, including manufacturing operations, data flow processes, accounting records and procedures, etc. ➤ In general business practices, it is not feasible to get a complete audit conducted.
Partial audit	<ul style="list-style-type: none"> ➤ A partial audit is a non-statutory audit, which restricts the scope of the auditor to checking of certain specific aspects only. ➤ The auditor's powers to enquiry are restricted by his terms of engagement. ➤ He may not be allowed to obtain information which falls outside the purview of the scope defined for him. E.g. an auditor may be appointed to check the accuracy of recording of transactions relating to cash sales, or he may be appointed to conduct an audit for the month of Diwali only.
Detailed audit	<ul style="list-style-type: none"> ➤ Detailed audit is also known as audit-in-depth. ➤ It involves checking of transactions from the time of their recording till their final effect on the Financial Statements. ➤ Every stage that a transaction goes through in the accounting process is closely examined by the auditor using various audit evidences.

Important Questions – Types of Audit

Q.6	Distinguish between Statutory Audit and Government Audit [June 2015]	
Q.7	What are the objectives of Operational Audit? [December 2008]	
	Or	
	State the scope and advantages of Operational Audit [December 2013]	
Q.8	What is Tax Audit? [December 2013]	
	<ul style="list-style-type: none"> ➤ Tax Audit is a type of statutory audit prescribed by the Income-tax Act 1961 (IT Act). ➤ As per Section 44AB of the IT Act, every person carrying on a business or profession having a turnover (receipts) of Rs. 1 crores and 50 Lakhs respectively, is required to get the tax audit done. ➤ It involves a systematic and independent examination of data, statements, records of tax books of the prescribed entity by an independent Chartered Accountant 	
Q.9	State the basic features and necessity of continuous audit [December 2013, June 2015 and June 2016]	
Q.10	Distinguish between forensic audit and statutory audit [June 2014]	
	Statutory Audit	Forensic Audit
	The objective is to express an opinion on the truthfulness and fairness of the FS	The objective is to determine the facts behind any suspected fraud / embezzlement
	Substantive and compliance procedures may be used	Alongwith the substantive and compliance procedures, audit-in-depth, trend analysis, past-data analysis, investigation is also done
	Accounts related to the relevant accounting year are checked	Accounts may be checked for past many number of years, to detect the cause of fraud

	Includes checking arithmetical accuracy and compliance with procedures	Focus is to find the depth and breadth of the suspected fraud
	Qualification may be given in case of adverse findings	The amount of fraud, people involved, legal implications are mentioned in the report.
Q.11	What is information security audit ? [June 2015]	
Q.12	Operational Audit is merely an extension of Internal Audit. Comment [June 2015]	
	The statement is true. In operational audit, the internal auditor goes beyond financial controls and looks into operational areas also. Operational audit is therefore, an extension of internal audit.	
Q.13	What is statutory audit? [June 2016]	
Q.14	What are the advantages of Social Audit? [December 2016]	
Q.15	What are the matters to be specifically considered while conducting audit of a Partnership firm? [December 2015]	
	Special Points in Audit of a Partnership Firm:	
	<ol style="list-style-type: none"> I. Confirming that the letter of appointment, signed by a partner, duly authorised, clearly states the nature and scope of audit contemplated by the partners, specially the limitation, if any, under which the auditor shall have to function. II. Examine the partnership deed signed by all partners and its registration with the registrar of firms. Also ascertain from the partnership deed about capital contribution, profit sharing ratios, interest on capital contribution, powers and responsibilities of the partners, etc. III. Studying the minute book, if any, maintained to record the policy decision taken by partners specially the minutes relating to authorisation of extraordinary and capital expenditure, raising of loans, purchase of assets, extraordinary contracts entered into and other such matters which are not of a routine nature. IV. Verifying that the business in which the partnership is engaged is authorised by the partnership agreement; or by any extension or modification thereof agreed to subsequently. V. Examining whether books of account appear to be reasonable and are considered adequate in relation to the nature of the business of the partnership. VI. Verifying generally that the interest of no partner has suffered prejudicially by an activity engaged in by the partnership which, it was not authorised to do under the partnership deed or by any violation of a provision in the partnership agreement. VII. Confirming that a provision for the firm's tax payable by the partnership has been made in the accounts before arriving at the amount of profit divisible among the partners. VIII. Also see various requirements of legislations applicable to the partnership firm like Section 44AB of the Income-tax Act, 1961 have been complied with. IX. Verifying that the profits and losses have been divided among the partners in their agreed profit-sharing ratio. 	
Q.16	Discuss Government Audit. [MTP December 2018]	
Q.17	Accounting is a necessity but Auditing is a Luxury-Comment.	
	The statement is incorrect. Auditing is as much a necessity as Accounting. Auditing is an essential aspect of any business organisation. It is difficult to place reliance on the accounts unless they are audited.	

In today's era of complex business models containing multiple transactions and wide variety of structures, it is important to get the accounts audited from a qualified person so that meaningful inter and intra firm comparisons can be made, to arrive at accurate conclusions.

Q.18 State the differences between Statutory Auditor and Internal Auditor. [June 2017, Dec 2018 – 4 marks]

Basis	Statutory Audit	Internal Audit
Appointing Authority	Statutory Auditor is appointed by the shareholder in the general meeting.	Internal Auditor is appointed by the Board
Scope of the work	The scope of work is defined in the Companies Act.	The scope of work includes the adherence of management policies and procedures and identifies the weakness in the internal control.
Removal of Auditor	Statutory Auditor can be removed by the shareholders.	Internal Auditor can be removed by the Board
Remuneration	It is fixed by the shareholders.	It is fixed by the board.
Audit Report	It is submitted to the appointing Authority.	It is submitted to the Board as a suggestion to improve weakness in the internal control.

Key points to remember

Definition of Audit	<ul style="list-style-type: none"> ✓ Systematic and independent examination of financial information, of any entity (whether profit making or not), with a view to express an opinion [SA 200]
Purpose / objective of Audit	<ul style="list-style-type: none"> ✓ to express a true and fair view on the financial statements, after examining internal and external evidences – <i>primary objective</i> ✓ to detect errors and frauds – <i>secondary objective</i>
Features of Audit	<ul style="list-style-type: none"> ✓ involves evaluation & verification of the supporting documents such as vouchers, etc. ✓ involves review of systems of accounting & Internal Controls. ✓ The information audited may be financial or non-financial ✓ the auditor should be competent (possessing prescribed qualification) and independent
Scope of Audit	<ul style="list-style-type: none"> ✓ Auditor is a watchdog and not a blood hound ✓ The scope of audit is to audit the financial statements and not investigate in any matter
Who can be an auditor ? Or Qualities of a good auditor	<ul style="list-style-type: none"> ✓ A person who professionally qualified ✓ Should have a certificate of practice from the relevant authority ✓ Should possess knowledge of: <ul style="list-style-type: none"> • accounting and other relevant laws like the Companies Act, 1956 in case of audit of Companies • specific laws, if any governing the auditee eg. Banking companies are governed by the Banking Regulation Act.

	<ul style="list-style-type: none"> ✓ Should be independent of the client ✓ Should possess integrity, honesty and objectivity ✓ Should possess good communication skills and drafting skills so that the auditor's report is free from any language / grammatical error 														
Distinction between accounting and auditing	<table border="1"> <thead> <tr> <th>Accounting</th> <th>Auditing</th> </tr> </thead> <tbody> <tr> <td>Record the events and transactions in the books of accounts</td> <td>Evaluate evidence to verify the events and transactions recorded in the books</td> </tr> <tr> <td>Prepare financial statements like Balance sheet, P&L account and the schedules</td> <td>Determine fairness of statements in conformity with accounting principles Prepare the Audit report on findings</td> </tr> <tr> <td>Make financial statement assertions</td> <td>Verify the assertions made by the management</td> </tr> <tr> <td>Distribute the audited financial statements and audit report to shareholders</td> <td>Deliver audit report to the company</td> </tr> </tbody> </table>	Accounting	Auditing	Record the events and transactions in the books of accounts	Evaluate evidence to verify the events and transactions recorded in the books	Prepare financial statements like Balance sheet, P&L account and the schedules	Determine fairness of statements in conformity with accounting principles Prepare the Audit report on findings	Make financial statement assertions	Verify the assertions made by the management	Distribute the audited financial statements and audit report to shareholders	Deliver audit report to the company				
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Aspects to be covered while Auditing	<ul style="list-style-type: none"> ✓ Accounting and internal control system ✓ Books and records ✓ Statutory and regulatory compliances ✓ Reporting requirements 														
Principles governing audit	<ul style="list-style-type: none"> ✓ Integrity, objectivity and independence: Auditor should be honest, straight forward, impartial and free from any influence ✓ Confidentiality: Auditor should not disclose the information of the client to anyone ✓ Skills and competence: Auditor should be qualified, well trained and experienced ✓ Work performed by others: Auditor is responsible for the work performed by others like his subordinates, external experts etc. ✓ Documentation: Adequate working papers should be maintained by the Auditors to demonstrate that audit has been performed as per the established principles ✓ Planning: Auditor should obtain the adequate information about the client (including knowledge about the accounting system and internal controls), so that the Nature, Timing and Extent of the audit procedures can be planned ✓ Audit evidence: Adequate evidence(s) must be collected ✓ Reporting: Audit report should be based on the evidences 														
Significance of auditing	<p>The audited financial statements are relied upon by the following outsiders:</p> <ul style="list-style-type: none"> ✓ Income tax authorities for ascertaining the taxable income ✓ GST authorities for ascertaining the tax due 														

	<ul style="list-style-type: none"> ✓ Financial institutions for granting / sanctioning loans ✓ Insurance companies for calculating the damage claims ✓ Bankruptcy and insolvency professionals to analyse the net worth ✓ Creditors for settling their dues <p>The audited financial statements are also referred by the Management for:</p> <ul style="list-style-type: none"> ✓ for detection of errors and frauds ✓ keeping a moral check on the employees so that they don't embezzle funds ✓ improving efficiency and effectiveness in the overall functioning of the organization ✓ comparing past results with the current period result and inter-firm comparisons ✓ settling the accounts of the deceased partner, in case of a firm 														
Advantages of audit	<ul style="list-style-type: none"> ✓ protect interest of the stakeholders ✓ serves as a moral check on the employees from committing any defalcation / embezzlement ✓ audited financials are considered more reliable by the government agencies, like income tax / GST department ✓ facilitates detection of wastage and losses ✓ facilitates detection of errors and frauds ✓ audited financials are more reliable for valuation purposes in corporate restructuring like amalgamation of companies ✓ Banking companies / financial institutions use the audited financials to grant loan to the lenders ✓ Audited financials are helpful in settling the claims of the partners in case of disputes 														
Limitations of audit	<p>Audit doesn't guarantee absence of material misstatements because:</p> <ul style="list-style-type: none"> ✓ Test checking is done in audit ✓ Audit evidence are not conclusive but persuasive ✓ Inherent limitations are there in internal controls, like management can override controls ✓ Absence of professional skepticism of auditor 														
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	Applicable to all private companies, co-operative societies, proprietorship and partnership firms	Applicable to Government Companies, government departments and statutory corporations
	Owners of the concern appoint the auditors, like shareholders in case of Companies.	Auditors are appointed by Comptroller and Auditor General ('CAG') of India
	Audit Report submitted to the owners	Audit report submitted to shareholders and CAG
Internal Audit	<ul style="list-style-type: none"> ✓ Audit of operations / functions of the entity ✓ Includes examination of matters related to finance as well as policies and procedures of the Company ✓ Involves evaluation of internal controls and compliances 	
Distinguish between Statutory Audit and Internal audit	Statutory Audit	Internal Audit
	Scope is determined by the Companies Act	The scope of work includes the adherence of management policies and procedures and identifies the weakness in the internal control.
	Statutory Auditor is appointed by the shareholder in the general meeting	Internal Auditor is appointed by the Board.
	Statutory Auditor can be removed by the shareholders.	Internal Auditor can be removed by the Board.
	Remuneration is fixed by the shareholders	Remuneration is fixed by the Board
	Report is submitted to the appointing authority	Report (alongwith suggestions for improvement) is submitted to the Board
Forensic Audit	<ul style="list-style-type: none"> ✓ Involves investigation alongwith audit ✓ Investigation of whether fraud has taken place 	
Social Audit	<ul style="list-style-type: none"> ✓ Examination of whether an entity meets its social and ethical objectives ✓ Review of the extent of community participation of the business entity, towards environmental protection, customer satisfaction. 	
Environmental Audit	<ul style="list-style-type: none"> ✓ Examination of how well an entity interacts with its environment. Like monitoring emission to air, water and land. ✓ Analysis of the legal constraints imposed on the entity ✓ 	
Propriety audit	<ul style="list-style-type: none"> ✓ An essential feature of government audit ✓ It not only examines the truthfulness and fairness of the financial statements, but also ensures that the transactions have been carried out prudently 	
Operational Audit	<ul style="list-style-type: none"> ✓ Examination of all the operations and activities of the entity ✓ Examination of control structure of the enterprise ✓ Evaluation of the whether operating standards are followed ✓ Evaluation of the whether the overall target capacity utilization is met 	
Continuous Audit	<ul style="list-style-type: none"> ✓ Audit conducted throughout the year at regular intervals ✓ Testing of 100% transactions ✓ Errors and irregularities are detected much in advance ✓ Timely finalisation of accounts <p>Disadvantages:</p>	

	<ul style="list-style-type: none"> ✓ Inconvenient for the auditee ✓ Time taking ✓ Expensive ✓ Repetitive work
Information System Audit	<ul style="list-style-type: none"> ✓ Adherence to norms which ensure safeguarding of data ✓ Adherence of norms for maintenance of privacy of personal data ✓ Controlling the possibility of computer abuse / incorrect data
Final Audit	<ul style="list-style-type: none"> ✓ Annual audit conducted at the end of the year
Interim Audit	<ul style="list-style-type: none"> ✓ Audit conducted between two final audits, generally during the mid-year like quarter / half-year

Chapter 2 – Audit engagement, audit programme, audit working papers, audit notebook, audit evidence and audit report

Chapter at a Glance

Audit Engagement letter	Definition, constituents, benefits
Audit Programme	Definition, types, advantages, disadvantages
Audit Working Papers	Meaning, purpose, difference between permanent audit file and current audit file, ownership / title, audit notebook
Audit risk	Definition, types
Surprise checks	Meaning, circumstances where relevant
Audit evidence	Meaning, need, types, methods of obtaining audit evidence
Audit procedures	Compliance procedures, substantive procedures



Audit Engagement letter	The engagement letter is the auditor's contract with the client . It is the starting point , and often times the ending point, for the relationship. Audit Engagement letter is given by Auditor to Company, explaining scope of work duties & responsibilities of Auditor and that of management of Company.
Constituents of the engagement letter	<ul style="list-style-type: none"> (a) Objective & scope of engagement (b) Management responsibility (c) Existence of inherent limitations of audit (d) Need for use of Internal Auditor (e) Management confirmation letter (f) Restrictions & limitations of Auditor liabilities (g) Basis of computation of Audit fees (h) Billing arrangement (i) Form of report & Other communications of engagement (j) Validity of report (k) Limits on submission of report to other authorities

Specimen copy
of an
engagement
letter¹



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8 April 2011

Dear Mr. [REDACTED]

Audit engagement letter
Contract No. 60782710-14444133

1. This engagement letter ("Engagement Letter"), together with its attachments, including the General Terms and Conditions (together with the Engagement Letter, this "Agreement") confirms the terms upon which Ernst & Young (Cambodia) Ltd ("we" or "EY") has been engaged to audit and report on the financial statements of [REDACTED] ("the Project") for the year ended 31 December 2010. The objective of our audit is to express an opinion on whether the financial statements give a true and fair view of the financial position, results of operations and cash flows of the Project in accordance with the Project Accounting Policy using US dollar ("USD") as reporting currency. The services described in this paragraph may hereafter be referred to as either the "Audit Services" or the "Services."
2. Should conditions not now anticipated preclude us from completing our audit and issuing a report (the "Report") as contemplated by this Agreement, we will advise you and those charged with governance promptly and takes such action as we deem appropriate.

¹ Source: Google

Audit Responsibilities and Limitations

1. We will conduct the audit in accordance with International Standard on Auditing (ISA) and Cambodian International Standards on Auditing (CISA), according to Prakas No. 370 MEF dated 18 May 2010 issued by Ministry of Economy and Finance. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether due to fraud or error. As the Project is aware, there are inherent limitations in the audit process, including, for example, the use of judgment and selective testing of data and the possibility that collusion or forgery may preclude the detection of material error, fraud, or illegal acts. Accordingly, there is some risk that a



2. As part of our audit, we will consider, solely for the purpose of planning our audit and determining the nature, timing, and extent of our audit procedures, the Project's internal control over financial reporting. This consideration will not be sufficient to enable us to express an opinion on the effectiveness of internal control or to identify all significant deficiencies.
3. In accordance with ISA and CISA, we will communicate certain matters related to the conduct and results of the audit to those charged with governance. Such matters include:
 - our responsibility under ISA and CISA for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance and that such an audit does not relieve management and those charged with governance of their responsibilities;
 - an overview of the planned scope and timing of the audit;
 - Significant findings from the audit. Significant findings from the audit include: (1) our views about the significant qualitative aspects of the Project's accounting practices, including accounting policies, accounting estimates, and financial statement disclosures; (2) significant difficulties, if any, encountered during the audit; (3) uncorrected misstatements, other than those we believe are trivial; (4) disagreements with management, if any, whether or not satisfactorily resolved; and (5) other matters, if any, arising from the audit that are, in our professional judgment, significant and relevant to those charged with governance regarding the oversight of the financial reporting process, including significant matters in connection with the Project's related parties; and
 - Written representations requested from management and significant matters, if any, arising from the audit that were discussed, or the subject of correspondence, with management.

4. If we determine that there is evidence that fraud or possible non compliance with laws and regulations may have occurred, we will bring such matters to the attention of the appropriate level of management. If we become aware of fraud involving management or fraud involving employees who have significant roles in internal control or others where the fraud results in a material misstatement of the financial statements, we will report this matter directly to those charged with governance. We will communicate with those charged with governance matters involving non-compliance with laws and regulations that come to our attention unless they are clearly inconsequential.
5. We will communicate in writing significant deficiencies in internal control identified during the audit of the Project's financial statements.
6. We also may communicate our observations as to the potential for economies in, or improved controls over, the Project's operations.

Management's Responsibilities and Representations

7. Our audit will be conducted on the basis that management and where appropriate, those charged with governance, acknowledge and understand that they have responsibility:
 - a) For the preparation and fair presentation of the financial statements in accordance with the Project Accounting Policy;
 - b) For such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error; and
 - c) To provide us with:
 - I. Access, on a timely basis, to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - II. Additional information that we may request from management for the purpose of the audit; and
 - III. Unrestricted access to persons within the Project from whom we determine it necessary to obtain audit evidence.

Management's failure to provide us with the information referred to above or access to persons within the Project may cause us to delay our report, modify our procedures, or even terminate our engagement.

8. Management is also responsible for adjusting the financial statements to correct misstatements identified by us and for affirming to us in its representation letter that they believe the effects of unrecorded misstatements are immaterial, individually and in aggregate, to the financial statements as a whole.
9. Management is responsible for apprising us of all allegations involving financial improprieties received by management or those charged with governance (regardless of the source or form and including, without limitation, allegations by "whistle-blowers", employees, former employees, analysts, regulators or others), and providing us full access to these allegations and any internal investigations of them, on a timely basis. Allegations of financial improprieties include allegations of manipulation of financial results by management or employees, misappropriation of assets by management or employees, intentional circumvention of internal controls, inappropriate influence on related party transactions by related parties, intentionally misleading EY, or other allegations of illegal acts or fraud that could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Project. If the Project limits the information otherwise available to us under this paragraph (based on the Project's claims of attorney/client privilege, work product doctrine, or otherwise), the Project will immediately inform us of the fact that certain information is being withheld from us. Any such withholding of information could be considered a restriction on the scope of the audit and may prevent us from opining



10. We will make specific inquiries of management about the representations contained in the financial statements. At the conclusion of the engagement, we will also obtain written representations from management about these matters, and that management: (1) has fulfilled its responsibility for the preparation and fair presentation of the financial statements in accordance with ISA and CISA and that all transactions have been recorded and are reflected in the financial statements; and (2) has provided us with all relevant information and access as contemplated in this Agreement. The responses to those inquiries, the written representations, and the results of our procedures comprise the evidence on which we will rely upon in forming an opinion on the financial statements.

Fees

11. We estimate that our fees for the 2010 Audit Services will be US\$ 1,000 to which we will add value-added tax at the appropriate rate, currently 10%.

Out-of-pocket (OPE) costs such as travel, photocopy and telecommunications is included in the fee.

We expect to invoice our fees as follows:

Audit

10% upon commencement of our planning and fieldwork	USD 100
40% upon submission audit draft report	USD 400
50% upon submission final signed audit report	USD 500
Total	USD 1,000

12. Our estimated pricing and schedule of performance are based upon, among other things, our preliminary review of the Project's records and the representations the Project's personnel have made to us and are dependent upon the Project's personnel providing a reasonable level of assistance. Should our assumptions with respect to these matters be incorrect or should the condition of records, degree of cooperation, or other matters beyond our reasonable control require additional commitments by us beyond those upon which our estimates are based, we may adjust our fees and planned completion dates. Fees for any special audit-related projects, such as proposed business combinations or research and/or consultation on special business or financial issues, will be billed separately from the fees referred to above and will be the subject of other written agreements.

Timetable

13. We will agree a timetable with you that will enable you to meet the reporting requirement and obligations in relation to the filing of financial statements with appropriate bodies and



Deliverables

14. Upon completion of the Audit Services, we will provide the Project with five (5) bound sets of financial statements in English, including the audit opinion and the statement of management's responsibility. Responsibility for filing the reports with the relevant agencies rests with the Project.

Other Matters

15. The Project shall provide us with copies of the printer's proofs of its annual report and other public document(s) that includes the annual financial statements and our audit opinion or referring to EY as having audited the financial statements prior to publication for our review. Management of the Project is primarily responsible to ensure that the annual report and other public document(s) contain no misrepresentations. We will review the annual report and other public document(s) for consistency between the annual financial statements and other information contained in the annual report and other public document(s), and to determine if the financial statements and our report thereon have been accurately reproduced. If we identify any errors or inconsistencies that may affect the financial statements, we will advise management and those charged with governance, as appropriate.
16. Our auditors' report on the financial statements should not be reproduced or referred to electronically without prior agreement as to the manner and context in which it is reproduced or referred to.

If the Project wishes to present the financial statements and our auditors' report thereon in electronic form, management shall provide us a copy of the electronic document for our review. The Project will be responsible for the accurate presentation of the financial statements and the auditors' report thereon, and for establishing security and other controls over them in order to ensure the continued integrity of the information presented. This obligation on management applies to the presentation of any financial information with respect to prior periods. The examination of the controls over the electronic presentation of audited financial information on the Project's internet web-site is beyond the scope of our audit of the financial statements.



We appreciate the opportunity to be of assistance to the Project. If this Agreement accurately reflects the terms on which the Project has agreed to engage us, please sign below on behalf of the Project and return the duplicate copy of this letter to Ms. Maria Cristina M. Calimbas at SSN Center, 3rd Floor, Room No. 03-04, Norodom Blvd, Sangkat CheyChumneas, Khan Daun Penh, Phnom Penh, Kingdom of Cambodia.

Yours faithfully,

Maria Cristina M. Calimbas

	<p>Partner For and on behalf of Ernst & Young (Cambodia) Ltd.</p> <p>We hereby confirm our agreement to the terms of the above letter and the enclosed terms of business.</p> <p>On behalf of [Redacted] [Redacted] [Redacted] [Redacted] [Redacted]</p>
Benefits of engagement letter	<ul style="list-style-type: none"> ➤ Avoids confusion - In case of a statutory audit the objective and scope of an audit is clearly described in the relevant law. However, in a non-statutory audit it has to be stated with absolute clarity so as to avoid any kind of ambiguity as to the objective and scope of audit. ➤ Defines the responsibility of auditor and management - A misunderstanding may arise about the responsibility of the work. For example, the client may be under an impression that the auditor will prepare the accounts as well as conduct the audit also. Therefore, in order to avoid any kind of misunderstanding or dispute it is in the interests of both the auditor as well as the client to exactly define the respective responsibility of the engagement in writing by way of audit engagement letter. ➤ Protects the interest of the auditor against the allegation(s) of professional negligence – When the management restricts the scope of the auditor, the signed engagement letter will serve as an evidence before the court
Audit Programme (SA 300)	<p>An audit programme is a detailed plan of:</p> <ul style="list-style-type: none"> - the auditing work to be performed - the procedures to be followed in verification of each item - the estimated time required - the estimated resource required, like qualified / unqualified staff <p>It is a description or memorandum of the work to be done during an audit. Audit programme serves as a guide in arranging and distributing the audit work as well as checking against the possibility of the omissions.</p>

Specimen of audit programme	Audit Programme over salaries and wages																															
	<table border="1"> <tr> <td>Client</td> <td colspan="2">XYX Company Limited</td> </tr> <tr> <td>Financial period</td> <td colspan="2">Year ended 31 December 2003</td> </tr> <tr> <td>Accounting area</td> <td colspan="2">Salaries and wages</td> </tr> <tr> <td>Prepared by</td> <td colspan="2">David Mwindi</td> </tr> <tr> <td>Reviewed by</td> <td colspan="2">Joseph Kamau</td> </tr> <tr> <td colspan="3">Audit Objective</td> </tr> <tr> <td colspan="3">To obtain sufficient appropriate audit evidence that: <ul style="list-style-type: none"> ■ Completeness ■ Existences ■ Accuracy Of salaries and wages is not significantly misstated </td> </tr> <tr> <td>Audit Procedure</td> <td>Work paper reference</td> <td>Reviewed by and date</td> </tr> <tr> <td colspan="3">Tests of controls</td> </tr> <tr> <td colspan="3"> <ul style="list-style-type: none"> ■ Verify that the payroll is reviewed and authorised by a senior responsible official before the salaries are paid; ■ Confirm that the computation of wages is carried out by an independent person ■ Confirm that a review of new employees who have joined the company and leavers is carried out before wages and salaries are paid; ■ Confirm that a month-to-month reconciliation is prepared and changes in wages and salaries from one month to the next investigated. </td> </tr> </table>			Client	XYX Company Limited		Financial period	Year ended 31 December 2003		Accounting area	Salaries and wages		Prepared by	David Mwindi		Reviewed by	Joseph Kamau		Audit Objective			To obtain sufficient appropriate audit evidence that: <ul style="list-style-type: none"> ■ Completeness ■ Existences ■ Accuracy Of salaries and wages is not significantly misstated			Audit Procedure	Work paper reference	Reviewed by and date	Tests of controls			<ul style="list-style-type: none"> ■ Verify that the payroll is reviewed and authorised by a senior responsible official before the salaries are paid; ■ Confirm that the computation of wages is carried out by an independent person ■ Confirm that a review of new employees who have joined the company and leavers is carried out before wages and salaries are paid; ■ Confirm that a month-to-month reconciliation is prepared and changes in wages and salaries from one month to the next investigated. 	
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Types of audit programme	<p>Common audit programme - Programme common to all types of audit. For example, checking of books of accounts</p> <p>Special audit programme – Programme related to audit work specific to a particular audit / entity. For example, the audit programme for a partnership firm would contain steps for checking of profit sharing ratio of the partner, which will not be there for a company.</p>																															
Advantages of Audit Programme	<ul style="list-style-type: none"> ➤ It serves as a ready check list of audit procedures to be performed. ➤ The audit work can be properly allocated to the audit assistants or the article clerks. ➤ The auditor may easily know the extent of work done at any point of time. Thus, the progress of work done can be under the supervision and control of the auditor. ➤ Audit programme would be useful to account for the individual responsibilities. ➤ A uniformity of the work can be attained as the same programme would be followed from time to time. ➤ It is a useful basis for planning the programme for the following year it is useful in selection of team members & delegation of responsibilities to them. ➤ It may be used as evidence by the auditor in the event when any charge is brought against him. He can prove that there has no negligence on his part and he exercised reasonable care and skill while performing the task. ➤ It is useful in selection of Team members and delegation of responsibilities to them. 																															
Disadvantages of Audit Programme	<ul style="list-style-type: none"> ➤ The auditor's task becomes mechanical and the auditors may lose interest and initiative. ➤ Drawing up of an audit programme may be unnecessary for a small concern. ➤ Though audit programme helps in fixing responsibilities but inefficient staff may defend themselves by stating that the matter was not contained in the audit programme. 																															

	➤ Rigid programmes cannot be laid down for each type of business	
Audit working papers (SA 230)	<ul style="list-style-type: none"> ➤ Audit working papers are the record of the planning and execution of the audit engagement. ➤ Auditors retain a set of working papers for each audit engagement for each year ➤ The audit working papers should be sufficiently detailed to enable another auditor (who is not familiar with the client) to obtain an overall understanding of the engagement 	
Purpose of Audit working papers	<ul style="list-style-type: none"> ➤ planning and performance of the audit; ➤ supervision and review of the audit work; and ➤ serve as an evidence of the audit work performed by the auditor to support his opinion. 	
Factors affecting type of audit working papers	The form and content of working papers vary from audits to audits and they are affected by the following matters: <ul style="list-style-type: none"> (a) nature of engagement; (b) form of audit report; (c) nature and complexity of client's business; (d) nature and condition of client's records (e) degree of reliance of internal controls; (f) supervision of work performed by assistants. 	
Types of Working paper files	Permanent Audit File	Current Audit File
	Contains working papers which are useful for more than one accounting period	Contains working papers which are useful for only one accounting period , i.e. the current year
	It contains documents related to the organizational structure , like: <ul style="list-style-type: none"> - Memorandum of Association and - Article of Association in case of a company - Long-term Lease agreements 	It contains documents related to the current year like: <ul style="list-style-type: none"> - Engagement letter - Board meeting minutes - AGM minutes - Evidences for the financial statements of the current period, like invoices, bills etc.
	Evaluation of internal controls, includes report on deficiencies in internal controls , if any	Evaluation of assumptions in Management letter
	Analysis of significant ratios and trends over a period of time	Analysis of transactions and balances of the current year
	Notes regarding significant accounting policies	Notes on Audit programme
	Contains significant audit observations of prior years	Contains conclusions on significant aspects of audit of the current year
Ownership / Title to audit working papers	<ul style="list-style-type: none"> ➤ Working papers are the property of the auditor, the portions or extracts of which can be had at his discretion. ➤ However, if required by some legislation, the auditor has to make working papers available to the regulatory authority(s). ➤ These working papers should be kept in safe custody and in confidential manner for 7 year as prescribed by the ICAI (as per SQC 1). 	
Audit notebook	<ul style="list-style-type: none"> ➤ An audit notebook is a bound book in which a large variety of matters observed during the course of audit are recorded. ➤ The audit note book is a permanent record of the auditor. ➤ For each individual audit, the auditor usually maintains a separate audit note book. ➤ The audit note book should be maintained clearly, completely and systematically. ➤ An audit note book may be used as an evidence to defence the auditors against any charge against them. 	

Contents of audit notebook	<ul style="list-style-type: none"> ➤ Name of the business enterprise. ➤ Organisation structure. ➤ Important provisions of Memorandum of Association (MOA) and Articles of Association (AOA). ➤ Communication with the previous auditor, if any. ➤ Management representations and instructions. ➤ List of books of accounts maintained by the enterprise. ➤ Accounting methods, internal control systems followed by the enterprise, applicable laws etc. ➤ Key managerial personnel. ➤ Errors and fraud discovered. ➤ Matters requiring explanations or clarifications. ➤ Special points that need attention in the audit report.
Audit Risk	<ul style="list-style-type: none"> ➤ Audit risk is the risk of a material misstatement of an item that is included in the audited financial statements of an entity. ➤ Audit risk is always greater than zero. There is always some risk of material misstatement, due to the inherent limitations in both accounting and auditing. ➤ Audit risk may emanate from either fraud or error
Types of audit risk	<ul style="list-style-type: none"> ➤ Inherent risk – It is the possibility of a material misstatement, either individually or when taken together with other misstatements, assuming that there were no internal controls. Eg. complex calculations (like provision for gratuity) / estimates (like provision of bad debts) involves judgement and hence are likely to be misstated ➤ Control risk - It is the possibility of a material misstatement, either individually or when taken together with other misstatements which will not be prevented / detected / corrected on timely basis by the accounting and internal control systems. Eg. Weak internal controls may lead to misstatement creeping into the financials ➤ Detection risk - It is the risk that an audit procedures will not detect a material misstatement, either individually or when taken together with other misstatements. <p>Risk of material misstatement (ROMM) is aggregate of inherent risk and control risk.</p>
Surprise checks	<ul style="list-style-type: none"> ➤ An element of surprise can significantly improve the effectiveness of an audit and therefore, wherever practicable, an element of surprise should be incorporated into the audit programme ➤ The auditor / his staff may (once in a while) visit the client without prior intimation. This will not give a chance to the client to be prepared, which is possible in a planned audit.
Factors to be considered while doing surprise checks	<ul style="list-style-type: none"> ➤ Surprise checks should be considered as a desirable part of each audit. ➤ The areas over which surprise checks should be employed would depend upon the circumstances of each audit but should normally include: <ul style="list-style-type: none"> • Verification of cash and investments. • Verification of stores and stocks and the records relating thereto. • Verification of books of prime entry and statutory registers normally required to be examined for the purposes of audit. ➤ The frequency of surprise checks may be determined by the auditor in the circumstances of each audit but should normally be at least once in the course of an audit. ➤ The results of the surprise checks should be communicated to the management if they reveal weakness in the internal control system or the existence of fraud or error. ➤ The auditor should satisfy himself that adequate action is taken by the management on the matters communicated by him.

	<p>➤ The results of surprise checks should be included in the audit report if they are material and affect the true and fair view of the accounts on which the reporting is done.</p>
Audit evidence	<p>Audit evidence are the facts and reasons based on which the auditor arrives at his opinion on the true and fair view of the financial statements.</p> <p>The auditor should obtain sufficient and appropriate audit evidence so that reasonable conclusion can be drawn therefrom.</p>
Need for audit evidence	<p>Management makes assertion on the various elements of the financial statements. Eg. The management may assert that it owns land and building worth Rs. 10 crores which are shown in the Balance Sheet. The auditor has to evaluate these assertions so that he would be able to express his opinion on the financial statements. Audit evidence provides the auditor a reasonable assurance in respect of the assertions made by the management.</p> <p>Different assertions made by the management can be as follows:</p> <ol style="list-style-type: none"> (a) Existence – that an asset or a liability exists at a given date; (b) Rights and Obligations - that an asset is a right of the entity and a liability is an obligation of the entity at a given date; (c) Occurrence -that a transaction or event took place which pertains to the entity during the relevant period; (d) Valuation - that an asset or liability is recorded at an appropriate carrying value; (e) Measurement -that a transaction is recorded in the proper amount and revenue or expense is allocated to the proper period; (f) Presentation and Disclosure - an item is disclosed, classified and described in accordance with recognized accounting policies and practices and relevant statutory requirements, if any. <p>While obtaining evidence through compliance procedures, the different assertions made by the management can be as follows:</p> <ol style="list-style-type: none"> (i) Existence -that the internal controls exist; (ii) Effectiveness - that the internal controls are operating effectively; (iii) Continuity - that the internal controls have been so operated throughout the period of intended reliance.
Types of audit evidence	<p><u>On the basis of source</u></p> <p>Internal audit evidence – Evidence gathered from the management of the company, like invoices, vouchers and other supporting evidences</p> <p>External audit evidence – Evidence gathered from an independent third party like confirmation from debtors/creditors, bank confirmation for balance in current accounts</p> <p>External evidence are generally considered more reliable than internal evidence.</p> <p><u>On the basis of nature</u></p> <p>Oral / Visual audit evidence – The management, during the course of audit, may tell certain facts and explanations to the auditor or may show some evidences related to a transaction. This is known as oral / visual evidence. The auditor should write such oral / visual audit evidence in the audit notebook or ease of remembrance in future.</p> <p>Documentary audit evidence – Evidence in the form of hardcopy proofs like invoices, vouchers, agreements, partnership deeds are known as documentary evidence</p> <p>Documentary evidence are generally more reliable than oral evidence</p>

	<p><u>On the basis of method of obtaining the evidence</u></p> <p>Evidence obtained by the auditor himself – The auditor may (with prior consent of the management) seek balance confirmations from the debtors / creditors. The confirmations in this case are usually received directly by the auditor at the address of auditor</p> <p>Evidence obtained by the auditor through the management – The auditor may request the management to obtain the balance confirmation from debtors / creditors and provide him with a copy of the same. In such a case the management writes to the debtors / creditors and receives a balance confirmation from them, which is provided to the auditor.</p> <p>The former is more reliable than the later.</p>
Methods of obtaining audit evidence	<p>a) Inspection - It consists of examining records, documents, or tangible assets to ascertain the existence, rights and obligations of the items of the financial statements.</p> <p>b) Observation - It consists of witnessing a process or procedure being performed by others. Eg. Physical verification of inventory is attended and observed by the auditor</p> <p>c) Inquiry and Confirmation - Inquiry consists of seeking appropriate information from a knowledgeable person inside or outside the entity. Confirmation consists of the response to an inquiry to corroborate information contained in the accounting records. Like auditor takes confirmation on bank balances from the respective bankers of the client</p> <p>d) Computation - It consists of checking the arithmetical accuracy of source documents and accounting records or performing independent calculations.</p> <p>e) Analytical Review - It consists of studying significant ratios and trends and investigating unusual fluctuations and items.</p>
Class Notes	
Compliance procedures / test of controls	<ul style="list-style-type: none"> ➤ Compliance procedures refers to checking of the Internal controls employed by the management. ➤ If the controls are effective, the auditor can place reliance on them and reduce the time and effort in gathering audit evidence. ➤ In the control testing stage, the auditor gathers evidence as to the effectiveness of operation of those controls upon which the auditor has planned reliance. ➤ Where the information system is computerized, evidence may also be gathered using CAATs (Computer Assisted Audit Technique) such as a generalized audit software or an embedded audit module.
Substantive procedures	<ul style="list-style-type: none"> ➤ Substantive procedures (or substantive tests) are those activities which are performed by the auditor to gather evidence as to the completeness, validity and/ or accuracy of account balances and underlying classes of transactions. ➤ Auditors, during the substantive testing stage of the audit, gather evidence about the management's assertions.

Difference between compliance procedure and substantive procedures	Compliance procedure / Control testing	Substantive procedure
	It involves checking of only the control points of a transaction and not the complete transaction	It involves checking the complete transaction
	It is the very first step of the audit procedure	It starts when control testing ends. The extent of substantive procedures to be performed depends on reliability of the internal controls
	Less time, cost and efforts involved	More time, cost and efforts involved
	More commonly used for relatively less material account heads / balances or when complete checking is practically not possible like large accounts heads.	More commonly used for highly critical accounts
	There is one type of compliance procedure – ie control testing	There are two types of substantive procedures – ie a) Test of Details; and b) Analytical procedure

Important Questions – Audit engagement, audit programme, audit working papers, audit notebook, audit evidence

Q.1	Distinguish between permanent and current audit file. [June 2015, December 2018 - 6 marks]
Q.2	<p>Some material misstatement remain unreported by Auditors. Comment [December 2016 - 8 marks]</p> <p>Materiality - The concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the financial statements. Judgments about materiality are made in the light of surrounding circumstances, and are affected by the auditor's perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both. The auditor's opinion deals with the financial statements as a whole and therefore the auditor is not responsible for the detection of misstatements that are not material to the financial statements as a whole.</p> <p>Risk of material misstatement - The risk that the financial statements are materially misstated prior to audit. This consists of two components, described as follows at the assertion level:</p> <p>(i) Inherent risk - The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.</p> <p>(ii) Control risk - The risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.</p>
Q.3	State the components of Audit risk. [June 2011, Dec 2014 – 2 marks,]
Q.4	What do you understand by audit evidence? [Dec 2013, June 2016 – 2 marks]
Q.5	Explain the significance of audit working papers. [Dec 2013 - 4 marks]
Q.6	Discuss the principles which are useful in assessing the reliability of audit evidence. [June 2014, Dec 2017 – 4 marks]

	<p>The reliability of audit evidence depends on its source-internal or external, and on its nature-visual, documentary or oral. While the reliability of audit evidence is dependent on the circumstances under which it is obtained, the following generalisations may be useful in assessing the reliability of audit evidence:</p> <ul style="list-style-type: none"> - External evidence (e.g. confirmation received from third party) is usually more reliable than internal evidence. - Internal evidence is more reliable when related internal control is satisfactory. - Evidence in the form of documents and written representations is usually more reliable than oral representations. - Evidence obtained by the auditor himself is more reliable than that obtained through the entity.
Q.8	<p>What is meant by audit notebook? State its importance. What is the contents of a typical notebook. [June 2014, Dec 2016 – 8 marks]</p> <p>Or</p> <p>Audit notebook is a permanent record of the auditor. Comment [Dec 2014, Dec 2015 – 6 marks]</p>
Q.9	<p>What is audit programme? [Dec 2014, Dec 2015 – 2 marks]</p> <p>Or</p> <p>What is audit programme. State its advantages [June 2016, 2019 – 8 marks]</p>
Q.10	<p>An audit involves significant collection of audit evidence. Comment [June 2015 – 4 marks]</p> <p>In any audit, the auditor examines the available evidences to him and gives the opinion based on such examination. Moreover, he has to carry out the audit within the framework of standard auditing practices and that too with ethical conduct. The auditor has to proceed in a systematic manner so that he would be in a position to collect and review the purposeful evidences and also satisfy himself of the correctness of the financial operations of the business. Usually, the whole audit process involves the following aspects, namely:</p> <ul style="list-style-type: none"> ➤ Defining the scope of the audit work, i.e. preparation of the audit engagement letter ➤ Obtaining the knowledge of the client's business and formulating the audit programme ➤ Evaluation of the accounting and internal control system existing in the auditee enterprise ➤ Determining the nature, timing and the extent of audit procedures keeping in mind the audit risk and the materiality involved ➤ Adequate documentation is also necessary i.e. preparation of audit note book and working papers ➤ Formulation of opinion about the financial statements ➤ Issuing of audit report.
Q.11	<p>Define Audit engagement letter. What are the general contents of and audit engagement letter? [June 2017 – 8 marks]</p>
Q.13	<p>Discuss the method of obtaining Audit Evidences. [Dec 2018 (6 marks)]</p>
Q.12	<p>Pankaj & Associates a Chartered Accountant firm in Kolkata has been appointed by XYZ Company limited for conducting an audit. Draw an audit engagement letter that needs to be furnished by XYZ Company limited for effecting this engagement.</p> <p style="text-align: center;"><i><<On the letterhead of the Auditor Firm>></i></p> <p>To,</p> <p>The Board of Directors</p>

XYZ Company Ltd
 Advant Navis Business Park
 Noida, Uttar Pradesh

Dear Sirs,

I/We refer to the letter dated.....informing me/us about my /our (re) Appointment/ratification as the auditors of the Company. You have requested that I / we audit the financial statements of the Company as defined in Section 2(40) of the Companies Act, 2013 ('2013 Act'), for the financial year(s) beginning April 1, 20XX and ending March 31, 20YY. The financial statements of the Company include, where applicable, consolidated financial statements of the Company and of all its subsidiaries, associate companies and joint ventures. I am / we are pleased to confirm my/ our acceptance and my / our understanding of this audit engagement by means of this letter.

My / Our audit will be conducted with the objective of me / our expressing an opinion if the aforesaid financial statements give the information required by the 2013 Act in the manner so required, and give a true and fair view in conformity with the applicable accounting principles generally accepted in India, of the state of affairs of the Company as at 31st March, 20YY, and its profit/loss and its cash flows for the year ended on that date which, inter alia, includes reporting in conjunction whether the Company has an adequate internal financial controls system over financial reporting in place and the operating effectiveness of such controls. In forming my / our opinion on the financial statements, I / we will rely on the work of branch auditors appointed by the Company and my / our report would expressly state the fact of such reliance.

I / We will conduct my / our audit in accordance with the Standards on Auditing (SAs), issued by the Institute of Chartered Accountants of India (ICAI) and deemed to be prescribed by the Central Government in accordance with Section 143(10) of the 2013 Act. Those Standards require that I / we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances.

The terms of reference for my / our audit of internal financial controls over financial reporting carried out in conjunction with our audit of the Company's financial statements will be as stated in the separate engagement letter for conducting such audit and should be read in conjunction with this letter. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements. Because of the inherent limitations of an audit, including the possibility of collusion or improper management override of controls, there is an unavoidable risk that material misstatements due to fraud or error may occur and not be detected, even though the audit is properly planned and performed in accordance with the SAs. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

My / Our audit will be conducted on the basis that the Management and those charged with governance (Audit Committee / Board) acknowledge and understand that they have the responsibility:

- (a) For the preparation of financial statements that give a true and fair view in accordance with the applicable Financial Reporting Standards and other generally accepted accounting principles in India. This includes:
- Compliance with the applicable provisions of the 2013 Act;
 - Proper maintenance of accounts and other matters connected therewith;
 - The responsibility for the preparation of the financial statements on a going concern basis;
 - The preparation of the annual accounts in accordance with, the applicable accounting standards and providing proper explanation relating to any material departures from those accounting standards;
 - Selection of accounting policies and applying them consistently and making judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit and loss of the Company for that period;
 - Taking proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the 2013 Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
 - Laying down internal financial controls to be followed by the Company and that such internal financial controls are adequate and were operating effectively; and
 - Devising proper systems to ensure compliance with the provisions of all applicable laws and those systems were adequate and operating effectively.
- (b) Identifying and informing me / us of financial transactions or matters that may have any adverse effect on the functioning of the Company.
- (c) Identifying and informing me / us of:
- All the pending litigations and confirming that the impact of the pending litigations on the Company's financial position has been disclosed in its financial statements;
 - All material foreseeable losses, if any, on long term contracts including derivative contracts and the accrual for such losses as required under any law or accounting standards; and
 - Any delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company.
- (d) Informing me / us of facts that may affect the financial statements, of which Management may become aware during the period from the date of my / our report to the date the financial statements are issued.
- (e) Identifying and informing me / us as to whether any director is disqualified as on March 31, 20YY from being appointed as a director in terms of Section 164 (2) of the 2013 Act. This should be supported by written representations received from the directors as on March 31, 20YY and taken on record by the Board of Directors.
- (f) To provide me / us, inter alia, with:
- Access, at all times, to all information, including the books, accounts, vouchers and other records and documentation of the Company, whether kept at the Head Office or elsewhere, of which the Management is aware that are relevant to the preparation of the financial statements such as records, documentation and other matters. This will include books of account maintained in electronic mode;
 - Access, at all times, to the records of all the subsidiaries (including associate companies and joint ventures as per Explanation to Section 129(3) of the 2013 Act) of the Company in so far as it relates to the consolidation of its financial statements, as envisaged in the 2013 Act;
 - Access to reports, if any, relating to internal reporting on frauds (e.g., vigil mechanism reports etc.), including those submitted by cost accountant or company secretary in practice to the extent

it relates to their reporting on frauds in accordance with the requirements of Section 143(12) of the 2013 Act;

- Additional information that I / we may request from the Management for the purposes of my / our audit;
- Unrestricted access to persons within the Company from whom I / we deem it necessary to obtain audit evidence. This includes my / our entitlement to require from the officers of the Company such information and explanations as I / we may think necessary for the performance of my / our duties as the auditors of the Company; and
- All the required support to discharge my / our duties as the statutory auditors as stipulated under the Companies Act, 2013/ ICAI standards on auditing and applicable guidance.

As part of my / our audit process, I / we will request from the Management written confirmation concerning representations made to me / us in connection with my / our audit. My / Our report prepared in accordance with relevant provisions of the 2013 Act would be addressed to the shareholders of the Company for adoption of the accounts at the Annual General Meeting. In respect of other services, my / our report would be addressed to the Board of Directors. The form and content of my / our report may need to be amended in the light of my / our audit findings. In accordance with the requirements of Section 143(12) of the 2013 Act, if in the course of performance of my / our duties as auditor, I / we have reason to believe that an offence involving fraud is being or has been committed against the Company by officers or employees of the Company, I / we will be required to report to the Central Government, in accordance with the rules prescribed in this regard which, inter alia, requires me / us to forward my / our report to the Board or Audit Committee, as the case may be, seeking their reply or observations, to enable me / us to forward the same to the Central Government. As stated above, given that I am / we are required as per Section 143(12) of the Act to report on frauds, such reporting will be made in good faith and, therefore, cannot be considered as breach of maintenance of client confidentiality requirements or be subject to any suit, prosecution or other legal proceeding since it is done in pursuance of the 2013 Act or of any rules or orders made thereunder.

I / We also wish to invite your attention to the fact that our audit process is subject to ‘peer review’ / ‘quality review’ under the Chartered Accountants Act, 1949. The reviewer(s) may inspect, examine or take abstract of my / our working papers during the course of the peer review/quality review. I / We may involve specialists and staff from our affiliated network firms to perform certain specific audit procedures during the course of my / our audit. In terms of Standard on Auditing 720 - “The Auditor’s Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements” issued by the ICAI and deemed to be prescribed by the Central Government in accordance with Section 143(10) of the 2013 Act, I / we request you to provide to me / us a Draft of the Annual Report containing the audited financial statements so as to enable me / us to read the same and communicate material inconsistencies, if any, with the audited financial statements, before issuing the auditor’s report on the financial statements. {Other relevant Information} {Insert Other information, such as fee arrangements, billings and other specific terms, as appropriate.} This letter should be read in conjunction with my / our letter dated __ for the Audit of Internal Financial Controls Over Financial Reporting under the 2013 Act, in respect of which separate fees have been fixed/will be mutually agreed.

I / We look forward to full cooperation from your staff during my / our audit. Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for my / our audit of the financial statements including our respective responsibilities. Yours faithfully,

(Signature)

Pankaj Setia

Partner**Pankaj & Associates**

Date:

Place:

Copy to: Chairman, Audit Committee

Acknowledged on behalf of

XYZ Limited

Name and Designation: Mr. X, Managing Director

Date:

Key points to remember

What should be contained in Auditor's engagement letter ?	<ul style="list-style-type: none"> ✓ Objective & scope of engagement ✓ Management responsibility ✓ Existence of inherent limitations ✓ Need for use of Internal Auditor ✓ Management confirmation letter ✓ Restrictions & limitations of Auditor liabilities ✓ Basis of computation of Audit fees ✓ Billing arrangement ✓ Form of report & Other communications of engagement ✓ Validity of report ✓ Limits on submission of report to other authorities
Audit Programme	<p>Detailed plan of auditing work containing:</p> <ul style="list-style-type: none"> ✓ Procedures to followed in verification ✓ estimated time required for verification ✓ description of the work to be done during an audit. ✓ Assigning the responsibility to each audit assistant ✓ arranging and distributing the audit work as well as checking against the possibility of the omissions. <p>Advantages</p> <ul style="list-style-type: none"> ✓ Proper / systematic allocation of work to the audit assistants ✓ Existence of checklist ensures that none of the audit procedure is omitted ✓ Individual responsibility for work may be assigned ✓ Serves as a guide for planning the audit of the subsequent years <p>Disadvantages</p> <ul style="list-style-type: none"> ✓ Same audit programme cannot be used for all the entities ✓ Unnecessary for smaller concerns ✓ If any procedure is missed from the programme, it will not be done

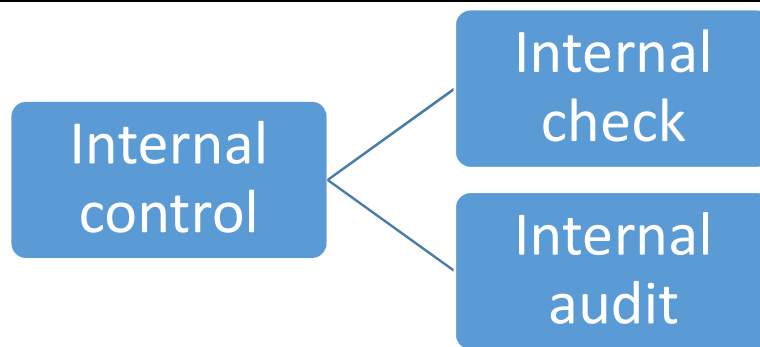
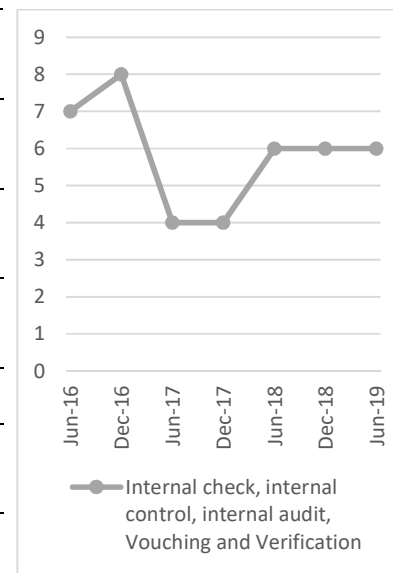
	<ul style="list-style-type: none"> ✓ Auditors task becomes mechanical 														
Audit Working papers	<ul style="list-style-type: none"> ✓ The record of planning and execution of audit engagement ✓ Evidences the audit work performed ✓ Types of audit working papers: <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Permanent Audit File</th> <th style="text-align: left;">Current Audit File</th> </tr> </thead> <tbody> <tr> <td>Contains working papers which are useful for more than one accounting period</td> <td>Contains working papers which are useful for only one accounting period, ie the current year</td> </tr> <tr> <td>It contains documents related to the organizational structure, like: <ul style="list-style-type: none"> - Memorandum of Association and - Article of Association in case of a company - Long-term Lease agreements </td> <td>It contains documents related to the current year like: <ul style="list-style-type: none"> - Engagement letter - Board meeting minutes - AGM minutes - Evidences for the financial statements of the current period, like invoices, bills etc. </td> </tr> <tr> <td>Evaluation of internal controls, includes report on deficiencies in internal controls, if any</td> <td>Evaluation of assumptions in Management letter</td> </tr> <tr> <td>Analysis of significant ratios and trends over a period of time</td> <td>Analysis of transactions and balances of the current year</td> </tr> <tr> <td>Notes regarding significant accounting policies</td> <td>Notes on Audit programme</td> </tr> <tr> <td>Contains significant audit observations of prior years</td> <td>Contains conclusions on significant aspects of audit of the current year</td> </tr> </tbody> </table>	Permanent Audit File	Current Audit File	Contains working papers which are useful for more than one accounting period	Contains working papers which are useful for only one accounting period, ie the current year	It contains documents related to the organizational structure, like: <ul style="list-style-type: none"> - Memorandum of Association and - Article of Association in case of a company - Long-term Lease agreements 	It contains documents related to the current year like: <ul style="list-style-type: none"> - Engagement letter - Board meeting minutes - AGM minutes - Evidences for the financial statements of the current period, like invoices, bills etc. 	Evaluation of internal controls, includes report on deficiencies in internal controls, if any	Evaluation of assumptions in Management letter	Analysis of significant ratios and trends over a period of time	Analysis of transactions and balances of the current year	Notes regarding significant accounting policies	Notes on Audit programme	Contains significant audit observations of prior years	Contains conclusions on significant aspects of audit of the current year
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Audit Notebook	<ul style="list-style-type: none"> ✓ A bound book containing matters observed during the course of audit ✓ Separate notebook for each audit year ✓ Forms part of the audit working papers and records ✓ Serves as an evidence of work done ✓ Should be maintained clearly, completely and systematically ✓ Contains information like – Name of organization; organization structure; important clauses of MoA and AoA; errors and frauds detected; work completed and pending etc. 														
Audit Risk	<ul style="list-style-type: none"> ✓ Risk that the auditor gives an inappropriate audit opinion ✓ It is a factor of – <i>Inherent risk, control risk and detection risk</i> ✓ <i>Inherent risk</i> is the risk of a misstatement, owing to the inherent nature of the account balance. Eg complex calculations / estimates involves judgement and hence are likely to be misstated ✓ <i>Control risks</i> is the risk of a misstatement not being detected owing to weak internal controls ✓ <i>Detection risk</i> is the risk of a misstatement owing to worn audit procedures being employed by the auditor 														
Audit evidence	<ul style="list-style-type: none"> ✓ Audit evidence are the set of facts and reasons which are accumulated during the audit process ✓ They forms the basis of audit conclusions ✓ Audit evidence should be reasonable and sufficient 														

	<ul style="list-style-type: none"> ✓ It should provide reasonable assurance on the assertions of the management ✓ Audit evidence may be internal or external ✓ External evidences are more reliable than internal
Test of controls (Compliance procedures)	<ul style="list-style-type: none"> ✓ Test of effectiveness of internal controls ✓ Gathers evidence on the operational effectiveness of internal control procedures ✓ If the controls are strong, auditor can place reliance on them and can reduce efforts on substantive procedures
Test of details (Substantive procedures)	<ul style="list-style-type: none"> ✓ This involves a complete checking of the validity and completeness of the accuracy of the financial accounts ✓ Substantive procedures are of two types – analytical procedures and test of details

Chapter 3 – Internal Check, Internal Control, Internal Audit; Vouching and Verification

Chapter at a Glance

Internal Check	Meaning, benefits, auditors duty, checklist and questionnaire
Audit procedures	Cut Off procedures, examination in depth / walkthrough
Internal control	Meaning, essential elements, objectives, advantages, disadvantages, types, nature and scope
	Responsibilities of management and auditor with respect to internal controls
	Techniques for evaluation of internal control system by the auditor
Internal Audit	Meaning, areas of operations, features, functions, need, advantages, internal audit as a management tool.
Vouching	Meaning of Vouchers, Types of Vouchers, meaning of vouching, Teeming and lading, audit of receipts, audit of expenditure
Verification	Assets and liabilities, Importance, Scope, Objectives, Advantages, technique and process



Internal Check	<p>Internal check is a system where work of one individual is checked by the other in the staff. Internal check is a valuable part of the internal control.</p> <p>In other words, internal check is an arrangement of staff duties where no one is allowed to carry out and record every aspect of a transaction single handedly. When a transaction goes through the hands of multiple people, the possibilities of errors and frauds are reduced.</p>
Benefits / Aims of internal checks	<ol style="list-style-type: none"> To fix responsibility of a definite persons for particular acts. This is done by the segregation of tasks. To obtain confirmation of facts and entries, physical and financial, by the creation and preservation of necessary records. To facilitate the “breakdown” of routine procedures that there is an even flow of work and work doesn’t stop in the event of absenteeism of a person. To reduce to a minimum the possibility of fraud and error.

Auditors duty with respect to internal check system	The auditor should apply a few test checks, i.e. he should check <ul style="list-style-type: none"> - a few transactions on a random basis; or - check fully the accounts for a few months, and carry out a thorough check of the whole of a certain class of transactions taking place during that particular period The existence of a good internal check system reduces (to a great extent) the work of the auditor but does not reduce his liability.
Checklist	Check list is usually a comprehensive list of all the aspects of internal check system, designed to draw attention to important aspects of the system of internal check.
Internal Control Questionnaires	<ul style="list-style-type: none"> ➤ The internal check system questionnaire is a list of systematically and logically prepared questions designed to evaluate the effectiveness of the internal check system. ➤ The questionnaire are as comprehensive as possible to make sure that all aspects and accounting transactions are covered. ➤ During the course of the audit (pre-commencement of audit), statutory auditor submits the questionnaire to the management, to which the managerial officials respond. The replies by concerned official will help the auditor to form an opinion as to the adequacy and reasonableness of the internal check system.

Specimen of Internal Control Checklist of a restaurant	Restaurant Internal Controls ✓ Checklist				
	CATEGORY	ITEM	DESCRIPTION	YES	NO
	Cash	1.	Accounting personnel are prevented from having access to cash, inventory & other assets.		
	Cash	2.	Cash deposits are made daily or as frequently as possible.		
	Cash	3.	Surprise cash counts are conducted regularly on bartender and cashier positions.		
	Cash	4.	Cashiers, servers & bartenders do not have access to their register totals.		
	Cash	5.	Managers observe cash handlers complete their Check Out Sheets & then provide the "amount due".		
	Cash	6.	Only one cash handler has access to a register at a time.		
	Cash	7.	Only managers can void over-rings & mistakes.		
	Cash	8.	Voids & over-rings are reported by employee & reviewed by management regularly.		
	Cash	9.	A receipt is generated & presented to customers on EVERY sale.		
	Cash	10.	Mystery shoppers are employed to observe bartenders & cashiers.		
	Cash	11.	All undeposited cash is secured in safe.		
	Financial / Accounting	1.	Financial statements are prepared monthly (four-weeks) & reviewed by owner on a timely basis.		
	Financial / Accounting	2.	Physical inventories are taken whenever food & beverage costs are calculated on monthly statements & weekly reports.		
	Financial / Accounting	3.	Owner hands out pay checks to employees.		
	Financial / Accounting	4.	Owner regularly reviews the bank reconciliation(s) for completion and questionable reconciling items.		
	Financial / Accounting	5.	Check signer(s) never sign a blank check.		

ORGANIZATION NAME _____
INTERNAL CONTROL QUESTIONNAIRE

PURPOSE: Audits help determine the effectiveness of an HR department and/or HR systems. They are a systematic, objective tool to assess regulatory or policy compliance in the workplace. The following list of HR audit questions is not meant to be comprehensive to every organization, merely a representation of the types of questions that may be found in an HR audit.

Department:	Auditable Function: Human Resources Audit Checklist
Discussed with:	Date:

Question	Yes	No	N/A	Comments
Management				
1. Are HR goals in line with those of the organization?				
2. Are workweeks identified and defined?				
3. Are full-time and part-time hours defined?				
4. Are shifts defined?				
5. Is there open communication to and from the HR department?				
Hiring				
1. Do job descriptions exist?				
2. Are job descriptions up to date?				
3. Are I-9 forms and acceptable documentation reviewed annually?				
Are job openings offered to current employees?				
4. Are applicant references checked?				
5. Are turnover rates monitored?				
6. Are selection processes used with reference to the Uniform Guidelines?				
7. Are all applicants required to fill out and sign an application form?				

	Basis	Checklist	Internal control questionnaire
Distinction between checklist and questionnaire	Contents	Contains instructions to be followed by the audit staff	Contains questions related to internal controls
	Point of time	Prepared and issued at the commencement of audit	Prepared and issued during the course of audit
	Issued to	Issued to audit staff	Issued to management of the company
	Objective	Serve as the guidelines for the audit staff so that nothing remains unchecked	Used to collect information about the internal control system

Relationship between internal audit, internal control and internal check	Internal control system has two elements – internal check and internal audit. <i>Internal Control = Internal Check + Internal Audit</i>			
Distinction between internal audit, internal control and internal check	Basis	Internal Audit	Internal control	Internal check
	Way of Checking	Each component of work is checked by the auditor.	Work of one person is automatically checked by another.	It operates in routine to doubly check every part of a transaction at the time of occurrence and recording of the same
	Objective	To evaluate the internal control system and to detect frauds and errors.	To ensure adherence to management policies, safeguarding of assets, prevention and detection of frauds and errors, accuracy and completeness of accounting records.	To ensure that no one employee has exclusive control over any transaction or group of transactions and their recording in the books
	Point of Time	In an internal audit system, work is checked after it is done.	In an internal control system, checking is done simultaneously with the conduct of work. Every transaction is checked as soon as it is entered.	Methods of recording transactions are devised where work of an employee is checked continuously by correlating it with the work of others.
	Thrust of system	The thrust of internal system is to detect errors and frauds.	The thrust of internal check system is to prevent errors.	The thrust of internal control lies in fixing of responsibility and division of work to avoid duplication.
	Cost Involvement	In an internal audit system, work is checked specially; therefore cost is involved in addition to accounting	The system proves to be costly in case of small businesses because more number of employees are engaged	It is a part of internal control and a method of division of work, therefore does not add to the cost.
	Report	The internal auditor submits his report to the management	Internal Controls provide for built in MIS reports	The summary of day to day transactions work as report for the senior.
Cut off procedures	<ul style="list-style-type: none"> ➤ Cut-off procedures are adopted to allocate revenues and costs to the proper accounting period. ➤ Accounts payable and accounts receivable are the most susceptible to recording of transactions in the wrong accounting period. ➤ Serially numbered documents like invoice for sales or purchase bills are allocated to the respective accounting periods by establishing cut-off points based on the serial numbers. ➤ Cut-off procedures require detailed testing by the auditor so as to ensure proper accounting of assets and liabilities, which may arise without the corresponding physical delivery of goods taking place. 			

	<p>➤ Example: The purchase procedure involves a number of steps, like issuing purchase requisitions, inviting quotations, selecting sellers and defining the terms of purchase, entering agreement, receipt of goods, storage of goods, payment, etc. All the documents and vouchers that substantiate the proof of authentication of these transactions are serially numbered. It is the auditor's duty to examine the cut-off points and ensure that the transaction has been recorded in the period in which the title in goods is transferred, irrespective of the period of physical delivery of goods and to ensure compliance of the Indian Accounting Standards and the relevant Statute.</p>				
Class Notes	<p>From the following extracts of sales register of the M/s Modern Paper Products Ltd, you are required to ascertain which sales invoice should be recognized as income in the FY 2018-19. You may employ the suitable <i>cut-off</i> procedures.</p>				
	Sales Invoice No	Sales Invoice Date	Party Name	Amount (In INR)	Goods (risk and rewards) delivered on
	364	29 March 2019	A.K. Papers Ltd	100,000	30 March 2019
	365	30 March 2019	Ahluwalia Papers Inc	210,000	31 March 2019
	366	31 March 2019	Pearl Card Ltd	350,000	31 March 2019
	368	31 March 2019	Senorita Wholesalers	402,000	1 April 2019
	369	1 April 2019	Orient Craft Ltd	83,000	2 April 2019
Examination in depth/auditing in depth: "walk through test"	<p>Steps of in-depth analysis</p> <ol style="list-style-type: none"> Fixation of the maximum tolerable error limit/desired confidence level / materiality. Selecting a few transactions in each area of audit to be checked. Verification of those selected transactions - 100% by verifying the accounting aspects, internal control aspects, documentation and audit trail. Audit trail refers to the documents, records, books and files, which enable an auditor to trace a transaction from its source till it is summed up, recorded and presented in an accounting report. Analysis of the results with the maximum tolerable error limit. 				
Difference between test and statistical sampling	Basis	Test Checking		Statistical Sampling	
	Selection	Selective transactions are verified.		Drawing a sample from a Large number of transactions.	
	Technique	No specific technique is used.		Statistical technique used is: Selection on random basis.	
	Subjective	It is subjective and depends upon the choice of the auditor.		It depends upon the statistical technique applied.	
	Risk & Method	It involves more risk as there are no specific methods for test check.		It carries lesser risk and various statistical methods can be used at different times.	
Class Notes					

Internal Control	<p>The internal control system comprises all the methods and procedures adopted to:</p> <ul style="list-style-type: none"> - assist in achieving the objective of efficient conduct of business, - ensure adherence to management policies, - safeguarding of assets, - prevention and detection of frauds and errors, and - checking the accuracy and completeness of the accounting records. <p>Internal checks and internal audit are integral parts of the overall internal control system.</p>
Essential elements of an internal control system	<ul style="list-style-type: none"> ➤ Financial and other Organizational Plans: These plans specify the various duties and responsibilities of both management and staff, stating the powers of authorisation that reside with various members. ➤ Competent Personnel: In any internal control system, personnel are the most important element. When the employees are competent and efficient in their assigned work, the internal control system can be worked and operated efficiently and effectively even if some of the other elements of the internal control system are absent. ➤ Division of Work: This refers to the procedure of division of work properly among the employees of the organization. Each and every work of the organization should be divided in different stages and should be allocated to the employees in accordance with quality and skill. ➤ Separation of operational responsibility from record keeping: If the operations department of an organization is being asked to prepare its own records and reports, there may be a tendency to manipulate results for showing better performance. So in order to ensure reliable records and information, record-keeping function is separated from the operational responsibility of the concerned department. ➤ Separation of the custody of assets from accounting: To protect against misuse of assets and their misappropriation, it is required that the custody of assets and their accounting should be done by separate persons. ➤ Authorization: In an internal control system, all the activities must be authorized by a proper authority, depending upon the criticality of the task and seniority of the approving authority. ➤ Managerial supervision and review: The internal control system should be implemented and maintained in conformity with the environmental and elemental changes of the concern.
Objectives of Internal Control	<p>Operations related Objectives</p> <ul style="list-style-type: none"> ➤ Compliance: To have compliance with law and the accounting practices generally accepted and followed in the country. ➤ Reliance: To increase the reliance on the internal systems, people and accounting practices followed by the organization, so that the chances of frauds are reduced. ➤ Security: To provide security to customers, employees and property of the organization. Physical security systems like security guards, locks and anti-theft devices are used for providing protection. ➤ Increased efficiency: To assist in human resource and performance management, and to keep proper control over business activities to achieve maximum levels of efficiency. ➤ Review and correction: To review the working of the business, locate weak points in operations and to take corrective measures for proper working. ➤ Authorization: To provide proper authority for purchase, sale, valuation, verification and possession of assets. ➤ Delegation: To provide for division of duties among the employees where all staff members work cohesively. ➤ Setting future Corporate Goals: An efficient system of internal control helps the organization in goal setting. However, the organization should have certain policies, rules and regulations in place to achieve the preset goals.

	<p>Objectives related to Accounts and audit</p> <ul style="list-style-type: none"> ➤ Conformity with accounting principles: To conform to the basic accounting concepts, and principles that was governing an organization. ➤ Evaluation: To evaluate the accounting system for proper authorization of transactions. ➤ Accurate planning: To ensure that the auditors and the accountants of the organization make all the financial reports correctly and to ensure that financial planning is done accurately. <p>Objectives with respect to resources of the organization</p> <ul style="list-style-type: none"> ➤ Resource utilization: To ensure that all the resources: Man, Material, Money and Machines of the organization are optimally used. ➤ Safeguarding of resources: To protect the resources of the organization against mismanagement or fraud and to ensure that the company's activities are in accordance with laws and regulations. ➤ Safeguarding: To safeguard the organization's accounts, employees and assets by formation of fool-proof policies, rules and regulations.
Advantages of Internal Controls	<ul style="list-style-type: none"> ➤ Attainment of goal & Objectives: A sound internal control helps the entity towards the attainment of goal & objective of the business. ➤ Reliable financial Information: A sound internal control helps the organization to set reliable financial information for managerial decision making. ➤ Compliance with law & Regulations: Sound Internal control system ensures various compliance with laws & regulation prevailing in the country ➤ Efficient & Effective & Economical operation: A sound internal control system ensures efficient and effective operations that accomplish the goals of the organizations and protect employees and assets of the business. It ensures that the resources are utilized only for their intended purposes. ➤ Prevention of fraud & errors: A sound internal control system prevents and detects frauds and errors and ensures timely preparations of financial statements and various reports for decision making. ➤ Safeguard from irregularities or misappropriations: A good internal control system errors the protection of organisation resources from misappropriation and do safeguard from any irregularities. ➤ Employees' satisfaction: It protects the interests of employees by segregation of duties and delegation of responsibilities.
Disadvantages of Internal controls	<ul style="list-style-type: none"> ➤ Organizational Structure: Deficiencies in organizational structure make internal control ineffective. ➤ Size of the Organization: Small organizations have very low levels of internal control, which are almost negligible due to more interference by owners and management. ➤ Unusual Transactions: The internal control procedures normally fail to keep a check on unusual transactions. ➤ Costly: The implementation of internal control procedures and processes involves incurring costs in terms of time, effort and resources. ➤ Abuse of Power: Members at the top-level management may override/interfere with control. ➤ Collusion of two or more People: It may lead to internal controls being over- ridden. ➤ Obsolescence: Control system may become redundant with passage of time if not updated with change in the size and nature of business. ➤ Potential for human error: Due to misunderstanding of the concept of internal control human errors may occur while carrying out Internal Control System. ➤ Frequent follow-up measures: Follow-up procedures need to be frequent to ensure its effectiveness, which is extremely time-consuming.

Types of Internal Control Systems	<p>Preventive Controls are designed to discourage errors or irregularities from occurring. They are proactive controls that help to ensure departmental objectives are being met. Examples of preventive controls are:</p> <ul style="list-style-type: none"> - Segregation of Duties: Duties are segregated among different people to reduce the risk of error or inappropriate action. Normally, responsibilities for authorizing transactions (approval), recording transactions (accounting) and handling the related asset (custody) are divided amongst different clerks. - Approvals, Authorizations, and Verifications: Management authorizes employees to perform certain activities independently and without any approval from the superiors. However, management specifies those activities or transactions that need supervisory approval before they are performed or executed by employees. A supervisor's approval (manual or electronic) implies that he or she has verified and validated that the activity or transaction conforms to established policies and procedures. - Security of Assets (Preventive and Detective): Access to equipment, inventories, securities, cash and other assets is restricted; assets are periodically counted and compared to amounts shown on control records. <p>Detective Controls are designed to find errors or irregularities after they have occurred. Examples of detective controls are:</p> <ul style="list-style-type: none"> - Reviews of Performance: Management compares information about current performance to budgets, forecasts, prior periods, or other benchmarks to measure the extent to which goals and objectives are being achieved and to identify unexpected results or unusual conditions that require follow-up. - Reconciliations: An employee relates different sets of data to one another, identifies and investigates differences, and takes corrective action, when necessary. - Physical Inventories - Audits <p>Corrective Controls target at the correction of errors and irregularities as soon as they are detected. Steps in Internal Control consists of:</p> <ul style="list-style-type: none"> - Control Environment: Establish Integrity & ethical value. - Assessment of Risk: Establishment of plan to prevent risks. - Control Activities: Formulating policies & procedures. - Information & communication: Evaluation of employee performance. - Monitoring: Assessing overall performance of the Organisation.
Nature of Internal Control	<ul style="list-style-type: none"> ➤ It is an essential pre-requisite for efficient and effective management of any organization. ➤ It is, a primary responsibility of every management to establish and maintain an adequate system of internal control appropriate to the size and nature of the business of the entity. ➤ As per SA 265 - "Communicating deficiencies in internal control to those charged with Governance and Management", the auditor should report the deficiencies, if any, observed during the course of audit, to management.
Scope of Internal Controls	<p>The control environment in an enterprise depends largely on the following factors:</p> <ul style="list-style-type: none"> ➤ Entity's organizational structure i.e. methods of assigning authority and responsibility (including segregation of duties and supervisory functions). ➤ Functioning of the board of directors or the corresponding governing body and its committees, e.g. how strong is the audit committee of the board of directors. ➤ Management's philosophy and operating style – Whether the management has installed a strong control environment. Management's control system including the internal audit function, personnel policies and procedures. <p>It is clear from the above that the scope of internal controls is much beyond the accounting controls</p>

Responsibilities of management and auditor w.r.t. the internal controls	<ul style="list-style-type: none"> ➤ Management: The primary responsibility for maintaining an appropriate internal controls system rests with the management. The responsibility of closely monitoring the system to ensure that it is in place, so as to facilitate the basic objectives of installing it, also rests with the management. ➤ Auditor: To safeguard his own interests, the auditor might resort to examination and evaluation of the internal controls that exist in the organization. The auditor should bring the weaknesses of the internal control system, if any, to the management’s notice through a “letter of weakness” or “management letter”.
Techniques for Evaluation of Internal Control System by the auditor	<ul style="list-style-type: none"> ➤ Narrative Record: It is a complete and exhaustive description of the system. It is appropriate in the case of small businesses. Gaps in the control system are difficult to identify using a narrative records only. ➤ Check List: It is a series of instructions that a member of the audit staff is required to follow. They have to be signed by the audit assistant as proof for having followed the instructions given. A specific statement is required for every weakness area. ➤ Flow Chart: It is a pictorial representation of the internal control system depicting its various elements such as operations, processes and controls, which help in giving a concise and comprehensive view of the organization’s working to the auditor. ➤ Internal Control Questionnaire: This is the most widely used method for collecting information regarding the internal control system. It involves asking questions to various people at different levels in the organization about all relevant information. The questions are formed in a manner that would facilitate obtaining full information through answers in “Yes” or “No”.
Internal Audit	Internal audit is an independent appraisal activity within the organization by the staff of the entity or by an independent professional appointed for that purpose, for review of accounting, financial and other operations and controls established within an organization as a service to the organization.
Five Areas of operation / scope of internal audit	<ul style="list-style-type: none"> ➤ Financial and operating information: Internal auditors should review the reliability and integrity of financial and operating information and the means used to identify, measures, classify and report such information. ➤ Laws, policies, plans, procedures and regulations: Internal auditor should review the compliances of policies, plan and procedures, law and regulations and report any mis-compliance thereof. ➤ Assets: Internal auditors should verify the existence of assets and should review the means of safeguarding assets. ➤ Resources: Internal auditor should ensure the economic and efficient use of resources available. ➤ Objectives and goals for operations: Internal auditor should review operation or programmes to ascertain whether established objectives and goals are being met.
Features of internal audit	<ul style="list-style-type: none"> ➤ It is an independent appraisal activity within the organization. ➤ It can be conducted by the staff of the entity or by an independent professional appointed for that purpose. ➤ It is conducted for review of accounting, financial and other operations and controls established within an organization. ➤ It is conducted as a service to the organization and is not a part of the organization. ➤ It intends to furnish the analysis, appraisals, suggestions and information concerning the activities reviewed to the management. ➤ Internal auditing functions as a continuous effort for promoting effective control at reasonable cost.
Functions of Internal Audit	An appraisal function: The internal auditor’s job is to appraise / assess the activity of others. For example, a person who spends his time checking employee expense claims is

	<p>not performing an internal audit function. But an employee who spends sometime reviewing the system of checking employee expense claims may be performing an internal audit function.</p> <p>Service to the organization: The management requires that the auditor ensures that a) its policies are fulfilled, b) the information it requires to manage effectively is reliable and complete; c) the organisation's assets are safeguarded, d) the internal control system is well designed, e) the internal control system works effectively.</p> <p>Other duties: other duties may include the following matters:</p> <ul style="list-style-type: none"> - Ensuring the implementation of social responsibility policies adopted by top management. - Acting as a training officer in internal control matters. - Auditing the information given to management particularly interim accounts and management accounting reports. - Taking a share of the external auditor's responsibility in relation to the figures in the annual accounts and - Being concerned with the compliance with external regulations such as those on the environment, financial services, related parties etc.
Need of Internal Audit / Internal Audit is an important management tool	<p>Internal audit is in-demand due to the following reasons:</p> <ol style="list-style-type: none"> i. Increased size and complexity of businesses. ii. Enhanced compliance requirements, like accounting standards. iii. Focus on risk management and internal controls to manage them. iv. Unconventional business models. v. Improves efficiency of business operations vi. Ensures authenticity data being used by management for decision making vii. Intensive use of information technology. viii. Stringent norms mandated by regulators to protect investors. ix. An increasingly competitive environment. x. Reporting under Companies (Auditors Report) Order, 2016
Advantages of Internal Audit	<p>To the management:</p> <ol style="list-style-type: none"> i. It gives a review of overall internal control system established by the management. ii. It furnishes the deviations in following the procedures adopted for safeguarding assets. iii. It appraises the organizational structure and management information system. iv. It establishes that the policies, plans and strategies implemented are well in place and gives suggestions on management information systems reports for promoting effective control at reasonable cost. <p>To the statutory auditor in specific</p> <ol style="list-style-type: none"> i. It evaluates the internal control system, so the statutory auditor can reduce the number of tests that he may have had to conduct in case there was no internal audit ii. It carries out physical stock taking procedures, so reliance on stock valuation is increased. iii. It helps in timely completion of accounts and accuracy of records. iv. It evaluates the contingent liability existing at the year end. v. It ensures correctness of financial statements through a system of pre-audit or continuous audit. <p>To the organization as a whole and other stakeholders in general</p> <ol style="list-style-type: none"> i. The regular audit and checks result in accurate and efficient accounting system.

	<ul style="list-style-type: none"> ii. It is a critical review of the business' performance and management. iii. It provides strict supervision and direction to have effective controls. iv. It provides safeguard to the business assets and prevents misuse and misappropriation of all business assets. v. The auditor can suggest ways and means to improve performance of the business. vi. It prevents occurrence of errors and frauds. vii. It enhances the performance of the business by division of duties and responsibilities as per the capability of the employees. viii. It keeps a check on proper utilization of resources, which leads to reduction in costs. 	
Distinction between internal audit and operational audit	Internal Audit	Operational Audit
	Compliance objective	Risk identification, process improvement objective
	Financial accounts focus	Business focus
	Audit focus	Efficiency & improvement focus
	Transaction-based	Process-based
	Policies and procedures focus	Risk management focus
	Focus on policies, transactions and compliance	Focus on goals, strategies and risk management Processes

Important Questions – Internal Check, Internal Control, Internal Audit - Industry Specific

Q.1	What are the differences between checklist and internal control questionnaire? [June 2014, June 2017 – 4 marks]
Q.2	Distinguish between internal audit and internal check. [Dec 2015 – 7 marks]
Q.3	An auditor can avoid checking of records where good internal check system exists. Comment [2 marks] If the auditor is satisfied with the internal check / control system, he often curtails his audit procedures. However, since the ultimate liability is of the auditor, he might choose to perform substantive procedures in case to gain assurance on the financial information.
Q.5	Internal Audit is an important management tool. Comment [June 2009, Dec 2016 – 4 marks]
Q.6	Internal Audit plays an important role in detecting and preventing fraud. Comment [Dec 2009 – 2 marks] The statement is correct. Internal auditing involves checking the day-to-day functioning of the organisation, hence plays an important role in detecting and preventing fraud. It is an independent appraisal activity for review of operations, including safeguarding of assets, preventing misappropriation of money etc.
Q.7	Internal checks have some fundamental aims. Comment [June 2010 – 4 marks]
Q.8	What is auditing-in-depth? [June 2011 – 2 marks]
Q.9	A practicing cost accountant cannot be an Internal Auditor, as the Internal auditor is related to financial accounting. Comment [June 2012 – 2 marks] This statement is incorrect. Practicing cost accountant can also be the internal auditor provided he is not the cost auditor

Q.10	Test checks may be applied to all the transactions. Comment [June 2012 – 2 marks] This statement is incorrect. Only some transactions are subject to test checks. Eg. Cash/bank balance and pass books should always be thoroughly checked.
Q.11	Internal control and internal check are same. Comment [June 2012 – 4 marks] Or Distinguish between Internal control and internal check [dec 2018 (6 marks)]
Q.12	What are the limitations of internal controls. [Dec 2013 – 4 marks]
Q.13	State the 5 areas of operations of Internal Audit and its features. [Dec 2013 – 8 marks]
Q.14	What is cut off procedure? Explain its significance in context of Auditing. [Dec 2013 – 4 marks]
Q.15	What is test checking in audit work? [June 2014, June 2015, June 2016 – 2 marks]
Q.16	There is no need to design better internal controls in an EDP or computerisation. Comment [June 2015 – 4 marks] This is not true Computerization, automatically implies a constant review of the system to increase the efficiency in producing reliable data. As a result the internal controls are normally better designed under computerized systems. Automatic checks are instituted and the responsibilities of various people are clearly stated.
Q.17	Internal check is a part and parcel of internal control. Comment [June 2015 – 4 marks] Yes Internal control is a plan of organization and covers all methods and procedures adopted by management to assist its objectives of ensuring the orderly and efficient conduct of business, its includes physical and financial control and covers internal check and internal audit also. Hence internal check is part of internal control.
Q.18	An auditor applies various techniques to evaluate the internal control system of an organisation. Discuss. [Dec 2017 – 4 marks]
Q.19	Discuss different types of internal control systems with example. [June 2019 – 6 marks]

Voucher	A voucher is a piece of substantiating evidence , in the form of a written record of expenditure, disbursement, or completed transaction. Examples of types of vouchers: Cash Memo, Sale Invoice, Purchase Requisition Slip, Purchase Invoice, Gate Keeper's Note, Bank Paying Slip, Bank Statements, Minutes Book, etc.
Types of Voucher	<ol style="list-style-type: none"> i. Original and Collateral Vouchers: Original vouchers are called primary vouchers, and their copies or supporting documents are called collateral vouchers. ii. Internal and External Vouchers: Vouchers may generate inside the company (internal vouchers) or outside the company (external vouchers). Eg. Sales invoices for the seller is an internal voucher. However, sales invoice is an external voucher for the buyer. iii. Missing Vouchers: <ol style="list-style-type: none"> a) A missing voucher can be any of the following: missing Cash Memo, missing page in a Cash Collection Statement, missing inward challan for goods received, missing Inspection Report for material, missing TDS Certificate for tax deductions at source, missing Resolution to authorize increase in borrowing power by the company, missing Bank Statement for a day or a month, etc. b) A voucher could become missing due to:

	<ul style="list-style-type: none"> - Wrong or careless filing of document. E.g., missing Bank Statement for a day or a month, missing TDS Certificate; - Unintentional non-awareness of statutory requirements. E.g., missing Resolution to authorize increase in borrowing power by the company, or accidental fire, or lost otherwise. - Intention to hide the misappropriation by a person. E.g., non-recording of Purchas Invoices received later for goods received and taken in stocks, missing Cash Memo, etc. <p>c) The auditor should be careful and should carry out cross verification processes from other sources and documents to be able to form a firm opinion in the case of missing vouchers.</p> <p>d) The auditor should qualify his report or give a Disclaimer of Opinion in this case, or may give an adverse report with reasoning on a particular issue depending upon the materiality of the missing voucher as necessary evidence on the issue.</p>															
Vouching	<ul style="list-style-type: none"> ➤ Vouching is examination by the auditor of all documentary evidences, which are available to support the authenticity of the transaction entered in the client's record. ➤ Its basic objective is to establish the authenticity of the transactions recorded in the primary books of account. ➤ Vouching is said to be "the essence of auditing" or may be termed as the "backbone of auditing" 															
Specimen of Voucher	<div style="border: 1px solid black; padding: 10px; text-align: center;"> <h3>Payment Voucher</h3> <p>Ref No: _____</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Amount:</td> <td style="width: 50%;">Date:</td> </tr> <tr> <td colspan="2" style="text-align: center;">Method of Payment</td> </tr> <tr> <td>Cash:</td> <td>Check#:</td> </tr> <tr> <td colspan="2">To:</td> </tr> <tr> <td colspan="2">The Sum of:</td> </tr> <tr> <td>Being:</td> <td>Payee:</td> </tr> <tr> <td>Approved By:</td> <td>Paid By:</td> <td style="text-align: right;">Signature</td> </tr> </table> </div>	Amount:	Date:	Method of Payment		Cash:	Check#:	To:		The Sum of:		Being:	Payee:	Approved By:	Paid By:	Signature
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	<ul style="list-style-type: none"> v. Examine the Debtors Ledger, especially entries showing part payments, to satisfy that the debtors concerned have indeed made part payments. vi. Confirmations may be obtained from the debtors from time to time.
Audit Of Receipts	<p>Cash sales</p> <ul style="list-style-type: none"> i. Examine authorisation level for making cash sales and receiving the amount. ii. Examine few bills in order to check the accuracy of rate, amount, discount and tax computations. iii. Examine the cash sales summary book if the volume of cash sales is voluminous iv. Cash sales need to be verified with carbon copy of cash memos. v. Examine with the entry made in cash book with reference to date on memos. vi. Examine the system followed by the entity to deposit the cash sales in bank account. It needs to be verified with the bank statement. vii. Examine the cancelled cash memos with its original copy to prevent misappropriation. <p>Sale of Assets</p> <ul style="list-style-type: none"> i. Ensure that the entity internal control is in place in respect of authorisation for making the sale. ii. Ensure the means to sale the assets, is it is a direct sale or by means of agent. If it is a direct sale then check the amount collected with reference of copy of receipt issued and if it is by agent then examines terms with them. iii. Ensure the sale value of assets is reasonable. iv. Check that the amount of sale proceeds is duly accounted for. v. The profit or loss arising from the sale of assets is duly reflected in the financial statement.
Audit of expenditure	<p>Transactions with Directors</p> <ul style="list-style-type: none"> i. Compliance with Sec 188 of Co. Act, 2013: Check that any contract entered into by the director or his relatives etc. with the company is approved by the Board of Directors, in accordance with the provisions of section 188 of the Companies Act, 2013. ii. Disclosure of interest by Director: Every director of a company who is directly or indirectly, concerned or interested in a contract or agreement entered or proposed to be entered into with the company, must disclose his interest to the company at the Board meeting (Section 184). iii. Compliance with Sec 197 of Co. Act, 2013: The remuneration paid to the directors of public companies or the private companies which are the subsidiaries of public companies should be in accordance with the maximum limits provided in section 197 of the Companies Act, 2013. <p>Payment for Acquisition of Assets</p> <ul style="list-style-type: none"> i. Authorization: The payment for acquisition of assets should be made under proper authorization and be duly supported by receipt for amount paid. ii. Ownership: Check the title deeds in case of purchase of immovable properties. Also ensure that the ownership in case of the moveable asset has been registered in the name the purchaser. iii. Existence: The auditor should also verify the existence and, value of the assets acquired. iv. Compliance with Sec 179 of Co. Act, 2013: In case of a company, ensure that the necessary Board resolutions as prescribed in the provisions of section 179 of the Companies Act, 2013 have been complied with. v. Capitalization of Assets: Check that the amounts paid to bring the asset to their present condition or location and incurred upto the asset being put into use should be capitalized. Further such taxes (e.g. CENVAT) which are recoverable from the authorities shall not form the part of cost of the asset.

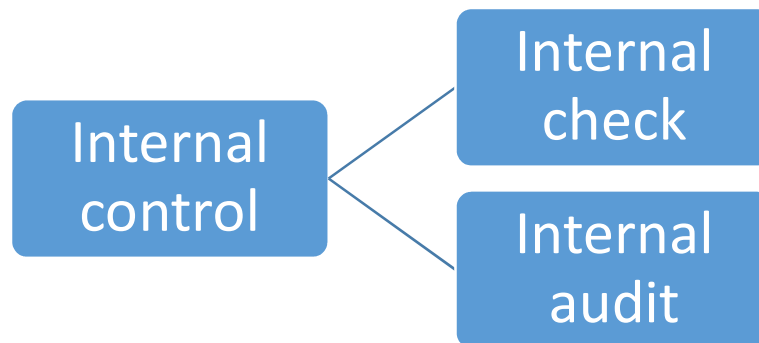
Verification of assets and liabilities	<ul style="list-style-type: none"> ➤ In case of capital items the auditor is required to go beyond Vouching and verify the physical existence and evaluate the assets and liabilities to arrive at true and fair view of the state of affairs of business. ➤ Hence, verification may be defined as “An enquiry into the Value, Ownership, Title, Existence and possession of any charge on the assets”. Verification means “Proving the truth”. ➤ Verification of liabilities is also as important as the verification and assets. If the liabilities are overstated or understated, the balance sheet will not represent a true and fair view of the state of affairs of the Company.
Importance of Verification	<ul style="list-style-type: none"> ➤ True and fair view of Balance Sheet – verification of assets and liabilities enables the auditor to comment on true and fair state of affairs of the business. ➤ Valuation – verification enables the auditor to determine whether the assets or liabilities are overstated or understated. ➤ Omissions – verification facilitates the act of confirming the omission of any asset or liability in the balance sheet.
Scope of Verification	<p>Verification includes confirming of the following aspects:-</p> <ul style="list-style-type: none"> ➤ whether the assets were in existence on the date of balance sheet, ➤ whether assets had been acquired for the purpose of business only, ➤ whether the assets had been acquired under a proper authority, ➤ whether the right of ownership of the assets vested in the enterprise, ➤ whether the assets were free from any charge, and ➤ whether, the assets were properly valued and disclosed in the balance sheet.
Objects of Verification	<ul style="list-style-type: none"> ➤ To know whether the Balance-Sheet exhibits a true and fair view of the State of affairs of the business. ➤ To find out whether the assets were in existence ➤ To find out the ownership and title of the assets ➤ To show correct valuation of assets and liabilities ➤ To verify the arithmetical accuracy of the books of accounts ➤ To ensure that the assets have been recorded properly ➤ To detect frauds & errors, if any ➤ To find out whether there is an adequate internal control regarding acquisition, utilization and disposal of assets.
Advantages of Verification	<ul style="list-style-type: none"> ➤ It avoids manipulation of accounts ➤ It guards against improper use of assets ➤ It ensures Proper recording and valuation of assets. ➤ It exhibits true and fair view of the state of affairs of the Company
Technique of Verification	<ul style="list-style-type: none"> ➤ Inspection – This means physical inspection of the assets like counting cash in hand, measuring inventory, inspection of securities, share certificate etc., ➤ Observation – The auditor may observe or witness the inspection of assets done by others. ➤ Confirmation – This means obtaining written evidence from outside parties regarding existence of assets like, confirmation from Debtors and Creditors about the balance outstanding etc.
How to conduct the verification work	<ul style="list-style-type: none"> ➤ Examine the documentary evidence and see that the assets are properly recorded in the books of accounts. ➤ Verify the opening balance from the schedule of fixed assets, ledger or register. ➤ Verify acquisition on the basis of orders, invoices, title deeds etc., ➤ Verify the self constructed assets on the basis of contractors bill, work order etc., ➤ Ensure that the fully written off fixed assets are properly recorded. ➤ See the authority of disposal of fixed assets. ➤ Follow a proper procedure to ascertain the omissions, if any. ➤ Verify ownership of the fixed assets on the basis of title deeds. ➤ Verify existence of assets by physical verification. He should ensure that the physical verification of assets is carried out by the management.

	<ul style="list-style-type: none"> ➤ Test check the records of fixed assets with physical verification reports and see that discrepancies, if any, are properly dealt with. ➤ See whether the assets are charged. He should verify the Loan Agreements, Register of charge, Board Resolution, Share Holders Resolution etc.,
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Important Questions – Vouching and verification

Q.20	What are the special considerations to be kept in mind during vouching. [June 2009, June 2016 – 7 marks]
Q.21	Vouching can be avoided. Comment [Dec 2011 – 2 markd This is incorrect. Vouching is the fundamental stone on which accounting and auditing stand. Vouching is helpful in detecting error and fraud. It also helps in compliances as required by law.
Q.22	Describe voucher and vouching. [Dec 2013, June 2015 – 2 marks]
Q.23	What are the objects of Verification of assets and liabilities. [June 2014, Dec 2015 – 4 marks]
Q.24	What do you understand by Teeming and Lading with respect to misappropriation of cash? Explain the procedure that auditor has to follow for its timely detection. [June 2015 – 4 marks]

Key points to remember



Internal control	
Objective / benefits of internal control	<p>The internal control system comprises all the methods and procedures adopted with the objective of :</p> <ul style="list-style-type: none"> ✓ safeguarding of assets, prevention, ✓ detection of frauds and errors, ✓ checking the accuracy and completeness of the accounting records; ✓ ensuring compliance with law ✓ ensuring optimal utilization of resources ✓ efficient conduct of business, and ✓ ensure adherence to management policies, <p>Internal control system contains the following two broad elements:</p> <ul style="list-style-type: none"> ✓ internal checks and ✓ internal audit

Essential elements of internal control system	Internal checks <ul style="list-style-type: none"> ✓ Division of work / functional responsibilities. ✓ Authorization and assignment of duties ✓ Review and approval of all transactions before they are recorded in the books of accounts ✓ Competent personnel ✓ Safeguard of all business assets. Internal audit <ul style="list-style-type: none"> ✓ internal audit system should be as per the size of the organization should be employed ✓ To be undertaken by qualified personnel ✓ Should cover all the aspects / department of the business organization
Types of internal control	<ul style="list-style-type: none"> ✓ Preventive – designed to avoid errors and irregularities. Eg, segregation of duties, approvals and authorization etc. ✓ Detective – designed to find errors or irregularities after they have incurred. Eg. Reconciliations, physical verification of assets or inventory, review etc. ✓ Corrective – designed to correct the errors and irregularities. Eg. Control environment ie establish integrity and ethical value; establishing plans to prevent risks, assessing the overall performance of the organization.
Nature and scope of internal control	<ul style="list-style-type: none"> ✓ Pre-requisite for an efficient and effective conduct and management of any organization ✓ Ensures adherence to management policies ✓ Safeguarding of organization assets ✓ Prevention and detection of errors and frauds ✓ Ensures accuracy and completeness of accounting records ✓ Ensures timely preparation of reliable financial information
Limitations of internal control	<ul style="list-style-type: none"> ✓ Deficiencies in organization structure makes internal control ineffective ✓ Small organisations have negligible internal controls ✓ Internal controls can't be used for unusual transactions ✓ Implementation of internal controls is costly ✓ Top level management may interfere with internal control ✓ Control system may become redundant, if not updated at regular interval of time
Responsibility of employing internal controls	<ul style="list-style-type: none"> ✓ It is the primary responsibility of the management to employ and maintain effective internal control system in the company. The management should also monitor these controls to ensure that they are working fine ✓ Auditor's responsibility (secondary) is to examine and evaluate these controls and highlight any weaknesses therein to the management through the management letter
Techniques of evaluation of internal controls	<ul style="list-style-type: none"> ✓ Narrative records – Auditor can read this complete and exhaustive description of control system and gain an in-depth understanding of the controls ✓ Check list – A comprehensive list of all the internal controls and the methods / procedures of evaluating them

	<ul style="list-style-type: none"> ✓ Flow chart – Pictorial representation of the internal control system. It gives an understanding to the auditor about the internal control system ✓ Internal control questionnaire – Involves asking questions to various people in the organization regarding the internal control system 	
Internal check		
Scope of internal check	<ul style="list-style-type: none"> ✓ System of checking whereby work of one individual is automatically checked by another individual ✓ This is done by distributing the duties in such a way that no single individual is allowed to carry out each and every aspect of a transaction all by himself. ✓ This reduces possibility of errors and frauds 	
Auditor's duty regarding Internal check system	<p>Auditor may place reliance on internal checks after performing the following procedures:</p> <ul style="list-style-type: none"> ✓ Apply a few test checks to ensure that the transactions are aptly recorded in the books of accounts ✓ Verify a few class of transactions in detail to examine the validity of internal checks 	
Internal control questionnaire	<ul style="list-style-type: none"> ✓ It is a list of questions which the auditors asks the auditee, to evaluate the effectiveness of the internal control system ✓ Auditor should submit the questionnaire to the concerned official of the organization, anytime during the course of the audit 	
Distinguish between checklist and internal control questionnaire	Checklist	Internal control questionnaire
	Contains instructions to be followed by the audit staff	Contains questions related to internal controls
	Prepared and issued at the commencement of audit	Prepared and issued during the course of audit
	Issued to audit staff	Issued to management of the company
	Serve as the guidelines for the audit staff so that nothing remains unchecked	Used to collect information about the internal control system
Surprise check	<ul style="list-style-type: none"> ✓ When auditor or his staff visits the client's place without any prior notice for carrying on the audit procedures ✓ It is unplanned and spontaneous ✓ Helps in testing the effectiveness of internal controls ✓ Element of surprise improves the effectiveness of audit 	
Cut-off procedures	<ul style="list-style-type: none"> ✓ Ensures recording of transactions in the correct accounting period ✓ Especially used for account receivables and account payable functions ✓ Ensure proper accounting of assets and liabilities 	
Walk through	<ul style="list-style-type: none"> ✓ In-depth analysis a select few class of transactions ✓ These transaction are usually critical transactions in which the level of risk is high ✓ In this process the auditor traces the transaction from its source till it is presented in the financial books 	
Internal Audit		
Scope of internal audit	<ul style="list-style-type: none"> ✓ Appraisal of internal control system by the staff of the entity or by an independent professional 	

	<ul style="list-style-type: none"> ✓ Involves review of accounting, financial and other operations and controls established within the organization ✓ Analyses, appraises the activities reviewed to the management ✓ Continuous effort to promote effective control
Need for internal audit	<ul style="list-style-type: none"> ✓ Increases size and complexity of organisations ✓ Numerous compliance requirements ✓ Unconventional business models ✓ Intensive use of information technology ✓ Increased competition and need for inducing efficiencies
Areas / functions / scope covered in internal audit	<ul style="list-style-type: none"> ✓ Financial and operating information – To review the accuracy and completeness of financial and operating information and make a report on it ✓ Compliances with law – To review that the systems established by the organization ensures due compliances with laws and regulations. ✓ Safeguarding the assets – To verify the existence and valuation of the assets recorded in the books ✓ Optimal utilization of resources – To ensure economic and efficient use of the available resources ✓ Achieving the goals and objectives of the organisation.
Advantages of internal audit	<p>To the management:</p> <ul style="list-style-type: none"> ✓ A review of internal control system established by the management. ✓ Furnishes the deviations in following the procedures adopted for safeguarding assets. ✓ Appraises the organizational structure and management information system. ✓ Establishes that the policies, plans and strategies implemented are well in place and ✓ gives suggestions on management information systems reports for promoting effective control at reasonable cost. <p>To the statutory auditor</p> <ul style="list-style-type: none"> ✓ Evaluates the internal control system, so the statutory auditor can reduce the level of audit ✓ Statutory auditor can rely on the stock valuation carried on during internal audit. ✓ Timely and accurate completion of accounts and accuracy of records. <p>To the organization and other stakeholders</p> <ul style="list-style-type: none"> ✓ Accurate and efficient accounting system. ✓ Review of the business' performance and management. ✓ Safeguard to the business assets and prevents misuse and misappropriation of business assets. ✓ The auditor can suggest ways and means to improve performance of the business. ✓ It prevents occurrence of errors and frauds. ✓ It enhances the performance of the business by division of duties and responsibilities as per the capability of the employees.

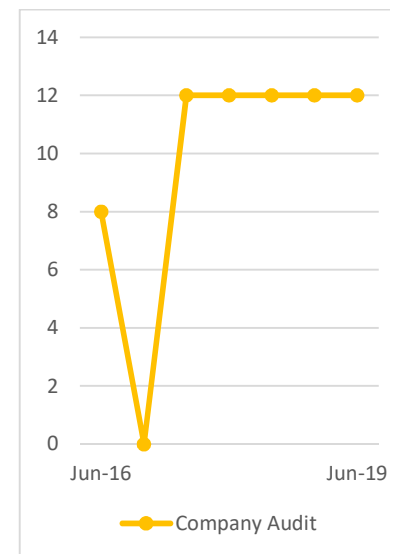
	<ul style="list-style-type: none"> ✓ It keeps a check on proper utilization of resources, which leads to reduction in costs.
Vouching and verification	
Voucher	It is the evidence (like a written record) of expenditure, disbursement, or completed transaction. Eg. Cash memo, sales invoice, purchase requisition slip, bank statement etc.
Vouching	Examination by the auditor of all evidences (like vouchers) which are available to support the transaction. Vouching is said to be “ <i>the essence of auditing</i> ” or may be termed as the “ <i>backbone of auditing</i> ”
Teeming & Lading/ Lapping	A method of misappropriation of cash by concealing cash shortages and covering them through recoveries from another customer. E.g., a salesman recovers Rs.10,000 from customer C and misappropriates the same, but to conceal the misappropriation, he declares Rs. 10,000 received later from another customer D as received from C so that the balance of C confirms to the client’s debtor list, and so on for recovery from E of same amount declared as from D. This can be prevented by – <ul style="list-style-type: none"> a) Discouraging cash transactions and using banks for fund transfers b) Reconciling the individual cash amounts as per the receipts with the cash book c) Ensuring that cash receipts are deposited in bank timely d) Confirmation may be obtained from the debtors to ensure that their balance is outstanding
Verification	Vouching is concerned with examination of underlying documents of a transaction; however, verification goes beyond vouching and is enquiry into the Value, Ownership, Title, Existence, possession and presence of any charge on the assets.
Objectives of verification	<ul style="list-style-type: none"> ✓ To find out whether the assets were in existence ✓ To find out the ownership and title of the assets ✓ To show correct valuation of assets and liabilities ✓ To ensure that the assets have been recorded properly ✓ To detect frauds & errors, if any ✓ To find out whether there is an adequate internal control regarding acquisition, utilization and disposal of assets.
Technique of Verification	<ul style="list-style-type: none"> ✓ Inspection – This means physical inspection of the assets like counting cash in hand, measuring inventory, inspection of fixed assets, securities, share certificate etc., ✓ Observation – The auditor may observe or witness the inspection of assets done by others. ✓ Confirmation – This means obtaining written evidence from outside parties regarding existence of assets like, confirmation from Debtors and Creditors about the balance outstanding etc.
Sample checklist for audit of some critical account heads	
Steps for audit of cash sales	<ul style="list-style-type: none"> ✓ Examine authorization level for making cash sales and receiving the amount. ✓ Examine bills in order to check the accuracy of rate, amount, discount and tax computations. ✓ Examine the cash sales summary book and verify it from the sales invoices.

	<ul style="list-style-type: none"> ✓ Examine the system followed by the entity to deposit the cash sales in bank account. ✓ Examine the cancelled cash memos with its original copy to prevent misappropriation.
Steps for audit of sales of fixed assets	<ul style="list-style-type: none"> ✓ Check who has the authorisation for making the sale. ✓ Check the amount collected with reference of copy of receipt issued. ✓ Ensure the sale value of assets is reasonable. ✓ Check that the amount of sale proceeds is duly accounted for. ✓ The profit or loss arising from the sale of assets is duly reflected in the financial statement.
Steps for audit of expenditure w.r.t. directors	<ul style="list-style-type: none"> ✓ Check authorization of incurring expenditure ✓ Sec 188 of Co. Act, 2013: Check that any contract entered into by the director or his relatives etc. with the company is in accordance with the provisions of section 188 of the Companies Act, 2013. ✓ Disclosure of interest by Director: Every director of a company who is directly or indirectly, interested in a contract or agreement entered or proposed to be entered into with the company, must disclose his interest to the company at the Board meeting (Section 184). ✓ Sec 197 of Co. Act, 2013: The remuneration paid to the directors of public companies or the private companies which are the subsidiaries of public companies should be in accordance with the provisions of section 197 of the Companies Act, 2013.
Steps for audit of payment for purchase of fixed assets	<ul style="list-style-type: none"> ✓ Authorization: The payment for acquisition of assets should be properly authorized and be duly supported by receipt for amount paid. ✓ Ownership: Check the title deeds in case of purchase of immovable properties to ensure that the ownership in case of the moveable asset has been registered in the name the purchaser. ✓ Existence: The auditor should also verify the existence, value and the title of the assets acquired. ✓ Capitalization of Assets: Check that the the asset has been properly recorded in the books of account.

Chapter 4 – Provisions related to audit under the Companies Act [Chapter X]

Chapter at a Glance

Sec. 128	Books of Accounts
Sec. 139	Appointment of Auditors
Sec. 140	Removal, Resignation of auditor and giving of Special Notice
Sec. 141	Eligibility, qualification and disqualifications of auditors
Sec. 142	Remuneration of Auditors
Sec. 143	Powers and Duties of Auditors and Auditing Standards
Sec. 144	Auditor not to render certain services
Sec. 145	Auditor to sign Audit Reports etc.
Sec. 146	Auditor to attend General Meetings
Sec. 147	Punishment for contravention
Sec. 177	Audit Committee, constitution, functions and powers



Section 128 (Books of Accounts)	<p>➤ Every company shall prepare and keep books of account (either physical or electronic mode) and other relevant books and papers and financial statement for every financial year</p> <p>➤ at its registered office</p> <p>➤ which give a true and fair view of the state of the affairs of the company,</p> <p>➤ on accrual basis and according to the double entry system of accounting.</p>		
Section 139 (Appointment of the first auditor ¹)	Particulars	Non-Government company [Sec. 139(6)]	Government Company² [Sec. 139(7)]
	Appointed by	Board of Directors	Comptroller and Auditor General of India ³ [CAG]
	Time limit of appointment	Within 30 days of date of registration of the company	Within 60 days of date of registration of the company
	Consequence of failure to appoint	In case the Board do not appoint the first auditor on time, it shall inform the members of the company, who shall within 90 days at an EGM shall appoint the auditor. [Maximum time limit – 120 Days]	In case the CAG of India does not appoint the first auditor on time, the BOD of the company shall appoint such auditor within next 30 days; In the case of failure of the Board to appoint such auditor, it shall inform the members of the company who shall appoint such auditor within 60 days at an EGM. [Maximum time limit – 120 Days]

¹ First auditors – Auditors who are appointed in the first year of incorporation of a Company

² Government Company is company which is owned or controlled by:-

- Central Government
- State Government
- Partly by Central and / or one or more State Government

³ The Comptroller and Auditor General of India is an authority, established by Article 148 of the Constitution of India, which audits all receipts and expenditure of the Government of India and the state governments, including those of bodies and authorities substantially financed by the government - Wikipedia

	Tenure of auditor	First auditor shall hold office till the conclusion of the first AGM	First Auditor shall hold office till the conclusion of the first AGM.
Test Your Knowledge	<p>Case Study: Managing Director of Parrot Ltd. himself wants to appoint CA. Ms. Koyal, a practicing Chartered Accountant, as first auditor of the company.</p> <p>Analysis: As per the provisions of Section 139(6) of the Companies Act, 2013 the first auditor of a company shall be appointed by the Board of Directors (within 30 days from the date of registration of the company).</p> <p>In the instant case, the proposed appointment of CA. Koyal, a practicing Chartered Accountant, as first auditor by the Managing Director of Pigeon Ltd. by himself is in violation of Section 139(6) of the Companies Act, 2013, which authorizes the Board of Directors to appoint the first auditor of the company.</p> <p>Conclusion: In view of the above, the Managing Director of Pigeon Ltd. should be advised not to appoint the first auditor of the company.</p> <p>Case Study: The first auditor of Bhartiya Ispat Ltd., a Government company, was appointed by the Board of Directors in its meeting after 10 days from the date of registration.</p> <p>Analysis: As per the provisions of Section 139(7) of the Companies Act, 2013, in the case of a Government company, the first auditor shall be appointed by the Comptroller and Auditor-General of India within 60 days from the date of registration of the company.</p> <p>Hence, in the case of Bhartiya Petrol Ltd., being a government company, the first auditor shall be appointed by the Comptroller and Auditor General of India.</p> <p>Conclusion: Thus, the appointment of first auditor made by the Board of Directors of Bhartiya Ispat Ltd., is null and void.</p>		
Sec. 139 – Appointment of subsequent auditor ⁴	Particulars	Non-Government company [Sec. 139(1)]	Government Company [Sec. 139(5)]
	Appointed by	Shareholders	CAG
	Time limit of appointment	At the AGM	Within 180 Days of commencement of the financial year ('FY')
	Tenure of auditor	Till the conclusion of its 6 th AGM	Till the conclusion of the AGM.
Class Notes			
Pre-requisite before appointment of auditor	<p>Before appointment of the auditor is made, following certificates are required to be obtained from the auditor:</p> <ul style="list-style-type: none"> - the written consent of the auditor to such appointment, and - that the appointment, shall be in accordance with the conditions as may be prescribed by the Companies Act, 2013 - The certificate shall also indicate whether the auditor satisfies the criteria provided in section 141. 		

⁴ Subsequent auditors are those who are appointed post the first year of incorporation of the company

	The company shall inform the auditor concerned of his or its appointment, and also file a notice of such appointment with the Registrar within 15 days of the meeting in which the auditor is appointed.		
Sec. 139(8) - Casual Vacancy ⁵ (CV)	Particulars	Non-government company	Government Company
	New auditor appointed by	Board of Directors	CAG
	Time limit	30 days of the occurrence of vacancy	30 days of the occurrence of vacancy. In case CAG doesn't fill the CV within the due date, Board shall fill the vacancy till next 30 days.
Special conditions in case of CV on resignation of the auditor [Refer Section 140(2) for details]	<ul style="list-style-type: none"> ➤ The resigning auditor should file a statement with - a) the company and b) the Registrar stating the reasons for resignation ➤ The appointment of the new auditor should be approved by the Company at AGM. ➤ Such new auditor holds the office till conclusion of the next AGM only. 	<ul style="list-style-type: none"> ➤ The resigning auditor should file a statement with a) the company, b) the Registrar and c) CAG stating the reasons for resignation 	
Sec. 139(9) – Conditions for re-appointment of retiring auditor	<ul style="list-style-type: none"> ➤ he is not be disqualified for re-appointment under the Act [like he should not suffer from disqualifications under section 141(3), 141(4) and 144]; ➤ he has not given the company a notice in writing of his unwillingness to be re-appointed; ➤ a special resolution has not been passed at that meeting appointing some other auditor or providing expressly that he shall not be re-appointed; and ➤ he has not furnished a written certificate that he is eligible under the ceiling limit under section 141(3)(g) <p><i>Where at any annual general meeting, no auditor is appointed or re-appointed, the existing auditor shall continue to be the auditor of the company.</i></p>		
Sec. 139(2) readwith Rule 5 – Rotation of Auditors	Applicability	<ul style="list-style-type: none"> ➤ All listed companies ➤ Unlisted public company having : <ul style="list-style-type: none"> - Paid up capital of INR 10 crores or more, or - Borrowings from financial institutions / banks of INR 50 crores or more ➤ Private company having : <ul style="list-style-type: none"> - Paid up capital of INR 50 crores or more, or - Borrowings from financial institutions / banks of INR 50 crores or more <p><i>Exclusions – One Person Company and Small Company</i></p>	
	Type of Auditor	Where an Individual is the Auditor	Where a Firm / LLP is the auditor
	Tenure	The retiring auditor (including the auditor in the same network ⁶) shall not be reappointed for more than one term of initial 5 years	The retiring auditor (including the auditor in the same network) shall not be reappointed for more than two terms of initial 5 years If a partner, who is in charge of an audit firm and also certifies the financial statements of the company, retires from the said firm and joins another firm of chartered accountants, such other firm

⁵ Vacancy which occurs **after the appointment** of the auditor, due to his death, resignation or disqualification etc. In such a case, a new auditor is to be appointed

⁶ Network firms means – a) those having common partners; b) operating under common brand / trade name; and c) having common control

			shall also be ineligible to be appointed for a period of five years.
	Cooling Off Period	5 years from the completion of the initial term	5 years from the completion of the initial term
Class Notes			
Test Your Knowledge	<p>Case Study: Find the lacuna in the following resolution passed in the AGM of M/s Carrot Ltd., a listed company: <i>“RESOLVED THAT M/s Rabbit & Associates, Chartered Accountants are appointed as the auditors of the Company for two consecutive terms of 5 years each and 1 more year thereafter, ie till the conclusion of 12th AGM.”</i></p> <p>Analysis: As per the provisions of Section 139(1) an auditor shall be appointed till the conclusion of 6th AGM. Further, as per the provisions of Section 139(2) readwith the Companies (Audit and Auditors) Rules, 2014, a listed company cannot re-appoint the firm of auditors beyond the initial two terms of 5 years each.</p> <p>Conclusion: The appointment of M/s Rabbit & Associates is not valid as the appointment can be made only for one term of five consecutive years and then another one more term of five consecutive years. It can't be appointed for two terms in one AGM only. Further, a cooling period of five years from the completion of term is required i.e. the firm can't be re-appointed for further 5 years after completion of two terms of five consecutive years.</p> <p>Case Study: M/s XYZ & Co., is an audit firm having partner Mrs. X, Mr. Y and Mr. Z, whose tenure has expired in the company immediately preceding the financial year. Would M/s ABZ & Co., another audit firm in which Mr. Z is a common partner, will also be disqualified for the same company for the period of five years?</p> <p>Analysis: Firms / Network of firms having common partners are disqualified from auditing the company for which any one firm of network has already audited the financials for two consecutive term of 5 years</p> <p>Conclusion: M/s ABZ would also be disqualified from auditing the company for next five years. The tenure of XYZ & Co. is completed and the same will also be applicable on the firms having common partners as XYZ & Co.</p> <p>Case study: Manner of rotation will not be applicable to Company A which has a paid up share capital of Rs. 15 crores and having a public borrowing, from a nationalized bank, of Rs. 50 crores because it is a private limited company. Comment</p> <p>Analysis: According to Section 139 of the Companies Act, 2013, the provisions related to rotation of auditors are also applicable to a private limited company having a share capital of Rs. 50 crores or more or having public borrowings of Rs. 50 crores or more.</p> <p>Conclusion: In the current case, Company A is having a public borrowing of Rs. 50 crore. Hence, the provisions of rotation are applicable to Company A.</p>		

	<p>Case Study: AMSHA Ltd, a subsidiary of NAMO Ltd, whose 20% shares have been held by the CG, 25% by UP government, and 10% by MP Government. AMSHA appointed Mr. R as statutory auditor for the year. Comment</p> <p>Analysis: As per Section 139(7) of the Companies Act, 2013, the auditor of a Government company shall be appointed by CAG of India.</p> <p>Conclusion: NAMO Ltd has 55% shareholding by CG or the state governments. Therefore, it is a Government Company. AMSHA Ltd is a subsidiary of NAMO Ltd, hence AMSHA is also covered in the definition of Government Company. Therefore, the auditor of AMSHA Ltd. should be appointed by the CAG. Appointment of Mr. R is invalid.</p> <p>Case Study: White Star Ltd. was incorporated on 01.08.2014 and Mr. T, who is a relative to the Chairman and MD of the Company, is appointed as the statutory auditor by the Board of Directors in their meeting on 04.09.2014. Comment</p> <p>Analysis: There is two issues in this case – a) appointment of the first auditor and b) relation of the auditor with the MD. As per Section 139(6) of the Companies Act, 2013, the first auditor of company should be appointed by the BOD within 30 days of date of registration of the Company. If the BOD fails to appoint the first auditor, it shall inform the members of the Company, who shall within 90 days, at an EGM, make the appointment.</p> <p>Conclusion: In the given case, appointment of Mr. T is not valid. Hence the second issue of relationship with the CMD becomes redundant.</p> <p>Case Study: Mr. A was appointed auditor of AAS Ltd. by the Board to fill the vacancy that arose due to death of the auditor originally appointed in AGM. Subsequently, Mr. A also resigned on health grounds during the tenure of appointment. The Board filled the vacancy by appointing Mr. B through a duly passed Board resolution. Comment</p> <p>Analysis: As per Section 139(8) of the Companies Act, 2013, any casual vacancy in the office of the auditor shall be filled by the Board within 30 Days. However, if the casual vacancy is on account of resignation, such appointment shall also be approved by the Company at the general meeting convened within 3 months of the recommendation of the Board. The auditor in such a case shall hold the office till next AGM.</p> <p>Conclusion: In the instant case, Mr. B was appointed by the Board on resignation of Mr. A. If the cause of vacancy is resignation, then the power of appointment shall vest with the general meeting only. Hence the appointment by the Board is irrelevant.</p>
Section 140(1) - Removal before expiry of term	<p>a) Board resolution to be passed to remove the auditors before the expiry of their term</p> <p>b) Application to be made to the central government within 30 days of the Board resolution</p> <p>c) The Company shall hold the general meeting within 60 days of receipt of approval of the Central Government for passing the special resolution.</p> <p>d) the auditor concerned shall be given a reasonable opportunity of being heard before removal.</p>
Section 140(2) – Resignation of the auditor	<p>a) The auditor shall file (within a period of 30 days from the date of resignation), a statement with the company and the Registrar.</p> <p>b) The auditor of a government company shall additionally file such statement with CAG, indicating the reasons and other facts as may be relevant with regard to his resignation.</p>
Section 140(3) – Breach of section 140(2)	<p>a) If the auditor does not comply with requirement of Sec. 140(2), he or it shall be punishable with fine of Rs. 50,000 to Rs. 5 Lacs.</p>
Section 140(4) - Removal after expiry of term	<p>a) Unless the auditor has completed a consecutive tenure of five years or ten years as the case may be, his removal shall be approved vide a resolution in the AGM after giving a special notice.</p> <p>b) The special notice must contain the information on the representation (if any) made by the retiring auditor.</p> <p>c) A copy of the representation shall be sent to all the members</p>

	<p>d) If a copy of the representation is not sent, because it was received too late or because of the company's default, the auditor may require that the representation shall be read out at the meeting.</p> <p>e) Company or any other aggrieved person may apply to Tribunal for not sending or reading the representation, if this right is being abused by the auditor.</p> <p>f) If the Tribunal is satisfied, that the auditor is misusing this power of representation, then, the copy of the representation may not be sent and the representation need not be read out at the meeting.</p>
Class Notes	
Section 140(5) – Direction by Tribunal for removal of auditor	<p>a) If Tribunal is satisfied that the auditor of a company has, acted in a fraudulent manner in relation to, the company or its directors or officers, It may, by order, direct the company to change its auditors.</p> <p>b) Such direction may be made:</p> <ul style="list-style-type: none"> • Suo moto (by its own will) by the Tribunal or • on an application made to Tribunal by the C.G. or by any person concerned <p>c) If the application is made by the C.G. and the Tribunal is satisfied that any change of the auditor is required,</p> <ul style="list-style-type: none"> • it shall within 15 days of receipt of such application, make an order that he shall not function as an auditor; and • the C.G. may appoint another auditor in his place. <p>d) An auditor, against whom final order has been passed by the Tribunal under this section shall not be eligible to be appointed as an auditor of any company for a period of five years from the date of passing of the order</p>
Section 141(1) and (2) - Eligibility to be appointed as auditor	<p>a) A person shall be eligible for appointment as an auditor of a company only if he is a Chartered Accountant.</p> <p>b) A firm whereof majority of partners practising in India are qualified for appointment as aforesaid may be appointed by its firm name to be auditor of a company.</p> <p>c) Where a firm including a LLP is appointed as an auditor of a company, only the partners who are CA shall be authorised to act and sign on behalf of the firm.</p>
Section 141(3) readwith Rule 10 – Disqualifications of an auditor	<p>a) a body corporate other than a limited liability partnership registered under the Limited Liability Partnership Act, 2008;</p> <p>b) an officer or employee of the company;</p> <p>c) a person who is a partner, or who is in the employment, of an officer or employee of the company;</p> <p>d) a person who, or his relative⁷ or partner</p> <ul style="list-style-type: none"> • is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company:
Section 144 - Auditor not to render certain services	

⁷ **Relative** means - anyone who is related to another - as members of a Hindu Undivided Family; husband and wife; Father (including step- father), Mother (including step-mother), Son (including step- son), Son's wife, Daughter, Daughter's husband, Brother (including step- brother), Sister (including step-sister)

	<p><i>Provided that the relative may hold security or interest in the company of face value not exceeding Rs. 100,000.</i></p> <p><i>Provided further that in the event of acquiring and security or interest by a relative above the threshold limit, the corrective action to maintain the limits as specified above shall be taken by the auditor within 60 days of such acquisition or interest.</i></p> <ul style="list-style-type: none"> • is indebted to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of Rs. Five Lacs; or • has given a guarantee or provided any security in connection with the indebtedness of any third person to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of Rs. One Lac; <p>e) a person or a firm who, whether directly or indirectly, has business relationship⁸ with the company, or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company of such nature as may be prescribed;</p> <p>f) a person whose relative is a director or is in the employment of the company as a director or key managerial personnel;</p> <p>g) a person who is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such persons or partner is at the date of such appointment or reappointment holding appointment as auditor of more than twenty (20) Companies, other than one-person company, dormant companies, small companies and private companies having paid up capital less than 100 Crores</p> <p>h) a person who has been convicted by a court of an offence involving fraud and a period of ten years has not elapsed from the date of such conviction;</p> <p>i) a person, who directly or indirectly, renders any service referred to in sec. 144⁹ to the company or its holding company or its subsidiary company.</p>
Class Notes	

⁸ **Business Relationship:** According to the Companies (Audit and Auditors) Rules, 2014, the term "business relationship" shall be construed as any transaction entered into for a commercial purpose, except:

- commercial transactions which are in the nature of **professional services permitted to be rendered by an auditor** or audit firm under the Act and the Chartered Accountants Act, 1949 and the rules or the regulations made under those Acts;
- commercial transactions which are – a) **in the ordinary course of business of the company** and b) **at arm's length price** - like sale of products or services to the auditor, as customer, in the ordinary course of business, by companies engaged in the business of telecommunications, airlines, hospitals, hotels and such other similar businesses.

⁹ **Consulting and Specialised Services specified in Section 144** of Companies Act, 2013: a) accounting and book keeping services; b) internal audit; (c) design and implementation of any financial information system; (d) actuarial services; e) investment advisory services; (f) investment banking services; (g) rendering of outsourced financial services; (h) management services; and (i) any other kind of services as may be prescribed

<p>Test Your Knowledge</p>	<p>Case Study: Mr. A, a practicing Chartered Accountant, is holding securities of XYZ Ltd. having face value of Rs. 900. Whether Mr. A is qualified for appointment as an auditor of XYZ Ltd.</p> <p>Analysis: As per section 141(3)(d)(i), an auditor is disqualified to be appointed as an auditor if he, or his relative or partner holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company.</p> <p>Conclusion: In the present case, Mr. A is holding security of Rs. 900 in XYZ Ltd. Therefore, he is not eligible for appointment as an auditor of XYZ Ltd.</p> <p>Case Study: Mr. P is a practicing Chartered Accountant and Mr. Q, the relative of Mr. P, is holding securities of ABC Ltd. having face value of Rs. 90,000. Whether Mr. P is qualified from being appointed as an auditor of ABC Ltd.</p> <p>Analysis: As per section 141(3)(d)(i), a person is disqualified to be appointed as an auditor if he, or his relative or partner is holding any security of or interest in the company or its subsidiary or of its holding or associate company or a subsidiary of such holding company. Further, as per proviso to this section, the relative of the person may hold the securities or interest in the company of face value not exceeding of 1,00,000.</p> <p>Conclusion: In the present case, Mr. Q. (relative of Mr. P), is having securities of Rs. 90,000 face value in ABC Ltd., which is as per requirement of proviso to section 141 (3)(d)(i). Therefore, Mr. P will not be disqualified to be appointed as an auditor of ABC Ltd.</p> <p>Case Study: M/s RM & Co. is an audit firm having partners CA. R and CA. M. The firm has been offered the appointment as an auditor of ENN Ltd. for the Financial Year 2016-17. Mr. Bee, the relative of CA. R, is holding 5,000 shares (face value of Rs. 10 each) in ENN Ltd. having market value of Rs. 1,50,000. Whether M/s RM & Co. is disqualified to be appointed as audit of ENN Ltd.</p> <p>Analysis: As per section 141(3)(d)(i), a person shall not be eligible for appointment as an auditor of a company, who, or his relative or partner is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company. However, as per proviso to this section, the relative of the person may hold the securities or interest in the company of face value not exceeding of Rs. 1,00,000.</p> <p>Conclusion: In the instant case, M/s RM & Co. is an audit firm having partners. CA. R and CA. M. Mr. Bee is a relative of CA. R and he is holding shares of Enn Ltd. of face value of Rs. 50,000 only (5,000 shares X Rs. 10 per share). Therefore, M/s RM & Co. is not disqualified for appointment as an auditors. of ENN Ltd. as the relative of CA. R (i.e. partner of M/s RM & Co.) is holding the securities in ENN Ltd. which is within the limit mentioned in proviso to section 141(3)(d)(i) of the Companies Act, 2013.</p> <p>Case Study: CA. Pasha is providing the services of investment banking to C Ltd. Later on, he was also offered to be appointed as an auditor of the company for the current financial year.</p> <p>Analysis: Section 141(3)(i) of the Companies Act, 2013 disqualifies a person for appointment as an auditor of a company who is engaged as on the date of appointment in consulting and specialized services as provided in section 144. Section 144 of the Companies Act, 2013 prescribes certain services not to be rendered by the auditor which includes investment banking services.</p> <p>Conclusion: CA. Pasha is advised not to accept the assignment of auditing as the investment banking service is specifically notified in the list of services not to be rendered by him as per section 141(3)(i) read with section 144 of the Companies Act, 2013.</p>
<p>Section 141(4) – Subsequent</p>	<p>Where a person appointed as an auditor of a company incurs any of the disqualifications mentioned in sub-section (3) after his appointment, he shall vacate his office as such</p>

disqualification of an auditor	auditor and such vacation shall be deemed to be a casual vacancy in the office of the auditor.
Section 142 – Remuneration of the auditor	<p>First Auditor - The remuneration (including the out of pocket expenses) is fixed by board of directors</p> <p>Subsequent Auditor - The remuneration (including the out of pocket expenses) is fixed in the general meeting or in the manner prescribed in such a meeting</p> <p>However, this does not include any remuneration paid to him for any other service rendered by him at the request of the company, like advisory services</p>
<p>Section 143 – Powers and duties of Auditors</p> <p>Section 145 – To sign the audit report</p> <p>Section 146 – To attend the general meeting</p>	<p>Powers / Rights</p> <ul style="list-style-type: none"> ➤ Right of access to the books of account and vouchers of the company, at any time, whether kept at the registered office of the company or at any other place ➤ Right to inquire / require from the officers of the company such information and explanation as he may consider necessary for the performance of his duties as auditor, including the following matter: <ul style="list-style-type: none"> - Whether the loans and advances made by the company are fully secured and they are not prejudicial to the interest of the company - Whether personnel expenses have been charged to P&L Account - Whether the position stated in the financial statements is correct and not misleading - Whether any assets of the company are sold below the purchase price ➤ In case of an audit of a holding company, the auditor may also access the records of all the subsidiaries for consolidation purposes. ➤ Right to receive notices, to attend and to be heard in the general meeting [Section 146] ➤ Right to report to the members of the company on the accounts examined by him. The report should conclude whether the financial statements give a true and fair view of the state of the company's affairs ➤ Right to Lien¹⁰ - auditor can exercise lien on books and documents placed at his possession by the client for non-payment of fees, for work done on the books and documents. ➤ In case of Government companies, the CAG has the power to conduct a test audit / supplementary audit, in addition to the regular statutory audit <p>Duties</p> <ul style="list-style-type: none"> ➤ To inquire into all the relevant matters before issuing the report. Examples of the matters which is might look at are: <ul style="list-style-type: none"> • Whether loans and advances are made by the company on the basis of adequate security or not • Whether the transactions of the company which are represented merely by book entries are prejudicial to the interests of the company • Whether personal expenses have been charged to revenue account ➤ Reporting is to be done if anything adverse is discovered in the course of audit ➤ To report on all the relevant matters which affects the ‘true and fair’ view of the financial statements. Especially on the matters specified in Companies (Auditor's Report) Order, 2016 [‘CARO, 2016’]. ➤ To report on the adequacy of internal financial controls (IFC) of the company. ➤ To state the reason for qualification or negative report – In case the auditor issues a negative / qualified report, the report shall state the reasons there for ➤ To report on the branch financials after considering the report of the branch auditor

¹⁰ ‘Lien’ means having the lawful possession of somebody else's property, in the event if non-payment of the dues

	<p>➤ To report on Frauds – In case the auditor believes that an offence of fraud is being or has been committed in the company by its officers or employees, the auditor shall take the following steps:</p> <ul style="list-style-type: none"> • <i>Where the amount involved is Rs.1 crore or above</i> - report the matter to the Central Government within such time / manner as prescribed • <i>Where the amount involved is less than Rs.1 crore</i> - report it to the audit committee or to the Board within such time / manner as prescribed. Additionally, the details about such frauds should be disclosed in the Board's report in such manner as prescribed. <p>Provisions related to fraud are equally applicable to the cost auditor as well as the secretarial auditor.</p> <p>➤ To sign the Audit Report [Sec. 145] – The manner of signing of audit report is given in Section 141(2), according to which - where a firm (including a limited liability partnership) is appointed as an auditor of a company, only the partners who are chartered accountants shall be authorised to act and sign on behalf of the firm.</p> <p>➤ To comply with Auditing Standards</p> <p>➤ To report on any other matter specified by Central Government (in consultation with the NFRA)</p>
Test Your Knowledge	<p>Case Study: X Ltd. restrains its company auditor from visiting another branch at different location and having access to the inventory records maintained at that branch because the branch is already audited by another auditor and the report has been received.</p> <p>Analysis: It may be noted that the company auditor has right to visit the branch, even if the branch accounts are audited by another auditor, if he considers it necessary to do so for the performance of his duties as auditor.</p> <p>Conclusion: In the given case the auditor has the right to access the branch of X Ltd.</p>
Section 147 - Punishment for contravention of sections 139-146	<p>For the auditor</p> <ul style="list-style-type: none"> ➤ For unknowing defaults - fine of INR 25,000 to INR 500,000; ➤ For knowing / willful defaults - fine of INR 100,000 to INR 2,500,000, and imprisonment for 0-1 year. <p>Where the cost auditor is convicted, he/she shall also be required to</p> <ol style="list-style-type: none"> a) refund the remuneration received by him; and b) pay for damages to the company statutory bodies or authorities or to any other persons for loss arising out of incorrect or misleading statements of particulars made in his audit report.. <p>For the company</p> <ul style="list-style-type: none"> ➤ fine of INR 25,000 to INR 500,000 <p>For the officer of the Company</p> <ul style="list-style-type: none"> ➤ imprisonment for 0-1 years and / or ➤ fine of INR 10,000-INR 100,000
Audit Committee (Section 177)	<p>Constitution of an Audit committee is mandatory for the following companies:</p> <ol style="list-style-type: none"> (a) Every listed Company; (b) All public companies with a paid up share capital Rs 10 Crore or more; (c) All Public Companies having turnover of Rs 100 Crore or more; (d) All Public Companies having in aggregate, outstanding Loans, or borrowings and debentures or deposits exceeding Rs. 50 Crore or more.
Constitution of Audit committee	<p>An Audit committee shall have minimum 3 Directors majority of them should be Independent Director. Majority of the member of the Audit Committee able to read & understand the financial statement.</p>
Functions of Audit Committee	<ul style="list-style-type: none"> - Appointment and fixation of the remuneration of Auditor. - Examination of the Financial Statement. - Scrutiny of Inter Corporate Loans and Investment, - Valuation of the Assets of the Company,

	<ul style="list-style-type: none"> - Evaluation of the internal financial control and risk management system of the entity. - Evaluation of the use of the funds rose through public offers. - Evaluation of any related party transaction.
Powers of the Audit Committee	<ul style="list-style-type: none"> - to call for comments / observations of the Auditor about Internal Control Systems and other matters. - to review the Financial Statement before they are submitted to the Board. - to discuss any issues with the Statutory & Internal Auditor and the Management of the Company in relation to matter contained in the Financial Statement.

Important Questions – Provisions related to audit under the Companies Act

Q.1	Enumerate the duties the Company Auditor [Dec 15 (4 Marks)]
Q.2	Statutory Auditor can be appointed as the Internal Auditor of the same Company for the same period. Comment [Dec 2008, June 2013 (2 marks)]
	As per section 144, Statutory Auditor cannot be appointed as the Internal Auditor for the same company for the same period. This is because of self-review threat, that the auditor will not be independent.
Q.3	Audit Committee is only a luxury for the Company. So you agree? [Dec 2008 (2 marks)]
	Audit Committee is not a luxury. It serves as a communication channel among various departments and has to interact with the management, internal auditor, statutory auditor and the public.
Q.4	Statutory Auditor of the company is legally bound to attend the AGM of the Company. State the correct position [June 2009 (2 marks)]
	Section 146 of the Companies Act, 2013 states that the auditor shall be entitled to attend and be heard in an AGM. Whether he exercises his right or not, is up to him.
Q.5	M/s SS Associates, Chartered Accountants who were appointed as Auditor by the members in AGM refuses to accept the appointment. In such cases CG only can appoint another Auditor. [Dec 2009 (2 marks)]
	When the appointed auditor refuses to take up the assignment, the company should take recourse to Section 139 and hold an extra ordinary general meeting for appointment of auditor, as the Board has no powers to appoint auditor in place of the resigned auditor. The refusal of auditor will tantamount to assuming that he has resigned.
Q.6	Auditor is not liable in case of honorary (free of cost) audit. [June 2010 (2 marks)]
	The Auditor has to conduct and conclude his audit as per the provisions of the Companies Act, 2013. The quantum of fees does not decide the scope or liability of the audit. Hence it doesn't matter whether the auditor has charged fees for the audit or not, his liability remains as it is.
Q.7	The Articles of Association of ABC Ltd. provides that the Fixed deposit receipts should not be shown to the statutory auditors. Accordingly, the Manager (Accounts) refuses to show it to the Auditor. Analyse the legality. [June 2010 (2 marks)]
	The Auditor has to conduct and conclude his audit as per the provisions of the Companies Act, 2013. As per the provisions of Section 143, auditor has the right to access the books and records thereon. If this right is restricted, the auditor shall report it in the Auditor's Report.
Q.8	The auditor demanded the notice for AGM but the Director of the Company refused. State the legality [Dec 2010 (2 marks)]

Q.9	At the AGM, a resolution was passed by all the Shareholders restricting some of the powers of a Auditor. State the validity of the Resolution. [Dec 2012 (2 marks)]
	Certain specific rights & power have been conferred by the Companies Act, 2013 on the Auditor which cannot be restricted or curtailed by the shareholders of the company. Hence any such resolution even if passed by entire body of shareholders is ultra-vires (beyond law) and, therefore, not valid.
Q.10	A practicing cost accountant is appointed by the shareholders in general meeting as the Auditor of a private limited company. Is the appointment valid? [June 2013, June 2014 (2 marks)]
	Only a practicing Chartered Accountant is qualified for appointment as the Auditor of a Company, even if the company is a private limited company. Hence, this appointment is not valid.
Q.11	Sec. 177 of Companies Act 1956 lays down the Auditor's duty as a member of Audit Committee. Comment. [June 2013 (2 marks)]
	This statement is false. Auditor is not a member of Audit Committee. He has no right to vote. However he shall attend and participate at the meetings of the Audit Committee.
Q.12	What are the disqualifications for appointment of Statutory Auditor of a Company? [Dec 2013, June 2015, June 2017 (4 marks)]
Q.13	Discuss the scope of audit committee in public limited company. [June 2016 (8 marks)]
Q.14	What are the services that an Auditor cannot render under section 144 of the Companies Act, 2013. [June 2017 (5 marks)]
Q.15	Discuss the provisions under Section 139(7) relating to the appointment of the first auditor in a Government Company. How can an auditor, duly appointed by a company, be removed before expiry of his term? [Dec 2017 (7 marks)]
	Or
	How can an auditor, who is appointed under section 139 of the Companies Act, 2013, be removed from his office before the expiry of his term. [June 2019 (4 marks)]
Q.16	Discuss the duty of an auditor to report certain matters in the audit report u/s 143(3). [Dec 2017 (5 marks)]
	Duty Regarding Inclusion of Certain Matters in the Audit Report: As per Section 143(3), the company auditor, in his audit report, shall clearly state –
	<ul style="list-style-type: none"> ➤ Whether he has sought and obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purpose of his audit and if not, the details thereof and the effect of such information on the financial statements. ➤ Whether, in his opinion, proper books of account as required by law have been kept by the company and proper returns adequate for the purposes of his audit have been received from branches not visited by him. ➤ Whether the report on the accounts of any branch office of the company audited by a person other than the company's auditor has been sent to him and the manner in which he has dealt with it in preparing his report. ➤ Whether the company's balance sheet and profit and loss account dealt with in the report are in agreement with the books of account and returns. ➤ Whether, in his opinion, the financial statements comply with the accounting standards. ➤ The observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company.

	<ul style="list-style-type: none"> ➤ Whether any director is disqualified from being appointed as a director under sub-section (2) of section 164. ➤ Any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith. ➤ Whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls.
Q.17	Discuss the provisions of Companies Act, 2013 as regards reporting of frauds by Company Auditor. [June 2018 (6 marks)]
	<ul style="list-style-type: none"> ➤ The provisions of Companies Act 2013 regarding reporting of frauds by a company auditor are as follows: For the purpose of sub-section (12) of section 143, in case the auditor has sufficient reason to believe that an offence involving fraud, is being or has been committed against the company by officers or employees of the company, he shall report the matter to the Central Government immediately but not later than sixty days of his knowledge and after following the procedure indicated herein below. <ol style="list-style-type: none"> 1. auditor shall forward his report to the Board or the Audit Committee, as the case may be, immediately after he comes to knowledge of the fraud, seeking their reply or observations within forty-five days; 2. on receipt of such reply or observations the auditor shall forward his report and the reply or observations of the Board or the Audit Committee along with his comments (on such reply or observations of the Board or the Audit Committee) to the Central Government within fifteen days of receipt of such reply or observations; 3. in case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall forward his report to the Central Government along with a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he failed to receive any reply or observations within the stipulated time. ➤ The report shall be sent to the Secretary, Ministry of Corporate Affairs in a sealed cover by Registered Post with Acknowledgement Due or by Speed post followed by an e-mail in confirmation of the same. ➤ The report shall be on the letter-head of the auditor containing postal address, e-mail address and contact number and be signed by the auditor with his seal and shall indicate his Membership Number. ➤ The report shall be in the form of a statement as specified in Form ADT-4. ➤ The provision of this rule shall also, mutatis mutandis, to a cost auditor and a secretarial auditor during the performance of his duties under section 148 and section 204 respectively.
Q.18	Discuss about the manner in which rotation of Auditors may be done by the company on expiry of their term. [June 2018 (6 marks)]
Q.19	Discuss the rights of an auditor according to the Companies Act, 2013 [June 2019 (8 marks)]
Q.20	Discuss the functions and power of the Audit Committee. [Dec 2018 (6 marks)]
Q.21	Discuss the procedure for appointment for first Auditor of the Company and his tenure [Dec 2018 (6 marks)]

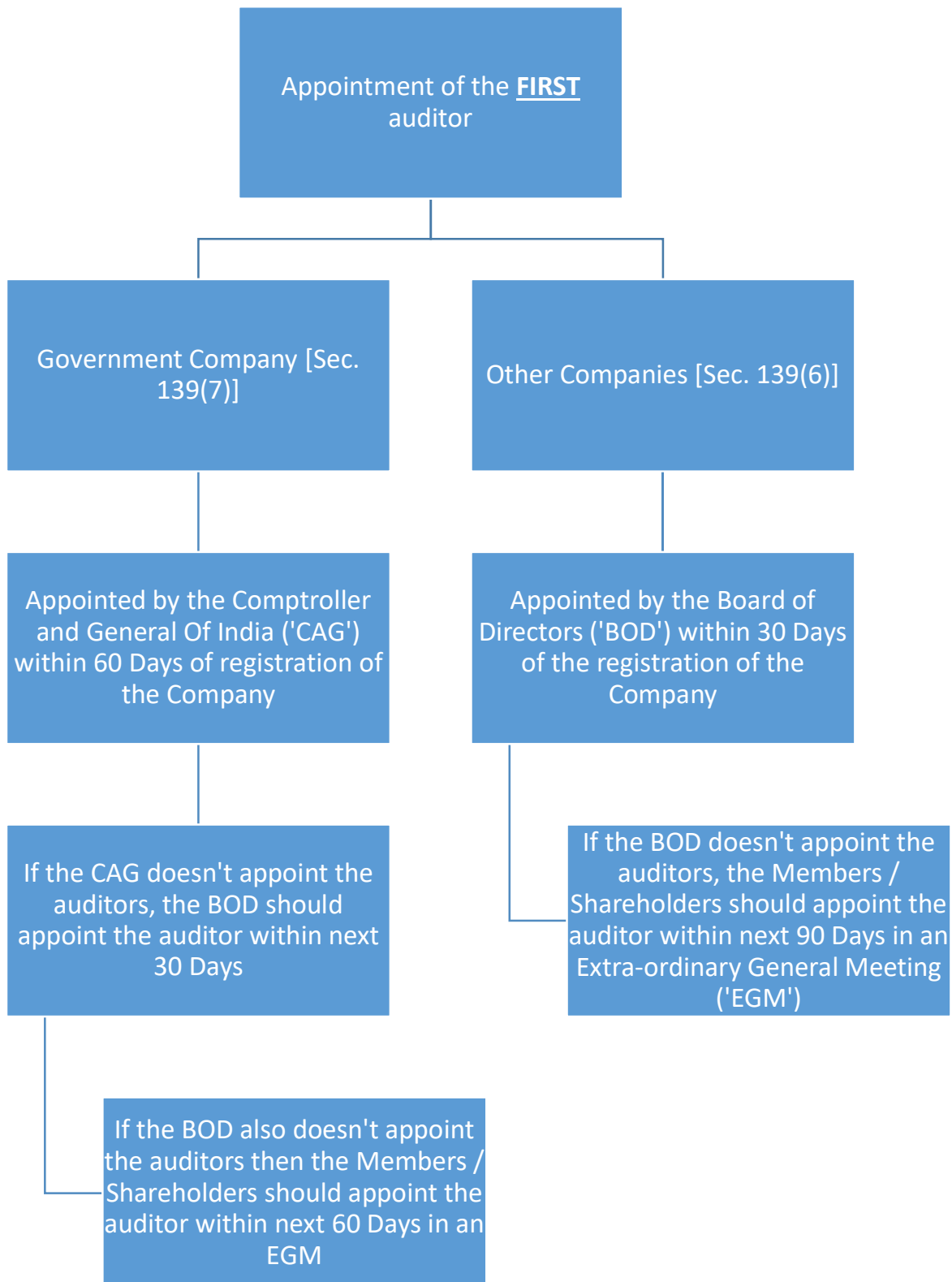
Key points to remember

<p>Appointment of auditors (Section 139)</p>	<p><i>First auditor – Government company</i></p> <ul style="list-style-type: none"> ✓ Appointed by CAG within 60 days from date of registration of company ✓ In case CAG doesn't appoint the auditor within 60 days, the Board of Directors must appoint the auditor within next 30 days. ✓ In case the Board also doesn't appoint the first auditor, it should be appointed by the members within 60 days in an EGM <p><i>First auditor – Company other than a Government company</i></p> <ul style="list-style-type: none"> ✓ Appointed by Board of Directors within 30 days of the registration of the company ✓ In case the board fails to appoint the first auditor, it should be appointed by the Members within 90 days in an EGM <p><i>Subsequent auditor – Government Company</i></p> <ul style="list-style-type: none"> ✓ In case of Government company, CAG should appoint an auditor within 180 days from commencement of the financial year <p><i>Subsequent auditor – Company other than a Government company</i></p> <ul style="list-style-type: none"> ✓ Every company appoints an auditor at the first AGM till the conclusion of sixth AGM. ✓ Auditor can be an individual or a partnership firm ✓ No listed company can re-appoint an individual auditor or a firm for more than five consecutive years or ten consecutive years respectively (Rotation of auditor) ✓ An auditor who has completed the prescribed term of five or ten consecutive years, should not be re-appointed as auditor for the next five consecutive years (Cooling off period)
<p>Casual Vacancy (CV)</p>	<ul style="list-style-type: none"> ✓ In case of Government Company, CV is filled by CAG within 30 days ✓ In case of any other company, CV is filled by Board of Directors within 30 days
<p>Removal / resignation of auditor</p>	<ul style="list-style-type: none"> ✓ Removal - The auditor may be removed before the end of his term, by: <ul style="list-style-type: none"> • passing a special resolution and • obtaining the previous approval of Central government ✓ Removal – The auditor may be removed (or not re-appointed) after the end of his term, by: <ul style="list-style-type: none"> • Special notice issued by the shareholders intending to appoint an auditor other than the retiring auditor • Retiring Auditor to make a representation in writing • Special resolution be passed • Not applicable to Section 139(2) – rotation cases ✓ Resignation - When the auditor resigns from the company, he should, within 30 days from the resignation, file a statement with the company and the Registrar, indicating the reasons of resignation
<p>Eligibility / qualifications of</p>	<ul style="list-style-type: none"> ✓ An auditor can be a Chartered Accountant or a firm (including LLP) of Chartered Accountants

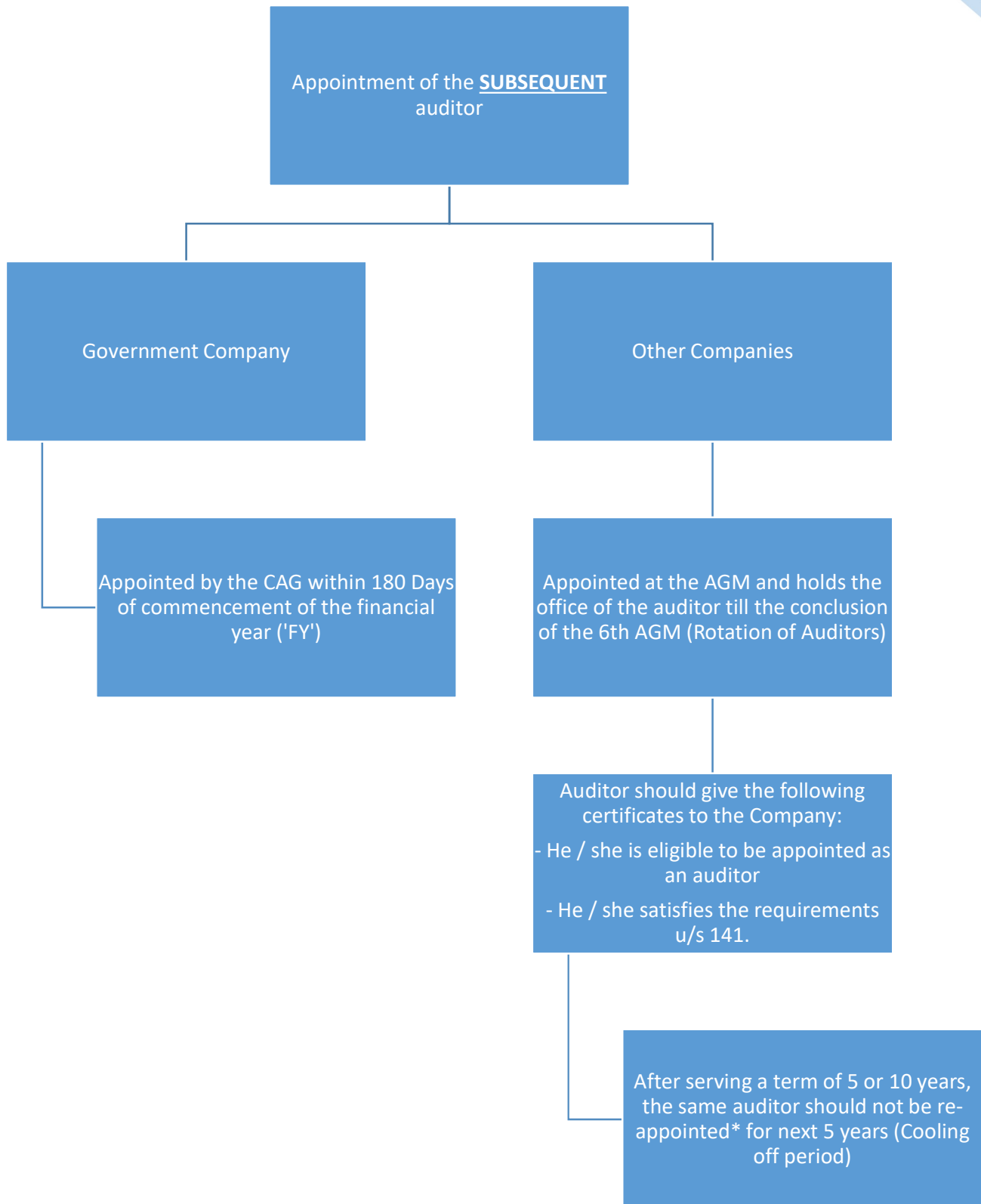
auditor (Section 141)	<ul style="list-style-type: none"> ✓ In case of a firm, only the partners who are Chartered Accountants shall be authorized to act and sign on behalf of the firm
Disqualifications of auditor (Section 141)	<ul style="list-style-type: none"> ✓ Body corporate ✓ Officer / employee of the company or partner / employee of such officer / employee ✓ Who holds any security or interest in the company (a relative can hold security upto FV of INR 100,000) ✓ Who is indebted to the company in excess of INR 500,000 ✓ Who has given any guarantee / security in connected with indebtedness of the company in excess of INR 100,000 ✓ Who has a business relationship with the company ✓ Who is in full time employment elsewhere ✓ Who has been convicted by a court for any fraud and 10 years have not lapsed from such a conviction ✓ Who is engaged in consulting and specialized services under section 144 (like book-keeping, actuarial services, managerial services, design and implementation of financial information system)
Remuneration of auditors (Section 142)	<ul style="list-style-type: none"> ✓ Should be fixed in the general meeting ✓ Should be fixed by the Board for the first auditor ✓ Remunerations includes the expenses, if any, incurred by the auditor
Powers /rights of an auditor (Section 143)	<ul style="list-style-type: none"> ✓ Right to access books of accounts and the supporting documents of the company as well as its subsidiaries ✓ Ask such information and explanation, from the officers of the company, as is required for audit ✓ Inquire into the critical matters like: <ul style="list-style-type: none"> • Whether the loans and advances made by the company are fully secured and they are not prejudicial to the interest of the company • Whether personnel expenses have been charged to P&L Account • Whether the position stated in the financial statements is correct and not misleading • Whether any assets of the company are sold below the purchase price ✓ To give qualification on the matters he deems fit, in the auditor's report ✓ In case of Government companies, the CAG has the power to conduct a test audit / supplementary audit, in addition to the regular statutory audit ✓ To attend the AGM and address the members, either himself or through an authorized representative
Duties of an auditor (Section 143)	<ul style="list-style-type: none"> ✓ To make report to the members of the company on the basis of the accounts examined by him ✓ In case of Government company, to furnish the report to the CAG ✓ To comply with the auditing standards ✓ To give a true and fair view of the company's affairs ✓ To give the reasons for every qualification given in the auditor's report ✓ To inform the board of directors or the audit committee, and subsequently to the central government, in case of a fraud, within the prescribed timelines

	<ul style="list-style-type: none"> ✓ To disclose the impact of pending litigation, if any ✓ To ensure that the company has made provision for foreseeable losses ✓ To ensure that the company has duly deposited the statutory obligations like TDS, Provident fund etc on a timely manner
Punishment for contravention (Section 147)	<p>For the contravention of any of the above provisions, following punishments should follow:</p> <p><i>For the default of the Company</i> – Fine of INR 25,000 – INR 500,000</p> <p><i>For the default of the Auditor:</i></p> <ul style="list-style-type: none"> ✓ For unknowing defaults - fine of INR 25,000 to INR 500,000; ✓ For knowing / willful defaults - fine of INR 100,000 to INR 2,500,000, and imprisonment for 0-1 year.– Imprisonment of upto one year <p>Where the auditor is convicted, he/she shall also be required to - a) refund the remuneration received by him to the company and b) pay damages, if any.</p>
Audit Committee (Section 177)	<p>Constitution of Audit committee is mandatory for:</p> <p>(i) Every listed Company; and</p> <p>(ii) All public companies having:-</p> <ul style="list-style-type: none"> ✓ a paid up share capital Rs 10 Crore or more; ✓ turnover of Rs 100 Crore or more; ✓ outstanding Loans, or borrowings and debentures or deposits aggregating to Rs 50 Crore or more. <p>An Audit committee shall have minimum 3 Directors majority of them should be Independent Director.</p>
Functions of audit committee	<ul style="list-style-type: none"> ✓ Appointment and fixation of the remuneration of the Auditor ✓ Examination of the Financial Statement. ✓ Scrutiny of Inter Corporate Loans and Investment, ✓ Valuation of the Assets of the Company, ✓ Evaluation of the internal financial control and risk management system of the entity. ✓ Evaluation of the use of the funds rose through public offers. ✓ Evaluation of any related party transaction.
Powers of audit committee	<ul style="list-style-type: none"> ✓ to call for comments of the Auditor about Internal Control Systems and its other observations. ✓ to review the Financial Statement and Audit report, before submission to the Board ✓ to discuss any issues with the Statutory & Internal Auditor and the Board of the Company

Diagrammatic presentation of key provisions of the Company Audit



Note: The tenure of the first auditor is till the conclusion of the first Annual General Meeting ('AGM') only.



*The network firms of the same auditor also cannot be re-appointed. Network firms means - CA Firms under same brand / common control.

Reappointment of the existing auditors: The existing auditors may be re-appointed if following conditions are satisfied:

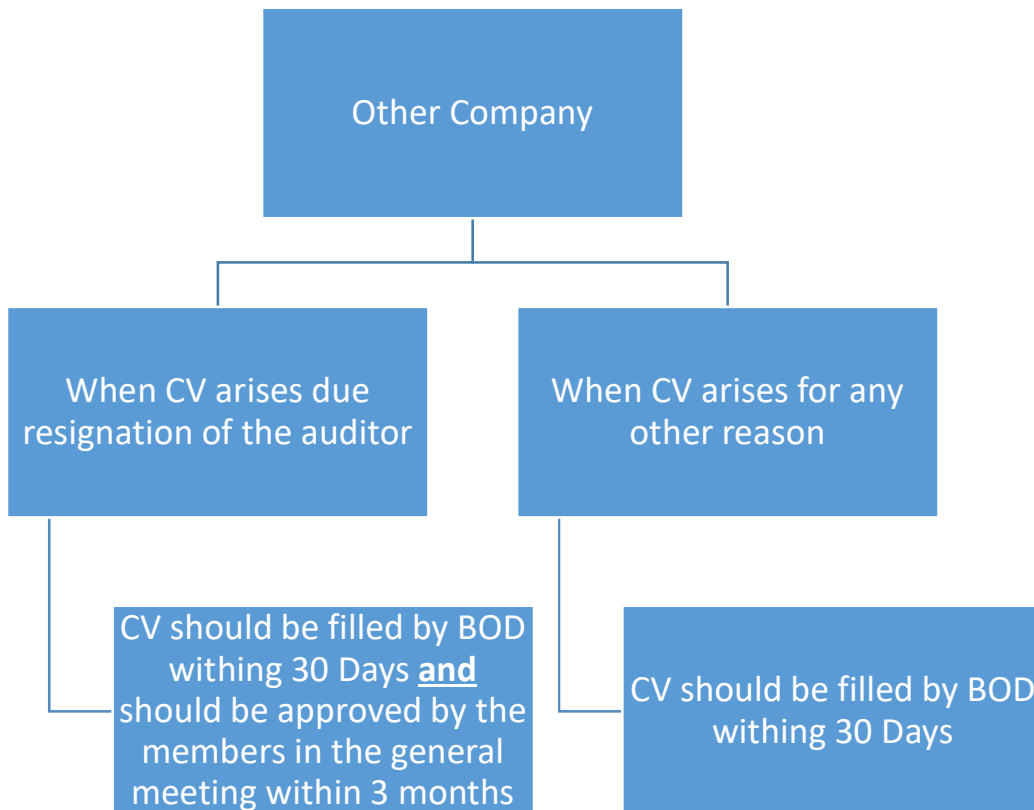
- 1) The existing auditor is not disqualified from being re-appointed
- 2) The existing auditor is not unwilling to be re-appointed
- 3) Any other auditor has not been already appointed

Note 1: In case the appointment of a new auditor or re-appointment of the existing auditor does not take place, the existing auditor is automatically re-appointed and continues the office of the auditor.

Note 2: Audit committee should be consulted before re-appointing the existing auditor.

Appointment of the auditor in case of Casual Vacancy ('CV')

For a Government Company, CAG should fill the CV within 30 Days. For companies other than the Government company:



Note 1: Audit committee should be consulted before filling the casual vacancy.

Duty of an auditor with respect to Fraud



In any case, the auditor should report the fraud to the Central Government within maximum **60 days**, on his **letterhead**, in the prescribed **Form ADT – 4**.

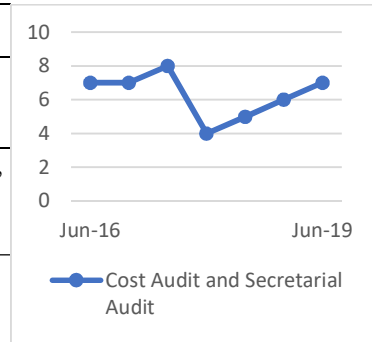
Punishment of contravention of provisions related to audit (Section 147 of the Companies Act, 2013)


Contravention by:	Fine (INR)	Imprisonment
The Company	25,000 to 500,000	Not Applicable, since a company cannot be jailed
Officer of the Company	10,000 to 100,000	Upto 1 Year
Auditor (Unknowing contravention)	25,000 to 500,000	No imprisonment
Auditor (Knowing contravention)	100,000 to 2,500,000	Upto 1 Year


Chapter 5 – Cost Audit and Secretarial Audit

Chapter at a Glance

Cost Audit	Maintenance of cost records, applicability of cost audit, benefits
Cost auditor	Appointment, rotation, remuneration, obligation to report fraud, cost audit report
Secretarial Audit	Applicability, Report, appointment of secretarial auditor



<p>Cost Audit [Section 148]</p>	<p>(1) Notwithstanding anything contained in this Chapter, the Central Government may, by order, in respect of such class of companies engaged in the production of such goods or providing such services as may be prescribed, direct that particulars relating to the utilisation of material or labour or to other items of cost as may be prescribed shall also be included in the books of account kept by that class of companies:</p> <p><i>Provided that the Central Government shall, before issuing such order in respect of any class of companies regulated under a special Act, consult the regulatory body constituted or established under such special Act.</i></p> <div style="display: flex; align-items: center; margin-top: 10px;">  <div style="margin-left: 20px;"> <p>Which is the regulatory body (constituted under the special Act) whom the CG needs to consult?</p> </div> </div> <p>(2) If the Central Government is of the opinion, that it is necessary to do so, it may, by order, direct that the audit of cost records of class of companies, which are covered under sub-section (1) and which have a net worth of such amount as may be prescribed or a turnover of such amount as may be prescribed, shall be conducted in the manner specified in the order.</p> <div style="display: flex; justify-content: center; align-items: center; margin-top: 10px;"> <div style="border: 1px solid black; border-radius: 50%; padding: 10px; text-align: center; width: 100px; height: 100px; background-color: #4a90e2; color: white;">Company should fall under sub-section 1</div> <div style="font-size: 2em; margin: 0 10px;">+</div> <div style="border: 1px solid black; border-radius: 50%; padding: 10px; text-align: center; width: 100px; height: 100px; background-color: #4a90e2; color: white;">Net Worth / Turnover is above the limit</div> <div style="font-size: 2em; margin: 0 10px;">=</div> <div style="border: 1px solid black; border-radius: 50%; padding: 10px; text-align: center; width: 100px; height: 100px; background-color: #4a90e2; color: white;">Cost Audit under sub-section 2</div> </div> <p>(3) The audit under sub-section (2) shall be conducted by a Cost Accountant in practice who shall be appointed by the Board on such remuneration as may be determined by the members in such manner as may be prescribed:</p> <div style="display: flex; justify-content: center; align-items: center; margin-top: 10px;"> <div style="border: 1px solid black; border-radius: 50%; padding: 10px; text-align: center; width: 100px; height: 100px; background-color: #4a90e2; color: white;">Cost Accountant in Practice</div> <div style="font-size: 2em; margin: 0 10px;">+</div> <div style="border: 1px solid black; border-radius: 50%; padding: 10px; text-align: center; width: 100px; height: 100px; background-color: #4a90e2; color: white;">Appointed by the Board of Directors</div> <div style="font-size: 2em; margin: 0 10px;">=</div> <div style="border: 1px solid black; border-radius: 50%; padding: 10px; text-align: center; width: 100px; height: 100px; background-color: #4a90e2; color: white;">Cost Auditor</div> </div>
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	<p><i>Provided that no person appointed under section 139 as an auditor of the company shall be appointed for conducting the audit of cost records:</i></p> <div style="text-align: center;">  <p>What is Section 139?</p> </div> <p><i>Provided further that the auditor conducting the cost audit shall comply with the cost auditing standards.</i></p>
Applicability of maintenance of cost records (Rule 3)	<p>Companies engaged in the production of specified goods or services (Category A and B), having an overall turnover from all its products and services of Rs. 35 crore or more during the immediately preceding financial year are required to maintain the cost records</p> <p><i>Exclusion 1- Micro enterprise or a Small enterprise as per the turnover criteria provided under Micro, Small and Medium Enterprises Development Act, 2006</i></p> <p><i>Exclusion 2 - Foreign companies having only liaison offices in respect to medical devices, like Cardiac stents; Drug eluting stents, heart valves etc.</i></p>
Manner of maintenance of Cost records (Rule 5)	<ul style="list-style-type: none"> - Cost records should be maintained in Form CRA-1 - They should be prepared in accordance with the Cost Accounting Standards as may be prescribed - Cost records should facilitate calculation of – a) per unit cost of production or b) cost of operations, c) cost of sales and d) margin for each of its products and activities, in a true and fair manner. - No format has been specified for preparation of the cost records - May be prepared on monthly or quarterly or half-yearly or annual basis.
Applicability of Cost Audit (Rule 4)	<p>For regulated goods (Category A – contains 6 products¹)</p> <ul style="list-style-type: none"> - annual turnover of the company (from all its products and services) during the immediately preceding financial year is Rs. 50 crore or more; and - aggregate turnover of the individual product(s) or service(s) for which cost records are required to be maintained under rule 3 is Rs. 25 crore or more. <p>For Non-regulated goods (Category B – contains 33 products²)</p> <ul style="list-style-type: none"> - overall annual turnover of the company (from all its products and services) during the immediately preceding financial year is Rs. 100 crore or more; and - aggregate turnover of the individual product(s) or service(s) for which cost records are required to be maintained under rule 3 is Rs. 35 crore or more. <p><i>Exclusion 1- Where Rule 3 (cost records) is not applicable</i></p> <p><i>Exclusion 2 - whose revenue from exports, in foreign exchange, exceeds 75% of its total revenue</i></p>

¹ Telecommunication services, Generation transmission distribution and supply of electricity, Petroleum products, Drugs and pharmaceuticals, Fertilisers, Sugar and industrial alcohol

² a) Machinery and mechanical appliances used in defence, space and atomic energy sectors excluding any ancillary item or items, b) Turbo jets and turbo propellers; c) Arms, ammunitions and explosives; d) Propellant powders; e) Radar apparatus, radio navigational aid apparatus and radio remote control apparatus; f) Tanks and other armoured fighting vehicles; g) Port services of stevedoring, pilotage, hauling, etc rendered by a Port in relation to a vessel or goods; h) Aeronautical services; i) Iron and Steel; j) Roads and other infrastructure projects; k) Rubber and allied products; l) Coffee and tea; m) Railway or tramway locomotives, mechanical traffic signaling equipment of all kind; n) Cement; o) Ores and Mineral products; p) Mineral fuels (other than Petroleum), mineral oils etc. q) Base metals; r) Inorganic chemicals, precious metals, rare-earth metals of radioactive elements or isotopes; s) Jute and Jute Products; t) Edible Oil; u) Construction Industry; v) Health services, namely functioning as or running hospitals, diagnostic centres, clinical centres or test laboratories; w) Education services, like imparting training or education by means of any mode; x) Milk powder; y) Insecticides; z) Plastics and polymers; aa) Tyres and tubes; bb) Paper; cc) Textiles; dd) Glass; ee) Other machinery; ff) Electricals or electronic machinery; gg) Production, import and supply or trading of medical devices, like Cardiac stents; Drug eluting stents, heart valves etc.

	<p><i>Exclusion 3 - which is operating from a special economic zone.</i></p> <p><i>Exclusion 4 - which is engaged in generation of electricity for captive consumption through Captive Generating Plant.</i></p>
Benefits / use of Cost Audit	<p>Usefulness to the Management:</p> <ol style="list-style-type: none"> (i) The management will get reliable data for its day-to-day operations like price fixing, control, decision making, etc. (ii) A close and continuous check on all wastages will be kept through a proper system of reporting to management. (iii) Inefficiencies in the working of the company will be brought to light to facilitate corrective action. (iv) Management by exception becomes possible through allocation of responsibilities to individual managers. (v) System of budgetary control and standard costing will be greatly facilitated. (vi) Reliable check on valuation of closing stock and work-in-progress can be established. (vii) Helps in detection of frauds and errors. <p>Usefulness to the Society:</p> <ol style="list-style-type: none"> (i) Cost audit is often introduced for the purpose of fixation of price. The prices so fixed are based on the correct costing data and so the consumers are saved from exploitation. (ii) Price increase by the industry is not allowed without proper justification as to increase in cost of production; consumers are saved from unreasonable price. (iii) Cost Audit is also useful for the purpose of Cost Control; Cost reduction and proper utilisation of scarce resources. <p>Usefulness to Shareholders: Cost Audit ensures that proper records are kept as to purchases and utilisation of material and expenses incurred on wages, etc. It also makes sure that the valuation of closing stock and work-in-progress is on a fair basis. Thus, the shareholders are assured of a fair return on their investment.</p> <p>Usefulness to the Government:</p> <ol style="list-style-type: none"> (i) Where the government enters into a cost plus contract, cost audit helps the government to fix the price of the contract. (ii) Cost audit helps the fixation of selling prices of essential commodities and thus, undue profiteering is checked. (iii) Cost audit enables the government to focus its attention on inefficient units. (iv) Cost audit enables the government to decide in favour of giving protection to certain industries. (v) Cost audit facilitates settlement of Trade Dispute. (vi) Cost Audit promotes healthy competition among units in the industry.
Who can be appointed as a cost auditor	<ul style="list-style-type: none"> ➤ Only a practicing cost accountant as defined under section 2(28) of the Companies Act, 2013 and Section 2(1)(b) of the Cost and Works Accountants Act, 1959 can be appointed as the cost auditor of a company. ➤ Cost Accountant includes a Firm of Cost Accountants and a LLP of cost accountants. ➤ The statutory auditor cannot be the cost auditor of the same company
Disqualifications for appointment as a cost auditor	The criterion of disqualifications prescribed in Section 141 of the Companies Act, 2013 are applicable <i>mutatis mutandis</i> (as it is) on the cost auditor.
Appointment of the cost auditor	<ul style="list-style-type: none"> ➤ Cost auditor to be appointed by the Board of Directors (on recommendation of the audit committee) within 180 days of the commencement of every financial year ➤ Company to inform about such appointment to the Central Government within a period of 30 days of the Board meeting in which such appointment is made or within

	<p>a period of 180 days of the commencement of the financial year, whichever is earlier, in Form CRA-2</p> <p>➤ Any casual vacancy in the office of a cost auditor, whether due to resignation, death or removal, shall be filled by the Board of Directors (BOD) within thirty days of occurrence of such vacancy and the company shall inform the Central Government in Form CRA-2 within thirty days of such appointment of cost auditor.</p>
Class Notes	
Rotation of Cost Auditor	Section 139(3) of the Act, applicable to appointment of auditors (financial), deals with the provision of rotation of auditors and these provisions are applicable only to appointment of auditors (financial). The Act does not provide for rotation in case of appointment of cost auditors and the same is not applicable to a cost auditor. It may, however, be noted that though there is no statutory provision for rotation of cost auditors, individual companies may do so as a part of their policy, as is the practice with Public Sector Undertakings.
Remuneration of the Cost Auditor	<p>In the case of companies which are required to constitute an audit committee</p> <p>(i) The Audit committee, shall recommend the remuneration for the cost auditor;</p> <p>(ii) the remuneration recommended by the Audit Committee under (i) shall be considered and approved by the Board of Directors and ratified subsequently by the shareholders;</p> <p>In the case of other companies which are not required to constitute an audit committee - the Board shall fix the remuneration which shall be ratified by shareholders subsequently.</p>
Obligation to report offence of fraud	<p>➤ As per sub-section (12) of section 143 of the Companies Act 2013, it is obligatory on the part of cost auditor to report offence of fraud which is being or has been committed in the company by its officers or employees, to the Central Government as per the prescribed procedure under the Rules.</p> <p>➤ As per the proviso to above sub-section, it has been stated that in case of a fraud involving lesser than the specified amount, the auditor shall report the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as may be prescribed.</p>
Cost audit report	<p>➤ The cost auditor shall submit the cost audit report in Form CRA-3 to the Board of Directors of the company within a period of 180 days from the closure of the financial year</p> <p>➤ The company shall within 30 days from the date of receipt of a copy of the cost audit report, furnish it to the Central Government in Form CRA-4. Such report shall be accompanied with full information and explanation on every reservation or qualification contained therein</p>

	➤ In case the Central Government requires any further information / explanation, the company should provide the same within the time stipulated by the Central Government.
Secretarial Audit (Section 204)	<ol style="list-style-type: none"> 1) Every listed company and a company belonging to other prescribed class of companies shall annex with its Board's report, a secretarial audit report, given by a company secretary in practice, in such form as may be prescribed. 2) It shall be the duty of the company to give all assistance and facilities to the company secretary in practice, for auditing the secretarial and related records of the company. 3) The Board of Directors, shall explain in full any qualification or observation or other remarks made by the company secretary in practice in his report under sub-section (1). 4) If a company or any officer of the company or the company secretary in practice, contravenes the provisions of this section, the company, every officer of the company or the company secretary in practice, who is in default, shall be punishable with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees.
Applicability of Secretarial Audit	<p>Following companies are required to obtain Secretarial Audit Report:</p> <ol style="list-style-type: none"> (i) Every listed company; (ii) Every public company having a paid-up share capital of fifty crore rupees or more; or (iii) Every public company having a turnover of two hundred fifty crore rupees or more. <p>However the "Turnover" means the aggregate value of the realisation of amount made from the Sale, Supply or Distribution of goods or on account of services rendered, or both, by the company during a financial year [Section 2(91)].</p>
Secretarial Audit Report	The Secretarial Audit Report is required to be provided in the format prescribed in Form MR-3 (Rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014).
Procedures of appointment of Secretarial Auditor	As per Rule 8 of the Companies (Meetings of Board and its powers) Rules, 2014, Secretarial Auditor is required to be appointed by means of resolution passed at a duly convened Board meeting. It is advisable for the Secretarial Auditor to get a letter of engagement from the company. Secretarial Auditor should accept the letter of engagement. However, it is advisable that any changes in the Secretarial Auditor during the financial year are to be reported to the members in the Board's Report.

Important Questions – Cost Audit and Secretarial Audit

Q.1	<p>Central government issued order for audit of Cost accounts of ABC Ltd. In view of this, state the following:</p> <ol style="list-style-type: none"> a) Who appoints the Cost Auditor? b) Whether Company's statutory auditor can conduct cost Audit? c) To whom the cost audit report is submitted ? d) Time limit within which such report is submitted. [Dec 2011 (4 marks)] <p>Or</p> <p>Briefly state the provisions related to cost audit. [Dec 2015, June 2017 (8 marks)]</p>
Q.2	What is the procedure for appointment of the cost auditor? [Dec 2017 (4 marks)]
Q.3	What is the procedure for fixing the remuneration of a Cost Auditor? [June 2018 (5 marks)]
Q.4	<p>Explain the requirements to cost audit. [Dec 2016 (7 marks)]</p> <p>Or</p>

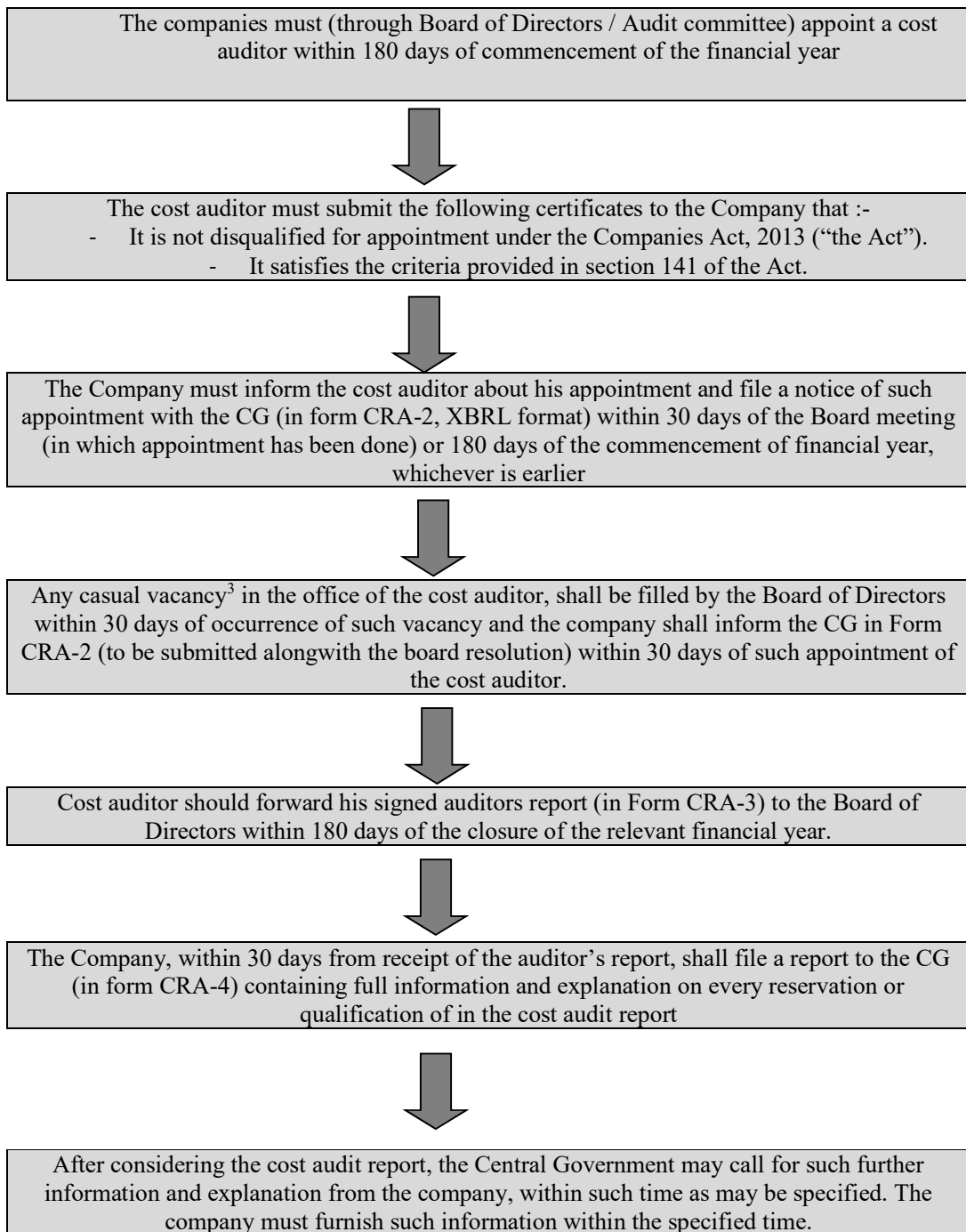
	State the advantages of Cost Audit to management and shareholders. [Dec 2013 (4 marks)]
Q.5	<p>What is meant by cost audit? State the duties of a cost auditor. [June 2014 (4 marks)]</p> <p>Cost audit is an audit process for verifying the cost of manufacture or production of any article, on the basis of accounts as regards utilisation of material or labour or other items of costs, maintained by the company. In simple words the term cost audit means a systematic and accurate verification of the cost accounts and records and checking of adherence to the objectives of the cost accounting.</p> <p>The Central Government may, if it feels necessary, direct by an order that an audit of the cost records kept by a Company u/s 148(1) shall be conducted by a Cost Accountant within the meaning of the Cost and Works Accountants Act, 1959 in such a manner as may be specified.</p> <p>In cost audit, auditor has to perform the following duties:</p> <ul style="list-style-type: none"> - Examine the correctness of the cost records maintained by the concern and - To report as to whether the cost accounting plans have been adhered to or not
Q.6	Discuss the relevant provisions of Companies (Cost Records and Audit) Rules 2014 on applicability of Cost Audit to different sectors. [Dec 2018 (6 marks)]
Q.7	<p>With reference to the Companies (Cost Records and Audit) Rules, 2014, as amended, discuss the following:</p> <ul style="list-style-type: none"> i) Submission of cost audit report to the Board of Directors by the Cost auditor ii) Applicability of rotation to Cost Auditors iii) Remuneration of a Cost Auditor <p style="text-align: right;">[June 2019 (2+2+3 marks)]</p>

Key points to remember

Cost Audit (Section 148)	<ul style="list-style-type: none"> ✓ Companies engaged in production of the prescribed goods or services must maintain the following cost records (in Form CRA 1): <ul style="list-style-type: none"> • Utilisation of material • Utilisation of labour • Other items of cost ✓ The companies which are - a) required to maintain the cost records; and b) whose net worth is above the prescribed limits, are required to get the cost audit done
Applicability for preparation of cost records	<ul style="list-style-type: none"> ✓ Companies whose annual turnover, of the preceding year, is INR 35 crores or more, are required to prepare the cost records ✓ Exemption – a) Foreign companies having only liaison office in India and b) micro and small enterprise are exempt from preparation of cost records, even if the turnover is more than the prescribed limit
Appointment of a cost auditor	<ul style="list-style-type: none"> ✓ The cost auditor is appointed by the Board of Directors on recommendation of the audit committee ✓ Cost auditor gives a consent letter to the Board, confirming that he/she is eligible for appointment ✓ The company issues an appointment letter to the auditor and the Company should inform the central government regarding the appointment in Form CRA 2, in XBRL format. ✓ The cost auditor is to be appointed within earlier of the following periods- <ul style="list-style-type: none"> • 180 days of the commencement of the financial year or • 30 days of the board meeting in which the auditor is appointed

	<ul style="list-style-type: none"> ✓ Any casual vacancy (due to death, resignation or removal) of the cost auditor should be filled by the Board of Directors within 30 days of its occurrence ✓ The cost auditor should prepare the cost audit report in Form CRA 3 and submit it to the Board of Directors within 180 days of the end of the FY ✓ The Company should file such audit report with the CG in Form CRA 4, in XBRL format), alongwith their comments on the qualifications / reservations given in the report
Qualifications of a cost auditor	<ul style="list-style-type: none"> ✓ Cost accountant ✓ Who holds certificate of practice
Disqualifications of a cost auditor	Same as discussed in Chapter 4
Applicability of rotation on Cost auditor	<ul style="list-style-type: none"> ✓ Section 139(3) readwith Rule 6, which deals with rotation of auditors, is applicable on financial auditors only and not on the cost auditor ✓ The companies may still, as a healthy practice, rotate their cost auditors voluntarily.
Authority for fixing remuneration	<ul style="list-style-type: none"> ✓ Remuneration of the cost auditor should be recommended by the Audit committee and / or the Board. ✓ Such remuneration should be subsequently ratified by the shareholders
Obligation to report fraud	<ul style="list-style-type: none"> ✓ The cost auditor should report any incident of fraud to the Board / Audit committee promptly ✓ In case the amount involved in the fraud is above the prescribed threshold, it should be reported to the Central Government
Secretarial Audit (Section 204)	Every company is required to prepare its secretarial books. The prescribed companies are required to get these books audited by a practicing company secretary. Form MR-3 prescribes the format of the secretarial audit report
Applicability of secretarial audit	The following companies are required to get the Secretarial Audit done: (i) Every listed company; (ii) Every public company having a paid-up share capital of fifty crore rupees or more; or- (iii) Every public company having a turnover of two hundred fifty crore rupees or more.
Appointment of secretarial auditor	<ul style="list-style-type: none"> ✓ Appointed by the Board of Directors in the Board meeting ✓ Company issues the letter of appointment to the auditor, which is accepted by the auditor ✓ Any change in the Secretarial auditor should be intimated to the members in the Board's report

Flowchart of procedure of appointment of cost auditor and completion of cost audit

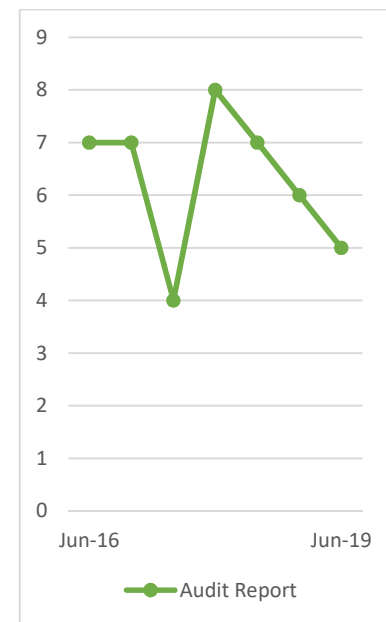


³ Casual vacancy may occur due to the resignation or death or removal of the cost auditor before its stipulated term.

Chapter 6 –Reporting requirements under the Companies Act

Chapter at a Glance

Audit Report	Meaning, elements, significance, importance, types
Enquiry u/s 143(1)	Aspects to be enquired by the auditor during audit process
Branch Audit	Duties of statutory auditor with respect to branch office
CARO	Applicability, constituents,
Revised accounts	Auditor's duties, steps to be taken
Abridged FS	Auditor's responsibility, provision of proposed dividend
Accounts Of Liquidators	Provisions of the law, auditors duties
Contribution to political parties	Provisions of the law, auditors duties
Audit of Consolidated FS	Company's responsibility, Auditor's duties
Audit Certificate	Difference between audit certificate and audit report



Audit Report	Audit Report is called as the ultimate and final product of every audit. A Report is a statement of collected & considered facts which gives clear and concise information to persons who are not already in possession of the full facts of the subject matter of the report.
Elements of the Auditors' Report	<p>a) Title: The Auditor's Report should have an appropriate title i.e. "Auditor's Report". It should be distinguished from other Reports, e.g. reports of officers of the entity, Board of Directors.</p> <p>b) Addressee: The Auditor's Report is usually addressed to the authority appointing the Auditor.</p> <p>c) Opening or Introductory Paragraph: The opening / introductory paragraph of the audit report should identify:</p> <ul style="list-style-type: none"> - the entity name, date and period of the Financial Statements being audited. - responsibility of the entity's management towards preparation and maintenance of FS and that the responsibility of the Auditor is just to express an opinion thereto. <p>d) Scope Paragraph: It should include the following:</p> <ul style="list-style-type: none"> - that the audit was conducted in accordance with auditing Standards generally accepted in India.

3. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Statement is free from material misstatement.

An audit includes examining, on a test basis, evidence supporting amounts disclosed in the Statement. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Management, as well as evaluating the overall presentation of the Statement.

We believe that the audit evidence obtained by us, is sufficient and appropriate to provide a basis for our audit opinion.

4. In our opinion and to the best of our information and according to the explanations given to us, the Statement:

(i) is presented in accordance with the requirements of the Regulation 52 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and SEBI Circular No. CIR/IMD/DF1/69/2016 dated August 10, 2016; and

(ii) gives a true and fair view in conformity with the aforesaid Ind AS and other accounting principles generally accepted in India of the net profit including other comprehensive income and other financial information for the year ended 31st March, 2018.

5. The Statement includes the results for the six months ended 31st March, 2018 and 31st March, 2017 being the balancing figures between audited figures in respect of the full financial years and the published year to date figures up to the first six months of the respective financial years, which were subjected to limited review by us.

For **Chaturvedi & Shah**
Chartered Accountants
(Registration No.101720W)

Partner
Membership No. [Redacted]
Mumbai, dated 27th April, 2018

For **Deloitte Haskins & Sells LLP**
Chartered Accountants
(Registration No.117366W/W-100018)

Partner
Membership No. [Redacted]

Significance
of Opening
Paragraph:

- It **identifies the Financial Statements** of the entity that have been audited, including **the date of and period covered by the Financial Statements**.
- It clarifies that preparation of the accounts is the **responsibility of the Management** of the enterprise, whereas the **responsibility of the Auditor** is to express an opinion on the said accounts based on the audit carried out by him.
- It communicates that the preparation of Financial Statements requires Management to make **significant accounting estimates and judgements**, as well as to determine the appropriate accounting principles and methods used in preparation of the said Financial Statements.

Significance of Scope Paragraph	<ul style="list-style-type: none"> ➤ It inform the Users about the practices and procedures followed in the conduct of audit by the Auditor. ➤ It states that the audit was planned and performed in accordance with Auditing Standards generally accepted in India ➤ It highlights the test check approach of audit adopted by the Auditor in performing his audit work as also the significant aspect of evaluation of accounting principles and accounting estimates is also clarified. ➤ It conveys that the Auditor provides only “reasonable assurance”. Thus, this paragraph signifies the inherent limitations of audit.
Importance of Audit Report	<ol style="list-style-type: none"> i. An Audit report is the end product of the auditing and concluding part of the audit process. ii. Audit report gives the auditor’s opinion on the accounts & record of the company, as examined by him. iii. Audit Report reflects the work done by the auditor. iv. Audit report is the instrument which, measures the auditors responsibility in regard to the true & fair view on the financial statement of the company. v. Audit Report indicates the real position of the financial status of the company. It is used by different people as a reliable document.
Types of Audit report	<p>Broadly there are two types of audit reports:</p> <ul style="list-style-type: none"> - Unqualified / Clean Report - Modified Report
Unqualified Report / Clean report	<p>An opinion is said to be unqualified, when the Auditor concludes that the Financial Statements give a true and fair view in accordance with the financial reporting framework used for the preparation and presentation of the Financial Statements.</p> <p>A clean report indicates that:</p> <ul style="list-style-type: none"> - the Generally Accepted Accounting Principles have been consistently applied, - statutory requirements and regulations have been complied with, and - There is adequate disclosure of all material matters relevant to the proper presentation of the financial information. - Any changes in the accounting principles and the effects thereof, have been properly determined and disclosed in the Financial Statements. <p>A clean report cannot be given in the cases where:</p> <ol style="list-style-type: none"> i. Limitation on Scope: Limitation on scope of Auditor’s work may be imposed by the clients or imposed by circumstances. It may lead to situations where the Auditor may have to issue a Qualified Opinion or a Disclaimer of Opinion. ii. Disagreement with management: The Auditor may disagree with the Management as to - (a) the acceptability of the accounting policies selected, or the method of their application, (b) the adequacy of disclosure in the Financial Statements, or (c) the compliance of the Financial Statements with relevant regulations and statutory requirements. In such cases, he may have to give an Adverse Opinion or a Qualified Opinion. iii. Significant Uncertainty: If there is a significant uncertainty affecting the Financial Statements like Going Concern problem, litigation involving legal claims, etc. the Auditor may have to qualify his opinion or disclaim an opinion. <p>For issuing an Unqualified Audit Report, the Auditor has to satisfy himself that</p> <ol style="list-style-type: none"> i. Evidence: Reasonable evidence is obtained in support of transactions recorded in the books of account. ii. Standards: Accounting entries passed in the books of account are in conformity with the generally applicable accounting principles and Indian Accounting Standards followed consistently.

	<p>iii. True and Fair: The Financial Statements prepared represent a true and fair summary of the transactions that took place during the year.</p> <p>iv. Classification: The process of classification and aggregation followed in the preparation of the Financial Statements is fair and it does not hide a material fact nor does it highlight something, which may distort the real state of affairs.</p> <p>v. Format: The form of Financial Statements is in accordance with the form prescribed by law, if any.</p> <p>vi. Free of Misstatements: There are no material misstatements in the Financial Statements. No material transaction recorded in the books of account is illegal or beyond the legal competence of the Company.</p> <p>vii. Disclosure: All the disclosures statutorily required or otherwise relevant have been made appropriately.</p>
Modified Report (SA 750)	<p>When the Auditor issues any Report other than unqualified, his Report is said to be modified. It includes –</p> <p>i. Matters That Do Not Affect the Auditor’s Opinion - with Emphasis of Matter Paragraph.</p> <p>ii. Matters That Do Affect the Auditor’s Opinion viz:</p> <p>(a) Qualified Opinion, (b) Disclaimer of Opinion, and, (c) Adverse Opinion.</p>
Emphasis of matter – that do not affect auditor’s unqualified opinion	<p>The emphasis of matter paragraph does not affect the Auditor’s opinion. This paragraph would typically be inserted in the following situations:</p> <p>i. Going Concern Not Resolved: The Auditor should modify the Auditor’s Report where the going concern question is not resolved and adequate disclosures have been made in the Financial Statements.</p> <p>ii. Significant Uncertainty: The Auditor should consider modifying his Report by adding a paragraph if there is a significant uncertainty (other than going concern problem), the resolution of which is dependent upon future events and which may affect the Financial Statements. Eg. A pending legal suit against the company</p> <p>iii. Multiple Uncertainties: In case there are multiple future events which may affect the financial statements, an emphasis of matter may be used. However, in extreme cases, e.g. multiple uncertainties that are significant to the Financial Statements, the Auditor may consider it appropriate to express a Disclaimer of Opinion instead of adding an emphasis of matter paragraph.</p>
Qualified opinion	<p>➤ A Qualified Audit Report is one where an Auditor gives an opinion on the truth and fairness of Financial Statements, subject to certain reservations.</p> <p>➤ The impact of all reservations or qualification is not material enough / pervasive to vitiate the overall true and fair view of Financial Statements, but it is important that such a matter(s) should be brought to the attention of the shareholders. Eg. Limitation on scope of audit, disagreement with the management on some issue etc.</p> <p>➤ The Report should also give detailed reasons along with quantitative impact on the qualifications on Financial Statements</p>
Features of Qualified Opinion	<p>i. Clarity: The Auditor must express the nature of qualification, in a clear and unambiguous manner. The qualification should not be vague. like, ‘The debtors balances are subject to confirmation’, ‘No provision for taxation has been made in view of the loss during the year’, etc. should be avoided.</p> <p>ii. Explanation: Where the Auditor gives a qualification, his Report shall state the reasons for such qualification.</p> <p>iii. Quantification: The Auditors should quantify, wherever possible, the effect of these qualifications on the Financial Statements if the same is material. Where the effect of qualification cannot be accurately quantified, the Auditor may reflect the effect on the basis of Management estimates, after carrying out necessary audit tests on such estimates.</p>

	<p>iv. Placement: All qualifications should be contained in the Auditor's Report. When there are Notes, which are subject matter of a qualification, the same should preferably be annexed to the Auditors' Report.</p> <p>v. Subject to: The words "subject to" are essential to state any qualification. The qualification should be preceded by words such as "Subject to" or "Except that" to make it clear that he is making an exception.</p> <p>vi. Violation of Law: Any breach of law, should be brought to the notice of the shareholders by properly qualifying the report.</p> <p>vii. Notes-Report Relationship: Where notes of a qualificatory nature appear in the accounts, the Auditors should state all qualifications independently in their report so that the user can assess the significance of these qualifications.</p> <p>viii. Draft Report: The Auditor may discuss matters of qualification with the Management of the Company to acquire their views and accordingly draft the qualifications in his Final Report</p>
Adverse Or Negative Report	<p>i. An Adverse or Negative Report is given when the Auditor does not agree with the affirmations / assertions made in the Financial Statements / Financial Report.</p> <p>ii. The Auditor states that the Financial Statements do not present a true and fair view of the state of affairs and the working results of the organisation.</p> <p>iii. The Auditor should state the reasons for issuing such a report.</p> <p>iv. An Adverse Opinion should be expressed when the effect of the misstatement / disagreement is material and pervasive to the Financial Statements.</p>
Disclaimer of opinion	<p>A Disclaimer of Opinion Report is given when the Auditor is unable to form an overall opinion about the matters contained in the Financial Statements.</p> <p>It may happen in situations such as –</p> <p>(a) when books of account of the Company seized by Income-Tax Authorities,</p> <p>(b) when it is not possible for the Auditor to obtain certain information or</p> <p>(c) when scope of audit work is restricted / limited to an extent that the Auditor has not been able to obtain sufficient appropriate audit evidence.</p> <p>The Auditor will state in his Report that he is unable to form an opinion on the Financial Statements. Such Report is called as "Disclaimer of Opinion Report".</p>
Piecemeal Opinion	<p>The Auditor, may in some cases, find that the Financial Statements he has examined present only a partial true and fair view. In such cases, he may report that he is unable to express an opinion, limited to certain items in the statement, with which he is satisfied. Such a situation would warrant a Piecemeal Opinion.</p> <p>In such a case, the Auditor gives a divided opinion on matters with which he is satisfied and with which he is not. The Auditor should state the reasons for having given a Piecemeal Opinion.</p>

Class Notes		
Distinction between Qualified report and adverse report	Qualified Report	Adverse Report
	A Qualified Audit Report is one where an Auditor gives an opinion subject to certain reservations.	An Adverse Report is given when the concludes that based on his examination, he does not agree with the affirmations / assertions made in the Financial Statements / Financial Report.
	The Auditor states that the Financial Statements present a true and fair view. The Auditor's reservation is generally Stated as: "Subject to the above, we report that the Balance Sheet shows a true and fair view."	The Auditor states that the Financial Statements do not present a true and fair view of the state of affairs and working results of the organisation.
	A Qualification is made in the Audit Report when the Auditor has reservation on specific item(s) of material nature.	An Adverse Report is given when the Auditor has his reservations on the true and fair view presented by the Financial Statements.
Distinction between clean report and qualified report	Clean Audit Report	Qualified Audit Report
	The Auditor issues a Clean Report (also called as unconditional / unqualified opinion) when he does not have any reservation with regard to the matters contained in the Financial Statements.	A Qualified Audit Report is one where an Auditor gives an opinion subject to certain reservations.
	In a Clean Report, the Auditor states that the Financial Statements give a true and fair view of the state of affairs and results for the period.	The Auditor's reservation is generally stated as - "Subject to the above, we report that the Balance Sheet shows a true and fair view."
	There is no specific duty of Management for Clean Reports.	Management is bound to give explanation & full details in respect of each qualification in the Auditors Report. [Section 134]
Significance of the phase 'to the best of our Information and	Generally every Auditors' Reports starts with the following line: <i>'to the best of our Information and according to the explanations given to us'</i> There are following two interpretations of this line:	

<p><i>according to the explanations given to us'</i></p>	<p>1) Narrow Interpretation: Auditors will not be held responsible if they acted on information and explanations supplied by the management, which they believe to be true. To that extent this phrase restricts the scope of enquiry to be made by an Auditor.</p> <p>2) Broad Interpretation: the Auditor should obtain all information and explanations, which he deems necessary, for the expression of an opinion. If he does not obtain all such information, he is entitled to issue a Disclaimer of Opinion Report. The Auditors should apply professional judgment to obtain all that information and explanations, which are necessary for the performance of conducting the audit.</p> <p>Conclusion: Hence, the given phrase is a double-edged sword, which may be interpreted either to restrict the scope of enquiry or to stretch responsibilities beyond a limit.</p>
<p>Enquiry u/s 143(1) and explanation from the management</p>	<p>Auditor has the right to obtain all information and explanations necessary to conduct the audit. Where the Auditor has not been able to obtain all information and explanations as required he should issue a Modified Audit Report (i.e. other than an Unqualified Report)</p> <p>The auditor should usually enquire about the following aspects:</p> <ol style="list-style-type: none"> whether loans and advances have been made on the basis of adequate security and whether the terms on which they have been made are prejudicial to the interests of the company or its members; whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company; Whether the assets / investments of the company as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company; whether loans and advances made by the company have been shown as deposits; whether personal expenses have been charged to revenue account;
<p>Duties of statutory auditor with respect to the Branch audit report</p>	<p>Where the audit of the branch of the Company is carried out by a person other than the Statutory Auditor, the Branch Auditor shall prepare a report on the accounts of the branch office examined by him and forward the same to the Company's Auditor [Section 143]</p> <p>If the Branch Auditor's Report contains any qualification, the Statutory Auditors should include it in their own report unless they are satisfied that either</p> <ol style="list-style-type: none"> Objections raised by the Branch Auditor have been met while preparing the main Company's accounts, or The matter on which the qualification is made is not material in the context of the Company's Accounts as a whole, or The statutory auditor have received sufficient and appropriate information and explanations, which were not available to the Branch Auditor, and that the statutory auditor is satisfied that the qualification is not called for.
<p>Class Notes</p>	
<p>Companies (Auditor's Report) Order, 2016</p>	<p>The CARO, 2016 is an order issued by the Central Government as per the power granted under section 143(11) of the Companies Act, 2013. CARO states some additional reporting requirements. It contains 16 matters on which the auditor has to provide its comments.</p> <p>The Order is applicable to every company except for:</p>

[CARO, 2016]	<p>a) a banking company [section 5(c) of the Banking Regulation Act, 1949]; b) an insurance company [Insurance Act, 1938]; c) a company licensed to operate under section 8 of the Companies Act; d) a One Person Company [section 2(62) of the Companies Act]; e) a small company [section 2(85) of the Companies Act]; and f) a private limited company, having a paid up capital and reserves and surplus of Rs. 1 crore or less as on the balance sheet date and which has total borrowings less than Rs. 1 crore from any bank or financial institution at any point of time during the financial year and which does has a total revenue as (including revenue from discontinuing operations) Rs. 10 crore or less during the financial year.</p> <p><i>Note 1: The Order will be applicable to a private company which is a subsidiary or holding company of a public company, irrespective of the above monetary thresholds</i> <i>Note 2: Order shall not be applicable to the auditor's report on consolidated financial statements.</i></p>
Test Your Knowledge	<p>Case Study: Ashu Pvt. Ltd. has fully paid capital and reserves of Rs. 50 lakh. During the year, the company had borrowed Rs. 70 lakh each from a bank and a financial institution independently. It has the turnover of Rs. 900 lakh.</p> <p>Analysis: In the given case of Ashu Pvt. Ltd., it has paid capital and reserves of Rs. 50 lakh i.e. less than crore, turnover of Rs. 9 crore i.e. less than Rs. 10 crore. However, it has maximum outstanding borrowings of Rs. 1.40 crore (Rs. 70 lakh + Rs. 70 lakh) collectively from bank and financial institution. Therefore, it fails to fulfill the condition relating to borrowings.</p> <p>Conclusion: Thus, CARO, 2016 shall be applicable to Ashu Pvt. Ltd. accordingly.</p>
Matters to be included in the Auditor's Report as per CARO (prescribed in para 3 of the CARO)	<p>1) Fixed Assets</p> <ul style="list-style-type: none"> - Whether the company has made proper records including – a) Quantitative details and b) situation of fixed assets - Whether the assets have been physically verified by management at reasonable intervals - Whether the title deeds of immovable properties are held in the name of the company. <p>2) Inventory - Whether the inventories have been physically verified by management at reasonable intervals</p> <p>3) Loans and advances granted to entities covered in the register maintained under section 189 of the Companies Act, 2013 (ie. entities in which the directors are interested)</p> <ul style="list-style-type: none"> - Whether the terms and conditions of the grant of such loans are not prejudicial to the company's interest; - Whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular; - if the amount is overdue, state the total amount overdue for more than ninety days, and whether reasonable steps have been taken by the company for recovery of the principal and interest <p>4) Loans, investment, guarantees and security given by the Company - in respect of loans, investments, guarantees, and security whether provisions of section 185 and 186 of the Companies Act, 2013 have been complied with.</p> <p>5) In case the company has accepted deposits, whether the directives issued by the Reserve Bank of India and the applicable provisions of sections of the Companies Act, have been complied with?</p> <p>6) Where maintenance of Cost records has been specified by the Central Government under sub-section (1) of section 148 of the Companies Act, 2013 and whether such accounts and records have been so made and maintained.</p> <p>7) Statutory dues</p> <ul style="list-style-type: none"> - whether the company is regular in depositing undisputed statutory dues (including provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty

	<p>of customs, duty of excise, value added tax, cess etc) and if not, the extent of the arrears of outstanding statutory dues as at the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated;</p> <ul style="list-style-type: none"> - where dues of income tax or sales tax or service tax or duty of customs or duty of excise or value added tax have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned. (A mere representation to the concerned Department shall not constitute a dispute).
	<p>8) Loans or borrowings</p> <ul style="list-style-type: none"> - Whether the company has defaulted in repayment of loans or borrowing from a financial institution, bank, Government or dues to debenture holders - If yes, lender-wise details of the period and the amount of default is to be reported
	<p>9) Initial Public Offer (IPO) or further public offer or term loan</p> <ul style="list-style-type: none"> - Whether the amounts raised by way of IPO or further public offer or term loan were applied for the purposes for which those are raised - If not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported
	<p>10) Fraud</p> <ul style="list-style-type: none"> - whether any fraud by the company or any fraud on the Company by its officers or employees has been noticed or reported during the year; - If yes, the nature and the amount involved is to be indicated
	<p>11) Managerial Remuneration</p> <ul style="list-style-type: none"> - Whether managerial remuneration has been paid or provided in accordance with the requisite approvals mandated by the provisions of section 197 read with Schedule V to the Companies Act, 2013? - If not, state the amount involved and steps taken by the company for securing refund of the same
	<p>12) Nidhi Company</p> <ul style="list-style-type: none"> - Whether the Nidhi Company has complied with the Net Owned Funds to Deposits in the ratio of 1:20 to meet out the liability and whether the Nidhi Company is maintaining ten per cent unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability
	<p>13) Transactions with related parties</p> <ul style="list-style-type: none"> - Whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act, 2013 where applicable and the details have been disclosed in the Financial Statements etc., as required by the applicable accounting standards
	<p>14) Preferential allotment or private placement of shares</p> <ul style="list-style-type: none"> - whether the company has made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year under review and if so, as to whether the requirement of section 42 of the Companies Act, 2013 have been complied with and the amount raised have been used for the purposes for which the funds were raised. - If not, provide the details in respect of the amount involved and nature of non-compliance;
	<p>15) Non-cash transactions</p> <ul style="list-style-type: none"> - whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of Companies Act, 2013 have been complied with
	<p>16) Registration with RBI Whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 and if so, whether the registration has been obtained.</p>
Some miscellaneous	<p>➤ If any material discrepancy is noted in respect to above aspects, it is to be reported by the auditor in the respective clauses of CARO</p>

points on CARO	<ul style="list-style-type: none"> ➤ The auditor shall also state the basis for such unfavourable or qualified answer, as the case may be. ➤ where the auditor is unable to express any opinion on any specified matter, his report shall indicate such fact together with the reasons why it is not possible for him to give his opinion on the same
Test your knowledge	<p>Case Study: Rolls Royce Ltd. has dispensed with the practice of taking inventory of their inventories at the year-end as in their opinion the exercise is redundant, time consuming and intrusion to normal functioning of the operations. Explain reporting requirement under CARO, 2016.</p> <p>Analysis: Clause (ii) of Para 3 of CARO, 2016, requires the auditor to report whether physical verification of inventory has been conducted at reasonable intervals by the management and whether any material discrepancies were noticed and if so, whether they have been properly dealt with in the books of account. The physical verification of inventory is the responsibility of the management of the company which should verify all material items at least once in a year and more often in appropriate cases.</p> <p>Conclusion: In the given case, the above requirement of physical verification of inventory by the management has not been taken place and therefore the auditor should point out the same under CARO, 2016. He may consider the impact on financial statement and report accordingly.</p>
Auditor's report on revised accounts of companies before circulation to shareholders	<p>There may be instances, where the Management of a Company amends its audited accounts, and re-approves it and then requests the Statutory Auditors to make a Report once again on the amended accounts.</p> <p>The Auditors' duties in this regard are enumerated below;</p> <ol style="list-style-type: none"> i. Return: Ensure that all copies of the Original Accounts and Report are returned to the Auditor. ii. Disclosure: Ensure that the fact of Revision of accounts already approved by the Board and reported upon by the Statutory Auditors, appears as a specific Note on the amended accounts. iii. Reporting: Reporting requirements are as under <ul style="list-style-type: none"> - Adequate Disclosure: If the Statutory Auditor is satisfied that the disclosure made by the Company in the Notes on Accounts is adequate, there is no further need for the Auditor to refer to the revision of the Balance Sheet and/ or the Profit and Loss Account in his report. - Inadequate Disclosure: If the Notes on Accounts do not contain any note on the revision or if such Note is not considered as adequately comprehensive by the Auditor, the Auditor should refer to the fact of revision of the accounts in his report. The above principles are also applicable to the audit of Government Companies.
Class Notes	
Revision/rectification of financial statements after they	<ul style="list-style-type: none"> ➤ As per the opinion of the Institute of Chartered Accountants of India, Audit Report may only be revised till the accounts are adopted at the AGM. For entities where such adoption is not required, the Auditor may consider revising the Audit Report within a reasonable time, but in any case not later than the issuance of the Audit Report for the immediately succeeding accounting period.

have been adopted in the AGM	<ul style="list-style-type: none"> ➤ Still, where past accounts have been re-opened and revised on technical grounds, and the Company has asked the Auditor to give his report u/s 143 on the revised accounts, he should issue a Qualified Report only. The Report should indicate that the Company has re-opened the accounts. ➤ the Auditor should - (i) issue a Revised Report in which he should refer to the earlier report, and (ii) state the reasons for revising the report. ➤ Preventing Reliance on Earlier Report: If the management neither agrees to revise the Financial Statements nor agrees to circulate the proposed Revised Audit Report to the recipients of the earlier report, the Auditor should notify the persons ultimately responsible for the overall direction of the entity that action will be taken by him to prevent reliance on the Audit Report. ➤ The Auditor may take the following steps in this regard <ul style="list-style-type: none"> - Notify the client that the Audit Report must no longer be associated with the Financial Statements. - Notify the regulatory agencies (ROC / Income Tax Department / SEBI / RBI / IRDA etc.) having jurisdiction over the client that the Audit Report should be no longer be relied upon. - Make an appropriate statement at the AGM, if requested by the Chairman. - In extreme situations, the Auditor may conclude that withdrawal from the further engagement with the entity is necessary. ➤ Where a Firm is the Auditor, the Partner who signed the Original Audit Report, should also sign the Revised Report or the letter indicating preventing reliance on the Audit Report, as the case may be. In case of signing by any other Partner, the reasons thereof should be stated.
Class Notes	
Audit of abridged financial statement	<p>Abridged Financial Statements are Condensed Financial Statements that cover a full accounting period but omit detailed financial information. The auditor should ensure the following:</p> <ul style="list-style-type: none"> ➤ the requirements relating to Abridged Balance Sheet and Abridged Profit & Loss Account as laid down in Section 136 (Right of members to copies of financial statements) of the Companies Act, 2013 have been duly complied with. ➤ If the Audit Report on Abridged Financial Statements is issued on a date subsequent to the issuance of the Audit Report on Annual Accounts as per Schedule III, the Auditor should check the events occurring after the Balance Sheet date. ➤ The Auditor should express a Qualified Opinion or an Adverse Opinion, as appropriate, if he has certain reservations about the Abridged Financial Statements, e.g. if a material piece of information has not been disclosed in the Abridged Financial Statements or has been disclosed in an inappropriate manner.
Class Notes	

Provision for proposed dividend	<ul style="list-style-type: none"> ➤ When a Company does not provide for an amount for Proposed Dividend, the attention of Shareholders should be drawn to the fact that no appropriation has been made. ➤ The fact that provision for Proposed Dividend has not been made should be disclosed by means of a Note in the Accounts. ➤ The Auditor should refer to the Note in his Report and make his Report subject thereto.
Accounts of liquidators / Report u/s 348 of Companies Act, 2013	<p>As per the provisions of Section 348 of the Companies Act, 2013, if the winding up of a company is not concluded within one year after its commencement, the Company Liquidator shall, file a statement containing such particulars as may be prescribed, duly audited, by a person qualified to act as auditor of the company, with respect to the proceedings in, and position of, the liquidation, with the Tribunal.</p> <p>The Auditor's Report should consider the following:</p> <ul style="list-style-type: none"> ➤ Whether he has obtained all the information and explanations, which to the best of his knowledge and belief, were necessary for the purposes of his audit, ➤ Whether in his opinion, proper books of account as required by the Companies Act, 2013 and Companies (Court) Rules, 1959 have been kept by the Liquidator, so far as appears from his examination of these books, ➤ Whether the Liquidator's Account relating to realisations and disbursements is in agreement with the books and records produced before him, ➤ Whether in his opinion, the Liquidator's Account including Annexures give the information required by the Companies Act, 2013, and the Companies (Court) Rules, 1959 in the manner so required and give a true and correct view of the realisations and disbursements of the Liquidator. <p>CA as Liquidator: When a Chartered Accountant acts as a Liquidator, the Statements of Accounts to be filed u/s 348 of the Companies Act, 2013, shall be audited by a Qualified Chartered Accountant, other than the Liquidator Chartered Accountant</p>
Class Notes	
Contribution to Political Party / Political Purpose (section 182)	<p>Contribution to Political parties include:</p> <ol style="list-style-type: none"> a. Contribution made directly to a Political Party whether in cash or in other form. b. Expenditure incurred, either directly connected with elections or otherwise for a political purpose such as : <ul style="list-style-type: none"> - Advertisement, printing and distribution of posters, Souvenir, Brochure, Tract, and leaflets, - remuneration to employees (during elections or otherwise) - making available vehicles of the Company free of cost or at concessional rates c. Contribution made directly to a political party for running an educational institution or for undertaking philanthropic activities. d. Donation to a Trust, Society or Association if the Trust, Society, or Association has any political objectives or has been formed for any political purpose. <p>Conditions for contribution to Political Party / Political Purpose:</p> <ol style="list-style-type: none"> a. The Board should pass a resolution authorizing such contribution. b. The aggregate of the amount contributed in any financial year should not exceed 7.5% of the average net profits during three immediately preceding financial years.

	<p>Disclosure: Every Company should disclose in its P&L Account, the amount contributed by it during the financial year to any political party or for any political purpose, giving the particulars of the name of the recipient party or person.</p> <p>Auditor's Duties:</p> <ul style="list-style-type: none"> ➤ The Auditor should verify that the political contribution has not been made in excess of the limit prescribed. ➤ He should also check whether adequate disclosures have been made in the FS regarding this. ➤ If the Auditor is in doubt about applicability of Section 182, he should disclose this fact in his report. ➤ The Auditor should obtain a certificate from the Board stating – a) That all amounts of contributions to Political Parties have been properly recorded; b) No amounts of such nature other than those so included in the books have been paid / given directly or indirectly. ➤ Auditor should report any instances of mis-compliance with these provisions, if any in the audit report.
<p>Audit of consolidated financial statements (CFS)</p>	<p>Consolidated financial statements are prepared for a group of enterprises which are under the sole control of a parent enterprise.</p> <p>Company's responsibility on CFS:</p> <ol style="list-style-type: none"> a. Identifying the components like subsidiaries, joint ventures and associates to be included in the Consolidated Financial Statements b. Identifying reportable segments for segmental reporting, c. Identifying related parties and related party transactions for reporting, d. Obtaining accurate and complete financial information from components, and e. Making appropriate consolidation adjustments. <p>Auditor's Duties:</p> <ul style="list-style-type: none"> ➤ To ensure that all relevant Subsidiaries, Associates and Joint Ventures (JVs) have been included. This may be evident from the working papers for the prior years for known Subsidiaries, Associates and JVs, ➤ To verify the investments made, to determine the shareholding in other entities, Joint Ventures and other relevant agreements entered into by the Parent, ➤ To verify the Statutory records maintained by the Parent, e.g. Registers u/s 190 / 186. ➤ The control of the composition of the Board of Directors/ Governing Body of an enterprise also results in a Parent-Subsidiary Relationship, the Auditor should examine the minutes of Board Meetings, Shareholder Agreements with entities to which technology or know-how might have been provided, etc. ➤ Where a Subsidiary/ Associate /Jointly Controlled Entity is excluded from the CFS, the Auditor should examine the reasons for the exclusion. ➤ The Auditor should review whether the procedures and disclosure requirements laid down by the relevant AS / IndAS have been followed, in preparing the CFS. ➤ Verify that the gross amounts of Goodwill and Capital Reserve have also been disclosed, if such Goodwill arising in respect of one Subsidiary is set-off against Capital Reserve arising in respect of another. ➤ The auditor should also verify the following intra-group adjustments: <ul style="list-style-type: none"> - Intra-group interest paid and received, or management fees, etc. - intra-group profits on assets acquired from other Subsidiaries. - Intra-group indebtedness. - Adjustments related to harmonising the different accounting policies being followed by the Parent enterprise and its Subsidiaries. - Adjustments made for the effects of significant transactions or other events that occur between the date of the Financial Statements of the Parent and one or

	<p>more of the components, if the Financial Statements to be used for consolidation are not drawn up to the same reporting date; and</p> <ul style="list-style-type: none"> - Determination of movement in equity attributable to the minorities since the date of acquisition of the Subsidiary. 		
Class Notes			
Difference between Audit Report and Audit Certificate	Basis	Audit Report	Audit Certificate
	Meaning	Audit Report is a statement of collected and considered information so as to give a clear picture of the state of affairs of the business to the persons who are not in possession of the full facts.	While Audit Certificate is a written confirmation of the accuracy of the information stated there in.
	Opinion	Audit Report contains the opinion of the auditor on the accounts	While Audit Certificate does not contain any opinion but only confirms the accuracy of the figures with the books of accounts.
	Basis	Audit Report is made out on the basis of information obtained & books of account verified by the auditor	While Audit Certificate is made out on the basis of the particular data capable of verification as regards accuracy.
	guarantee	Audit Report may not guarantee correctness of financial statement in absolute terms	While Audit Certificate guarantees absolute correctness of the figures & information mentioned in the certificate.
	Coverage	Audit Report always covers entire accounts of the concern,	While Audit Certificate covers only certain part of the accounts of the concern.
	Responsibility	Audit Report does not hold auditor responsible for anything wrong in the accounts,	While Audit Certificate makes an auditor responsible if anything mentioned in the certificate found as wrong later on.
	Suggestion	Audit Report may provide certain suggestions for improvement	While Audit certificate does not provide any such suggestion
Nature	Audit Report is based on the vouching & verification of books of accounts, voucher, assets & liabilities,	while Audit Certificate is based on checking arithmetical accuracy of the facts.	

Scope	Audit Report covers all transactions done during the year,	while the Audit Certificate is very specific.
Characteristics	Audit Report is subjective as it is opinion oriented,	while Audit certificate is objective as it is fact oriented.
Form	Audit Report is required to be presented in the prescribed format,	while Audit Certificate, except in few cases, is not required to be presented in any standard format.
Address	Audit report is addressed to the members of the company at large or appointing authority	while Audit Certificate is addressed to particular person or sometimes may include the words like "To Whomsoever it may concern".

Important Questions – Reporting requirements under the Companies Act

Q.1	Distinguish between Qualified Report and Adverse Report of the auditor. [Dec 2013, June 2017 – 4 marks]
Q.2	Distinguish between Audit report and audit certificate. [Dec 2014, Dec 2015, Dec 2016, June 2018 – 7 marks]
Q.3	Tabulate the differences between Clean Audit Report and Qualified Audit Report. [Jun 2015, June 2016 – 7 marks]
Q.4	Enumerate the contents / elements of the good audit report. [Dec 2008, Dec 2017 – 8 marks]
Q.5	In course of audit, the auditor advised to amend the Profit and loss account which was faulty but the directors did not follow his advice. As an auditor what should you do? [Dec 2009 – 2 marks] As an auditor, I would qualify my report and state that financial statements do not represent true and fair view of the state of affair of the company. I would also mention what is wrong in the profit and loss account and what it should actually be. I will also quantify the incorrectness and justify my stand on the issue.
Q.6	Under what circumstances, Auditor has to qualify his report. [June 2010, June 2011 – 4 marks] Or What is a qualified Audit Report? Discuss the circumstances when an Auditor shall qualify his report. [Dec 2018 (2+4=6)] Some situations calling for qualifications in Audit Reports are <ul style="list-style-type: none"> i. Where the Auditors are unable to obtain all the information and explanations which they consider necessary for the purposes of their audit, e.g. <ul style="list-style-type: none"> (a) Absence of satisfactory documentary evidence of the existence of ownership of the material assets, such as, title deeds in respect of land, (b) Absence of vouchers in respect of material payments made by the Company, (c) Destruction of books and records by fire or accident, (d) Non-availability of books and records owing to unavoidable circumstances, such as books and records of a foreign branch with which no communication is possible. ii. Where proper books of accounts have not been kept in accordance with the law.

- iii. Where the Balance Sheet and P&L Account are not in agreement with the books of account and returns.
- iv. When the information required by law is not furnished.
- v. When the accounts do not disclose a true and fair view like
 - (a) Where the accounting practices followed by the Company are not considered appropriate to the circumstances and nature of the business e.g. treatment of HP Sales as outright sales,
 - (b) Where there has been a change in accounting principles or procedures in relation to material items, such, valuation of stock, depreciation, treatment of by-product cost, etc. without adequate explanation and disclosure of effect of the change,
 - (c) Where difference of opinion with management has arisen regarding valuation or realisability of assets, such as Stock-in-Trade, Debtors, Loans & Advances or the extent of liabilities, contingent or otherwise,
 - (d) Where income or expenditure is not properly reflected so as to show a fair figure of profit for the year,
 - (e) Where information is not required by law to be disclosed but the disclosure of which is considered essential by the Auditors in order to show a true and fair view,
 - (f) Where there is a contravention of the provisions of the Companies Act having a bearing upon the accounts and transactions of the Company e.g. donations to political parties or for political purposes in contravention of Section 182, or contributions to charitable or other funds in excess of the limitation specified in Section 181;
 - (g) Where the Company has contravened the provisions of its Memorandum and Articles of Association.

Q.7 State the parameters to be satisfied for issuing unqualified audit report. [Dec 2013 – 4 marks]

An unqualified audit report could be issued when the following parameters are met:

- (a) Evidence: Reasonable evidence is obtained in support of transactions recorded in the books of account.
- (b) Standards: Accounting entries passed in the books of account are in conformity with the generally applicable accounting principles and Accounting standards followed consistently.
- (c) True and Fair: The financial statements prepared represent a true and fair summary of the transactions that took place during the year.
- (d) Classification: The process of classification and aggregation followed in the preparation of the financial statements is fair and it does not hide a material fact nor does it highlight something, which may distort the real state of affairs.
- (e) Format: The form of financial statement is in accordance with the form prescribed by law, if any.
- (f) Free of misstatements: There are no material misstatements in the financial statements. No material transaction recorded in the books of account is illegal or beyond the legal competence of the company.

Q.8 Proposed dividend was not adjusted in the financial statements. Comment [June 2012 – 2 marks]

Proposed dividend by Directors should be disclosed in the financial statements as per the requirement of Schedule III of the Companies Act, 2013. Though proposed dividend is subject to the approval of the shareholder, it should be disclosed in the Profit and Loss appropriation account. When a Company does not provide for an amount for Proposed Dividend, auditor should take the following steps:

- The fact that provision for Proposed Dividend has not been made should be disclosed by means of a Note in the Accounts.
- The Auditor should refer to the Note in his Report and make his Report subject thereto.

Q.9	Disclaimer of Opinion and Adverse Report do not serve the same purpose. Comment [June 2019 – 5 marks]
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Key points to remember

Audit report	<ul style="list-style-type: none"> ✓ A statement of observation where the auditor expresses his opinion on the financial statements
Importance of audit report	<ul style="list-style-type: none"> ✓ It is the concluding part of the audit ✓ It gives opinion of the auditor ✓ It reflects the work done by the auditor ✓ It records the auditor's responsibility ✓ Indicates the real position of financial status of the company
Basic elements of audit report	<ul style="list-style-type: none"> ✓ Elements of audit report are:- <ul style="list-style-type: none"> • <i>Title</i> – Auditor's report • <i>Addressee</i> - Authority who appointed the auditor • <i>Opening paragraph</i> – Identifies the name of the entity, period covered under audit, responsibility of auditor • <i>Scope paragraph</i> – describes the relevant law and standards under which the audit is performed • <i>Opinion paragraph</i> – contains the opinion of the auditor, ie whether true and fair view or not • <i>Date of the report; Place of Signature of the auditor; Auditor's signature, auditor's membership number</i>
Types of auditor's report	<ul style="list-style-type: none"> ✓ <i>Clean / Unqualified Report</i> – Financial statements gives a true and fair view ✓ <i>Emphasis of matter</i> – Financial statement gives a true and fair view but some issues related to future have been highlighted by the auditors ✓ <i>Qualified report</i> – Financial statement gives a true and fair view but some issues related to current financial year have been highlighted by the auditors ✓ <i>Adverse report</i> – Financial statement do not give a true and fair view, owing to certain material misstatements ✓ <i>Disclaimer of opinion</i> - No opinion is expressed by the auditor on all the items of Financial Statements ✓ <i>Piecemeal Opinion</i> - No opinion is expressed by the auditor on some items of Financial Statements
Date of Auditors report	<ul style="list-style-type: none"> ✓ The date of auditors report should be the date of completion of audit ✓ Events occurring after the date of auditors report is not the responsibility of the auditor ✓ The date of auditors report should be equal to or a later date than the date of signing of financial statements by the company's signatories.
Companies (Auditor's Report) Order, 2016 (CARO)	<ul style="list-style-type: none"> ✓ According to this order, the auditor is required to report / comment on the 16 specified matters in the auditors report, after his examination of the accounts
Applicability of CARO	<p>CARO is applicable to all the companies except for the following companies:</p> <ul style="list-style-type: none"> ✓ Banking company

	<ul style="list-style-type: none"> ✓ Insurance company ✓ Companies with charitable / philanthropic objectives like NGOs (registered under section 8 of the Companies Act) ✓ One person company ✓ small company ✓ private company having: <ul style="list-style-type: none"> • a paid up capital and reserves of not more than INR 1 crore; and • total borrowings of not more than INR 1 crore; and • total revenue of not more than INR 10 crore
Revision of accounts before adoption in the AGM	<ul style="list-style-type: none"> ✓ In case there is a revision in the accounts, after the audit has been completed, but before the audited financials have been circulated to the shareholders, the auditor may re-audit the revised financials subject to the following conditions: <ul style="list-style-type: none"> • Recover the signed copies of the original accounts and auditors report back from the company • Ensure that adequate disclosure, in regard to amendment, is there in the revised financials • Issue a fresh report on the revised financial statements in which auditor should refer to the earlier financials and the report • The Partner who signed the Original Audit Report, should also sign the Revised Report. In case of signing by any other Partner, the reasons thereof should be stated.
Audit of abridged financial statement (Section 136)	<ul style="list-style-type: none"> ✓ Abridged financial statements are the shortened version of the detailed financial statements. ✓ These are prepared in addition detailed Annual accounts for ease of understandability and reference of the shareholders. ✓ If they are prepared after the date of signing of the Annual accounts, the events occurring between the date of sign of annual accounts and abridged accounts is not the auditors responsibility
Accounts of liquidators (section 138)	<ul style="list-style-type: none"> ✓ Audit of a liquidator is conducted on similar lines as any other company ✓ Auditor should ensure that the Liquidator's Account (ie. realisations and disbursements) is in agreement with the books and records ✓ Auditor should ensure that the Liquidator's Account give a true and correct view of the realisations and disbursements of the Liquidator. ✓ When a Chartered Accountant acts as a Liquidator, the Statements of Accounts to be filed u/s 348 of the Companies Act, 2013, shall be audited by a Qualified Chartered Accountant, other than the Liquidator Chartered Accountant.
Audit of consolidated financial statements (CFS)	<ul style="list-style-type: none"> ✓ To ensure that all the subsidiaries, joint ventures and associates have been included in the CFS. ✓ To ensure that the accounts of such entities whose composition of Board of Directors is controlled by the Company is also included in the CFS ✓ Where a Subsidiary / Associate /Jointly Controlled Entity is excluded from the CFS, the Auditor should examine the reasons for the exclusion ✓ To ensure that the adjustments of goodwill / capital reserve have been suitably carried out

	<ul style="list-style-type: none"> ✓ To ensure that intra-group transactions, like intra-group indebtedness, management fees / interest paid, have been appropriately set off in the CFS ✓ To ensure that the equity attributable to the minority interest is determined properly 																		
Audit certificate	<ul style="list-style-type: none"> ✓ Unlike the auditor's report, an audit certificate gives a confirmation on the accuracy of certain information. Following is the comparison between the two: <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Audit Report</th> <th style="text-align: left;">Audit Certificate</th> </tr> </thead> <tbody> <tr> <td>Opinion on the financial statements. It is subjective</td> <td>Confirmation on the accuracy of certain information / fact. It is objective</td> </tr> <tr> <td>It doesn't guarantee correctness of financial statements</td> <td>It guarantees absolute correctness of the concerned fact / information</td> </tr> <tr> <td>It covers entire accounts / financial statements</td> <td>It covers a certain part of the accounts / financial statement</td> </tr> <tr> <td>It doesn't hold the auditor responsible for anything wrong in the accounts</td> <td>It holds the auditor responsible for anything wrong in the accounts</td> </tr> <tr> <td>It may provide suggestions for improvement</td> <td>It doesn't provide suggestions for improvement</td> </tr> <tr> <td>It covers all the transactions done during the year</td> <td>It covers very specific transactions</td> </tr> <tr> <td>Issued in the specified format</td> <td>There is no standard format</td> </tr> <tr> <td>It is addressed to the members</td> <td>It is addressed to particular person or sometimes may include the words like "To Whomsoever it may concern".</td> </tr> </tbody> </table>	Audit Report	Audit Certificate	Opinion on the financial statements. It is subjective	Confirmation on the accuracy of certain information / fact. It is objective	It doesn't guarantee correctness of financial statements	It guarantees absolute correctness of the concerned fact / information	It covers entire accounts / financial statements	It covers a certain part of the accounts / financial statement	It doesn't hold the auditor responsible for anything wrong in the accounts	It holds the auditor responsible for anything wrong in the accounts	It may provide suggestions for improvement	It doesn't provide suggestions for improvement	It covers all the transactions done during the year	It covers very specific transactions	Issued in the specified format	There is no standard format	It is addressed to the members	It is addressed to particular person or sometimes may include the words like "To Whomsoever it may concern".
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Summary chart on types of Auditor's report

A. Report with opinion

S.No.	Type of report	True & fair view	Issues are there in current financials	Issues are there in future period* but they do not impact the current financials
1	Unqualified Report	Yes	No	No
2	Emphasis of matter	Yes	No	Yes
3	Qualified Report	Yes	Yes, not pervasive	Yes / No
4	Adverse Report	No	Yes, pervasive	Yes / No

*Examples of future issues are – going concern, significant uncertainty due to probable future events

B. Reports without opinion

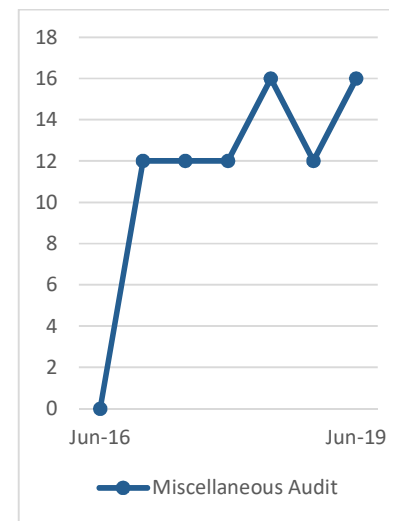
S.No.	Type of report	Description
5	Disclaimer of Opinion	No opinion is expressed by the auditor on all the items of Financial Statements
6	Piecemeal Opinion	No opinion is expressed by the auditor on some items of Financial Statements

Audit Report specified in Sl. No. 2 to 6 are known as Modified Opinion / Modified Report.

Chapter 7 – Miscellaneous audit


Chapter at a Glance

Branch Audit	Meaning, Separate auditor, duties and power
Joint Audit	Meaning, advantage, disadvantage, responsibility sharing
Audit of Shares and Debentures	Allotment of shares, alteration of share capital, bonus shares, buy-back of shares, splitting of shares, share transfer, re-issue of forfeited shares Issue of debentures, interest on debentures, redemption of debentures, debentures issued as collateral security
Audit of dividends	Declaration of dividend (final and interim), Unpaid dividend, Investor's education and protection fund
Other Audits	Audit of inventories, fixed assets, educational institution, hospital, co-operative society, bank, trust, municipality and panchayat



Branch Audit	<p>“Branch office”, in relation to a company, means any establishment described as such by the company - section 2(14) of the Act.</p> <ol style="list-style-type: none"> Where a company has a branch office, the accounts of that office shall be audited either by the company's auditor or by any other person qualified for appointment as an auditor of the company under section 139 of the 2013 Act. Foreign branch offices - Where the branch office is situated outside India, the accounts of the branch office shall be audited either by the company's auditor or by an accountant or by any other person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of that country. The duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor, if any, shall be as may be prescribed. The branch auditor shall prepare a report on the accounts of the branch examined by him and send it to the company's auditor. The company's auditor shall deal with the report of branch auditor in his report in such manner as he considers necessary. Duties and powers of company's auditor (main auditor) with reference audit of branch and branch auditor shall be as contained in section 143(1) to 143(4) of the 2013 Act. Thus, the company's auditor is responsible even if branch auditor is appointed. Branch auditor's responsibility to report fraud - Responsibility to report fraud, as applicable to company's auditor applies to branch auditor.
Joint Audit	<p>The practice of appointing more than one persons or firm of Chartered Accountants for conducting the audit of an entity (especially big organisations) is known as joint audit.</p> <p>Advantages of Joint Audit:</p> <ol style="list-style-type: none"> Distribution of audit areas. Hence, lower workload Timely completion of work, specially in large organisations having multiplicity of transactions per year Sharing of expertise of two or more professionally qualified and experienced Auditors Improved quality of services, due to sufficiency of resources Healthy competition as the auditors may mutually arrive at the common understanding where there are conflicting views on a particular issue. Quality of performance because of sharing of ideas and views of both the auditors

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	<p>Disadvantages of Joint Audit:</p> <ol style="list-style-type: none"> i. Superiority complex of some auditor may spoil the relationship between the two auditors ii. Costly for small entity to pay the fees and bear the out of pocket expenses of both the auditors iii. Lack of coordination in work, in case of lack of due communication between the auditors iv. Uncertainty about liability / responsibility of work, in case where there is lack in demarcation of joint work v. Psychological problem, like ego clashes may prove to be detrimental to the interest of the auditee company <p>Responsibility of the Joint Auditors SA 299 issued by the Institute of Chartered Accountants of India on “Responsibility of Joint Auditor” lay down the responsibilities on joint auditors. Salient features of the SA are enumerated below:</p> <p>Individual responsibility - In respect of audit work divided among the joint auditors, each joint auditor is responsible only for the work allocated to him.</p> <p>Joint responsibility - All the joint auditors are jointly and severally responsible in respect of</p> <ol style="list-style-type: none"> a) the audit work which is not divided among the joint auditors and is carried out by all of them; b) decisions taken by all the joint auditors concerning the nature, timing or extent of the audit procedures to be performed by any of the joint auditors. c) matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors; d) the disclosure requirements of the relevant statute; and e) the other requirements of the relevant statute. <p>Disagreement between the joint auditors - Where the joint auditors are in disagreement with regard to any matters to be covered by the report, each one of them should express his own opinion through a separate report.</p>
<p>Audit of shares and debentures</p> <p>Audit of allotment of securities (Shares) by company [Section 39]</p>	<p>The allotment of shares is the issuing of new shares to the existing shareholders or to third parties. Following steps are to be taken to check the allotment of Securities of a Company:</p> <ol style="list-style-type: none"> i. To verify - a) the number; b) the value; and c) the nature of shares to be issued. This is written in the contract pursuant to which the issue is made. ii. Examination of the prospectus to see the substance of the contract and the relevant terms of the issue including – a) the mode of payment; b) payability of commission to the underwriters; or c) payability of the preliminary expenses. iii. Check whether minimum amount has been subscribed or not as stated in the prospectus. iv. Check whether the sums payable on application for the amount so stated have been paid to and received by the company by cheque or other instrument. v. Check whether the amount payable on application on every security shall not be less than 5% of the nominal amount of the security or as may be prescribed vi. Examine the Board minutes and resolutions passed for the purpose for which securities is issued and utilized for the same. vii. In case the minimum amount has not been subscribed, check whether the amount is refunded to the applicant/s within prescribed time period. viii. Check whether the company has filed with the Registrar a return of allotment or not, where the Company having a share capital makes any allotment of securities.

	ix. In case the company is found in default under above provision then the same should be reported by the auditor in his report.
Audit of Alteration of Share Capital [Section 61]	<p>Alteration refers to the increase or decrease in (or rearrangement) in the number of the authorized share capital of a company, as permitted in its articles of association. The number of shares which the company actually issues is different from the authorised share capital. Following steps should be undertake the audit:</p> <ol style="list-style-type: none"> i. Confirm that alteration was authorised by articles of association ii. Verify the minutes of the Board meeting and ordinary resolution passed in the general meeting in which the approval of members is obtained. iii. Obtain the reasons for which the memorandum of the company is altered. iv. Verify that alteration had been effected in copies of Memorandum, Articles, etc. v. Check whether there is any change in the voting percentage of shareholders due to consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. vi. Verify that proper accounting entries have been passed. vii. Register of members may also be checked to see that the necessary alteration have been effected therein.
Example of a resolution passed for alteration in share capital ¹	<p style="text-align: center;">[REDACTED]</p> <hr/> <p>NOTICE IS HEREBY GIVEN THAT the Second Extra-ordinary General Meeting of the Members of [REDACTED] Co. Limited will be held on Wednesday, the 04th day of November, 2015, at A-4, [REDACTED] Worli, Mumbai - 400 030 at 03.00 P.M. to transact the following Special business:</p> <p>SPECIAL BUSINESS</p> <p>1. Increase Authorised Share Capital of the Company.</p> <p>To consider and, if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution:</p> <p>“RESOLVED THAT pursuant to the provisions of Section 61 read with Section 64 and other applicable provisions, if any, of the Companies Act, 2013 (including any amendment thereto or re-enactment thereof) and the rules framed there under, the consent of the members of the Company be and is hereby accorded to increase the Authorized Share Capital of the Company from existing Rs. 10,00,00,000 (Rupees Ten crores) divided into 1,00,00,000 (One crore) Equity Shares of Rs. 10/- each to Rs. 100,00,00,000 (Rupees Hundred crores) divided into 10,00,00,000 (Ten crores) Equity Shares of Rs. 10/- each by creation of additional 9,00,00,000 (Nine crores) Equity Shares of Rs. 10/- each ranking pari passu in all respect with the existing Equity Shares of the Company.”</p>

¹ Source - Google

	<p>2. Alteration in the Capital Clause of Memorandum of Association</p> <p>To consider and, if thought fit, to pass with or without modification, the following resolution as a Special Resolution:</p> <p>“RESOLVED THAT pursuant to the provisions of Section 13, 61 and 64 and other applicable provisions of the Companies Act, 2013 (including any amendment thereto or re-enactment thereof) and the rules framed thereunder, the consent of the members of the Company be and is hereby accorded for substituting Clause V(a) of the Memorandum of Association of the Company with the following clause:</p> <p>V(a) The Authorized Share Capital of the Company is Rs. 100,00,00,000/- (Rupees Hundred crores Only) divided into 10,00,00,000 (Ten crores) Equity Shares of Rs. 10/- (Rupees Ten Only) each.</p>
<p>Audit of issue of bonus shares</p>	<p>Bonus shares are shares distributed by a company to its current shareholders as fully paid shares free of charge. Following steps may be undertaken by the auditor to audit the issue of bonus shares:</p> <ol style="list-style-type: none"> Confirm that issue of Bonus Share was authorized by articles. Verify the minutes of the Board meeting and ordinary resolution passed in the general meeting in which the approval of members is obtained. Check that the company has issued fully paid-up bonus shares to its members only. Confirm that the issue of bonus shares shall not be made by capitalising reserves created by the revaluation of assets. Check whether the company has made any default in payment of interest or principal in respect of fixed deposits or debt securities issued by it. Check whether the company has made any default in payment of statutory dues of the employees, such as, contribution to provident fund, gratuity and bonus. Whether the partly paid-up shares are made fully paid-up. Check whether the bonus shares shall not be issued in lieu of dividend.
<p>Audit of buy-back of shares (Section 68)</p>	<p>Buy-Back is a corporate action in which a company purchases its shares from the existing shareholders usually at a price higher than market price. Following steps are undertaken to audit the buy-back of shares:</p> <ol style="list-style-type: none"> Confirm that Buy-Back was authorized by articles. Verify the minutes of the Board meeting and special resolution passed in the general meeting in which the approval of members is obtained. Check that the buy-back shall not be more than twenty-five per cent. of the aggregate of paid-up capital and free reserves of the company. Check that the no buy-back shall be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities. In case the buy-back is authorized by only a board resolution and not by a resolution in the general meeting, the buy-back should not more than ten per cent. of the total paid-up equity capital and free reserves of the company. Check that the debt – equity ratio (ie. secured and unsecured debts / paid-up capital and its free reserves) is not more than 2:1 after the buy-back. Check that all the shares or other specified securities for buy-back should be fully paid-up. Check whether the buy-back is made as per SEBI regulations in case of buy-back of the shares or securities listed on any recognized stock exchange. Check that no offer of buy-back shall be made within a period of one year from the date of the closure of the preceding offer of buy-back.

	<ul style="list-style-type: none"> x. Ensure that buy-back shall be completed within a period of one year from the date of passing of the special resolution or the Board resolution, as the case may be. xi. Ensure that the buy-back has been done only out of the company's free reserves or its securities premium account or out of the proceeds of any shares other than out of the proceeds of an earlier issue of the same kind of shares. xii. Ascertain that declaration of solvency was filed with the SEBI and/or the Registrar of Companies before making buy-back but subsequent the passing of the special resolution. xiii. Ensure that company shall extinguish and physically destroy the shares or securities so bought back within seven days of the last date of completion of buy-back. xiv. Ensure that the company shall not make a further issue of the same kind of shares within a period of six months, except by way of a bonus issue. xv. Whether the company has maintained any register of the shares or securities so bought xvi. Check whether after the completion of the buy-back, the company file with the Registrar and the Securities and Exchange Board a return containing such particulars relating to the buyback within thirty days of such completion.
Audit of Splitting of shares	<p>A stock split is the process by which a company increases the number of shares that are outstanding by issuing more shares to current shareholders.</p> <p>For example, in a 2-for-1 stock split, an additional share is given for each share held by a shareholder. So, if a company had 10 million shares outstanding before the split, it will have 20 million shares outstanding after a 2-for-1 split. Following steps may be undertaken to audit the share split:</p> <ul style="list-style-type: none"> i. Confirm that alteration was authorised by articles. ii. Verify the minutes of the Board meeting and ordinary resolution passed in the general meeting in which the approval of members is obtained. iii. Verify that alteration had been effected in copies of Memorandum, Articles, etc. iv. Verify that proper accounting entries have been passed. Register of members may also be checked to see that the necessary alteration have been effected therein.
Audit of Share Transfer	<p>The following aspects are required to be examined by the auditor in conducting the audit of the share transfer:</p> <ul style="list-style-type: none"> i. Inspection of the Articles of Association regarding the prescribed form of transfer and the time limits laid down therein. ii. Where calls are due or not paid on the shares being transferred, whether transfer can be refused under the articles and whether any transfer was so refused. iii. Examining whether, a notice was sent to the transferee and registration was effected only on receipt of 'no-objection' certificate from him or on elapse of period prescribed. iv. Scrutiny of transfer forms, noting specially: <ul style="list-style-type: none"> ➤ the prescribed form was used and the prescribed authority had stamped the date on which it was presented to it; also that it was delivered to the company within 60 days. ➤ transfer form is properly executed and bears the proper stamp duty.

	<ul style="list-style-type: none"> ➤ the name of the company is correctly stated on the form. ➤ where the consideration for transfer appears to be inadequate, an inquiry was made by the company for ascertaining the reasons therefor. ➤ That the alterations, if any, have been suitably initiated; and ➤ the name and address of the transferee have been recorded completely and fully for purposes of correspondence. <p>v. Comparison of the signatures of each transferor on the transfer form with his signature on the original application for shares or on the transfer form.</p> <p>vi. Ascertaining that none of the transferees is disqualified from holding shares in the company.</p> <p>vii. Vouching the entries in the Shares Transfer Journal by reference to the transfer forms, noting in each case:</p> <ul style="list-style-type: none"> ➤ the name of transferor; ➤ the name and address of the transferee; ➤ the number and class of shares transferred; and ➤ the distinctive numbers, if any, of the shares transferred. <p>viii. Verification of postings from the Share Journal to the Register of Members.</p> <p>ix. Inspection of each transfer as to names, addresses, occupations, form of document, description, number (in words), distinctive number of shares, stamp, date, signature, witnesses, etc.</p> <p>x. See that old certificates were cancelled.</p> <p>xi. Inspection of the power of attorney and specimen signatures if transfer executed by an agent.</p> <p>xii. Inspection of letters of indemnity for lost certificates and ensuring that duplicate certificates have been issued on proper authority.</p> <p>xiii. Where part of the shares have been transferred, the issue of balance certificates to the transferors should be seen and confirm that the distinctive number of shares have been correctly stated.</p> <p>xiv. Refer to the minutes book to ensure that all transfers recorded in the share transfer journal have been approved by the Board.</p> <p>xv. Checking of counterfoils of new certificates.</p> <p>xvi. Reconciliation of the amount of transfer fees collected with the total number of transfers lodged and verifying that the amount of transfer fees have been accounted for.</p> <p>xvii. Reconciliation of the total number of shares of different classes issued by the company with the total amount of capital issue and its sub-divisions by extracting balances of shares held by different members from the Register of members.</p> <p>xviii. Ensuring that, in case of any share transactions by directors, corresponding entries have been made in the Register of Directors' shareholding.</p>
Audit of Re-issue of forfeited shares	<p>In case the Company decides to re-issue the forfeited shares, following steps may be undertaken by the auditor:</p> <ol style="list-style-type: none"> i. Ascertain whether the board of directors are authorized under the Articles of Association of the company to reissue forfeited shares. Check the relevant resolution of the Board of Directors. ii. Vouch the amounts collected from persons to whom the shares have been allotted and verify the entries recorded from re-allotment. iii. Verify that computation of surplus amount arising on the reissue of shares credited to Capital Reserve Account; and iv. Where partly paid shares are forfeited for non-payment of call, and re-issued as fully paid, the reissue is considered as an allotment at a discount and compliance of the provisions of Section 53 is essential.
Audit of Issue of Debenture	<p>“Debenture” includes debenture stock, bonds or any other instrument of a company evidencing a debt, whether constituting a charge on the assets of the company or not. Following points are to be noted while issuing debentures:</p> <ul style="list-style-type: none"> ➤ No company shall issue any debentures carrying any voting rights.

	<ul style="list-style-type: none"> ➤ Secured debentures may be issued by a company subject to such terms and conditions as may be prescribed ➤ Where debentures are issued by a company under this section, the company shall create a debenture redemption reserve account out of the profits of the company available for payment of dividend and the amount credited to such account shall not be utilised by the company except for the redemption of debentures. ➤ A company may issue convertible debentures (ie. debentures with an option to convert into shares) only after taking an approval by a special resolution passed at a general meeting. ➤ Appointment of debenture trustee is mandatory for the following – i. The offer of issue of debenture is made to public ii. The company makes the offer to members exceeding five hundred in number. The purpose of appointment of debenture trustee is for the protection of interest & handle grievances of debenture holders. <p>Auditor's Duty:</p> <ol style="list-style-type: none"> i. The auditor should verify that the prospectus had been duly filed with the registrar before the date of allotment of debentures. ii. He should check the amount collected in the cash book with the counterfoils of receipts issued to the applicants and also cross check the amount into the application and allotment book. iii. He should examine the debenture trust deed and note the conditions contained therein as to issue and repayment. iv. If the debentures are covered by a mortgage of a charge, it should be verified that the charge has been correctly recorded in the register of mortgage and charges and it has also been registered with the registrar of the companies. v. Compliance with SEBI guidelines should also be ensured. vi. Where debentures have been issued as fully paid up to vendors as a part of the purchase consideration, the contract in this regard should be checked.
Audit of interest on Debentures	<p>A predetermined fixed rate of interest is payable on debentures irrespective of whether the company has earned the profit or not. Debenture holders are creditors of the company, they are not the owners. They have no voting powers and cannot influence the management but their claim of interest rank ahead of the claims of the shareholders.</p> <p>Auditor's Duty:</p> <ol style="list-style-type: none"> i. The payment of interest should be vouched with the acknowledgement of the debentureholders. ii. reconcile the total amount paid with the total amount due and payable with the amount of interest outstanding for payment. iii. ensure that the interest paid on debenture must be disclosed as a separate item in the profit & loss account.
Audit of Redemption of Debentures	<p>Redeemable debentures can be redeemed in any of the following way:</p> <ol style="list-style-type: none"> (i) By way of periodical drawing i.e. by creating Debenture Redemption Reserve Account. (ii) By way of payment on fixed date. (iii) By payment whenever the company desires to do so. <p>Auditor's Duty:</p> <ol style="list-style-type: none"> i. inspect the debentures or trust deed for the terms and conditions regarding redemption of debentures. ii. see the Director's minute book authorizing the redemption of debentures. iii. vouch the redemption with the help of debenture bonds cancelled and the cash book. iv. examine the accounting treatment thoroughly.

Debt issued as Collateral Security	If the debentures are issued as collateral security to the banks or creditors then auditor needs to ensure that such issue is approved by Board of Directors and is made as per the term of the loan agreement
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Important Questions – Branch Audit, Joint audit, audit of shares and debentures

Q.1	State the advantages of Joint Audit. [June 2015, 2017 – 4 marks]
Q.2	Write short note on - a) Audit of Bonus shares issued by a company and b) Branch Auditor [Dec 2017 – 3 marks each]
Q.3	Write short notes on – a) Responsibility of a Joint Auditor and b) Auditor’s duty regarding issue of debentures [June 2018 – 3 marks each]
Q.4	As a Branch Auditor, how you will conduct Branch Audit? [Dec 2009 – 3 marks]
Q.5	When a company appoints Joint Auditor, auditor’s liability and responsibility are increased because an auditor is made responsible for the audit work of another auditor. Comment [Dec 2011 – 2 marks]
	The statement is incorrect. According to the statement issued by the ICAI, it would not be correct to hold an Auditor responsible for the work of another and each joint auditor will be responsible only for the work allotted to him.
Q.6	Accounts of Mumbai Branch was audited by a firm of Chartered Accountants of Mumbai. Even then the Company Auditor demanded to visit Mumbai Branch, Director (Finance) could not agree. Comment [June 2012 – 2 marks]
	The Company Auditor is entitled to visit the Branch Office and has right to access all the books and accounts records etc of the branch. The Director (Finance) cannot restrict the company auditor from visiting the Branches.
Q.7	Company Auditor received the Branch Audit Report which contains qualifications on matters specially required to be disclosed pursuant to schedule VI requirement. How this type of situation shall be dealt with by the Auditor? [Dec 2017 – 2 marks]
	It is obvious that the Company Auditor has no other choice but to incorporate such qualifications in his own report after confirming the accuracy of the Branch Audit Report if the Company Auditor so feels. The Company’s auditor has a certain measure or responsibility in respect of the accounts and papers of the branch. This is shown by the fact that he has a right to visit the branch and has access to the papers and documents on basis of which he has to make disclosure of anything in regard to the branch which he thinks is not in order and which has come to his notice.
Q.8	State the duties of Auditor in respect of issue of Debentures as co-lateral security. [June 2014 – 2 marks]
	<ul style="list-style-type: none"> - Debentures may be issued as collateral security to creditors, banks or other parties. - The collateral security becomes effective only in the event of default or loan not being repaid, when the loan is repaid, the debentures are automatically cancelled. - The auditor should read the loan agreement and confirm that the BOD has approved the issue. - Amount of the debentures is shown in an inner column of balance sheet, as the company is liable to the amount of loan and not the debentures issued as collateral security.
Q.9	The responsibilities of joint auditors are joint and several. Comment [Dec 2014 - 4 marks]

Q.10	State the auditor's duties in respect of issue of redeemable debentures. [Dec 2015 – 2 marks]
Q.11	As an auditor of a company, how will you audit of re-issue of forfeited shares? [Dec 2015 – 4 marks]
Q.12	What aspects are required to be examined by the auditor in conducting audit of Buyback of shares by the company? [Dec 2016 – 7 marks]
Q.13	XYZ India Ltd. has a Branch Office in England. M/s RB Dutta & Co. Chartered Accountants were appointed as Auditor in England was appointed as Auditor of that Branch. Indian Auditor opined that this was not legally valid. [Dec 2010 – 2 marks] (Hint – Appointment of the Branch Auditor is valid)
Q.14	ABC Ltd. Has two branch offices in Chennai and Hyderabad for which the Branch Auditors were engaged. M/s APS & Co. Chartered Accountants being statutory auditors of ABC Ltd. Is responsible in respect of work entrusted to Branch Auditors also. Do you agree? [June 2013 – 2 marks] (Hint – APS will be responsible for the work of the branch auditor)
Q.15	Write short note on Audit of alteration of share capital. [June 2019 – 4 marks]

Audit Of Divisible Profits & Dividends	
Declaration of dividend [Sec 123]	<p>Final Dividend - Final dividend is declared in the general meeting after the recommendation of the Board of Directors.</p> <p>Source of Dividend Dividend shall be declared or paid by a company out of—</p> <ul style="list-style-type: none"> ➤ the profits (after providing for depreciation and setting off losses) of the company for that year or any previous financial year ➤ money provided by the Central Government or a State Government for the payment of dividend by the company in pursuance of a guarantee given by that Government. ➤ No dividend shall be declared or paid by a company from its reserves other than free reserves. <p>Procedure of declaring / distributing the dividend</p> <ul style="list-style-type: none"> ➤ The declared amount of dividend must be deposited in a scheduled Bank in a separate account within 5 days of declaration of dividend including interim dividend. ➤ Dividend may be paid in cash, cheque or by warrant or the electronic credit to the account of shareholder within 30 days of declaration. <p>Interim Dividend: Interim dividend is declared by the Company in mid of the financial year, much before the closure the financial statements. Some salient features of the interim dividend are:</p> <ul style="list-style-type: none"> ➤ The Board of Directors of a company may declare interim dividend out of the profits of the current financial year or any previous financial years ➤ In case the company has incurred loss during the current financial year (in the first half), such interim dividend shall not be declared at a rate higher than the average dividends declared by the company during the immediately preceding three financial years. ➤ Interim dividend shall be deposited in a scheduled bank in a separate account within five days from the date of declaration of such dividend. ➤ Dividend shall be paid to the registered shareholder of such share or to his order or to his banker only ➤ Dividend shall only be payable in cash, cheque or warrant or in any electronic mode to the shareholder entitled to the payment of the dividend.

	<ul style="list-style-type: none"> ➤ Profits or reserves may be capitalised for issuing fully paid-up bonus shares or paying up unpaid amount on shares held by the members of the company. ➤ If a company which fails to comply with the above-mentioned provisions shall not declare any dividend on its equity shares, so long as such failure continues. <p>Auditor should ensure that the provisions related to declaration and payment of dividend are duly followed by the Company.</p>
Unpaid Dividend Account [Section 124]	<p>Stage 1: Unpaid dividend account</p> <ul style="list-style-type: none"> ➤ Where a dividend has been declared by a company but has not been paid or claimed within thirty days from the date of the declaration, the company shall, within seven days after a period of thirty days, transfer the unpaid dividend to a Unpaid Dividend Account to be opened in any scheduled bank. ➤ The company shall, within a period of ninety days of making any transfer of an amount to the Unpaid Dividend Account, prepare a statement containing the names, addresses and the unpaid dividend to be paid to each person on the website of the company and also on any other website approved by the Central Government. ➤ If the unpaid dividend is not transferred to the Unpaid Dividend Account of the company, the Company shall pay, interest on the unpaid amount at the rate of twelve per cent. per annum. <p>Stage 2: Investor Education and Protection Fund</p> <ul style="list-style-type: none"> ➤ If any unpaid dividend, which is transferred to the Unpaid Dividend Account, remains unpaid or unclaimed for a period of seven years from the date of such transfer, it shall be transferred to the Investor's Education and Protection Fund ➤ All shares in respect of which dividend has not been paid or claimed for seven consecutive years or more shall also be transferred to the Investor Education and Protection Fund. ➤ Any claimant of shares transferred above shall be entitled to claim the transfer of shares from Investor Education and Protection Fund in accordance with such procedure and on submission of such documents as may be prescribed. ➤ If a company fails to comply with any of the requirements of this section, the company shall be punishable with fine which shall not be less than five lakh rupees but which may extend to twenty- five lakh rupees and every officer of the company who is in default shall be punishable with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees.
Investor Education and Protection Fund [Section 125]	<p>Creation of Fund: The following amounts should be credited to this Fund—</p> <ol style="list-style-type: none"> a. the grants given by the Central Government for the purposes of the Fund; b. donations given by the Central Government, State Governments, companies or any other institution for the purposes of the Fund; c. the amount in the Unpaid Dividend Account of companies under section 124 of the Companies Act, 2013; d. the amount lying in the Investor Education and Protection Fund under section 205C of the Companies Act, 1956; e. the interest or other income received out of investments made from the Fund; f. the amount received under sub-section (4) of section 38 (penalty for personation for acquisition of securities); g. the application money received by companies for allotment of any securities and due for refund; h. matured deposits with companies other than banking companies; i. matured debentures with companies; j. interest accrued on the amounts referred to in clauses (h) to (j); k. sale proceeds of fractional shares arising out of issuance of bonus shares, merger and amalgamation for seven or more years;

	<p>l. redemption amount of preference shares remaining unpaid or unclaimed for seven or more years; and</p> <p>m. such other amount as may be prescribed:</p> <p>Utilisation of Fund: The Fund shall be utilised for—</p> <ol style="list-style-type: none"> a. education, awareness, promotion and protection of the Investors; b. the refund in respect of unclaimed dividends, matured deposits, matured debentures, the application money due for refund and interest thereon; c. distribution of any disgorged amount among eligible and identifiable applicants for shares or debentures, shareholders, debenture-holders or depositors who have suffered losses due to wrong actions by any person, in accordance with the orders made by the Court which had ordered disgorgement; d. reimbursement of legal expenses incurred in pursuing class action suits under sections 37 (misstatement in prospectus) and 245 (acting against interest of the Company) by members, debenture-holders or depositors as may be sanctioned by the Tribunal; and e. any other purpose incidental thereto, in accordance with such rules as may be prescribed. <p>Constitution of Authority to administer the fund: The Central Government constitutes an authority for administration of the Fund consisting of:</p> <ul style="list-style-type: none"> - a chairperson; - a chief executive officer; and - seven members <p>Administration of the fund by the constituted authority: The Fund shall be administered by the constituted authority in accordance with such rules as may be prescribed. Salient features of the Rules are as under:-</p> <ul style="list-style-type: none"> - The Central Government may provide the required resources like offices, officers, employees and other resources in accordance with the rules. - The authority shall maintain separate accounts and other relevant records in relation to the Fund in such form as may be prescribed after consultation with the Comptroller and Auditor-General of India. - The money shall be spent out of the Fund for carrying out the specified objects in accordance with the law. - The accounts of the Fund shall be audited by the Comptroller and Auditor-General of India and such audited accounts together with the audit report shall be forwarded annually by the authority to the Central Government. - The authority shall prepare its annual report giving a full account of its activities during the financial year and forward a copy thereof to the Central Government - Central Government shall place the annual report and the audit report before each House of Parliament.
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Important Questions – Audit of divisible profits and dividends

Q.16	ABC Ltd. has made a provision for payment of dividend out of capital redemption reserve fund. Comment. [Dec 2009 – 2 marks]
	Or
	Dividend has been declared out of profit on re-issue of forfeited shares. Comment [June 2012 – 2 marks]

	<p>Capital redemption reserve / profit on re-issue of forfeited shares cannot be used for distribution of dividend. Dividends can be declared only out of current year / past year profits. The underlying principle is that the dividend is “<i>return on capital</i>” and not “<i>return of capital</i>”. Hence the following cannot be used for distributing dividends:</p> <ul style="list-style-type: none"> - Capital redemption reserve - Fixed assets revaluation reserve - Excess amount of forfeiture / reissue of shares - Any specific reserve created out of specific provisions
Q.17	Explain the sources of payment of Dividend. [Dec 2016 (5 marks)]
Q.18	<p>Board of directors of Evershine Ltd. In its meeting held on 11.08.2011 declared and paid final dividend of 30% for 2010-11. As an auditor how will you react? [Dec 2011 (2 marks)]</p> <p>As per the provisions of Companies Act, 2013, the shareholders may declare the final dividend in AGM. Board has power to declare the interim and the final dividend. The auditor should check the following:</p> <ul style="list-style-type: none"> - if the approval of the shareholder has been subsequently taken - whether the has been deposited in a separate account within 5 days of declaration. - Whether Dividend has been paid in within 30 days of declaration. <p>In case any of the above steps have not been followed, the auditor should qualify his report</p>
Q.19	Write short notes on declaration of dividend by a company u/s 123 [Dec 2017 (3 marks)]
Q.20	Write short note on Duty of the auditor regarding interim dividend. [June 2019 (4 marks)]
Q.21	Write short note on Auditor’s duty regarding unclaimed dividend [Dec 2018 (4 marks)]

Audit of inventories	<p>Inventories are tangible property held for :</p> <ul style="list-style-type: none"> - sale in the ordinary course of business, or - in the process of production for such sale, or - for consumption in the production of goods or services for sale, or - for replacement in the normal course. <p>Inventories normally comprise raw materials including components, work-in-process, finished goods including by-products, maintenance supplies, stores and spare parts, and loose tools.</p> <p>Features of inventories are as follows :</p> <ul style="list-style-type: none"> - Movable asset - Rapid turnover - Risk of obsolescence and spoilage - Held at various locations - Constitute a significant portion of assets of manufacturing and trading entities - Valuation is subjective and may involve estimation and expert opinion, like jewellery <p>Auditor should check following:</p> <ol style="list-style-type: none"> 1) Examine records of inventories 2) Take confirmation from suppliers about deliveries 3) Ensure management has done physical verification of inventories 4) Be present personally at the time of stock taking / physical verification 5) Ensure these are proper controls for movement / issue of inventory 6) Check method of valuation & disclosure in compliance with AS / IndAS
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	<p>7) Work-in-progress (WIP) valuation should be checked</p> <p>8) Classification of inventory ABC Analysis & their records be checked</p> <p>9) Management representation about inventories be checked</p> <p>10) Management confirmations about stocks held on behalf of others & stocks lying at other people for special worked be checked threading & shaping etc.</p>
Class Notes	
Audit of fixed assets / property, plant and equipment	<p>The term Property, plant and equipment refers to such tangible items that:</p> <ol style="list-style-type: none"> are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and are expected to be used during more than one period. <p>Auditor should check the following:</p> <ol style="list-style-type: none"> Internal controls over acquisition like authorisation, capital budgeting etc. Physical verification of Fixed Assets Check whether proper records are maintained Check whether proper depreciation of Fixed Assets is done Check supporting documents of acquisition and disposal Check whether scrapping, retirement of Fixed Assets is properly authorised. Check whether sale proceeds of FA are properly accounted Check title deeds of ownership of Fixed Assets
Class Notes	
Audit of Education institution	<p>The special steps involved in the audit of an educational institution are the following:</p> <p>Constitution and internal control</p> <ul style="list-style-type: none"> ➤ Examine the Trust Deed or Regulations governing the educational institution and note all the provisions affecting accounts. ➤ Read through the minutes of the meetings of the Managing Committee or Governing Body, noting resolutions affecting accounts. ➤ Ensure that the internal controls system is working efficiently <p>Student's Fees</p> <ul style="list-style-type: none"> ➤ Check names entered in the Students' Fee Register for each month or term, with the amount of fees charged ➤ Check fees by comparing counterfoils of receipts / fees register with entries in the cash book and to confirm that the revenue has been duly accounted for in the books of accounts.

	<ul style="list-style-type: none"> ➤ Ascertain that – a) fees paid in advance have been carried forward; and b) the arrears that are irrecoverable have been written off after obtaining the sanction of an appropriate authority. Auditor should report old heavy arrears on account of fees, dormitory rents, etc., to the Managing Committee. ➤ Check admission fees with admission slips signed by the head of the institution and confirm that the amount had been credited to a Capital Fund. ➤ See that free studentship / scholarship and concessions have been granted by a person authorised to do so, having regard to the prescribed Rules. <p>Other receipts</p> <ul style="list-style-type: none"> ➤ Confirm that fines for late payment or absence, etc., have either been collected or remitted under proper authority. ➤ Confirm that hostel dues were recovered before students' accounts were closed and their deposits of caution money refunded. ➤ Verify rental income from landed property with the rent rolls, etc. ➤ Vouch income from endowments and legacies, as well as interest and dividends from investment; also inspect the securities in respect of investments held. ➤ Verify any Government or local authority grant with the relevant papers of grant. ➤ Confirm that caution money and other deposits paid by students on admission have been shown as liability in the balance sheet and not transferred to revenue. ➤ Vouch donations, if any, with the list published with the annual report. Ensure that donation received for any specific purpose was utilised for the purpose. <p>Expenditure of education institute (including employee expenses)</p> <ul style="list-style-type: none"> ➤ Vouch in the usual manner all establishment expenses and enquire into any unduly heavy expenditure under any head. ➤ Ascertain that the system of a) ordering, b) inspection on receipt; and c) issue of provisions, foodstuffs, clothing and other equipment is efficient and all bills are duly authorised and passed before payment. ➤ See that increase in the salaries of the staff have been sanctioned by the Committee. ➤ Verify that the Provident Fund money of the staff has been invested in appropriate securities. <p>Capital expenditure / assets of education institution</p> <ul style="list-style-type: none"> ➤ Vouch all capital expenditure in the usual way and verify the same with the sanction for the Committee as contained in the minute book. ➤ Verify the inventories of furniture, stationery, clothing, provision and all equipment, etc. These should be checked by reference to Stock Register and values applied to various items should be test checked.
Class Notes	
Audit of hospital	<p>The following points are to be considered necessary for conducting an audit of Hospital.</p> <p>Constitution and internal control</p>

	<ul style="list-style-type: none"> ➤ Study the Charter or Trust Deed under which the hospital has been set up and take a special note of the provisions affecting the accounts. ➤ Examine, evaluate and verify the system of internal check, internal control and determine the nature, timing and the extent of the audit procedures. <p>Patient's fees</p> <ul style="list-style-type: none"> ➤ Vouch the entries in the Patient's Bill Register with a copies of bill issued. ➤ Vouch the collection from patients with copies of bills and entries in Bills Register and ensure that proper booking is made in the books of accounts. ➤ Arrears of dues should be properly carried forward and where these are deemed to be irrecoverable, they should be written off under due authorizations. <p>Other Income</p> <ul style="list-style-type: none"> ➤ Interest and/ or dividend income should be vouched with reference to the Investment Register and Interest and Dividend warrants. ➤ To ensure that the legacies and donations which are received for specific purposes, are utilized for that purpose. ➤ Where receipts of subscription show a significant deviations from budgeted figures, it should be thoroughly inquired into and the matter be brought to the notice of the trustees or the Managing Committee. ➤ Government grants or grants from local bodies should be verifies with the reference to the correspondence with the concerned authorities. <p>Expenditure</p> <ul style="list-style-type: none"> ➤ Clear distinction should be made between the items of capital and revenue nature. ➤ The capital expenditure should be incurred under proper authorization by a valid resolution of the trustees or the Managing Committee. ➤ Verify the system of internal check as regards purchases and issue of stores, medicines etc. ➤ Examine that the appointment of the staff, payment of salaries etc. are duly authorized. <p>Assets</p> <ul style="list-style-type: none"> ➤ Physically verify the investments, fixed assets and inventories. ➤ Check that adequate depreciation has been provided on all the depreciable assets.
Class Notes	
Audit of co-operative societies	<p>A Co-operative society may broadly be defined as an association of persons who have voluntarily joined together to achieve a common economic objective. Elimination of middlemen and sharing of gains of economic activities seems to be the hallmark of a co-operative society. There may be different types of co-operative societies like – a) consumers' cooperative societies, b) housing co-operative societies, c) industrial co-operative societies, d) urban and rural cooperative banks, etc.</p>

“Registrar” means a person appointed to perform the duties of a Registrar of Co-operative Societies under the Co-operative Societies Act.

Statutory requirements for Co-operative Societies

- **Books of Accounts:** Co-operative Societies should maintain the books of accounting records as per section 43(h) of the Co-operative Societies Act, and the rules framed therein. For example In Maharashtra the co-operative societies are required to maintain cash book, general ledger, personal ledger, stock register, property register, etc.
- **Restriction on shareholding:** As per Sec. 5 of the Co-operative Societies Act 1912, no member of the society, other than a registered society, can hold more than twenty per cent of the total number of shares of the society, or such number of shares which in value exceeds Rs. 1,000.
- **Restriction on Loan:** As per section 29 A registered co-operative society can only grant loans to its members. Though with prior approval of the Registrar, it may grant loans to other registered cooperative societies.
- **Restriction on Borrowing:** Subject to the restrictions imposed by its bye-laws, a co-operative society may accept loans and deposits from its members as well as non-members.
- **Investment of Funds:** A society may invest its funds in any of the following (Sec.32 of the Central Co-operative Societies Act):
 - Central or State Co-operative Bank,
 - Any securities specified in Section 20 of the Indian Trusts Act, 1882.
 - Any shares, securities, bonds or debentures of any other Co-operative society with limited liability.
 - Any bank, or person carrying on banking business or a Co- operative bank, other than a Central or State co-operative bank, as duly approved by the Registrar;
 - In any other manners as duly permitted by the requisite authority.
- **Appropriation of profits:** 25% of the profits of a co-operatives society should be transferred to a Reserve Fund before distribution of dividend or payment of bonus to its members. The Registrar may reduce the percentage of profits to be transferred to the Reserve Fund but not to less than 10% of the profits of the society.
- **Contributions to charitable Purposes:** According to Section 34, a registered society may, with the sanction of the Registrar, contribute an amount not exceeding 10% of the net profits remaining after the compulsory transfer to the reserve fund for any charitable purpose.

Audit of a Co-operative Society [Section 17 of the Co-Operative Societies Act, 1912]

- The Registrar shall authorise and appoint a person (auditor) in writing to audit the accounts of every registered society once at least in every year.
- The auditor can only be a **Chartered Accountant** within the meaning of the Chartered Accountants Act 1949. However, in certain State Co-operative societies Act, a person holding a **government diploma** in co-operative accounts, or who has served as an auditor in the Co-operative Department of Government, may also be appointed as the auditor.
- The Auditor shall at all times have **access to all the books**, accounts, papers and securities of a society, and every officer of the society shall furnish such **information** in regard to the transactions and working of the society as the person making such inspection may require.
- The auditor submits his report to the Registrar and also to the society.
- The audit fees are paid by the society on the basis of statutory scale of fees prescribed by the Registrar

	<p>Auditor's duty in an audit of a co-operative society</p> <p>Constitution and internal control system</p> <ul style="list-style-type: none"> ➤ Study the bye-laws of the society and see that they are being observed both in letter and spirit. ➤ Examine the Register of Members of the society and individual shareholdings. ➤ test-check the internal check and control system operated by the society and model his audit examination based on its strengths and weaknesses. <p>Income / receipts</p> <ul style="list-style-type: none"> ➤ Vouch the receipt of cash. ➤ Cash received against sales should be vouched with the cash memos and invoices issued to customers as also Sales Account. <p>Other Receipts</p> <ul style="list-style-type: none"> ➤ Cash receipts on account of share capital should be vouched with the Register of Members. ➤ Receipt of cash in respect of payment of interest and repayment of loans advanced by the society should be vouched with the loan agreements. ➤ Cash received from members towards construction of houses or their maintenance, should be vouched with the Register of Members, demands made by the society from time to time, and money receipts. <p>Expenditure</p> <ul style="list-style-type: none"> ➤ Vouch all expenditure with reference to authorisation from the Managing Committee, particularly in the case of large capital expenditure, as also the bills received from individual parties. ➤ Vouch the payment of loans from the loan agreements entered into with borrower-members. ➤ Vouch establishment expenses with reference to the resolutions of the Managing Committee, agreements with the persons concerned, and money receipts obtained from them. <p>Other aspects / points to be seen by the auditor</p> <ul style="list-style-type: none"> ➤ Ensure that the provisions of the Co-operative Societies Act with respect to the shareholding, granting of loans and advances, distribution of profits etc are adhered to be the Society. ➤ classify overdue debts for a period from six months to five years and more, and report them to the members. Auditor should also put a note regarding the probability of recovery of such debts. ➤ Make a special reference to the overdue amount of interest from members. ➤ Writing off of bad debts should be after prior authorisation from the Managing Committee of the society. ➤ According to the Maharashtra Co-operative Societies Rules, a bad debt can be written off only when it is certified to be irrecoverable by the auditor. This casts a special obligation on the auditor to ascertain whether the debt in question was created within the Rules of the society, and whether it has now really become bad and irrecoverable.
Bank audit	<p>Banks are the lifeblood of every economy. In India, the Reserve Bank of India (hereinafter referred to as 'RBI') acts as the Regulator's monetary authority and the Central Bank of the country, also known as the Banker's Bank.</p> <p>Type of Banking institutions prevailing in India</p> <p>(a) Commercial banks;</p>

- (b) Regional Rural banks;
- (c) Co-operative banks;
- (d) Development banks (more commonly known as ‘term-lending institutions’);
- (e) Payment Banks; and
- (f) Small Finance Banks

Auditors responsibility during Audit of financial Statement of banks

Advances

- Ensure the internal control is in place in relation to advances made.
- To scrutinise the subsidiary, ledger, & control accounts
- To ensure the proper documentation of account.
- To scrutinising the overdue account and scheme for recovery of such amount.
- Cash balance with RBI and other bank and money at call and short Notice.

Cash in hand

- Ensure that the Internal control is in place.
- Visit the bank branch and inspects physical cash and ensure that it will tallies with the banks cash book balance.
- To verify the amount of foreign currency held by bank and its translation at market rate on the date at which financial statement is prepared.
- **Balance with RBI:** Inspect the ledger balance in each account with (a) confirmation certificates from Reserve Bank of India and (b) Reconciliation Statement.
- **Balance with other bank:** Inspection of reconciliation statement to ensure that no debit or credit for interest have been taken to Revenue account to the year.

Money at call & short notice

- Examine the system of authorisation for funding money at short and call notice
- Verify whether the borrowings / lending of money at call and short notice are property authorized.
- The call loan made by bank are not nettled off against call loan received by it.
- Ensure that money market lending's for more than 6 days are not classified under this head but as a deposit or advance based on their nature of lending.

Fixed and other Assets

- Accounting method of bank – To ensure that the bank is accounting for the fixed assets appropriately in the books of accounts
- Ownership document - To ensure that the new assets acquired / old assets sold by the bank are supported by the purchase / sale deed respectively
- To ensure appropriateness of basis of revaluation of fixed assets - Ensure compliance of sec 9 of banking Regulation Act.

Borrowings

- To ensure that amount have been property disclosed for a) Borrowing in India from RBI; and b) Borrowing outside India.
- Ensure the rate of interest paid payable with duration of borrowing is correctly reflected in the books of accounts.

Deposits

- To ensure that the interest accrued but not due on deposits is not classified under other liabilities and provision
- See Whether there is any instances of window dressing reporting in Long Form Audit Report (LFAR)

Share Capital

- Examine the opening balance of capital
- Examine with special resolution of shareholder or MOA about increase in authorized capital during the year.
- Examine with prospectus about increase in subscribed/ paid up capital
- Examine with Government notification for any fresh contribution from them.

Reserve and Surplus

- To examine the opening balance of different type of Reserve.
- Addition/ deduction from reserves.
- Reason for appropriation of any fund from such account.
- Dividend paid by bank
- In respect of foreign branch ensure compliance with foreign laws with respect to creating of any statutory reserve.

Bills Payable

- Drafts, mail transfers, traveller's cheques, etc., should be made out in standard printed forms.
- Unused forms relating to drafts, traveller's cheques, etc., should be kept under the custody of a responsible officer.
- The bank should have a reliable private code known only to the responsible officers of its branches.
- The signatures on a demand draft should be checked by an officer with the specimen signature book.
- the telegraphic transfers and demand drafts issued by a branch should be immediately confirmed by advices to the branches concerned.
- If the paying branch does not receive proper confirmation of any telegraphic transfers or demand draft from the issuing branch, it should take immediate steps to ascertain the reasons.
- In case an instrument prepared on a security paper, e.g., draft, has to be cancelled (say, due to error in preparation), it should be examined whether the manner of cancellation is such that the instrument cannot be misused.
- Cases of frequent cancellation and reissuance of drafts, pay orders, etc., should be carefully looked into by a responsible official.
- The auditor should examine other provisions and other items of liabilities in the same manner as in the case of other entities. Eg. the auditor should verify the payment of liability for TDS and report if it finds any irregularity therein.

Contingent liabilities

- Ascertain whether there are adequate internal controls to ensure that contingent liabilities are properly identified and recorded.
- The auditor should also examine whether payment to the overseas suppliers is made on the basis of shipping documents and after ensuring that the said documents are in strict conformity with the terms of LCs.
- Ascertain whether the accounting system of the bank provides for maintenance of adequate records in respect of such obligations
- Review the reasonableness of the year-end amount of contingent liabilities in the light of previous experience and knowledge of the current year's activities.

Bills for Collection

- The auditor should examine whether the bills drawn on other branches of the bank are not included in bills for collection.
- The auditor should also examine collections made subsequent to the date of the balance sheet to obtain further evidence about the existence and completeness of bills for collection.

	<ul style="list-style-type: none"> ➤ In regard to bills for collection, the auditor should also examine the procedure for crediting the party on whose behalf the bill has been collected. The procedure is usually such that the customer's account is credited only after the bill has actually been collected from the drawee either by the bank itself or through its agents, etc. <p>Treasury Operation-Foreign Exchange and Derivatives:</p> <ul style="list-style-type: none"> ➤ The auditor should obtain a complete overview of the treasury operations of a bank before the commencement of the statutory audit. ➤ After conducting appropriate risk assessment of the treasury processes, the auditor should gain assurance that the figures appearing in the financial statements as well as the disclosures are true and fair. <p>Reports to be given to be given by bank Auditors:</p> <ul style="list-style-type: none"> ➤ The Auditors' Report should state whether the Balance Sheet, Profit and Loss Account and Cash Flow Statement of the Bank, show a true and fair view of the financial position / result of operations / cash flows respectively, for the period under audit. This is applicable in respect of Nationalised Banks, as well as Banking Companies. ➤ Unaudited Branches: Information relating to number of unaudited Branches should be given. Also, information in respect of Advances, Deposits, Interest Income and Interest Expense for such unaudited Branches should be collected and disclosed in the Audit Report. ➤ Additional Matters: Sec. 30(3) of Banking Regulation Act requires the Auditor to state the following <ul style="list-style-type: none"> - Whether or not the information and explanations required by him have been found to be satisfactory, - Whether or not transactions of the Company fall within the powers of a Banking Company, - Whether or not the returns received from the Branch Offices of the Company have been found adequate for the purposes of his audit, - Whether the Profit & Loss Account shows a true balance of Profit or Loss for the period covered by such account, & - Any other matter, which the Auditor considers should be brought to the notice of Shareholders of the Company. ➤ LFAR: Auditors of Public Sector Banks, Private Sector Banks & Foreign Banks (as well as their Branches), are required to submit Long Form Audit Report (LFAR) on various matters specified by RBI. ➤ Certificates: In addition to Reports, the Auditors of Bank Branches as well as Central Statutory Auditors of Banks, have to furnish / issue various "Certificates" as required by RBI and other Regulations.
Class Notes	
Audit of trusts	<p>When conducting the audit of a charitable institution, the auditor should consider the following matters:</p> <p>Constitution and internal control system</p>

	<ul style="list-style-type: none"> ➤ The auditor should study the constitution of the charitable institution, for example, whether it is set up under the Societies Registration Act or as per section 8 of the Companies Act or as a trust. ➤ Obtain a list of members of the governing body. This will help the auditor in identifying whether any of the members of the governing body has any interest in the charitable institution. ➤ The auditor should obtain a copy of the budget sanctioned or the financial statement. This would enable him to acquaint himself with the different heads of income and expenditures of incomes and expenditures of the institution. ➤ Examination of the system of internal check, especially as regards the accounting of the amounts collected. <p>Income</p> <ul style="list-style-type: none"> ➤ Check that the amounts received towards income have been duly collected, received and deposited into the bank regularly and promptly. ➤ Subscriptions and donations: These institutions receive subscriptions and donations which form the major part of their collections. Therefore the auditor should check the following: <ul style="list-style-type: none"> - The amount or the rate of the annual subscription. - Any instructions given by the donors as to the specific utilization of donation. - Adequacy of internal controls existing as regards unused receipt books, counter foils, etc. - Where subscriptions are received in advance these should be properly dealt with in the accounts. ➤ Legacies received: Verify the amounts of legacies received by reference to correspondence with any figures and other available information's. ➤ Income from Investment: Where the institution has made any investments or given loans, the amount of dividend and interest should be properly vouched with reference to the counterfoils or dividend warrants received. It should be ensured that such loans or grants are given under proper authorizations. ➤ Rent: If some property is given or taken on rent, then the auditor should check the tenancy agreement, the rent slips and the authorized person for the collection or payment, as the case may be, of the rent. ➤ Income/Expenditure relating to concert: Most of the organisations organize special functions such as concert etc. The auditor should – a) properly vouch all the gross receipts and outgoings; b) ensure that proper internal check was maintained as regards the receipts and outgoings. For example, the person responsible for collection and disbursements should be separate persons. <p>Expenditure</p> <ul style="list-style-type: none"> ➤ the auditor should verify that the expenditure is made only for the charitable purpose. ➤ If the expenditure is not for the charitable purpose, then the auditor should examine the implications of applicable law and document for the same. <p>Assets</p> <ul style="list-style-type: none"> ➤ The auditor should physically verify the cash in hand, inventories and fixed assets. ➤ The auditor should ensure that all the assets have been duly disclosed in the balance sheet at the correct values
Audit of municipalities and panchayats (local bodies)	<p>The major objective of audit of Municipalities and Panchayats are enumerated below;</p> <ul style="list-style-type: none"> ➤ To ensure on the fairness and correctness of contents in the Financial Statement ➤ To report on adequacy of Internal control ➤ To ensure value of money is fully received on amount spent. ➤ To detect the frauds and errors.

	<p>Auditor's duty for carrying on audit of Municipalities and panchayats (Local Bodies);</p> <ul style="list-style-type: none"> ➤ To ensure that the expenditures incurred conform to the relevant provision of the law and is in accordance with the financial Rules and regulation formed by the compliant authority. ➤ To ensure that sanction is accorded by the competent authority either special or general. ➤ To ensure that there is provision of funds for expenditure and is authorized by competent Authority. ➤ To ensure that where huge financial expenditure is made is run economically and is expected to contribute growth.
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Important Questions – Other Audits

Q.22	<p>Write short note on the Audit of: [4 marks each]</p> <ul style="list-style-type: none"> - Inventories [June 2017, Dec 2018] - Hospital [June 2017] - Municipalities and Panchayats [Dec 2017] - Education Institution [June 2018] - Co-operative Society [Dec 2018] - Property, plant and equipment [June 2019] - Charitable Trust [June 2019]
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Key points to remember

Branch Audit	<ul style="list-style-type: none"> ✓ A branch office is a location, other than the main office, where business is conducted. ✓ Accounts of the branch office should be audited by the company's auditor or any other person qualified to be the company's auditor ✓ Accounts of a foreign branch office shall be audited either by the company's auditor or by any other qualified person in accordance with the laws of that country. ✓ The branch auditor should send his report to the company's auditor, who should incorporate it in the main report ✓ Duties and responsibility of the branch auditor is same as those of the main auditor
Joint Audit	<ul style="list-style-type: none"> ✓ In a big organisation, audit cannot be accomplished with single individual, so for overcoming such situation joint auditor is appointed <p>Advantages</p> <ul style="list-style-type: none"> ✓ Lowers workload on a single auditor ✓ Timely completion of audit ✓ Improved quality of audit due to sharing of experiences ✓ Healthy competition <p>Disadvantages</p> <ul style="list-style-type: none"> ✓ Ego clashes between the two auditors ✓ Costly ✓ Lack of coordination between the auditors can be detrimental ✓ Dispute in distribution of work ✓ Shrugging of responsibility

Responsibilities of joint auditors (SA 299)	<ul style="list-style-type: none"> ✓ The joint auditors are responsible for the respective work allocated to them ✓ However, the joint auditors are jointly responsible for:- <ul style="list-style-type: none"> • work which is not divided among the joint auditors and is carried out by all of them • decisions taken by all the joint auditors • in respect of matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors; • the disclosure requirements in the financial statements; • for ensuring that the audit report complies with the requirements of the relevant statute. ✓ Joint auditors should be able to arrive at an agreed report ✓ Where the joint auditors are in disagreement on any matter, each one should express his opinion through a separate report
Miscellaneous Audits	
Audit of Securities / shares	<p><i>Allotment of shares (Section 39)</i></p> <ul style="list-style-type: none"> ✓ Verify the contract to ascertain the number of shares to be issued ✓ Examination of prospectus to understand the terms of allotment and to verify if the terms / conditions have been fulfilled ✓ Check if the minimum shares (as stated in the prospectus) have been subscribed or not ✓ Ensure timely receipt of application money by the Company ✓ Ensure timely refund of the application money, in case the minimum subscription has not been received within 30 days of issue of prospectus ✓ Ensure that the return of allotment has been filed with the Registrar on time <p><i>Alteration of share capital (Section 61)</i></p> <ul style="list-style-type: none"> ✓ Confirm that alteration is authorized by Articles of Association (AoA) ✓ Check Board / General meeting resolution in which the alteration is approved ✓ Verify that the alteration has been carried out in MoA and AoA ✓ Confirm that the altered share capital's denomination should be more than Re. 1. ✓ Verify that proper accounting entries have been passed. ✓ Register of members should also be checked to see that the necessary alteration have been effected therein <p><i>Issue of bonus shares (Section 63)</i></p> <ul style="list-style-type: none"> ✓ Confirm that the bonus issue is authorized by AoA ✓ Check Board / General meeting resolution in which the bonus issue is approved ✓ Check that the company has issued bonus shares to its members only. ✓ Confirm that the issue of bonus shares shall not be made by capitalising reserves created by the revaluation of assets. ✓ Check whether the company has made any default in payment of interest or principal in respect of fixed deposits or debt securities issued by it. ✓ Check whether the company has made any default in payment of statutory dues of the employees, such as, contribution to provident fund, gratuity and bonus. ✓ Check whether the bonus shares shall not be issued in lieu of dividend. <p><i>Buy-back of shares (Section 68)</i></p> <ul style="list-style-type: none"> ✓ Confirm that the buy-back is authorized by AoA

	<ul style="list-style-type: none"> ✓ Check Board / General meeting resolution in which the buy-back is approved ✓ Check that the buy-back is not more than ten per cent or less of the total paid-up equity capital and free reserves of the company. ✓ Check that the buy-back should not be made out of the proceeds of an earlier issue of the same kind of shares ✓ Check that the buy-back shall not be more than twenty-five per cent of the aggregate of paid-up capital and free reserves of the company. ✓ Buy-back should be done out of the company's free reserves or its securities premium account. ✓ Check that the debt-equity ratio of the company after buyback is not more than 2. ✓ Check that all the shares or other specified securities for buy-back should be fully paid-up. ✓ Check whether the buy-back is made as per SEBI regulations in case of buy-back of the listed shares. ✓ No offer of buy-back shall be made within one year from the date of the closure of the preceding offer of buy-back. ✓ Ensure that buy-back shall be completed within one year from the date of passing of the special resolution. ✓ Ensure that company shall extinguish and physically destroy the shares or securities so bought back within seven days of the last date of completion of buy-back. ✓ Ensure that the company shall not make a further issue of the same kind of shares or other securities within a period of six months. ✓ Check whether the return of buy-back has been filed with the Registrar and the Securities and Exchange Board within thirty days of such completion <p><i>Splitting of shares</i></p> <ul style="list-style-type: none"> ✓ Confirm that the splitting up is authorized by AoA ✓ Check Board / General meeting resolution in which the splitting up is approved ✓ Verify that the alteration has been carried out in MoA and AoA ✓ Verify that proper accounting entries have been passed <p>Share transfer audit</p> <ul style="list-style-type: none"> ✓ Ensure that the transfer is as per the terms and conditions mentioned in the AoA ✓ Check the calls due or unpaid before the transfer takes place ✓ Transfer forms should be adequately executed, signed and stamped ✓ Verification of entries in the Register of members ✓ In case the transfer takes place manually, ensure that the old certificates have been cancelled ✓ Inspection of the power of attorney if transfer executed by an agent.
	<ul style="list-style-type: none"> ✓ in case of any share transactions by directors, check the Register of Directors' shareholding <p><i>Re-issue of forfeited shares</i></p> <ul style="list-style-type: none"> ✓ Confirm that the re-issue is authorized by AoA ✓ Check Board / General meeting resolution in which the re-issue is approved ✓ Verify that computation of surplus amount arising on the reissue of shares is credited to Capital Reserve Account

	<ul style="list-style-type: none"> ✓ Where re-issue is done at a discount, provisions of section 53 should be fulfilled
Audit of Debentures	<ul style="list-style-type: none"> ✓ “Debenture” is an instrument evidencing debt. It includes debenture stock, bonds or any other instrument, whether constituting a charge on the assets of the company or not ✓ Debenture should not have any voting rights ✓ Issue of convertible debentures shall be approved by a special resolution passed at a general meeting ✓ Verify whether the prospectus has been filed with the Registrar ✓ Reconcile the amount collected in the bank with the debenture deeds entered with the debenture holder ✓ Compliance with SEBI guidelines should also be ensured. ✓ If the debentures are covered by a mortgage of a charge, the charge should be correctly recorded in the register of mortgage ✓ Payment of interest on debentures should be checked by the auditors ✓ Redemption of debentures should be as per the debenture deed ✓ Redemption of debentures should be authorized in the board meeting ✓ Accounting entries must be verified
Audit of divisible profits and dividends (section 123)	<ul style="list-style-type: none"> ✓ Verify the minutes of Board and shareholders in which dividend is approved ✓ Dividend should be declared out of: <ul style="list-style-type: none"> • Profits of the current year • Free reserves ✓ The declared dividend must be deposited in a scheduled bank within 5 days of declaration of (interim and final) dividends ✓ Unpaid should be transferred to Investor Education and protection fund (IEPF) established by the central government ✓ Funds lying in IEPF must be utilized for Education, awareness and protection of investors ✓ interim dividend shall not be declared at a rate higher than the average dividends declared by the company during the immediately preceding three financial years
Audit of inventories	<ul style="list-style-type: none"> ✓ Examine records of inventories ✓ Ensure management has done physical verification of inventories. Auditor should be present at the time of stock count ✓ Ensure these are proper controls for movement / issue of inventory ✓ Method of valuation & disclosure of inventory should be in compliance with the relevant accounting standards ✓ Classification of inventory ABC Analysis & their records be checked ✓ Management confirmations about stocks held on behalf of others & stocks lying at other people for special worked be checked threading & shaping etc. ✓ Stock held at third party premises should be checked
Audit of fixed assets	<ul style="list-style-type: none"> ✓ Auditor should review internal controls over acquisition like authorisation, capital budgeting etc. ✓ Physical verification of Fixed Assets ✓ Check whether proper records are maintained ✓ Check whether proper depreciation of Fixed Assets is done

	<ul style="list-style-type: none"> ✓ Check supporting documents of acquisition disposal ✓ Check whether scrapping retirement of Fixed Assets is properly authorised. ✓ Check whether sale proceeds of FA are properly accounted ✓ Check title needs of ownership of Fixed Assets
Audit of educational institution	<ul style="list-style-type: none"> ✓ Examine the Trust Deed, or Regulations in the case of school or college to know the bye-laws and policies ✓ Read through the minutes of the meetings of the Managing Committee or Governing Body, noting resolutions affecting accounts and operation of bank accounts and sanctioning of expenditure ✓ Check names entered in the Students' Fee Register ✓ Check whether the fees received has been duly accounted for, by comparing counterfoils of receipts granted with entries in the cash book. ✓ Verify that free studentship and concessions have been granted by a person authorised to do so, having regard to the prescribed Rules. ✓ Confirm that fines for late payment or absence, etc., have either been collected or remitted under proper authority. ✓ Vouch donations, if any, with the list published with the annual report. If some donations were meant for any specific purpose, see that the money was utilised for the purpose.
Audit of hospital	<ul style="list-style-type: none"> ✓ Study the Charter or Trust Deed under which the hospital has been set up especially the provisions affecting the accounts. ✓ Vouch the entries in the Patient's Bill Register with a copies of bill issued. ✓ Vouch the collection from patients with copies of bills and entries in Bills Register. ✓ In case of legacies and donations which are received for specific purposes, it should be ensured that any income therefrom is not utilized for any other purposes. ✓ Where receipts of subscription show a significant deviations from budgeted figures, it should be thoroughly inquired into and the matter be brought to the notice of the trustees or the Managing Committee. ✓ Government grants or grants from local bodies should be verified with the reference to the correspondence with the concerned authorities. ✓ The capital expenditure should be incurred under proper authorization by a valid resolution of the trustees or the Managing Committee. ✓ Verify the system of internal check as regards purchases and issue of stores, medicines etc. ✓ Examine that the appointment of the staff, payment of salaries etc. are duly authorized. ✓ Physically verify the investments, fixed assets and inventories like medicines, other medical equipment
Co-operative society	<ul style="list-style-type: none"> ✓ Co-operative society is an association of persons who have voluntarily joined together to achieve a common economic objective ✓ Generally, only a Chartered Accountant, appointed by the Registrar of Cooperative Societies, can be appointed as the auditor of a co-operative society. ✓ Ensure that no member of the society, other than a registered society, can hold more than twenty per cent of the total number of shares of the society, or such number of shares which in value exceeds Rs. 1,000.

	<ul style="list-style-type: none"> ✓ Ensure that a society accepts loans from its members or non-members as per the by-laws ✓ Ensure that the accounting entries are properly recorded in the books of accounts ✓ Ensure that the society has invested its funds strictly as per the regulatory provisions
Bank Audit	<ul style="list-style-type: none"> ✓ Ensure that internal control with respect to cash, deposits, advances are in place ✓ Inspect the cash in the bank physically and ensure that it tallies with the cash book balance ✓ Reconciliation of balance with RBI as stated in the books of accounts vis-à-vis as appearing in the certificate received from RBI ✓ Ensure that accounting for fixed assets has been adequately done ✓ Ensure that the title deed / ownership documents and calculation of depreciation is appropriate ✓ Information relating to number of unaudited Branches should be given ✓ Audit report is to be submitted in Long Form Audit Report (LFAR) as specified by RBI
Audit of Trusts	<ul style="list-style-type: none"> ✓ To ensure that the trust has been established as per the provisions of Societies Registration Act or Companies Act. ✓ To ensure that the expenditures have done according to the budgets and approvals have been taken for the expenditure ✓ The auditor should physically verify the cash in hand, inventories and fixed assets.
Audit of municipalities / panchayats (local bodies)	<ul style="list-style-type: none"> ✓ To ensure that the expenditures incurred is as per the provision of the law and is in accordance with the financial Rules and regulation formed by the compliant authority. ✓ To ensure that sanction / authorisation is granted by the competent authority for every expenditure. ✓ To ensure that where huge financial expenditure is made is run economically and is expected to contribute growth.

List of Standards of Auditing (as prescribed by the Institute of Chartered Accountants of India)

SL No.	Number of Standards	Name of SA	Effective Date
General Principles and Responsibilities			
2	SA 200 (Revised)	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing	01.04.2010
3	SA210 (Revised)	Agreeing the Terms of Audit Engagements	01.04.2010
4	SA220 (Revised)	Quality Control for an Audit of Financial Statements	01.04.2010
5	SA 230 (Revised)	Audit Documentation	01.04.2009
6	SA 240 (Revised)	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements.	01.04.2009
7	SA250 (Revised)	Consideration of Laws and Regulations in an Audit of Financial Statements	01.04.2009
8	SA260 (Revised)	Communication with those Charged with Governance	01.04.2017
9	SA 265	Communicating Deficiencies in Internal control to those Charged with Governance and Management	01.04.2010
10	SA 299 (Revised)	Joint Audit of financial statements	01.04.2018
Risk Assessments and Responses to Assessed Risks			
11	SA 300 (Revised)	Planning an Audit of Financial Statements	01.04.2008
12	SA 315	Identifying and Assessing the Risk of material Misstatements through understating the Entity and Its Environment	01.04.2008
13	SA320 (Revised)	Materiality in Planning and Performing an Audit	01.04.2010
14	SA 330	Responses to Assessed Risks	01.04.2008
15	SA402 (Revised)	Audit Considerations Relating to an Entity using a Service Organisation	01.04.2010
16	SA 450	Evaluation of Misstatements Identified during the Audit	01.04.2010
Audit Evidence			
17	SA 500 (Revised)	Audit Evidence	01.04.2009

18	SA 501 (Revised)	Audit Evidence - Specific Considerations for Selected Items	01.04.2010
19	SA 505 (Revised)	External Confirmations	01.04.2010
20	SA 510 (Revised)	Initial Audit Engagements - Opening balances	01.04.2010
21	SA 520 (Revised)	Analytical Procedures	01.04.2010
22	SA 530 (Revised)	Audit Sampling	01.04.2009
23	SA 540 (Revised)	Auditing Accounting Estimates, Including fair Value Accounting Estimates and Related Disclosures	01.04.2009
24	SA550 (Revised)	Related Parties	01.04.2010
25	SA 560 (Revised)	Subsequent Events	01.04.2009
26	SA 5 70 (Revised)	Going Concern	01.04.2017
27	SA 580 (Revised)	Written Representation	01.04.2009
Using Work of Others			
28	SA 600	Using the Work of Other Auditors	
29	SA610 (Revised)	Using the work of Internal Auditors	01.04.2016
30	SA 620 (Revised)	Using the Work of an Auditor's Expert	01.04.2010
Audit Conclusions and Reporting			
31	SA700 (Revised)	Forming an Opinion and Reporting on Financial Statements	01.04.2018
32	SA 701	Communicating Key Audit Matters in the Independent Auditor's Report	01.04.2018
33	SA705 (Revised)	Modifications to the Opinion in the Independent Auditor's Report	01.04.2018
34	SA 706 (Revised)	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report	01.04.2018
35	SA 710 (Revised)	Comparative Information - Corresponding Figures and Comparative Financial Statements	01.04.2011

36	SA720 (Revised)	The Auditor's responsibilities relating to Other Information	01.04.2018
Specialised Areas			
37	SA 800	Special Considerations-Audits of Financial Statements Prepared in Accordance with Special Purpose Framework	01.04.2011
38	SA 805	Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement	01.04.2011
39	SA 810	Engagements to Report on Summary Financial Statements	01.04.2011

Note: Only the titles of the SAs are to be remembered, especially the highlighted ones.

State whether the following statements are true or false.

1. For the benefit of the organisation, quality auditing should only report non-conformances and corrective actions, but should not highlight areas of good practice. **False**
2. An auditor is not insurer. **True**
3. There is no difference between Statutory and external audit. **False**
4. The time required and costs involved in an external audit are much higher as compared to internal audits. **True**
5. The auditor examines in depth the implementation of the quality system. **False**
6. An investigation is done with the generally accepted auditing procedure. **False**
7. The primary objective of the audit is for detecting frauds and error in the books of accounts and financial records of the clients business. **False**
8. Auditor has right to disclose the client information to a third party. **False**
9. The concept of true or fair is a fundamental concept in auditing. **False**

Fill in the blanks

1. Audit is derived from _____.
2. Auditing is the examination of _____ of business.
3. Auditing is done with the principal set in _____.
4. An in depth examination to detect a suspected fraud is termed as _____.
5. An audit in which auditor review the performance of entity is termed as _____.
6. An audit in which the auditor reviews the adherence of policy made by the management is _____.
7. _____ audit is conducted at the end of the accounting year.
8. _____ audit is conducted between two annual audits.

[Answer: 1.Audire, 2.Books of Account, 3.Standards on Auditing, 4.Investigation, 5.Operational Audit, 6.Internal Audit, 7.Annual Audit, 8.Interim Audit.]

Match the following

Column A		Column B	
1	Statutory Audit	A	Comptroller & Auditor General of India
2	Functional classification of Audit.	B	Audit against provision of funds
3	Tax Audit limit for a person carrying on profession.	C	Basic principal governing an audit
4	Primary objective of business	D	Tax Audit
5	The authority for Government Audit.	E	Final Audit
6	Scope of work	F	Determine whether financial statement presents true and fair view.
7	SA 200	G	Audit Engagement
8	Tax Audit limit for a company	H	External and Internal Audit
9	To ensure that the expenditure is made according to limit.	I	Twenty five Lakh rupees
10	Annual Audit	J	Hundred Lakh rupees

[Answer: 1-D, 2-H, 3-I, 4-F, 5-A, 6-G, 7-C,8-J, 9-B, 10- E]

Multiple choice questions

1. Various types of quality audits are;
 - A. Product
 - B. Process
 - C. Management (system)
 - D. Registration (certification)
 - E. All of above

2. When the auditor is an employee of the organization being audited (auditee), the audit is classified as
 - A. Internal
 - B. External
 - C. Compliance
 - D. Both A & B

3. The most comprehensive type of audit is the system audit, which examines suitability and effectiveness of the system as a whole.
 - A. Quantity
 - B. Quality
 - C. Preliminary
 - D. Sequential

4. Each of the three parties involved in an audit plays a role that contributes to its success.
 - A. the client, the auditor, and the auditeer
 - B. the client, the auditor, and the auditee
 - C. the client, the moderator, and the auditee
 - D. the client, the auditor, and the auditee

5. An audit is usually conducted in three steps:
 - (1) A pre-examination or opening meeting with the auditee marks the beginning of the process.
 - (2) involves a suitability audit of the documented procedures against the selected reference standard.
 - (3) the auditor examines in depth the implementation of the quality system.
 - A) True
 - B) False

6. Audit is a fact-finding process that compares actual results with.....
 - A. Specified standards and plans
 - B. Expected results
 - C. Premature results
 - D. Preliminary results

7. The is also expected to provide the resources needed and select staff members to accompany the auditors.

- A. Auditor
- B. Client
- C. Internal auditor
- D. Auditee

[Answer: 1.E, 2.A, 3.B, 4.D, 5.A, 6.A, 7.D,]

State whether the following statements are true or false.

1. An Audit report is the end product of the auditing. **True**
2. An audit engagement is the initial stage of a audit during which the auditor notifies the client that he has accepted the audit work. **True**
3. An audit programme is a detailed plan of the auditing. **True**
4. An Audit note book is a bound book in which a large variety of matters observed during the course of audit are recorded. **True**
5. An Audit note book does not contain details about the name of key management personnel. **False**
6. As per ICAI (C.A) auditor need to retain the working papers for a period of 5 yrs. **False**
7. An audit work reflects the work done by the management. **False**
8. An audit report should have a proper title. **True**
9. In an audit report the Membership number of the Chartered Accountants is irrelevant. **False**
10. Is reporting in Audit report should comply with the requirements as made by statutes. **True**

Fill in the blanks

1. An Audit report reflects the work done by the _____.
2. Audit programme act as a _____ of audit procedures to be performed.
3. The reliability of audit evidence depends on its source _____ or _____.
4. An audit report is the _____ product of every audit.
5. Audit report reflects the real position of the _____ of the company.
6. Audit working papers are the record of the _____ and execution of the audit engagement.
7. An audit note book act as a _____ tool available as a defence with the auditors in the event of any charges is brought against him.

[Answer: 1.Auditor, 2.Check list, 3.Internal or External, 4.Final, 5.Financial Status, 6.Planning, 7.Evidential]

Match the following

Column A		Column B	
1	SA 210	A	Audit Note Book
2	SA 230	B	Audit Sampling

3	Detailed of audit work to be performed	C	Opinion on Financial Statement
4	Copies of Management letters	D	Audit Working Papers
5	Analysis of significant ratios & trends	E	Audit Planning
6	SA 530	F	Current Audit File
7	Detail about the name and organization structure.	G	Permanent Audit File
8	Property of Auditor	H	Audit Programme
9	SA 300	I	Agreeing the terms of Audit Engagements
10	Objective of an audit	J	Audit Documentation

[Answer: 1-I, 2-J, 3-H, 4-F, 5-G, 6-B, 7-A, 8-D, 9-E, 10-C]

Multiple choice questions

1. CAATS stands for-

- A. Cornwall Air Ambulance Trust
- B. Children Air Ambulance Trust
- C. Center for alternatives to Animal Testing
- D. Computer Assisted Auditing Technique**

2. Chartered Accountants have to retain the working papers for-

- A. 2 yrs
- B. 3 yrs.
- C. 5 yrs.
- D. 7 yrs.**

3. SA 210 stands for-

- A. Quality control for an audit of financial Statements
- B. Agreeing the terms of Audit engagements.**
- C. Audit Documentation
- D. Responsibility of Joint Auditor

4. SA 230 stands for-

- A. Quality control for an audit of financial Statements
- B. Agreeing the terms of Audit engagements.
- C. Audit Documentation**
- D. Responsibility of Joint Auditor

5. SA 530 stands for-

- A. Quality control for an audit of financial Statements
- B. Agreeing the terms of Audit engagements.
- C. Audit Documentation
- D. Audit Sampling**

6. SA 300 stands for
 A. **Audit Planning**
 B. Audit Sampling
 C. Audit Documentation
 D. None of these
7. Permanent Audit file contains –
 A. Copies of management letters
 B. Audit Programme
 C. Analysis of transaction and balances
 D. **Analysis of significant ratios and trends**
8. Current Audit file contains-
 A. AOA and MOA of the company
 B. Analysis of significant ratios and trends
 C. Notes regarding significant accounting policies
 D. **Audit programme.**
9. Objective of an Audit is to formulate an overall opinion on
 A. Cost Statement
 B. **Financial Statement**
 C. Books of Accounts
 D. None of these

State whether the following statements are true or false.

1. Internal Audit is an Independent Appraisal activity. **True**
2. Internal Check and Internal Audit are one and the same. **False**
3. Internal auditor has a big role to play in preventing fraud. **True**
4. Audit committee is only luxury to the company. **False**
5. Internal Auditing is a function distinct from authorisation and recording. **True**
6. Special consideration is applicable for audit of expenses of a company. **True**
7. Internal auditor of a company cannot be its Cost Auditor. **True**
8. Cut off procedures are generally applied to trading transactions. **True**
9. An unexplained decrease in the Gross Profit ratio may result due to fictitious sales. **False**
10. Proving the truth means vouching of expenses. **False**

Fill in the blanks

1. Internal Check is a valuable part of the _____ control.

2. Internal Audit is an Independent _____ activity.
3. Proving the truth means vouching of _____.
4. Cut off procedures are generally applied to _____ transactions.
5. Test checking is _____ and depends upon the choice of the auditor.
6. The Internal Auditor is appointed by the _____.
7. Concept related to Internal Check is known as _____.
8. Vouching is said to be the essence of _____.

[Answer: 1.Internal, 2.Appraisal, 3.Expenses, 4.Trading, 5.Subjective, 6.Management, 7.Organisational Independence, 8.Auditing,]

Match the following

Column A		Column B	
1	GAR 7 challan	A	Excise Duty
2	Ind As 37	B	Contingent Liability
3	SA 265	C	Communication deficiencies in Internal Control to those charged with Governance and Management.
4	Proving the Truth	D	Verification
5	Section 138 of the Companies Act	E	Intangible Assets

[Answer: 1-A, 2-B, 3-C, 4-D, 5-E]

Multiple choice questions

1. The purpose of internal audit is to protect the
 - A. Assets
 - B. Audit staff.
 - C. Accountant
 - D. Management
2. The purpose of Internal audit is to detect the error in the;
 - A. Accounting records
 - B. Employees records
 - C. Cash records
 - D. Bank records
3. The purpose of internal audit is to determine liabilities of;
 - A. Employer
 - B. Employees
 - C. Accountant
 - D. External auditor
4. The assets protection is possible through

A. **Internal Audit**

B. Internal Control

C. Internal Check

D. None of the above

5. The function of internal audit is meant for-

A. **Dearth of Staff**

B. Dearth of time

C. Dearth of time and funds

D. Dearth of funds

6. Review of internal control system is very important for the auditor as the effectiveness of internal control system will determine the extent of checking to be done by the;

A. Management

B. **Auditor**

C. Accountant

D. None of the above

7. Proving the truth means vouching of _____.

A. Payment

B. **Expenses**

C. Assets

D. Liabilities

8. Check list contains the instruction to be followed by the –

A. Internal Auditor

B. External Auditor

C. **Audit Assistants**

D. Employee of the organization

9. Internal Control Questionnaire contains the questions need to be followed by the-

A. Employer of the organisation

B. **Employee of the organisation**

C. Auditor of the entity

D. Banker to the organisation

State whether the following statements are true or false.

1. In case of Government Company auditor is appointed by the CAG within 182 Days from the commencement of Financial Year. **False**

2. Cooling period of Individual Auditor is 2 consecutive terms of 5 years. **False**

3. The first auditor appointed shall hold office till the conclusion of first AGM. **True**
4. Government Company means a company where 21% of shares are hold by the Central government or State Government or partly by Central Government or State Government. **False**
5. A Body Corporate can become Auditor of the company. **False**
6. The auditor shall have access at all times to the books of account and voucher of the company. **True**
7. An auditor of a company can render Investment Banking Service. **False**
8. The auditor report shall be signed only by the person appointed as an auditor of the company. **True**
9. All notices of the general meeting shall be forwarded to the auditor of the company. **True**
10. An audit committee shall have minimum 5 directors. **False**

Fill in the blanks

1. An Audit committee shall have _____ directors.
2. Audit committee formation is mandatory for a public company having _____ paid up share capital.
3. Cost Audit is mandatory only when specific order is issued by the _____.
4. Cost Audit report is submitted to the Central Government within _____ days.
5. First auditor is appointed by the BOD of the company within ____ days.
6. Cost Audit is conducted by the _____ in practice.
7. Any fraud to involve an amount of _____ is to be reported to the Central Government.
8. The auditor shall have a right to be _____ at Annual General Meetings.
9. Punishment for contravention of section 139 is _____.
10. Auditor of Government Company is appointed by _____.

[Answer: 1.3, 2.10 Crore or more, 3.Central Government, 4.30 days, 5.30 days, 6.Cost Accountants, 7. 1crore, 8.Heard, 9.25000, 10.Comptroller and Auditor General of India.]

Match the following

Column A		Column B	
1	Maximum term of Firm as Auditor	A	2 Consecutive terms of 5 years
2	Minimum fees for contravention of section 139	B	BOD
3	Maximum fees for contravention of section 139	C	A company which is a subsidiary of Government Company.
4	Independent Directors	D	Section 145 of the Companies Act 2013
5	First auditor appointment is done by	E	1 term of 5 years
6	Auditor Remuneration is to be fixed at	F	Special Resolution
7	Government Company	G	Rs. 25,000
8	Maximum term of Individual Auditor	H	Rs. 500,000
9	Resolution for removal of auditor before expiry of term	I	General Meeting
10	Signing of audit report	J	Audit Committee

[Answer: 1-E, 2-G, 3-H, 4-J, 5-B, 6-I, 7-C, 8-A, 9-F, 10-D]

Multiple choice questions

1. First auditor of the company is appointed by the BOD within
 - A. 15 days
 - B. 30 days**
 - C. 45 days
 - D. 60 days

2. Cost Audit is covered under
 - A. Section 204
 - B. Section 148**
 - C. Section 139
 - D. None of the above

3. Secretarial Audit is covered under section
 - A. Section 204**
 - B. Section 148
 - C. Section 139
 - D. None of the above

4. Appointment of auditor for government company is done by
 - A. BOD
 - B. Audit committee
 - C. Managing Director
 - D. CAG**

5. While conducting audit of financial statement auditor need to comply with
 - A. Cost Audit Standards
 - B. Secretarial standards
 - C. Auditing Standards**
 - D. None of the above

State whether the following statements are true or false.

1. Cost Records are to be maintained as per Form CRA-1. **True**
2. The Cost Auditor has to follow the Cost Auditing Standards while conducting Cost Audit. **True**
3. Cost Accounting Standards is mandatory as per section 143 of the companies Act 2013. **False**
4. CRA-2 is used to intimate the appointment of Cost Auditor to the Central Government. **True**
5. Chartered Accountants are eligible to conduct Secretarial Audit having valid certificate of practice. **False**
6. Company Secretaries are eligible to conduct Cost Audit having valid certificate of practice. **False**
7. Secretarial Audit is applicable to all unlisted companies. **False**

8. Secretarial Audit report is given as per the Form MR-3. **True**
9. Appointment of Secretarial Auditor is done by means of resolution at Board Meetings. **True**
10. Secretarial Audit Report is attached with the Board report. **True**

Fill in the blanks

1. Secretarial Audit is applicable to all _____ companies.
2. Cost Audit is done by _____ in practice having valid certificate of practice.
3. Secretarial Audit is done by _____ in practice having valid certificate of practice.
4. Cost Records are to be maintained in form _____.
5. Format for Secretarial Audit report is form _____.
6. Secretarial Audit is applicable to public companies having paid up share capital of _____ crore or more.
7. Secretarial Audit is applicable to public companies having turnover of _____ crore or more.
8. Secretarial Audit is covered under Section _____ of the companies Act 2013.
9. Cost Audit is covered under Section _____ of the companies Act 2013.
10. Cost Auditor is required to be appointed by the _____ of the company on recommendation of Audit Committee.

[Answer: 1.Listed, 2.Cost Accountant, 3.Company Secretary, 4.CRA-1, 5.MR-3, 6.50 crore, 7.200 crore, 8.204 9.148, 10.Board of Directors]

Match the following Column A

Column B

1	Secretarial Audit Report	A	CRA-1
2	Sec 204 of the companies Act	B	Cost Audit
3	Secretarial Audit	C	Board of Directors
4	Intimation for appointment of cost auditor to Central Government	D	CRA-4
5	Casual vacancy in the office of a Cost Auditor is filled by-	E	Cost Audit report by the Auditor to Company
6	Form for filing Cost Audit Report with the Central Government	F	MR-3
7	Sec 148 of the companies Act	G	1 Lakh rupees which can extend to 5 Lakh rupees
8	CRA 3	H	Secretarial Audit
9	Cost Accounting Records	I	Listed Companies
10	Penalty for non compliance of Sec 204	J	CRA-2

[Answer: 1- F, 2-H, 3-I, 4-J, 5-C, 6-D, 7-B, 8-E, 9-A, 10-G]

Multiple choice questions

1. Cost Audit can be done by the-
- A. Employee of the organization

B. Cost Auditor

- C. Secretarial Auditor
- D. None of the above

2. Secretarial Audit can be done by-

- A. Employee of the organization
- B. Cost Auditor

C. **Secretarial Auditor**

- D. None of the above

3. Form for maintainence of Cost Records by the Company.

- A. **CRA-1**
- B. CRA-2
- C. CRA-3
- D. CRA-4

4. Secretarial Audit is applicable to the public sector company having the paid up share capital of-

- A. **50 crore**
- B. 75 crore
- C. 100 crore
- D. 200 crore

5. Secretarial Audit is applicable to the public sector company having the turnover of-

- A. 100 crore
- B. 200 crore
- C. **250 crore**
- D. 300 crore

6. Form for Secretarial Audit Report is-

- A. MR-2
- B. **MR-3**
- C. MR-4
- D. MR-5

7. Cost Auditor is appointed by the-

- A. Audit Committee
- B. BOD
- C. **BOD on recommendation Audit Committee**
- D. None of the above

State whether the following statements are true or false.

- 1. SA 700 stands for “Forming an opinion and reporting on Financial Statement”. **True**

2. Audit report reflects the work done by the employees. **False**
3. An audit report is addressed to the authority appointing the Auditor. **True**
4. The auditor gives a clean report when he doesn't have any significant reservation in respect of matters contained in the Financial Statements. **True**
5. A disclaimer of opinion is issued by the auditor when he cannot form an overall opinion about the matters contained in the Financial Statements. **True**
6. A piecemeal opinion is issued when whole of the matters contained in the financial statement is true and fair. **False**
7. An adverse report is given when the auditor concludes that based on his examination he does not agree with the affirmations made in the financial report. **True**
8. CARO order 2016 is applicable to the Banking Company. **False**

Fill in the blanks

1. Violation of section 143 (12) imply a fine of R _____
2. A report is statement of _____ & _____ facts.
3. The audit report shall either contain as _____ of regarding financial statements.
4. Audit report is meant for the _____ of the company.
5. Audit report reflects the work done by the _____.
6. The audit report should be signed in the personal name of the _____.

[Answer: 1.1 Lakh Rupees, 2.Collected and Considered, 3.Expression of opinion, 4.Shareholders, 5.Auditor, 6.Auditor]

Match the following

Column A	Column B
1 True and Fair Audit Report	A Forming an opinion and Reporting on Financial Statements.
2 Audit report with certain reservations	B Audit Report
3 SA 700	C Unable to form overall opinion on Financial Statement
4 Negative report	E One Lakh Rupees.
5 Fine for violation of sec 143 (12)	F Four times.
6 SA 600	G Unqualified Opinion.
7 Expression of opinion on Financial Statement	H Using the work of another Auditor
8 Disclaimer of opinion	I Does not agree with affirmation made by the management in the books.
9 Scope paragraph	J Qualified Report.

[Answer: 1.D, 2. C, 3.E, 4.B, 5.A]

Multiple choice questions

1. Audit of debenture is covered under section-
A. Section 70

B. Section 71

- C. Section 72
D. Section 73
2. Declaration of dividend is covered under section-
A. Section 122
B. Section 123
C. Section 124
D. Section 125
3. Statutory Auditor is appointed by the shareholder in the
A. **General Meeting**
B. Statutory Meeting
C. EGM
D. Board Meeting
4. Statutory Auditor can be removed by the
A. **Shareholders**
B. Audit committee
C. BOD
D. None of the above.
5. Internal Auditor is appointed by the
A. **Board**
B. Audit committee
C. Shareholder
D. None of the above

Identify the correct answer:

(i) Various types of quality audits are;

- (a) Product
(b) Process
(c) Management (system)
(d) Registration (certification)
(e) All of above

(ii) When the auditor is an employee of the organization being audited (auditee), the audit is classified as

- (a) Internal
(b) External
(c) Compliance

(d) Both A & B

(iii) The most comprehensive type of audit is the system audit, which examines suitability and effectiveness of the system as a whole.

(a) Quantity

(b) Quality

(c) Preliminary

(d) Sequential

(iv) Each of the three parties involved in an audit plays a role that contributes to its success.

(a) the client, the auditor, and the auditee

(b) the client, the auditor, and the auditee

(c) the client, the auditor, and the auditee

(d) the client, the auditor, and the auditee

(v) -----is a method of misappropriation of cash by which the past defalcations are covered up by the current receipts.

(a) Fraud

(b) Error

(c) Lapping

(d) Forensic Audit

(vi) An audit which is conducted considering the particular area of accounting which the owner thinks essential is known as -----.

(a) Complete Audit

(b) Partial Audit

(c) Balance Sheet Audit

(d) Cost Audit

(vii) The Companies Act 1913 used the term “True and -----”.

(a) Fair

(b) True

(c) False

(d) Correct

(viii) -----is conducted with a particular object in view, viz to know financial position, earning capacity, prove fraud, invest capital, etc.

(a) Auditing

(b) Accounting

(c) Investigation

(d) Sampling

(ix) Misappropriation of goods is a -----.

- (a) Fraud
- (b) Clerical error
- (c) Error of principle
- (d) Compensating error

(x) ----- is a relative term.

- (a) Audit
- (b) Disclosure
- (c) Materiality
- (d) Accounting

Answer:

- (i) e
- (ii) a
- (iii) b
- (iv) d
- (v) c
- (vi) b
- (vii) d
- (viii) c
- (ix) a
- (x) c

Fill in the blanks:

- (i) Audit is derived from _____.
- (ii) Auditing is the examination of _____ of business.
- (iii) Auditing is done with the principles set in _____.
- (iv) An in depth examination to detect a suspected fraud is termed as _____.
- (v) An audit in which auditor reviews the performance of an entity is termed as _____.
- (vi) An audit in which the auditor reviews the adherence of policy made by the management is _____.
- (vii) _____ audit is conducted at the end of the accounting year.
- (viii) _____ audit is conducted between two annual audits.
- (ix) An audit which is conducted considering the particular area of accounting which the owner thinks essential is known as a _____.
- (x) In the case of -----, the honesty and integrity of the concerned individual is always in doubt.

- (xi) Investigation is usually concerned with ----- evidence.
 (xii) The auditor's determination of materiality is a matter of ----- judgement.

Answer:

- (i) Audire
 (ii) Books of Account
 (iii) Standards on Auditing
 (iv) Investigation
 (v) Operational Audit
 (vi) Internal Audit
 (vii) Annual Audit
 (viii) Interim Audit
 (ix) Partial Audit
 (x) Fraud
 (xi) Conclusive
 (xii) Professional

Match the following:

Column A

Column B

1	Primary objective of business	A	Basic principles governing an audit
2	SA 200	B	Comptroller & Auditor General of India
3	Annual Audit	C	Whether financial statement presents true and fair view
4	The authority for Government Audit	D	Final Audit

Answer: Column A

Column B

1	Primary objective of business	C	Whether financial statement presents true and fair view
2	SA 200	A	Basic principles governing an audit
3	Annual Audit	D	Final Audit
4	The authority for Government Audit	B	Comptroller & Auditor General of India

State whether the following statements are True or False.

- (a) An auditor is not insurer.
 (b) The auditor examines in depth the implementation of the quality system.
 (c) The concept of true or fair is a fundamental concept in auditing.
 (d) For the benefit of the organisation, quality auditing should only report non-conformances and corrective actions, but should not highlight areas of good practice.
 (e) Auditor has right to disclose the client information to a third party.

- (f) There is no difference between Statutory and external audit.
- (g) An investigation is done with the generally accepted auditing procedure.
- (h) The time required and costs involved in an external audit are much higher as compared to internal audits.
- (i) The primary objective of the audit is for detecting frauds and error in the books of accounts and financial records of the clients business.
- (j) Partial audit is not a legal audit.
- (k) Statutory audit is compliance-oriented.
- (l) Materiality is an absolute term.
- (m) The term “true and fair” is an opinion and not a guarantee.

Answer:

a. true

b. false

c. false

d. false

e. false

f. false

g. false

h. true

i. false

j. true

k. true

l. false

m. true

Match the following:

Column A

Column B

1	External and Internal Audit	A	Statutory Audit
2	Tax Audit	B	Audit conducted between two annual audits
3	Audit against provision of funds	C	To ensure that the expenditure is made according to limit.
4	Interim Audit	D	Functional classification of Audit

Answer: Column A

Column B

1	External and Internal Audit	D	Functional classification of Audit
2	Tax Audit	A	Statutory Audit
3	Audit against provision of funds	C	To ensure that the expenditure is made according to limit.
4	Interim Audit	B	Audit conducted between two annual audits

Fill in the blanks:

- (a) An Audit report reflects the work done by the _____.
- (b) Audit programme act as a _____ of audit procedures to be performed.
- (c) The reliability of audit evidence depends on its source, _____ or _____.
- (d) An audit report is the _____ product of every audit.
- (e) Audit report reflects the real position of the _____ of the company.
- (f) Audit working papers are the records of the _____ and execution of the audit engagement.
- (g) An audit note book acts as an _____ tool available as a defence with the auditors in the event of any charges is brought against him.
- (h) SA 500 relates to audit _____.
- (i) SA 230 relates to audit _____.
- (j) Confirmation from debtors is an example of _____ evidence.

Answer:

- (a) auditor
- (b) check list
- (c) internal or external
- (d) final
- (e) financial status
- (f) planning
- (g) evidential
- (h) evidence
- (i) documentation
- (j) external

Identify the correct answer:

- (i)** CAATS stands for
- (a) Cornwall Air Ambulance Trust
- (b) Children Air Ambulance Trust
- (c) Center for alternatives to Animal Testing
- (d) Computer Assisted Auditing Technique
- (ii)** Chartered Accountants have to retain the working papers for-
- (a) 2 yrs
- (b) 3 yrs.
- (c) 5 yrs.
- (d) 7 yrs.
- (iii)** SA 210 stands for-

- (a) Quality control for an audit of financial Statements
- (b) Agreeing the terms of Audit engagements.
- (c) Audit Documentation
- (d) Responsibility of Joint Auditor

(iv) SA 230 stands for-

- (a) Quality control for an audit of financial Statements
- (b) Agreeing the terms of Audit engagements.
- (c) Audit Documentation
- (d) Responsibility of Joint Auditor

(v) SA 530 stands for-

- (a) Quality control for an audit of financial Statements
- (b) Agreeing the terms of Audit engagements.
- (c) Audit Documentation
- (d) Audit Sampling

(vi) SA 300 stands for

- (a) Audit Planning
- (b) Audit Sampling
- (c) Audit Documentation
- (d) None of these

(vii) Permanent Audit file contains

- (a) Copies of management letters
- (b) Audit Programme
- (c) Analysis of transaction and balances
- (d) Analysis of significant ratios and trends

(viii) Current Audit file contains

- (a) AOA and MOA of the company
- (b) Analysis of significant ratios and trends
- (c) Notes regarding significant accounting policies
- (d) Audit programme.

(ix) Objective of an Audit is to formulate an overall opinion on

- (a) Cost Statement
- (b) Financial Statement
- (c) Books of Accounts
- (d) None of these

Answer:

i.d

ii.d

iii.b

iv.c

v.d
vi.a
vii.d
viii.d
ix.b

State whether the following statements are true or false.

- (i) An Audit report is the end product of the auditing.
(ii) An audit engagement is the initial stage of a audit during which the auditor notifies the client that he has accepted the audit work.
(iii) An audit programme is a detailed plan of the auditing.
(iv) An Audit note book is a bound book in which a large variety of matters observed during the course of audit are recorded.
(v) An Audit note book does not contain details about the name of key management personnel.
(vi) As per ICAI (C.A) auditor need to retain the working papers for a period of 5 yrs.
(vii) An audit work reflects the work done by the management.
(viii) An audit report should have a proper title.
(ix) In an audit report the Membership number of the Chartered Accountants is irrelevant.
(x) Reporting in Audit report should comply with the requirements as made by statutes.

Answer:

(i) True (ii) True

(iii) True

(iv) True

(v) False

(vi) False

(vii) False

(viii) True

(ix) False (x) True

Match the following:

Column A

Column B

1	External Confirmation	A	Final product of every audit.
2	Audit programme	B	(a) Records of the planning and execution of the audit engagement.
3	Audit working papers	C	Method of obtaining audit evidence
4	Audit report	D	Check list of audit procedures to be performed.

Answer: Column A

Column B

1	External Confirmation	C	Method of obtaining audit evidence
2	Audit programme	D	Check list of audit procedures to be performed.

3	Audit working papers	B	(a) Records of the planning and execution of the audit engagement.
4	Audit report	A	Final product of every audit.

Match the following:

Column A

Column B

1	SA 210	A	Agreeing the terms of Audit engagements.
2	SA 230	B	(a) Audit Planning
3	SA 300	C	Audit Sampling
4	SA 530	D	Audit Documentation

Answer:

Column A

Column B

1	SA 210	A	Agreeing the terms of Audit engagements.
2	SA 230	D	Audit Documentation
3	SA 300	B	(a) Audit Planning
4	SA 530	C	Audit Sampling

State whether the following statements are *True* or *False*.

- (i) Internal Audit is an independent appraisal activity.
- (ii) Internal Check and Internal Audit are one and the same.
- (iii) Internal auditor has a big role to play in preventing fraud.
- (iv) Internal Auditing is a function distinct from authorisation and recording.
- (v) Internal auditor of a company cannot be its Cost Auditor.
- (vi) Internal control questionnaire (ICQ) is prepared by the employer.
- (vii) The responsibility of the external auditor cannot be reduced due to reliance on the work of the internal auditor.
- (viii) To carry out internal audit no separate department is required to be formed.

Answer:

- (i) **True**
- (ii) **False**
- (iii) **True**
- (iv) **True**
- (v) **True**
- (vi) **False**
- (vii) **True**
- (viii) **False**

Fill in the blanks:

- (a) Internal Check is a valuable part of the _____ control.

- (b) Internal Audit is an independent _____ activity.
- (c) The Internal Auditor is appointed by the _____.
- (d) Accounting control is _____ control.
- (e) As per Section _____ of the Companies Act, 2013 read with Rule 13 of Companies (Accounts) Rules, 2014, certain classes of companies are required to appoint Internal Auditors.
- (f) Internal control questionnaire (ICQ) is prepared by the _____.
- (g) Vouching is the _____ of auditing.
- (h) _____ of assets implies an enquiry into the value, ownership and title, existence and possession and the presence of any charge on the assets.
- (i) The steps in the process of verification include inspection, observation and _____.
- (j) The auditor should examine that the net profits and the commission payable to the directors has been computed in terms of Schedule ----- to the Companies Act, 2013.

Answer:

- (a) **internal**
- (b) **appraisal**
- (c) **management**
- (d) **financial**
- (e) **138**
- (f) **auditor**
- (g) **essence**
- (h) **Verification**
- (i) **Confirmation** (j) **iii**

Identify the correct answer:

- (i) The purpose of internal audit is to protect the
- Assets
 - Audit staff.
 - Accountant
 - Management
- (ii) The purpose of Internal audit is to detect the error in the
- Accounting records
 - Employees records
 - Cash records
 - Bank records
- (iii) The purpose of internal audit is to determine liabilities of
- Employer

- b. Employees
- c. Accountant
- d. External auditor

(iv) The assets protection is possible through

- a. Internal Audit
- b. Internal Control
- c. Internal Check
- d. None of the above

(v) The function of internal audit is meant for

- a. Dearth of Staff
- b. Dearth of time
- c. Dearth of time and funds
- d. Dearth of funds

(vi) Review of internal control system is very important for the auditor as the effectiveness of internal control system will determine the extent of checking to be done by the

- a. Management
- b. Auditor
- c. Accountant
- d. None of the above

(vii) Check list contains the instruction to be followed by the

- a. Internal Auditor
- b. External Auditor
- c. Audit Assistants
- d. Employee of the organisation

(viii) Internal Control Questionnaire contains the questions need to be followed by the

- a. Employer of the organisation
- b. Employee of the organisation
- c. Auditor of the entity
- d. Banker to the organisation

(ix) Accounting control

- a. Administrative control
- b. Internal audit
- c. Internal check
- d. Financial control

(x) _____ allocation of duties among the staff in such a way that it eliminates the chances of any duplicity of work

- a. Internal check
- b. Internal control
- c. Internal audit
- d. Operational control

Answer:

- i.a**
- ii.a**
- iii.b**
- iv.a**
- v.a**
- vi.b**
- vii.c**
- viii.b**
- ix.d**
- x.a**

Match the following:

Column A		Column B	
1	Internal audit	A	Financial control
2	Accounting control	B	allocation of duties among the staff in such a way that it eliminates the chances of any duplicity of work
3	Administrative control	C	continuous appraisal of the various operational activities of the organisation
4	Internal check	D	ensures adherence to management's policies, rules, regulations

Answer:

Column A		Column B	
1	Internal audit	C	continuous appraisal of the various operational activities of the organisation
2	Accounting control	A	Financial control
3	Administrative control	D	ensures adherence to management's policies, rules, regulations
4	Internal check	B	allocation of duties among the staff in such a way that it eliminates the chances of any duplicity of work

Match the following:

Column A

Column B

1	Vouching	A	An enquiry into the value, ownership and title, existence and possession and the presence of any charge on the assets
2	Verification	B	Concerned with evaluating and improving the effectiveness of risk management, control and governance processes
3	Internal Control	C	Concerned with operational efficiency, productivity and profitability of the organisation.
4	Internal Audit	D	examination of accuracy, authority and authenticity of transactions

Answer: Column A

Column B

1	Vouching	D	examination of accuracy, authority and authenticity of transactions
2	Verification	A	An enquiry into the value, ownership and title, existence and possession and the presence of any charge on the assets
3	Internal Control	C	Concerned with operational efficiency, productivity and profitability of the organisation.
4	Internal Audit	B	Concerned with evaluating and improving the effectiveness of risk management, control and governance processes

Identify the correct alternative.

(i) Dividend cannot be paid out of –

- A. Current year's profit after providing depreciation
- B. Undistributed profits for any previous financial year or years after providing for depreciation
- C. Profit on revaluation of any fixed assets**
- D. Money provided by the Central Government or a State Government

(ii) A cost auditor submits his report to –

- A. Government
- B. Shareholders
- C. Statutory Auditor
- D. Board of Directors**

(iii) An auditor should submit a Disclaimer of Opinion when –

- A. He is satisfied with the truth and fairness of financial statements.
- B. He has certain reservations as to the presentation of truth and fairness in financial statements.
- C. Some material information is not available.**
- D. The effect of any disagreement with the management is not so material.

(iv) The first auditor of a Company is appointed by –

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A. Board of Directors

B. Managing Director

C. Comptroller and Auditor General (CAG)

D. Shareholders

(v) An Audit Committee should have a minimum of _____ number of directors.

A. 4

B. **3**

C. 5

D. 6

(vi) Unpaid dividend standing at the credit of Unpaid Dividend A/C should be transferred to Investor Education and Protection Fund after _____ years of its remaining unpaid.

A. Six

B. Eight

C. **Seven**

D. Five

(vii) Which of the following services cannot be rendered by an auditor as per Companies Act 2013?

A. Vouching

B. Verification of assets and liabilities

C. **Issuing certificates on relevant matters**

D. Providing investment advisory services

State true or False:**(i)** The first auditor of a company is appointed by the shareholders of the company at the general meeting.**(ii)** A company auditor can render actuarial services to his client.**(iii)** Secretarial Audit is applicable to listed companies as well as certain non-listed public companies.**(iv)** The first auditor of a Govt. Company is appointed by the shareholders of the company at the general meeting.**Answer:**

(i) False

(ii) False

(iii) True

(iv) False

Match the following items.**Column 'A'****Column 'B'**

1.	Audit of branch accounts	A.	Qualified Audit Report
2.	Unable to form an overall conclusion on Financial Statements	B.	Section 139(8)
3.	Audit Report with reservations	C.	Section 143(8)
4.	Filling up of casual vacancy	D.	Disclaimer of Opinion

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Answer:

Column 'A'

Column 'B'

1.	Audit of branch accounts	C.	Section 143(8)
2.	Unable to form an overall conclusion on Financial Statements	D.	Disclaimer of Opinion
3.	Audit Report with reservations	A.	Qualified Audit Report
4.	Filling up of casual vacancy	B.	Section 139(8)

Multiple Choice Questions:

(i) Statutory Auditor can be removed by the

(A) **Shareholders**

(B) Audit committee

(C) BOD

(D) None of the above

(ii) Annual Audit is known as _____.

(A) Tax Audit

(B) Internal Audit

(C) **Final Audit**

(D) All of the above

(iii) SA 210 stands for _____.

(A) Responsibility of Joint Auditor

(B) Overall planning of audit

(C) **Agreeing the terms of Audit Engagements** (D)None of the above

(iv) Audit Procedures to obtain audit evidences include

(A) Compliance Procedure

(B) Substantive Procedure

(C) **Both (A) and (B)**

(D) Neither (A) nor (B)

(v) _____ is said to be the essence of Auditing

(A) **Vouching**

(B) Accounting

(C) Costing

(D) None of the above

(vi) Audit is conducted to draw overall opinion on _____.

(A) **Financial Statement**


(B) Cost Statement

(C) Income Statement

(D)None of the above.

(vii) The audit report should be signed in the personal name of the _____

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- (A) Accountant
 (B) **Auditor**
 (C) Directors
 (D) None of the above.

(viii) Form for Secretarial Audit Report is

- (A) MR-2
 (B) **MR-3**
 (C) MR-4
 (D) MR-5

(ix) Remuneration of auditors is covered under Section _____ of Companies Act, 2013.

- (A) **Section 142**
 (B) Section 148
 (C) Section 139
 (d) None of the above

(x) Debenture holders are _____ of the company.

- (A) **Creditors**
 (B) Debtors
 (C) Members
 (D) None of the above

Match the followings:

Column I

Column-II

1.	Independent appraisal activity	A	Internal Control
2.	Internal Check is a valuable part of	B	maintenance of Cost Records by the Company
3.	CRA - 1	C	Audit Programme
4.	Detail of audit work to be performed	D	Internal Audit
5.	The authority for Govt. Audit	E	Comptroller and Auditor General of India

Answer:

Sl/No	Answer
1.	D
2.	A
3.	B
4.	C
5.	E

State whether the following statement are true or false.

- (i) The concept of true or fair is a fundamental concept in auditing.
- (ii) Statutory Auditor is appointed by the shareholder in the general meeting.
- (iii) Internal Audit is an Independent accounting activity.
- (iv) A partial audit is a non statutory audit.
- (v) First auditor of the company is appointed by the BOD within 45 days.
- (vi) Audit committee is only luxury to the company.


Answer:

- (i) False
- (ii) True
- (iii) False
- (iv) True
- (v) False
- (vi) False

Choose the correct answer from the given four alternatives:

- (i) First auditor of the company is appointed by the BOD within
 - (A) 15 days
 - (B) 30 days
 - (C) 45 days
 - (D) 60 days
- (ii) Proving the truth means vouching of _____.
 - (A) Payment
 - (B) Expenses
 - (C) Assets
 - (D) Liabilities
- (iii) Form for Secretarial Audit Report is
 - (A) MR-2
 - (B) MR-3
 - (C) MR-4
 - (D) MR-5
- (iv) The meetings of Audit committee should be _____ in a year.

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- (A) 4
(B) 5
(C) 3
(D) 2

(v) An audit report is the _____ product of audit.

- (A) Main
(B) Final
(C) Semi final
(D) None of the above

(vi) Cost Auditor is appointed by the

- (A) Audit Committee
(B) BOD
(C) BOD on recommendation of Audit Committee
(D) None of the above

Answer:

- (i) — (B)
(ii) — (B)
(iii) — (B)
(iv) — (A)
(v) — (B)
(vi) — (C)

Match the following:

Column _A'		Column _B'	
1.	Section 61 of the Co. Act 2013	A.	Final Audit
2.	Annual Audit	B.	Comptroller and Auditor General of India
3.	Functional Classification of Audit	C.	Alteration of Share Capital
4.	The authority for Govt. Audit	D.	External and Internal Audit

Answer:

Column _A'		Column _B'	
1.	Section 61 of the Co. Act 2013	C	Alteration of Share Capital
2.	Annual Audit	A	Final Audit
3.	Functional Classification of Audit	D	External and Internal Audit
4.	The authority for Govt. Audit	B	Comptroller and Auditor General of India


State whether the following statements are True (or) False.

- (i) Cost Accounting Standards is mandatory as per section 143 of the companies Act 2013.
(ii) Audit report reflects the work done by the employees.
(iii) The concept of true or fair is a fundamental concept in auditing.
(iv) Statutory Auditor is appointed by the shareholder in the general meeting.

Answer:

- (i) True;
(ii) False;
(iii) False:

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(iv) True.

Choose the correct answer from the given four alternatives:

- (i) The most comprehensive type of audit is the _____ system audit, which examines suitability and effectiveness of the system as a whole.
- (a) Quantity
(b) Quality
(c) Preliminary
(d) Sequential
- (ii) Each of the three parties involved in an audit _____ plays a role that contributes to its success.
- (a) the client, the auditor, and the auditeer
(b) the client, the auditor, and the audite
(c) the client, the moderator, and the auditee
(d) the client, the auditor, and the auditee
- (iii) SA 300 stands for _____.
- (a) Quality control for an audit of financial Statements
(b) Agreeing the terms of Audit engagements.
(c) Audit Planning
(d) Responsibility of Joint Auditor
- (iv) Internal Check is a valuable part of the _____ control.
- (a) Internal
(b) External
(c) Bothe (a) and (b)
(d) None of the above
- (v) Remuneration of auditors is covered under Section _____ of Companies Act, 2013.

- (a) Section 142
 (b) Section 148
 (c) Section 139
 (d) None of the above
- (vi) CAATS stands for
- (a) Cornwall Air Ambulance Trust
 (b) Children Air Ambulance Trust
 (c) Center for alternatives to Animal Testing
 (d) Computer Assisted Auditing Technique

Answer:

- (i) — (b)
 (ii) — (d)
 (iii) — (c)
 (iv) — (a)
 (v) — (a)
 (vi) — (d)


Match the following:

Column _A'		Column _B'	
1.	Government Company	A.	Unqualified Opinion.
2.	Detailed of audit work to be performed	B.	Audit Programme
3.	Maximum term of Individual Auditor	C.	A company which is a subsidiary of Government Company
4.	True and Fair Audit Report	D.	1 term of 5 years

Answer:

Column _A'		Column _B'	
1.	Government Company	C.	A company which is a subsidiary of Government Company
2.	Detailed of audit work to be performed	B.	Audit Programme
3.	Maximum term of Individual Auditor	D.	1 term of 5 years
4.	True and Fair Audit Report	A.	Unqualified Opinion

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True or False:

- (i) An audit report should have a proper title.
- (ii) Auditor has right to disclose the client information to a third party.
- (iii) An in depth examination to detect a suspected fraud is termed as Investigation.
- (iv) Debenture includes debenture stock, bonds or any other instrument of a company evidencing a debt, whether constituting a charge on the assets of the company or not.

Answer:

- (i) True;
- (ii) False;
- (iii) True;
- (iv) True

Choose the correct answer from the given four alternatives:

- (i) The _____ is also expected to provide the resources needed and select staff members to accompany the auditors.
 - (a) Auditor
 - (b) Client
 - (c) Internal auditor
 - (d) **Auditee**

- (ii) Each of the three parties involved in an audit _____ plays a role that contributes to its success.
 - (a) the client, the auditor, and the auditeer
 - (b) the client, the auditor, and the audite
 - (c) the client, the moderator, and the auditee
 - (d) **the client, the auditor, and the auditee**


- (iii) SA 230 stands for _____.
 - (a) Quality control for an audit of financial Statements
 - (b) Agreeing the terms of Audit engagements.
 - (c) **Audit Documentation**
 - (d) Responsibility of Joint Auditor

- (iv) Permanent Audit file contains _____.
 - (a) Copies of management letters
 - (b) Audit Programme
 - (c) Analysis of transaction and balances
 - (d) **Analysis of significant ratios and trends**

- (v) Internal Control Questionnaire contains the questions need to be followed by the _____.
 - (a) Employer of the organisation
 - (b) **Employee of the organisation**
 - (c) Auditor of the entity
 - (d) anker to the organisation

- (v) Secretarial Audit is covered under Section _____ of Companies Act, 2013.

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- (a) Section 204
 (b) Section 148
 (c) Section 139
 (d) None of the above

Match the following:

Column 'A'		Column 'B'	
1.	Independent Directors	A.	Unqualified Opinion.
2.	Maximum term of Firm as Auditor	B.	2 Consecutive terms of 5 years
3.	Maximum term of Individual Auditor	C.	Audit Committee
4.	True and Fair Audit Report	D.	1 term of 5 years

Answer:

Column 'A'		Column 'B'	
1.	Independent Directors	C	Audit Committee
2.	Maximum term of Firm as Auditor	B	2 Consecutive terms of 5 years
3.	Maximum term of Individual Auditor	D	1 term of 5 years
4.	True and Fair Audit Report	A	Unqualified Opinion

State whether the following statements are True (or) False.

- (i) "Branch office", in relation to a company, means any establishment described as such by the company.
 (ii) Internal Auditor can be removed by the Board.
 (iii) Final dividend is declared in the general meeting.
 (iv) Debenture includes debenture stock, bonds or any other instrument of a company evidencing a debt, whether constituting a charge on the assets of the company or not.

Answer:

- (i) True;
 (ii) True;
 (iii) True;
 (iv) True.

Choose the correct answer from the given four alternatives:

- (i) The purpose of internal audit is to protect the
 (A) Assets
 (B) Audit staff
 (C) Accountant
 (D) Management
- (ii) Proving the truth means vouching of _____.
- (A) Payment
 (B) Expenses
 (C) Assets
 (D) Liabilities

(iii) Form for maintenance of Cost Records by the Company is _____.

- (A) CRA-1
- (B) CRA-2
- (C) CRA-3
- (D) CRA-4

(iv) The meetings of Audit committee should be _____ in a year.

- (A) 4
- (B) 5
- (C) 3
- (D) 2

(v) An audit report is the _____ product of audit.

- (A) Main
- (B) **Final**
- (C) Semi final
- (D) None of the above

(vi) Statutory Auditor can be removed by the _____

- (A) **Shareholders**
- (B) Audit committee
- (C) BOD
- (D) None of the above.

Match the following:

Column 'A'		Column 'B'	
1.	Statutory Audit	A.	Final Audit
2.	Annual Audit	B.	Comptroller and Auditor General of India
3.	Functional Classification of Audit	C.	Tax Audit
4.	The authority for Govt. Audit	D.	External and Internal Audit

Answer:

Column 'A'		Column 'B'	
1.	Statutory Audit	C	Tax Audit
2.	Annual Audit	A	Final Audit
3.	Functional Classification of Audit	D	External and Internal Audit
4.	The authority for Govt. Audit	B	Comptroller and Auditor General of India

State whether the following statements are True (or) False.

- (i) Should reporting in Audit report comply with the requirements as made by statues?
- (ii) An audit work reflects the work done by the management.
- (iii) The concept of true or fair is a fundamental concept in auditing.

(iv) An auditor is not insurer.

Answer:

(i) True;

(ii) False;

(iii) False:

(iv) True.

Choose the correct answer from the given four alternatives:

(i) Audit Procedures to obtain audit evidences include

- (A) Compliance Procedure
- (B) Substantive Procedure
- (C) Both (A) and (B)
- (D) Neither (A) nor (B)

(ii) A Cost Auditor submits his report to

- (A) Board of Directors
- (B) Government
- (C) Shareholders
- (D) Statutory Auditor

(iii) The first Auditor of a Company shall be appointed by the Board of Directors within

- (A) 30 days from the date of registration.
- (B) 90 days from the date of registration.
- (C) 30 days from the date of first AGM.
- (D) 1 year from the date of registration.

(vi) The purpose of internal audit is to protect the

- (A) Assets
- (B) Audit staff
- (C) Accountant
- (D) Management

(v) Proving the truth means vouching of _____.

- (A) Payment
- (B) Expenses
- (C) Assets
- (D) Liabilities

(vi) Form for maintenance of Cost Records by the Company is _____.

- (A) CRA-1
- (B) CRA-2
- (C) CRA-3
- (D) CRA-4

Answer:

- (i) — C
- (ii) — A
- (iii) — B
- (iv) — A
- (v) — B
- (vi) — A

Match the following:

Column 'A'		Column 'B'	
1.	Statutory Audit	A.	Disclaimer of Opinion
2.	Unable To form an overall conclusion on Financial Statement form	B.	Comptroller and Auditor General of India
3.	Audit Report with reservations	C.	Tax Audit
4.	The authority for Govt. Audit	D.	Qualified Audit Report

Answer:

1 – C; 2 – A; 3 – D; 4 - B

State whether the following statements are True (or) False.

- (i) Audit report should comply with the requirements made by statues.
- (ii) An audit work reflects the work done by the management.
- (iii) The first auditor of a company is appointed by the shareholders of the company at the general meeting.
- (iv) A company auditor can render actuarial services to his client.

Answer:


- (i) True;
- (ii) False;
- (iii) False;
- (iv) False.

Choose the correct answer from the given four alternatives:

(i) The most comprehensive type of audit is the _____ system audit, which examines suitability and effectiveness of the system as a whole.

- (A) Quantity
- (B) Quality
- (C) Preliminary

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(D) Sequential

(ii) Each of the three parties involved in an audit _____ plays a role that contributes to its success.

(A) the client, the auditor, and the auditeer

(B) the client, the auditor, and the audite

(C) the client, the moderator, and the auditee

(D) the client, the auditor, and the auditee

(iii) SA 300 stands for _____.

(A) Quality control for an audit of financial Statements

(B) Agreeing the terms of Audit engagements.

(C) Audit Planning

(D) Responsibility of Joint Auditor

(iv) Internal Check is a valuable part of the _____ control.

(A) Internal

(B) External

(C) Both (a) and (b)

(D) None of the above

(v) Remuneration of auditors is covered under Section _____ of Companies Act, 2013.

(A) Section 142

(B) Section 148

(C) Section 139


(D) None of the above

(vi) CAATS stands for

(A) Cornwall Air Ambulance Trust

(B) Children Air Ambulance Trust

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- (C) Center for alternatives to Animal Testing
 (D) Computer Assisted Auditing Techniques

Answer:

- (i) — (B)
 (ii) — (D)
 (iii) — (C)
 (iv) — (A)
 (v) — (A)
 (vi) — (D)

Match the following:

Column 'A'		Column 'B'	
1.	Government Company	A.	Unqualified Opinion.
2.	Detailed of audit work to be performed	B.	Audit Programme
3.	Maximum term of Individual Auditor	C.	A company which is a subsidiary of Government Company
4.	True and Fair Audit Report	D.	1 term of 5 years

Answer:

Column 'A'		Column 'B'	
1.	Government Company	C.	A company which is a subsidiary of Government Company
2.	Detailed of audit work to be performed	B.	Audit Programme
3.	Maximum term of Individual Auditor	D.	1 term of 5 years
4.	True and Fair Audit Report	A.	Unqualified Opinion

State whether the following statements are True (or) False.

- (i) An audit report should have a proper title.
 (ii) Auditor has right to disclose the client information to a third party.
 (iii) An in depth examination to detect a suspected fraud is termed as Investigation.

Answer:

- (i) True;
 (ii) False;
 (iii) True;

(a) Identify the correct alternative:

(i) An auditor should submit a Disclaimer of Opinion when

- (A) he is satisfied with the truth and fairness of financial statements.
- (B) he has certain reservations as to the presentation of truth and fairness in financial statements.
- (C) some material information is not available.
- (D) the effect of any disagreement with the management is not so material.

(ii) In case of a company other than a Government Company, any casual vacancy in the post of auditor is to be filled by the

- (A) Board of Directors
- (B) Managing Director
- (C) Comptroller and Auditor General (CAG)
- (D) Shareholders

(iii) An Audit Committee should have a minimum of _ number of directors.

- (A) 4
- (B) 3
- (C) 5
- (D) 6

(iv) SA 530 stands for

- (A) Audit Documentation
- (B) Audit Sampling
- (C) Responsibility of Joint Auditor
- (D) Agreeing the terms of Audit Engagements

(v) Unpaid dividend standing at the credit of Unpaid Dividend A/C should be transferred to Investor Education and Protection Fund after years of its remaining unpaid.

- (A) six

- (B) eight
(C) seven
(D) five

(vi) Which of the following services cannot be rendered by an auditor as per Companies Act 2013?

- (A) Vouching
(B) Verification of assets and liabilities
(C) Issuing certificates on relevant matters
(D) Providing investment advisory services

(b) Match the following items in Column 'A' with items shown in Column 'B':

Column 'A'		Column 'B'	
1.	Appointment of Company Auditor	A.	Current Audit File
2.	Remuneration of a Company Auditor	B.	Section 139 of Companies Act 2013
3.	Different accounting schedules such as schedule of debtors and creditors	C.	Permanent Audit File
4.	Analysis of significant ratios and trends	D.	Section 142 of Companies Act 2013

(c) State whether the following statements are true or false:

- (i) As per Section 138 of Companies Act 2013, no private company or unlisted company is required to appoint an internal auditor.
(ii) Audit Memorandum is a detailed plan of audit work clearly specifying the responsibilities of the audit staff and time allotted to perform the same.
(iii) Substantive procedure is also known as test of control.
(iv) Cut-off procedures are adopted to allocate revenues and costs to the proper accounting period.

Answer:

- (a) (i) C
(ii) A
(iii) B
(iv) B
(v) C
(vi) D

- (b) (1) B
(2) D
(3) A
(4) C

- (c) (i) False
(ii) False
(iii) False
(iv) True

(a) Identify the correct alternative:**(i)** Which of the following is not an audit risk?

- (A) Inherent Risk
- (B) Detection Risk
- (C) Control Risk
- (D) Omission Risk

(ii) Dividend cannot be paid out of

- (A) current year's profit after providing depreciation.
- (B) undistributed profits for any previous financial year or years after providing for depreciation.
- (C) profit on revaluation of any fixed assets.
- (D) money provided by the Central Government or a State Government.

(iii) Permanent Audit File does not contain

- (A) a record of study and evaluation of internal control system.
- (B) significant audit observations of earlier years.
- (C) copies of management letters.
- (D) analysis of significant ratios and trends.

(iv) Audit Procedures to obtain audit evidences include

- (A) Compliance Procedure
- (B) Substantive Procedure
- (C) Both (A) and (B)
- (D) Neither (A) nor (B)

(v) A Cost Auditor submits his report to

- (A) Board of Directors
- (B) Government
- (C) Shareholders
- (D) Statutory Auditor

(vi) The first Auditor of a Company shall be appointed by the Board of Directors within

- (A) 30 days from the date of registration.
- (B) 90 days from the date of registration.
- (C) 30 days from the date of first AGM.
- (D) 1 year from the date of registration.

(b) Match the following items in Column 'A' with items shown in Column 'B':

Column 'A'		Column 'B'	
1.	Responsibility of Joint Auditor	A.	Qualified Audit Report
2.	Unable to form an overall conclusion on Financial Statement	B.	SA 230
3.	Audit Report with reservations	C.	SA 299
4.	Audit Documentation	D.	Disclaimer of Opinion

(c) State whether the following statements are True or False:**(i)** Audit Programme is a part of Current Audit File.

- (ii) Internal audit is conducted by the staff of the entity or by an independent professional appointed for that purpose.
- (iii) The first auditor of a company is appointed by the shareholders of the company at the general meeting.
- (iv) A company auditor can render actuarial services to his client.

Answers;

- a) i.d**
ii.c
iii.c
iv.c
v.a
vi.a

- b) i.c**
ii.d
iii.a
iv.b

- c) i.true**
ii.true
iii.false
iv.false

(a) Identify the correct alternative in each of the following cases:

(i) If the Debentures are issued as collateral security either to Banks or Creditors the Auditor needs to ensure that such issue is approved by

- (A) Shareholders
 (B) Board of Directors
 (C) Debenture Trustee
 (D) Audit Committee

(ii) As per SQC 1, Audit working papers should be retained for a period of

- (A) 2 years
 (B) 5 years
 (C) 7 years
 (D) 10 years

(iii) Current Audit files contains

- (A) Articles of Association and Memorandum of Association
 (B) Analysis of significant ratios and trends
 (C) Notes regarding significant Accounting policies
 (D) Audit Programme

(iv) Form for maintenance of Cost Records of a Company is

- (A) CRA-1
 (B) CRA-2
 (C) CRA-3

(D) CRA-4

(v) Secretarial Audit is applicable to every Public Company having a turnover of

- (A) Rs. 100 crores**
- (B) Rs. 150 crores**
- (C) Rs. 250 crores**
- (D) Rs. 200 crores**

(vi) Statutory Auditor is appointed by the Shareholders in the

- (A) General Meeting**
- (B) Statutory Meeting**
- (C) EGM**
- (D) Board Meeting**

(b) Match the following items in Column 'A' with items shown in Column 'B':

Column 'A'		Column 'B'	
1.	Independent appraisal activity	A	Secretarial Audit Report
2.	SA700	B	Section 123
3.	Form MR3	C	Internal Audit
4.	Declaration of dividend	D	Forming an opinion and reporting on financial statements

(c) State whether the following statements are True or False:

- (i) Section 70 deals with the Audit of Debenture.**
- (ii) An Audit Committee should have 4 directors.**
- (iii) CARO-Companies (Auditor's Report) order, 2016 is applicable to Banking Companies.**
- (iv) Internal Check is part of Accounting Control.**

Answer:

- (a) (i) B**
- (ii) C**
- (iii) D**
- (iv) A**
- (v) C**
- (vi) A**

- (b) (1) C**
- (2) D**
- (3) A**
- (4) B**

- (c) (i) False**
- (ii) False**
- (iii) False**
- (iv) True**

Choose the correct answer from the given four alternatives:

(i) An audit committee should have _____ directors.

- (A) **3**
(B) 2
(C) 1
(D) 4

(ii) Appointment of auditor for government company is done by

- (A) BOD
(B) Audit committee
(C) Managing Director
(D) **CAG**

(iii) An in depth examination to detect a suspected fraud is termed as _____.

- (A) Cost Audit
(B) Bank Audit
(C) **Investigation**
(D) None of the above

(iv) _____ Audit is conducted at the end of the accounting year, after the books of accounts have been closed.

- (A) Interim
(B) **Annual**
(C) Investigation
(D) None of the above

(v) Form CRA - _____ is related to appointment of Cost Auditor.

- (A) 1 (B) **2**
(C) 3
(D) 4

(vi) Each of the three parties involved in an audit _____ plays a role that contributes to its success.

- (A) the client, the auditor, and the auditeer
(B) the client, the auditor, and the audite
(C) the client, the moderator, and the auditee
(D) **the client, the auditor, and the auditee**


(b) Match the following:

Column 'A'		Column 'B'	
1.	Functional Classification of Audit	A.	Disclaimer of Opinion
2.	Unable to form an overall conclusion on Financial Statement	B.	Comptroller and Auditor General of India
3.	Audit Report with reservations	C.	External and Internal Audit
4.	The authority for Govt. Audit	D.	Qualified Audit Report

Answer:

Column 'A'		Column 'B'	
1.	Functional Classification of Audit	C	External and Internal Audit

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2.	Unable to form an overall conclusion on Financial Statement	A	Disclaimer of Opinion
3.	Audit Report with reservations	D	Qualified Audit Report
4.	The authority for Govt. Audit	B	Comptroller and Auditor General of India


(c) State whether the following statements are True (or) False.

- (i) Internal audit, in its initial stages, was developed as a branch of Operational auditing. **False**
(ii) An auditor is not insurer. **True**
(iii) The first auditor of a company is appointed by the shareholders of the company at the general meeting. **False**
(iv) Balance sheet audit is generally synonymous with statutory audit. **True**

(a) Choose the correct answer from the given four alternatives:

- (i) Proving the truth means vouching of _____.
(A) Payment
(B) **Expenses**
(C) Assets
(D) Liabilities
- (ii) In case there is an Audit Committee the Cost Auditor is appointed by the
(A) Audit Committee
(B) **BOD**
(C) BOD on recommendation of Audit Committee
(D) None of the above
- (iii) Internal Check is a valuable part of the _____ control.
(A) **Internal**
(B) External
(C) Both (a) and (b)
(D) None of the above
- (iv) CAATS stands for
(A) Cornwall Air Ambulance Trust
(B) Children Air Ambulance Trust
(C) Center for alternatives to Animal Testing
(D) **Computer Assisted Auditing Techniques**
- (v) The most comprehensive type of audit is the _____ system audit, which examines suitability and effectiveness of the system as a whole.
(A) Quantity
(B) **Quality**
(C) Preliminary
(D) Sequential

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- (vi) Cost Audit is covered under
 (A) Section 204
 (B) **Section 148**
 (C) Section 139
 (D) None of the above

(b) Match the following:

Column 'A'

Column 'B'

1.	Government Company	A.	Unqualified Opinion.
2.	Detailed of audit work to be performed	B.	Audit Programme
3.	Maximum term of Individual Auditor	C.	A company which is a subsidiary of Government Company
4.	True and Fair Audit Report	D.	1 term of 5 years

Answer:

Column 'A'

Column 'B'

1.	Government Company	C.	A company which is a subsidiary of Government Company
2.	Detailed of audit work to be performed	B.	Audit Programme
3.	Maximum term of Individual Auditor	D.	1 term of 5 years
4.	True and Fair Audit Report	A.	Unqualified Opinion

(c) State whether the following statements are True (or) False.

- (i) An audit report should have a proper title.
 (ii) Auditor has right to disclose the client information to a third party.
 (iii) An in depth examination to detect a suspected fraud is termed as Investigation.
 (iv) Before submission of the report to the Board the Audit Committee has the power to review the Financial Statement.

Answer:

- (i) **True;**
 (ii) **False;**
 (iii) **True;**
 (iv) **True.**