

Year (Honors Course)
Theory and Practice of Auditing
Syllabus as per University of Rajasthan

Unit - I

Auditing: Meaning, Objects, Fraud and Errors, Relationship in between Book -Keeping Accounting and Auditing, Elementary Knowledge of Standards on Auditing Practices, Type of Audit.

Internal Control Measures.

Audit Programme.

Unit - II

Vouching, Verification and Valuation of Assets and Liabilities (including Practical Verification).

Company Auditor: Appointment, Removal and Remuneration.

Unit - III

Company Auditor: Audit and Auditors (brief Knowledge of Sections 139 to 148 of Companies Act, 2013), Rights, Duties and Liabilities.

Company Audit, Audit Report and Certificates.

Unit -IV

Investigation Meaning Nature, Importance, Objectives and Investigation on behalf of an Intending purchaser.

Special points regarding in Different Audits: Educational Institutions. Club and Charitable Investigations.

Unit -V

Audit of Accounts of Private Concerns and Partnership Firms.

Cost Audit: Aspects, Objects, Advantages Cost Audit in Practice and Cost Audit under Indian Companies Act 2013.

EDP Audit: Meaning, Scope, Importance, Types and Various Activities of Data Processing and Approaches to EDP Systems of Audit.

BCOM 3rd Year (Pass Course)
Auditing and Management Accounting
Syllabus as per University of Rajasthan

Unit - I

Auditing: Meaning, Objects, Fraud and Errors, Relationship in between Book -Keeping Accounting and Auditing, Elementary Knowledge of Standards on Auditing Practices, Type of Audit.
Internal Control Measures.
Audit Programme.

Unit - II

Vouching, Verification and Valuation of Assets and Liabilities (including Practical Verification).
Company Auditor: Appointment, Removal and Remuneration.

Unit - III

Company Auditor: Audit and Auditors (brief Knowledge of Sections 139 to 148 of Companies Act, 2013), Rights, Duties and Liabilities.
Company Audit, Audit Report and Certificates.

Unit – IV (not in this Book)

Management Accounting: Meaning, Nature, Objectives, Scope and functions.
Capital Structure: Determinants and Theories
Leverages: Operating, Financial and Combines.

Unit – V (not in this Book)

Financial Statement Analysis: Meaning, nature, importance and techniques of financial analysis:
Comparative Statements, Common Size Statement and Trend Analysis.
Ratio Analysis: Preparation of Income Statement and Balance Sheet on the Basis of Ratio.

Index

Sr. No.	Topic	Pg. no.
1	Introduction of Audit	
2	Internal Control Measures	
3	Planning and Procedure of Audit	
4	Vouching	
5	Verification of Assets and Liabilities	
6	Company Audit	
7	Audit and Auditor	
8	Liabilities of an Auditor	
9	Audit Report and Certificates	
10	Investigation	
11	Audits of Different Institutions	
12	Audit of Account of Private concerns & Partnership Firms	
13	Cost Audit	
14	EDP Audit	
15	Unsolved Question paper of BCOM HONS COURSE	
16	Unsolved Question paper of BCOM PASS COURSE	

Chapter 1 – Introduction of Audit

Q.1) Explain Financial Statement and User of Financial Statement?

Ans - Financial statements are written records (Book of accounts) that convey the business activities and the financial performance of a company. Books of accounts like journal, subsidiary books, ledger etc. are written financial statements like Trial balance, Trading and Profit and Loss account and Balance Sheet etc. are prepared. In addition, these days cash flow statement is also prepared. Financial statements are often audited by government agencies, accountants, firms, etc. to ensure accuracy and for tax, financing, or investing purposes.

User of Financial statements:-

- Executives: Financial statements provide sufficient accounting information to the executives and managers to enable them to decide on important issues facing by them.
- Bankers: Bankers take precautions before advancing loans to their consumers. Every banker, before sanctioning credit, wishes to be assured the borrower's ability to repay the loans when they become due.
- Trade Creditors: The information obtained from the financial statements becomes useful to ascertain the creditworthiness of the company
- Shareholders and Prospective Investors: Shareholders, who have permanent interest in the life and operations of the company, are ever desirous of knowing about the company's financial affairs.
- Labourers: Labourers contribute to the earnings of the company and they are the people who work on raw materials with the aid of capital goods to produce wealth.
- Consumers and society: Consumers attempt to find out whether they are being exploited by the producers. Society is interested in an enterprise's that result in the increase of employment opportunities, wealth and standard of living of the people.

Q.2) Explain Audit and objects of Audit?

Ans - Origin of the term Audit is said to be in the Latin term "Audire" which means to listen. In the Middle Ages whenever any fraud or misappropriation was suspected in the books of accounts, there was a system of appointment of an outside expert to verify the accounts. Such expert used to first listen to what the concerned person in the accounts department or the Manager has to say on the issue. In those days the scope of Auditing was restricted to detecting errors and frauds in the books of accounts only.

Definition of Audit as per Prof. Dickers:- "Audit is an examination of accounting records, undertaken with a view to establishing whether they correctly and completely reflect the transactions to which they purport to relate."

Definition of Audit as per ICAI:- "An audit is an independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon."

Analysis of the Definition

1. Audit is Independent examination of Financial information.
2. of any entity – that entity may be profit oriented or not and irrespective of its size or legal form.
For example – Profit oriented – Audit of Listed company engaged in business. On the other hand, Audit of NGO – not profit oriented.
3. The objective of the audit is to express an opinion on the financial statements.

As per SA-200 "Overall Objectives of the Independent Auditor", in conducting an audit of financial statements, the overall objectives of the auditor are: Objectives of auditing are changing with the changes in the business techniques. Earlier it was only checking of correctness of accounts. It was then

expanded to detection of frauds. The main objective of audit is to find the reliability of financial position and profit and loss statement. Objectives of audit can be divided in to two parts. Main and subsidiary or secondary objectives.

Main objects of Audit:

1. Verification of Accounts and Financial Statements:- The main or principal objective of audit is to verify and establish that at a given date the balance sheet presents true and fair view of financial position of the business and the profit and loss account gives the true & fair view of profit or loss for the accounting period.
2. Checking of the entries with the relevant documentary evidences:- Audit involves checking the entries in the books of accounts with the relevant vouchers and other supporting documents. This is the main job of the auditor. Entries in the books of accounts are verified with the bill's vouchers and receipts.
3. Taking independent review of the financial statements:- He conducts an independent review of financial statements. He has to be personally satisfied about their reliability and he should be able to form his opinion about them. He must examine the existing internal control & internal check system prevailing in the organisation.

Subsidiary or Secondary objects of Audit :

1. Detection and prevention of errors and frauds:- The main difference between the two is that errors are committed due to negligence or lack of knowledge and the frauds are committed knowingly for some ulterior motive of getting some benefit.
2. Expression of Opinion:- After going through the accounts, the auditor should express his opinion on the maintenance of books of accounts. If he finds any lacuna or defect in the same, he must be frank enough to express his real opinion and suggest to the managements the steps to be taken to set right the same. Auditor should not come under anybody's pressure. He should be bold enough to call a spade.

Q.3) Explain Errors and type of Errors?

Error are committed due to negligence or lack of knowledge or ignorance of the principles of writing accounts of the person writing the accounts. This is an important objective of an audit. Error is generally taken to be innocent and not deliberate.

Types of Errors:- Errors can be classified in to following five categories:

1. Errors of Principle:- These errors are usually committed due to lack of knowledge of science of Book-keeping. E.g., wrong classification of expenses into capital and revenue, treating personal income or expenditure as those of business or vice versa, providing less or more depreciation than reasonably necessary, not taking into account all outstanding income or expenditure etc. Such errors are not disclosed in the trial balance. They can only be detected by thorough checking of each and every transaction in the books of accounts. Errors of principle affect the correctness and reliability of financial statements. To prevent occurrence of such errors, the job of writing accounts should be assigned to a duly qualified person only. He must have good knowledge and experience in the field of dealing with accounts.
2. Error of Omission:- Here a particular transaction is not at all recorded in the books of accounts. Such errors may be committed through oversight or even intentionally. They affect the profit or loss of the year. Trial balance will tally in spite of such errors. It is difficult to detect them.
3. Error of Commission:- Here the transaction is recorded but recorded incorrectly. E.g., amount received from A may be credited to B's account or Rs. 890 received may be recorded as Rs. 980. Some such errors may not affect the agreement of the trial balance.
4. Errors of duplication:- Here the same transaction is written twice. This will also not affect the agreement of the trial balance. Auditor can detect such errors only by carefully conducting the process of vouching. Such errors may be committed due to oversight or even intentionally.

5. Compensating errors:- Here there are two mistakes of the same amount, one on the debit side and the other on the credit side. The total effect of one or more errors on either side is the same. Such errors are difficult to detect as the trial balance will tally in spite of such mistakes. Careful conduct of procedure of audit alone can detect such errors.

Q.4) Explain Fraud and type of Fraud?

Ans - Fraud refers to intentional misrepresentation of financial information by persons in the management, employees or third parties. It may involve manipulation or falsification of accounts, misappropriation of assets, suppression of transactions, or misapplication of accounting policies etc. Frauds are intentionally committed by people in the higher authority. So, it is more difficult to detect them than errors. Detection of frauds is one of the principal functions of the auditor.

Frauds may be classified as follows: 1) Misappropriation or embezzlement of cash. 2) Misappropriation of goods. 3) Manipulation of accounts.

1. Embezzlement of cash: Usually this is done by theft of cash receipts, Petty cash, cheques or by showing bogus payments to workers, creditors etc. Fictitious purchases may be shown and the payment for the same may be embezzled. This type of fraud is very easy where there is no proper control over the cash box. In a large business there is no direct control of the owner in the day-to-day receipts and payments of cash. So, embezzlement on a small scale can be easily done. However, it is difficult in a smaller business where there is direct control of the owner on the day-to-day transactions. Embezzlement is done either by not accounting for the whole amount received from a particular party or a lesser amount is shown in the accounts and the difference is pocketed by the cashier.

2. Teaming and Lading: This is method of temporary misappropriation of cash. Teaming and lading means when an amount is received from one customer say A, it is not accounted for in the books and the cash is used by the cashier for his personal purpose. When the next customer say B, pays his dues it is shown as received from A and so on. However, finally before closing the accounts at the end of the year the money used is paid back and the cash balance is correctly shown. Thus, here there is only a temporary misappropriation of cash. Auditor should not allow or condone even such frauds. They must be brought to the notice of the owner. The auditor can easily detect such frauds by comparing the date on the receipt and the date on which the transaction is written in the books of accounts, carefully.

3. Misappropriation of goods: Where the goods produced or sold are small in size and light in weight but of high value, such frauds are commonly committed. Normally in any business there is higher and stricter control over cash than on goods. This is a wrong policy. After all goods represent cash. To prevent such frauds, it is absolutely necessary to maintain proper record of purchases and sales of goods in prices as well as quantities. There should be a good internal control system regarding the movement of goods. Goods should not be allowed to leave the premises without the proper permission of some responsible official. Stock on hand should be physically checked from time to time. If there are any discrepancies, causes for the same should be thoroughly investigated immediately.

4. Manipulation of Accounts: This type of fraud is committed by higher level management to mislead certain parties. Such frauds usually involve a huge amount and are intentionally committed after adequate preparation. Managers, Directors etc. commit such frauds. Here accounts are falsified but no cash or goods are misappropriated. False, incorrect or fictitious entries are made in the books of accounts. For example, bogus sales, purchases or expenses are recorded in the books, closing stock is not correctly valued. It may be over or under valued. Profitability of the business or the financial position of the business is not correctly shown.

5. Window – Dressing: Showing the financial position better than what it is called window dressing. It is done to attract more capital in the business or get more remuneration for the manager etc.

6. Secret – Reserve: Showing the financial position worse than what it is, is called creating secret reserve. It is done to reduce tax burden or to see that no new competitors enter in the field.

Q.5) What are the Risk of Frauds and Error in Audit? And auditor duties and responsibilities for Frauds and Error?

Ans - The following events may increase the risk of fraud or error –

1. Internal Control Faults: Weaknesses in the design of internal control system and non-compliance with laid down control procedures, e.g., a single person being responsible for receipt of all posts/ mails and marking it in the relevant sections or two persons responsible for receipt of all posts/ mails but the same is not followed in the practice.
2. Doubts about the integrity or competence of the management, e.g., domination by one-person, high rate of employee turnover, frequent change of legal counsels of Auditors, significant and prolonged understaffing of the accounts department, etc.
3. Unusual pressures within the entity, e.g., industry is doing well but the Company's performance is poor, heavy dependence on a single line of product, inadequate working capital, need to show more profit to support the share market price, etc.
4. Unusual transactions e.g., transactions with related parties, excessive payment for certain services to lawyers, etc.
5. Problems in obtaining sufficient and appropriate audit evidence: E.g., inadequate documentation significant differences between the figures as per accounting records and confirmation received from third parties. Etc.

Following are the Duties and Responsibilities of an Auditor:

1. In planning and performing his examination the auditor should take into consideration the risk of material misstatements of the financial information caused by fraud or error.
2. He should inquire with the management as to any fraud or significant error which has occurred in the reporting period, and modify his audit procedures, if necessary.
3. If circumstances indicate the possible existence of fraud and error, the auditor should consider the potential effect of the suspected fraud and error on the financial information. If he is unable to obtain evidence to confirm, he should consider the relevant laws and regulations before expressing his opinion.
4. The auditor also has the responsibility to communicate the misstatement to the appropriate level of management on a timely basis and consider the need to report to it then changed with governance.
5. He may also obtain legal advice before reporting on the financial information or before withdrawing from the engagement.
6. The auditor should satisfy himself that the effect of fraud is properly reflected in the financial information or the error is corrected in case the modified procedures performed by the auditor confirm the existence of the fraud.
7. The auditor should also consider the implications of the frauds and errors, and frame his report appropriately. In case of a significant fraud, the same should be disclosed in the financial statement. If adequate is not made, there should be a suitable disclosure in his audit report.

Q.6) Explain Scope of Audit?

Ans - The following points merit consideration in regard to scope of audit:

1. The audit should be organized to cover adequately all aspects of the enterprise relevant to the financial statements being audited.
2. To form an opinion on the financial statements, the auditor should be reasonably satisfied as to whether the information contained in the underlying accounting records and other source data is reliable and sufficient as the basis for the preparation of the financial statements.
3. In forming his opinion, the auditor should also decide whether the relevant information is properly disclosed in the financial statements subject to statutory requirements, where applicable.

4. The auditor assesses the reliability and sufficiency of the information contained in the underlying accounting records and other source data by:
 - (a) making a study and evaluation of accounting systems and internal controls and
 - (b) carrying out such other tests, enquiries and other verification procedures of accounting transactions and account balances as he considers appropriate in the particular circumstances.
6. The auditor determines whether the relevant information is properly disclosed in the financial statements by:
 - (a) Comparing the financial statements with the underlying accounting records and other source data to see whether they properly summarize the transactions and events recorded therein; and
 - (b) Considering the judgments that management has made in preparing the financial statements accordingly, the auditor assesses the selection and consistent application of accounting policies, the manner in which the information has been classified, and the adequacy of disclosure.
7. The auditor is not expected to perform duties which fall outside the scope of his competence. For example, the professional skill required of an auditor does not include that of a technical expert for determining physical condition of certain assets.
8. Constraints on the scope of the audit of financial statements that impair the auditor's ability to express an unqualified opinion on such financial statement should be set out in his report, and a qualified opinion or disclaimer of opinion should be expressed as appropriate.

Q.7) Explain the Relationship in between Accounting and Auditing?

Ans –

Basis	Accounting	Auditing
Meaning	It is recording of all the day to day transactions in the books of accounts leading to preparation of financial statements.	It is the critical examination of the transactions recorded in the books of accounts.
Nature	It is concerned with finalization of accounts.	It is concerned with establishment of reliability of financial statements.
Objects	The object is to ascertain the trading results.	The object is to certify the correctness of financial statements.
Commencement	Accounting commences when book keeping ends.	Auditing begins when accounting ends.
Scope	It involves various financial statements. It involves maintenance of books of accounts. It does not go beyond books of accounts.	It depends upon the agreement of upon the provisions of law. It goes beyond books of accounts.

Q.8) Explain the advantages of Audit?

Ans - Audit of accounts by a duly qualified Chartered Accountant is compulsory for the registered joint stock companies, public trusts, bigger co-operative societies only. Auditing has also been made mandatory these days for Income Tax and VAT payers above a particular limit. In other words, it is not compulsory for all. However though not legally compulsory, many business units these days, get their accounts Audited because there are number of advantages of Auditing.

They can be enumerated as follows:

- 1) Audited accounts are considered more reliable by the general public, Government authorities and financial institutions like banks.

- 2) Errors and frauds are detected in time and immediately rectified. Remedial action can be taken in time to avoid or prevent them in future. Quick action can be taken against inefficient or negligent staff and possible future loss can be avoided.
- 3) Employers will write the accounts in time or immediately and take sufficient care to see that there are no mistakes. They will not be easily tempted to commit frauds because they know that the accounts are to be audited at an early date by the experts in the field and they may be caught and punished.
- 4) Auditor is an expert in the science of keeping books of accounts. He is familiar with different laws governing different businesses. So, he can guide the accounts department in time. Such timely advice is very valuable for the business. Now a day there are number of laws & new laws are added to them from time to time. A busy businessman even though highly educated cannot keep track of such ever changing laws. Businessmen have neither time nor inclination to study & understand these laws. Auditor will come to their rescue.
- 5) Shareholders of joint stock companies are laymen and scattered all over the country and in the case of certain companies even all over the world. The auditor audits the accounts of the business on behalf of these shareholders and submits his report to them. From such reports the shareholders come to know how their company is functioning and how their hard earned money is being used. They can also take a decision about retaining or selling their shares in the company.
- 6) Government and different tax authorities like Sales Tax officers, Income Tax officers, Service Tax and Excise officers etc. readily accept the audited accounts and the matter of assessment of tax becomes simple and less time consuming.
- 7) When there is loss due to theft, fire, floods etc. claim of loss from the Insurance Company is settled quickly if the accounts are audited.
- 8) In the case of Partnership Firm, when any partner retires or dies, his account can be easily and quickly settled.
- 9) Banks and other financial institutions sanction loans quickly on the basis of accounts audited by a duly qualified auditor.
- 10) Trade unions will demand bonus and rise in salary for a reasonable amount only because the workers will believe in the accounts kept by the management if they are duly audited.

If the accounts are not audited, the trade union leaders feel that the company's accounts do not reveal the real profits made by the company and they are not getting reasonable remuneration and bonus.

Due to all these advantages of Audit of Accounts, business organisation like sole traders and partnership firms where audit of accounts is not legally mandatory, mostly get their accounts audited by a duly qualified Auditor.

Q.9) Explain Disadvantages of audit?

Disadvantages or Limitations of Audit: Though there are number of advantages of getting the accounts audited as noted above, there are also some inherent limitations which cannot be easily ignored.

- 1) Even though the accounts are carefully audited by the auditor. Sometimes the auditor fails to detect certain mistakes and frauds. After all the Auditor is a watchdog and not a blood hound. So, if the accounts are prepared intentionally and thoughtfully with flaws to commit frauds, the auditor may not be able to detect them. Thus, you cannot guarantee that there are absolutely no errors or frauds in the accounts that are audited.
- 2) Normally the Auditor depends on the explanation, clarification and information given by the client or his staff. This information may not be necessarily always correct.
- 3) Under the Indian Companies Act, the real owners are the shareholders. They appoint the Auditor in their Annual General Meeting. This is only in theory or on paper. In practice, he is

appointed by the Directors only. So, he may not necessarily act independently. He may try to avoid displeasing the Directors to continue to get the business.

- 4) Auditor has to seek the opinion of experts in different subjects like those of Architect; technical experts etc. and depend on the same. Such opinion given by the experts may not be flawless.
- 5) Many Auditors are not bold enough to express their frank opinion and displease the clients. So, they may give a clean chit or favourable opinion even though there are errors or frauds. They are not prepared to displease their clients and lose their business.
- 6) Audit is a post mortem examination. Things have already happened and nothing much can be done now. Usual reply given by the Government Authorities for different Audit objections is "Noted for future guidance."
- 7) It is very difficult and time consuming to verify certain items like stock in trade.
- 8) Success of Audit ultimately depends upon the sincerity with which it is conducted by the Auditor.

However in spite of the above limitations, there is no alternative to Audit and its advantages outweigh the disadvantages. So, all business units mostly get their accounts Audited by a qualified Auditor.

Q.10) Explain Complete Audit.

Ans – A complete audit, also known as a "full audit" or "comprehensive audit," is a type of audit that involves the thorough examination of an organization's financial records, transactions, operations, and internal controls. The goal of a complete audit is to provide a comprehensive and in-depth assessment of an organization's financial health, accuracy of financial statements, compliance with regulations, and effectiveness of internal controls.

Q.11) Explain Continuous Audit.

Ans - Continuous audit is a modern approach to auditing that involves the regular and ongoing examination of an organization's financial and operational data. Unlike traditional auditing methods, which typically involve periodic audits conducted at specific intervals (such as annually or quarterly), continuous audit is designed to provide real-time or near-real-time assurance on the accuracy, reliability, and compliance of an organization's financial and operational information.

Advantages of Continuous Audit

1. Easy and prompt error detection: In this audit, the auditor checks and examines the just after the transaction is complete, so it is relatively easier to discover frauds and errors in a prompt manner.
2. Employees' morale check: It provides a morale check on the employees when the auditor visits the organization at frequent intervals.
3. Preparation of interim accounts: It assists in the preparation of interim accounts, that assist in the declaration of interim dividends by the company's board.
4. Quick Presentation of Accounts: Because audit takes place on a continuous basis, presentation of the audited accounts is possible just after the end of the financial year.

Disadvantages of Continuous Audit

1. Performance of the audit takes place in installments. Therefore, the team may fail to keep proper track of those items which are not yet checked. Resultantly few transactions may escape the audit scrutiny.
2. After the checking of the accounts by the auditor staff manipulation by the client's staff is possible. Therefore, it requires appropriate safeguards and action.
3. It is uneconomic when the size of the enterprise is small. Because it takes a lot of time and effort to prepare for an audit. Also to fulfill the needs of the auditee.

4. Frequent visits of the audit staff may disturb the daily work, which results in an unhealthy relationship between the audit and client staff.

Q.12) Explain Periodical audit.

Ans – Periodical Audit is an audit for an intermediate period. This audit is started when the books of accounts closed at the end of the year. This audit is one that is taken up at the close of the financial or trading period when all the accounts have been balanced and Trading and Profit and Loss Accounts and the Balance Sheet have been prepared. This audit carried out at specified intervals within the year. In simple words, a periodical audit is an audit that is done after the financial period is over and the accounts are ready. It may also commence before the final accounts are prepared and continue until the audit is completed even after the close of the financial or trading period. The only thing is that the audit is completed in one continuous session.

Advantages of Annual or Periodical Audit

1. No Dislocations in the Work of Client: In case of annual audit, as the auditor visits the client's office only once a year the office work is not unnecessarily disturbed.
2. Less Chance for Alteration of Figures: As audit work is done only in a one continuous session, chance for alteration of figures is minimum.
3. Less Expensive: It is a less expensive system and suitable for small business houses.
4. Takes only Reasonable Time: The audit work can be finished quickly within a reasonable time.
5. Proper Maintenance of Link in Work: As audit work is done and completed in a continuous session, link in work can be properly maintained.
6. Easy Allocation of Work: In continuous audit, work can be allocated easily according to time schedule.

Disadvantages of Annual Audit or Periodical Audit

1. More Chances for Fraud: Auditor may not be able to check and verify all the transactions. Hence there is every chance that some of the errors and frauds may be left undetected.
2. Delay: The audited accounts may not be available immediately after the close of the year. It may cause delay in the declaration of dividends and holding annual general meetings. The decisions of vital importance may be delayed due to the lack of audited and verified information.
3. No In-depth Checking: In annual audit detailed checking of accounts is not possible for the auditor. Thus, there is greater chance of errors and frauds being left undetected
4. Unsuitable to Large Scale Concerns: For large scale concerns, periodical audit is rarely practicable and it is not much popular for them.

Q.13) Explain the Interim Audit.

Ans - Interim audit is the audit which is conducted between the two annual audits for the purpose of finding the interim dividend. It may be monthly quarterly or half yearly. For knowing the reliable results during the financial year such type of audit may be applied. As per G. William "An interim audit is one when the auditor completes an audit up to the date of a set of interim accounts, for example quarterly or half-yearly accounts."

Advantages of Interim Audit

1. Suitable For Big Firms: Interim audit is very suitable for large and dynamic type of business organizations.
2. Moral check: There is a moral check on the staff of the client as the accounts are checked after three or six months. An auditor checks the work of every person. It creates moral pressure on the employees to perform accounting jobs effectively.
3. Interim dividend: The interim audit is conducted to declare the interim dividend. The management can prepare interim accounts for dividend purpose.

4. Detection of frauds and Correction of errors: It helps to eliminate mistakes and frauds. The time between compiling and checking accounts is very short. Therefore, location of fraud is possible, as sufficient time is not given to employees. It is also helpful for correction of errors.
5. Helpful for Final Audit: The interim audit is helpful for the early completion of the final audit.
6. Publication of Interim Figures: In some cases, the publication of interim figures is compulsory. So, in such cases interim audit is very useful.
7. Convenient for the management: Interim audit provides midyear financial information. Therefore, it becomes helpful for the management to take the price or profit related decisions.
8. Encourages Investment :-Due to interim audit investor rely more on the company performance. He purchases and sells the shares keeping in view the audit report.
9. Up to date record: The benefit of the interim audit is that accounting record is kept up to date. The accounting staffs have a duty to complete their work for interim audit. Thus, delay in accounts is not possible.
10. Suggestions Implementation: The accounting staff can follow auditor's suggestion. In case of interim audit auditor's suggestions can be quickly implemented.

Disadvantages

1. Additional work: The interim is not a part of the final audit. Final audit must be conducted after conducting this audit too. So, it is an additional workload on audit staff.
2. Alteration of Figure: Already audited accounting figure may be changed by a dishonest employee. It may create difficulty in final audit. It will mean that the audit staff will have to prepare notes when they finish the interim audit.
3. Unsuitable For Small Firms: Interim audit is not suitable for small business organizations with less financial transaction.
4. Work Burden: Audit notes have to be prepared after the completion of interim audit. It increases the burden of work.
5. Disturbance at Work: Interim audit disturbs the working environment in the office. Regular office activities may be hampered because of audit work.
6. Increase Expenses: Interim audit may prove expensive because it involves addition work on the part of the auditor. Thus, it increases the expenses of the business as it is not compulsory by law.
7. Not useful for third parties: The demerit of the interim audit is that it may not provide a guideline to third parties. The interim accounts are not final so the figures may not be reliable for making decisions

Q.14) Explain Efficiency audit.

Ans - Efficiency audit may be defined as a systematic examination of management's effort to accomplish goals efficiently and effectively in order to determine adherence to the management policies and stated requirements. Efficiency audit is undertaken to point out actual and potential areas which create trouble in the operations and working of the company and due to which the company may not be able to achieve its pre-determined goals.

Q.15) Explain Performance Audit.

Ans – A performance audit is an independent assessment of an entity's operations to determine if specific programs or functions are working as intended to achieve stated goals. It are typically associated with government agencies at all levels as most government bodies receive federal funding.

Q.16) Explain Propriety audit.

Ans – Generally, in companies and other big organizations, ownership and management are separate. This means the real owners of the business have to rely on executives to make the correct decisions and take the due course of action as per the law. This is where the concept of propriety audit is born.

Propriety audit has been described as an audit of the actions and decisions of the executives. The focus of such an audit is on the financial discipline, the authority structure, efficiency, rules and regulations and the protection of public interest.

Q.17) Explain Basic Principles Governing an Audit?

Ans – Auditing is guided by a set of fundamental principles that underpin the practice of examining and evaluating financial information, internal controls, and compliance. These principles provide a framework for auditors to ensure the accuracy, reliability, & credibility of financial statements.

1. **Integrity:** Auditors must conduct themselves with honesty, objectivity, and impartiality. Their actions and judgments should not be influenced by personal or external factors that could compromise their independence and professional ethics.
2. **Independence:** Auditors should maintain independence in both fact and appearance. This means they should be free from any relationships or interests that could impair their ability to provide an unbiased and objective assessment of the audited entity's financial information.
3. **Professional Competence and Due Care:** Auditors are expected to possess the necessary knowledge, skills, and expertise to perform their duties effectively. They must exercise due care in planning, conducting, and evaluating the audit, ensuring that the work is thorough, accurate, and in line with professional standards.
4. **Planning and Supervision:** Auditors must plan the audit engagement carefully to ensure it is conducted efficiently and effectively. Adequate supervision and review of audit work by qualified personnel are essential to maintain the quality of the audit process.
5. **Evidence-Based Approach:** Auditors gather and evaluate sufficient and appropriate evidence to support their conclusions and opinions. This evidence includes documents, records, inquiries, observations, and analytical procedures that provide a reasonable basis for the audit findings.
6. **Risk Assessment:** Auditors assess the risks associated with an audited entity's financial statements and operations. This involves identifying areas of potential error, fraud, or noncompliance and tailoring the audit procedures to address these risks.
7. **Materiality:** Auditors consider the materiality of misstatements in financial statements. A misstatement is considered material if it could influence the decisions of users of the financial information. Auditors focus their efforts on areas where misstatements could have a significant impact on the overall financial picture.
8. **Documentation:** Auditors maintain thorough documentation of their audit work, including the procedures performed, the evidence obtained, and the conclusions reached. This documentation serves as a record of the audit's basis and provides transparency to other auditors & regulators.
9. **Ethical Behaviour:** Auditors adhere to a strict code of ethics that guides their professional conduct. They avoid conflicts of interest, ensure confidentiality of client information, and act in the best interests of the public and the profession.
10. **Communication:** Auditors communicate effectively with management, those charged with governance (such as the board of directors), and other stakeholders. Clear and transparent communication helps convey audit findings, recommendations, and any issues identified during the audit process.
11. **Opinion:** At the conclusion of the audit, auditors provide an opinion on the fairness and reliability of the financial statements. This opinion reflects whether the financial statements are presented fairly and in accordance with applicable accounting standards.

These principles provide a foundation for auditors to conduct their work in a consistent and professional manner, fostering trust and confidence in financial reporting and accountability.

Chapter 2 – Internal Control Measures

Q.1) Explain the Internal Control?

Ans. Internal controls are accounting and auditing processes used in a company's finance department that ensure the integrity of financial reporting and regulatory compliance. Internal control refers to the set of principles, procedures, and practices companies define to ensure they keep a check on risk-causing factors and rectify the same to avoid losses or frauds. It plays a significant role in guaranteeing accountability of companies, which remain under controlled supervision for correctness and reliability.

Q.2) Explain the Internal Check?

Ans. An internal check is a continuous process of the accounting system to check for errors or fraud in bookkeeping operations for early detection and prevention. The internal check is an arrangement of the duties of the staff members of the accounting functions in such a way that another automatically checks the work performed by a person. L.R. Dicksee defines an internal check as “an arrangement of book-keeping routine that errors and frauds are likely to be prevented or discovered by the very operation of the book-keeping itself.”

Q.3) Explain Advantages and Disadvantages of Internal Check?

Advantages of Internal Check

Some of the widely accepted advantages of an efficient system of internal check are as follows:

1. For the Business

- a) Proper division of work: Internal check entails a proper and rational distribution of work among the members of staff of the enterprises keeping in view their individual qualifications, experience and area of specialization.
- b) Detection of errors and frauds: since no individual worker is allowed to handle a job completely from the beginning to the end, and the work of each clerk is automatically checked by the other, this helps in the early detection and discovery of errors and frauds and the possibilities of the commission of errors and frauds can be minimized.
- c) Increased efficiency coupled with economy: A good system of internal check increases the efficiency of work among the staff and leads to overall economy.
- d) Moral check: knowledge of subsequent checking of each employee's work by others, acts as a great check to commission of errors and frauds.

2. For the Auditor

- a) Quick preparation of final accounts: The Profit & Loss Account and the Balance Sheet are prepared without any loss of time.
- b) Convenience to Auditor: Where an organization is operating system internal check, the statutory auditor may conveniently avoid detailed checking of the transactions. He may apply a few tests here and there and can relieve himself from detailed checking.

3. For the Owner

- a) Accuracy of the accounts can be relied upon: if there is a system of internal check the owner of the concern may rely upon genuineness and accuracy of the accounts.
- b) Increase in profits: Overall efficiency and economy in operations result in more profits, thus ensuring larger dividends for the owners or shareholders.

Disadvantages of Internal Check

Depending on each other proves fatal in the quick disposal of the work. If one person is absent, the day-to-day work will be seriously disrupted. Following are some of the disadvantages of a system of internal check.

1. Costly for small business: A system of internal check system quite expensive especially for small business houses.
2. Quality is sacrificed for Promptness: In an internal check system quality of work declines because the clerks of the business attach greater importance to become quick and do not care if in the process their work gets sub-standardised.
3. Carelessness among high officials: The possibility of some of the responsible and high officials being complacent increases as they believe, though not always rightly, that under a sound system of internal check nothing can go wrong.
4. Disorder in the working of a business: In the absence of a proper organized system of internal check there will be chaos and disorder in the working of business.
5. Risky for an auditor: If the auditor does not apply tests and procedure his own and if he relies on the output of the system his work cannot be free from irregularities if the system itself proves to be defective.

Q.4) Explain Objectives of Internal Check?

Ans. Objectives of Internal Check

1. To encourage adherence to prescribed policies: The system of internal control is introduced to provide reasonable assurance that the various plans, policies and procedures laid down by the entity are being followed.
2. To avoid frauds and errors: The main objective of any control system is to detect and prevent frauds and errors by keeping an inherent check.
3. To promote operational efficiency: The internal controls within an organization are meant to prevent unnecessary duplication of efforts, protect against waste and discourage any inefficient use of resources of the organization.
4. To safeguard assets and records: The other important objective of internal control system is to safeguard the assets and records from unauthorized access, use and disposition.
5. To provide accurate and reliable data: The internal control system ensures that all the transactions are recorded in the correct amount, in the appropriate account and in the accounting period to which they relate.
6. To assist in timely preparation of Financial Information: Information is of no use if it is not provided in time. Internal control system facilitates timely preparation of financial statements.

Q.5) Explain Internal Check of following transaction –

- | | |
|--|--------------------------------|
| a) Cash Receipts | e) Payment of Wages & Salaries |
| b) Cash Sales: Sales at the Counter | f) Cash Purchases |
| c) Cash Sales: Sales by Travelling Salesman/Agents | g) Credit Sales |
| d) Cash Payments | h) Purchases |

Ans. Internal Check as regards certain transactions

A. Cash Receipts

1. The correspondence like inward mails and remittances should be handled by some responsible official.
2. There should be a separate clerk, known as cashier, to deal with cash receipts.
3. The cashier should not have access to the books of account.
4. Pre-numbered and pre-printed receipt book should be used for all cash collections.
5. All cash receipts should be deposited in the bank on daily basis through pay-in slips.
6. Bank pay-in slips should not be prepared by the same person who is in charge of making actual deposits in bank.
7. Counterfoils of receipts issued should be preserved.
8. Cancellation of spoiled receipts (not to be torn off).

9. Safe custody of unused receipts.
10. If some alteration is made in the receipt already issued, it should be properly initialled.
11. Bank reconciliation statement should be prepared at regular intervals to reconcile bank balance and cash balance.
12. Some responsible officer should verify the cash balance by carrying out a surprise physical check from time to time.
13. There should be segregation of the functions like receipt of cash, accounting of cash and custody of cash.

B. Cash Sales: Sales at the Counter

1. The salesman, authorized to sell the goods at the counter, should be specifically named. A specific number should be allocated to every salesman.
2. Cash memos shall be printed in numerical sequence.
3. The salesman sells goods to the customer and prepares four copies of cash memo, three of them handed over to customer and one is retained by him.
4. The customer will carry all the three copies to the cashier. After collecting the cash, the cashier will return two copies to the customer, duly stamp marked as cash paid.
5. Goods are handed over to the customer by gatekeeper and one copy of cash memo is retained by the gatekeeper and the other one will remain with the customer.
6. At the end of the day, salesman – cashier – gatekeeper prepares the summaries of cash, sales separately and then they reconcile it, for any difference.
7. The amount received from the cash sales should be deposited daily in the bank.

C. Cash Sales: Sales by Travelling Salesman/Agents

In some of the organizations, travelling salesman is appointed for direct sales promotion and collection. In such a case, the internal check system should be:

1. The salesman should be authorized to issue money receipts.
2. They should deposit the entire cash collection daily to the cashier or to the bank account of the company.
3. The salesman should submit the daily report of sales and collection.
4. The salesman should not keep any cash with him.
5. No cash collection should remain outstanding.
6. If possible, the salesman should be transferred from one area to another to avoid the frauds.

D. Cash Payments

1. The official responsible for making cash payments should have no connection with the receipt of cash.
2. All payments, as far as possible, should be through cheques or NEFT/RTGS/IMPS.
3. The cheques should be signed by the authorized official only.
4. All payments exceeding some specified limit should be duly authorized.
5. Safe custody of unused cheques.
6. Vouchers should be prepared for all the payments.
7. Vouchers should be serially numbered.
8. The voucher supporting any payment should be marked as paid to avoid the double payment.
9. For all payments, receipt should be obtained.
10. Counterfoils of cheques issued, or the vouchers marked as paid, should be preserved.
11. All the payments should be recorded in the cash book.
12. Bank reconciliation statement should be prepared to reconcile the bank balance and cash balance by the person other than cashier.

E. Payment of Wages and Salaries

In case of manufacturing companies, the internal check system for payment of wages and salaries is devised carefully because they employ a large number of workers and there is a great possibility of frauds. The internal check system is so planned

- To avoid incorrect time records or piecework records.
- To avoid the inclusion of dummy workers.
- To avoid the fraudulent manipulation of wage sheet.
- To avoid misappropriation of money, etc.

Proper Maintenance of Wage Records: The workers are paid wages either on the basis of time spent by them or number of pieces produced by them. Therefore, there should be proper time records or piecework records. The overtime records should also be kept in the organization.

Preparation of Wage Sheets:

- (i) The wage sheets should be prepared by a separate official.
- (ii) The wage sheets should include all the essential particulars like name of employee, number allotted, total time worked, rate, bonus, overtime, etc.
- (iii) There should be proper checking of calculations made in the wage sheet. The permissible amount (like Income Tax, Provident Fund, etc.) should be deducted from gross wages to show the net wages payable to workers.
- (iv) The wage sheet shall be signed by the person who has prepared it before making any payment.

Actual Payment of Wages:

- (i) Separate persons should be responsible for preparation of wage sheets, approval of wage bills and the actual payment thereof.
- (ii) Every worker who is to receive the wages should be personally present and he has to prove his identity at that time.
- (iii) If possible, wages should be disbursed in the presence of departmental foreman concerned.
- (iv) Signatures of the workers should be obtained whenever they receive the wages.
- (v) There should be proper arrangement for dealing with unclaimed wages.
- (vi) If possible, a separate bank account should be operated for wage payments. It will help in maintaining track of such payments or disbursements.

F. Cash Purchases

- (i) The purchase order should be prepared on the basis of purchase requisition duly authorized by a competent official.
- (ii) The terms and conditions of purchase should be decided on the basis of comparative tenders and quotations.
- (iii) The materials purchased should be verified as regards quantity and quality by the person independent of purchase department and store department.
- (iv) The purchase-invoice should be verified with purchase order and goods received note.
- (v) Payment against invoices should be authorized by a responsible official.
- (vi) All the entries should be properly recorded in purchase book and cash book.

G. Credit Sales

1. The sales department receives a purchase order from the customer. On receipt of the order, it should be numbered and preserved in the order received book.
2. Before the sales orders are processed, credit department should determine the credit worthiness of the customers.
3. The dispatch department should be given a copy of order.
4. The storekeeper who maintains custody over the inventory should issues goods to the dispatch department.

5. The statement of goods prepared by dispatch department should be checked with customers' order and then invoice should be prepared. The invoices are checked by a responsible official.
6. On dispatch of goods, outward note is prepared. Entries are made in the dispatch register and sales book.
7. Billing the Customers.
8. Periodical follow-up measures on collection of customers' account.
9. For goods returned by customers, entries should be made in goods inward book. Credit notes should be prepared, checked and initialed by the responsible official. With the help of credit notes, entries should be made in Sales Return Book.

H. Purchases

1. The department who is in need of material, should fill in the requisition slip duly signed and shall send it to purchase department.
2. The purchase department should make an enquiry about the terms and conditions of purchases from different suppliers on the basis of tenders and quotations.
3. The purchase department should place the purchase order. Four copies of purchase order are prepared. One is sent to the vendor, second to the stores department, third to the accounting department and fourth is kept by the purchase department with itself.
4. On receipt of goods, they are properly inspected and entries are made in the goods inward register.
5. The purchase department should check the invoice and send the same to the accounting department for payment.
6. For the goods returned to the supplier entries should be made in the Purchase Return Book and a debit note is issued to the supplier.

Q.6) Explain the Duties of an Auditor in respect of Internal Check

Ans. The auditor should consider the system by following procedure:

1. A written statement should be received from the company regarding the system of internal check.
2. The auditor should assess its effectiveness instead of simply relying on its working.
3. He should find out the deficiencies, if any, which may result into errors or frauds.
4. An auditor may depend upon the effectiveness of the operation of the system only to a certain extent which is primarily based on the size of the business concern.
5. In case the auditor is not satisfied through the test checking of the transaction, he may conduct careful analysis.
6. Test checking of cash transaction should be avoided by the auditor even if he finds effective internal check system in force.
7. If the system in force is not efficient, then the auditor can suggest ways to avoid the defects. In case his suggestions are not implemented, he should unambiguously state the concern that he should not be held responsible for any error at later date.

Q.7) Explain the Internal Audit and its objectives / Importance / Significance / Uses?

Ans. The auditor is an outsider and an independent expert. However, some concerns get their accounts audited by its own staff and then presents the same to the outside expert. This is internal audit. Internal audit is the review of its records by its specially appointed staff. Watter B. Meigs defines Internal Audit as "Internal Audit consists of continuous critical review of financial and operating activities by a staff of auditors functioning as full-time salaried employees."

Objectives or Usefulness of the Internal Audit

1. To verify the accuracy and authenticity of the financial accounting and statistical records presented to the management.

2. To ascertain that the organization is following the standard accounting practices or not.
3. To establish that there is a proper authority for every acquisition, retirement and disposal of assets.
4. To confirm that liabilities have been incurred only for the legitimate activities of the organization.
5. To analyse and improve the system of internal check; in particular to see (a) that it is working; (b) that it is sound; and (c) that it is economical.
6. To facilitate the prevention and detection of frauds.
7. To examine the protection afforded to assets and the uses to which they are put.
8. To make special investigation for management.
9. To provide a channel whereby new ideas can be brought to the attention of management.
10. To review the operation of the overall internal control system and to bring material departures and non-compliances to the notice of the appropriate level of management; the review also generally aims at locating unnecessary & weak controls for making the entire control system effective & economical.

Q.8) What are the applicability of provision of Internal Audit

Ans. Provisions of section 138 of the Companies Act, 2013 read with rule 13 of the Companies (Accounts) Rules, 2014 prescribes the internal audit in specified companies. Accordingly, the following companies are required to undertake internal audit –

Company type	Criteria for applicability of internal audit
Every listed company	All the listed companies are required to carry out internal audit.
Every unlisted public company	Unlisted public company satisfying any of the following criteria during the preceding Financial Year – Turnover of INR 200 Crores or more; Paid up share capital of INR 50 Crores or more; Outstanding loans/ borrowings from banks/ Public Financial Institutions exceeding INR 100 Crores or more at any point of time; Outstanding deposits of INR 25 Crores or more at any point of time.
Every private company	Private company satisfying any of the following criteria during the preceding Financial Year – Turnover of INR 200 Crores or more; Outstanding loans/ borrowings from banks/ Public Financial Institutions exceeding INR 100 Crores or more at any point of time

Q.9) Distinguish between Internal Check vs. Internal Audit

Basis	Internal Check	Internal Audit
1. Meaning	It is an arrangement of duties in such a manner that work done by one person is automatically checked by another in the normal-course of work.	It is an independent review of internal controls, accounting record and actual performance.
2. Objective	To prevent errors and frauds.	To detect errors and frauds.
3. Nature	It is device for doing work.	It is devise of checking work.
4. Timing	It is conducted during the course of a transaction.	It starts after the transactions are recorded.
5. Check	It is a simultaneous check.	It is a post-mortem check.
6. Appointment of Employees	There is no need of any new appointment in case of internal check.	Internal audit is done by the staff specially appointed for this purpose.
7. Scope	It has narrow scope but its scope remains more or less same everywhere.	The scope may vary from business to business & from organization to organization.

Q.11) Distinguish between Statutory Audit vs. Internal Audit

Basis	Internal Audit	Statutory Audit
1. Objective	The objective of internal audit is to state accuracy of information and compliance with plans and policies of management.	The objective of statutory audit is to express an opinion on true and fair view of financial results and financial position of the company.
2. Scope	The scope of work of internal audit is determined by the management.	In this case, scope of work and responsibilities of the statutory auditor are determined by law.
3. Nature	It is conducted at the option of the management. It is not a legal requirement.	Statutory audit is required under law and is legally compulsory.
4. Qualification	No qualification is prescribed for internal auditor.	Statutory auditor must possess the qualification prescribed under law.
5. Appointment	Internal auditor is appointed by the management.	Statutory auditor is normally appointed by the shareholders. However, in certain cases he may be appointed by the directors of the company or the government.
6. Removal	The internal auditor can be removed by the management or the directors.	The statutory auditor can be removed only by the shareholders and not by the management or the directors.
7. Remuneration	It is fixed by the management.	It is fixed by the shareholders.
8. Status	Internal auditor may be employee of the company.	Statutory auditor is an independent person and, in no case, be employee of the organization.
9. Test check	All the transactions are checked	Test check is conducted.
10. Report	The report prepared by internal auditor is submitted to the management of the company	The report prepared by statutory auditor is submitted to shareholders.

Chapter 3 – Planning and Procedure of Audit

Q.1) Explain Audit Planning and its objectives ?

Ans - Audit planning means planning of his work by the auditor. It will help him to conduct the audit in an efficient manner and complete it in time. He has to plan about the area, scope, depth of transactions to be audited, time to be devoted for each job, persons to be deployed for different operations etc. Objectives of Audit Planning:- Planning the audit work will immensely help the auditor to complete the work successfully and in time. Objectives or benefits of planning audit can be enumerated as follows :

- 1) If he thinks in advance he can decide which things are important and which are not. Accordingly, he can devote more time and attention to important matters while actually conducting the audit.
- 2) If any problems are likely to crop up, the auditor can find or seek solutions for the same well in time.
- 3) Planning will help him to conduct his work efficiently.
- 4) This will also help him to select a suitable team of assistants and properly distribute the job amongst them. Each member of the team should get that part of the job which he likes and which he can complete in time. Every person has his own likes and dislikes. If a person gets a job of his liking, he will always perform it more efficiently and find pleasure in doing the same.
- 5) Planned work can be supervised easily. Suitable directions & instructions can be given to the staff in time.
- 6) Co-ordination between the work done by different members of the team can be easily done.
- 7) Audit planning will help the auditor to utilize the services of all assistants fully and properly.

Q.2) Explain the preparation for audit?

Proper execution of any work requires appropriate planning and programme of action. Before commencing any new Audit, Auditor should take the following steps.

- 1) Scope of duties :- To begin with the auditor should ascertain the exact nature and scope of his duties. This question does not arise in case of statutory audit because his duties are enumerated in the concerned law only. E.g. when an auditor is appointed to audit the accounts of a joint stock company, there are provisions in the companies act about his duties rights and liabilities. However if a concern in which audit is not legally mandatory, appoints an auditor, auditor should get clear instructions about the work expected from him by the appointing authority, so that he can plan his work accordingly.
- 2) Procure engagement letter :- Before starting his work, the auditor should obtain his appointment letter from the client. Such letter should clearly mention amongst other things, his duties, remuneration, period allowed to complete the job etc. In other words, such letter leads to an audit contract. Such a letter or contract is highly desirable to avoid any misunderstanding with the client in future. Such a letter will also help if the client accuses him of not performing the work promised.
- 3) Knowledge about business :- Every type of business has its own special features. So, every business follows an accounting system that suits its needs. There is no one uniform accounting system that can be followed by every business unit. So, the auditor before starting his work of audit should study the special problems of the business unit and the system of account followed by it. If necessary the auditor should visit the factory and acquaint himself with the production procedure followed by the factory. He must acquire knowledge about the raw material and the machines used in production.
- 4) List of Principal officers :- In an Accounts department there may be different officers in charge of different books of accounts. Auditor should obtain their list so that while going through the audit procedure, if the auditor needs any information or clarification on any specific point, he can directly contact the concerned officer. Auditor should also obtain information about the extent and scope of authority of each one of them.

5) Knowledge of technical details :- He should also acquire some knowledge about the technical details if any of the business. This will enable him to grasp easily the nature of the transactions while auditing them.

6) Enquiry into special circumstances if any :- An auditor should also enquire into special circumstances surrounding his appointment. He is required to be careful about the implications of such special circumstances. In case he is appointed in place of another auditor, it is his professional duty to communicate with him.

7) Instructions to the client :- After making above preparation, he should issue following instructions to his client :

- a. Accounts should be finalized and kept ready for audit.
- b. Necessary schedules be prepared and made available to him. E.g. schedules of debtors and creditors, bad and doubtful debts, fixed assets, outstanding and prepaid expenses, outstanding incomes and incomes received in advance, investments, cost of acquisition and market price, stock sheets, statements of deferred revenue expenditure, etc

Q.3) Explain Audit Programme and its objectives?

Ans. An audit programme is a detailed, written statement designed by the auditor indicating the work to be performed by the audit assistants, specifying the time limit for completion of work, instructions and guidance to the audit staff. In short, it is a tool for planning, directing & controlling the audit work. An audit programme is a detailed plan of the auditing work to be performed. It specifies the procedures to be followed in the conduct of audit more efficiently. The auditor outlines the whole procedure of audit from beginning till the finalization of audit report. Audit programme is generally contained in the audit notebook. Prof. Meigs defines an audit programme as, "an audit programme is a detailed plan of the auditing work to be performed, specifying the procedures to be followed in verification of each item and the financial statements and giving the estimated time required."

Objectives of Audit Programme

1. To provide clear instructions to the audit assistants specifying the nature of work to be performed and fixing the time span for completion of each work.
2. To facilitate coordination among various parts of audit work.
3. To ensure uniformity in the performance of audit work & to avoid duplication & repetition of work.
4. To attain a fair allocation of work among audit team.
5. To fix responsibility and accountability of each audit assistant.
6. To serve as a guide for planning the audit work in future.
7. To serve as evidence in future showing the date of completion of audit work, methods or procedures undertaken, persons involved in completion of audit work etc.

Q.4) What must be necessary for the Good Audit Programme?

Ans. An Ideal audit programme must contain necessary point:

- (1) Audit programme must be in writing- In a written audit programme, the auditor has not to tell his staff repeatedly about the distribution of the work. There is no possibility of any dispute between the auditor and his staff. In case of oral audit programme, the auditor cannot hold his employees responsible for their carelessness.
- (2) An audit programme must be clearly worded- It means all necessary clauses must be included in the audit programme, so that the employees easily understand what is to be done by them in the course of the audit and they do not feel like asking from the auditor about their assigned work. Clarity saves both, time and energy of the auditor as well as his staff.
- (3) Responsibility of each member of the staff relating to audit work must be fixed in the audit programme- This will serve as a moral check over them and they shall do their work properly and carefully. In case of their carelessness, they may be held responsible.

(4) An audit programme must be flexible- The auditor must keep in mind the flexible nature of audit programme. This shall help him in making suitable changes required according to the changes in the circumstances/situations. You very well know nothing is static in the present age of the economy & therefore changes are a must. Therefore, an audit programme must be flexible and not rigid.

(5) An audit programme must be prepared departmental-wise- The organisation under audit must be having departments & sub-departments. Audit programmes should be prepared for each department & sub-department separately. The nature of work should also be kept in mind while preparing such audit programmes.

(6) Checking from beginning to the end- An audit programme must be prepared in such a manner that each account book is audited from the beginning to the end and nothing is left out. Such a device shall help in the easy detection of errors and frauds.

(7) Reliability of Internal Check System- The audit programme should be prepared after fully ascertaining the reliability of the internal check system practised by the organisation under audit. The weakness of the system, if any must be known. Thereafter, keeping in mind both the weak and strong points of the internal check system, an audit programme be prepared by the auditor.

(8) Knowledge of Rules relating to the Audit- The auditor and his staff must be well-conversant with the laws relating to organisations under audit. For example, if audit work is related to a partnership firm, the auditor must have good knowledge of the Indian formed Partnership Act; if the audit relates to a company under the Companies Act, the auditor must be well conversant with the provisions of the Companies Act.

Q.5) What are the advantages and Limitations of Audit Programme?

Ans. An audit programme can give the following **advantages**:

1. Helps in Estimation and Division of Work: Audit Programme helps in estimating the quantum of audit work in advance and also helps in dividing the work among the audit assistants based on their capabilities.
2. Helps in Fixation of Responsibility: It enables to fix responsibility on the audit assistants by clearly defining the scope of work.
3. Helps in Future Planning: Audit programme serves as a basis for planning the audit work for subsequent year.
4. Serves as a Guide: It serves as a valuable guide for the audit staff in execution of the audit work for succeeding years.
5. Valuable Evidence: It serves as an evidence for the work done as initials of those who have done the particular work are appended to it. The auditor can produce the audit programme as a proof when a charge of negligence being brought upon him.
6. Uniformity: It provides for uniformity in audit work as the same work will be done every year.
7. Continuity: When an audit staff goes on leave others can continue the work by referring to the audit programme, hence, audit programme provides for continuity of work.
8. Coordination: It facilitates coordination and helps in supervising the work of the audit staff.

Disadvantages of an Audit Programme - The disadvantages that may be experienced by conducting audit as per predetermined audit programme are -

1. Mechanic: When audit work is conducted mechanically every year based on the audit programme, it causes monotony and boredom to the auditor and audit staffs.
2. Loss of Initiative: Audit staff cannot take their own decisions and they are compelled to comply with the audit programme. Hence, an efficient audit clerk loses his initiative and interest as he cannot make any suggestions.
3. Rigidity: A rigid and inflexible audit programme cannot be laid for all types of business. During the course of audit, new areas to be verified may come to the notice of the audit staff. Unless the audit programme is revised, such areas may escape from auditing.

4. No Quality in Work: The audit staff will be more interested to complete the work in time rather than to maintain any standard in the work.
5. Shelter for Inefficient Staff: Inefficient audit staffs conceal their mistakes or weakness on the basis of audit programme. Hence, it provides shelter for inefficient audit staff.
6. Unsuitable: Pre-determined audit programme is not suitable for small business organizations.

Q.6) Explain Audit Procedure?

Ans. Audit Procedures are steps performed by auditors to get all the information regarding the quality of the financials provided by the company, which enable them to form an opinion on financial statements whether they reflect the true and fair view of the organization's financial position.

Q.7) Explain Routine Checking with merits and demerits?

Ans. The routine checking is a part of vouching, which is essential work of an audit. Whatever may be the size, constitution and nature of business, there are certain records and books which are carried on by the auditor as a matter of routine is known as checking in auditing. Routine checking involves normally four types of functions.

1. Checking of casts, subcasts, carry forwards and other calculation in the books of original entry.
2. Checking of postings into the ledger.
3. Checking of casts and balances of various accounts in the ledger.
4. Checking of transfer of balances from the ledger to the trial balance.

Advantages of Routine Checking

1. Knowledge of Mathematical Accuracy:- Routine checking brings to the notice of the auditor or his staff arithmetical errors, which can be rectified at this stage.
2. Assurance about Posting:- The auditor is assured that posting to the ledger from the journal is correct and he can go ahead in his work.
3. No Possibility of Alteration in the Figures of the Account Books and Records:- Routine checking rules out alteration in the figures of the account books, since the auditor or his staff uses different ticks and of different colours.
4. Helpful in Checking Final Accounts:- Routine checking helps in the checking of the Trial Balance and also the Final accounts of the enterprise. In this process of checking, errors and frauds of clerical nature are brought to light.

Disadvantages of Routine Checking

1. Mechanised Work:- Routine checking is a mechanised work. The auditor or his staff feels monotony in this work and especially the staff of the auditor which is usually articulated clerks do not take full interest in this work. In many cases their carelessness has been brought to light.
2. No Detection of Planned Frauds:- Routine checking brings to light only small errors and frauds. Big deliberate and planned frauds as well as errors are not covered by it. They can be detected by the special efforts on the part of the auditor and not by mere Routine Checking.
3. Difficult to Trace out Errors of Principles and of Compensatory Nature:- Routine checking fails to detect errors of principles and compensatory nature, since such a checking is of a mechanical nature and is done usually hurriedly.

Q.8) Explain Test Checking with merits and demerits?

Ans. Test checking is a process of selecting and checking of a few transactions from a large volume of transactions. If the entries checked are found to be correct then the auditor assumes that the remaining entries are also correct. The technique is based on the theory of sampling which is commonly used as a statistical method. Checking each and every transaction that occurs during the year is both redundant and uneconomical for the auditor. Therefore, the auditor verifies and examines a few representative transactions in order to obtain sufficient appropriate audit evidence to base his opinion. Test checking

reduces the volume of work of the auditor, if in test checking, the auditor finds that the records checked by him are correct then no further detailed checking is carried out.

Applicability of Test Checking in the following situations:

1. When there are large volumes of identical or routine transactions.
2. When transactions are large.
3. When the auditor has to certify the accounts quickly after the close of the accounting period.
4. When the auditor has past experience about the nature of transactions of the clients organisation.
5. When a satisfactory system of internal control and check system exist.

Advantages of Test Checking

1. Reduces Volume of Work: The work of an auditor is reduced considerable as he checks only few transactions, extra time available can be utilised for concentrating on areas of considerable importance.
2. Reduces Time and Cost: Test checking is one of the technique which reduces time, cost and energy of both the auditor and the client.
3. Quick Completion of Audit Work: Test check enables the auditor to complete the work quickly as the auditor checks only a few or limited transactions.
4. Effective Means of Checking: Test checking can be effective if the auditor selects the transaction to be checked carefully.
5. Scientific Assessment of Risk: The risk of material misstatement in the financial statement is assessed by the auditor in a scientific manner by drawing samples and studying them in detail.
6. Serves as a Guide: It serves as a guide for the auditor to arrive at conclusion regarding the true and fair view of the state of affairs of business.

Disadvantages of Test Checking

1. No Scientific Approach: It is a traditional auditing technique where no scientific approach is used in selecting the samples, hence the results drawn on it tends to be incorrect.
2. Risk cannot be measured: It is not possible to measure the amount of risk involved.
3. Complicated Transactions are not Checked: The audit assistants select only simple transactions for checking and complicated transactions are left omitted.
4. Carelessness of the Client's Staff: The client's staff is aware that the auditor will not check all their work hence they become careless.
5. Possibility of Errors and Frauds Remain Undetected: When test check is adopted by the auditor there are possibility of errors and frauds left undetected.
6. Unsuitable when there is no System of Internal Check: The auditor cannot adopt test check when there is no proper system of Internal check and control in operation.
7. Unsuitable for Small Business Concerns: Test checking is not suitable for small business concerns as the number of transactions involved is not large.

Q.9) Explain Audit Working Papers?

Ans. Audit working papers are used to document the information gathered during an audit. They provide evidence that sufficient information was obtained by an auditor to support his or her opinion regarding the underlying financial statements. It also provide evidence that an audit was properly planned and supervised. They should contain sufficient information for an auditor who did not work on an audit to discern the reasons for the opinion given regarding a client's financial statements. The forms of documentation that may be contained within the working papers include the following:

1. Checklists of standard investigation items that were completed, and by whom
2. Copies of correspondence
3. Documentation of the assertions investigated and supporting evidence found
4. Extracts from the corporate minutes of the client
5. Flowcharts of a client's key transaction processes
6. Narrative discussions of issues found

7. Organization charts
8. Questionnaires for which the client provided answers

Objectives of Audit Working Papers

1. Planning and Organizing Audit Work: Working papers provide a means of planning, organizing and reviewing the audit work. They are the evidence for conducting the audit work against the generally accepted auditing standards and practices.
2. Support for Auditor's Opinion: Working papers provide support for the report of the auditor. When the auditor's opinion on financial statement or recommendations given by the auditor is questioned working papers support the opinion or recommendations given by the auditor.
3. Division of Labour: Working papers help in dividing the audit work among the audit staff so that each staff is responsible for his work to the auditor.
4. Use as a Permanent Record: Working papers are the permanent record of the auditing procedure employed and the financial records examined during the conduct of audit.
5. Basis for Evaluation and Training of Audit Staff: Working papers provide a means to test whether the auditor and his staff have done their job as per the standards. Training to the staff can be provided by reviewing the working papers of past years.

Importance (or) Advantages Of Audit Working Papers

1. Planning the Audit Work: It acts as the process of planning for the auditor so that he can estimate the time that is required for conducting the audit work.
2. Helps in Fixing Responsibility: It helps in fixing responsibility and to measure the work being performed by the audit assistants.
3. Helps in Drawing Conclusions: Working papers are necessary to draw conclusion from the evidence obtained.
4. Helps in Preparing Audit Report: The auditor prepares and finalises the audit report taking into account the information or extracts contained in the working papers.
5. Documentary Evidence: It is a valuable documentary evidence in the Court or Tribunal of law when a charge of negligence is brought against the auditor.
6. Permanent Record: Working papers are the permanent record of the work done by the auditor during a particular period of time.

Q.10) Explain Audit Note Book?

Ans. An Audit Notebook is a diary for auditors to record observations, errors, doubtful queries, explanations, & clarifications to be received from the clients. The audit notebook is a register maintained by the audit staff to record important points observed, errors, doubtful queries, explanations, & clarifications to be received from the clients. Mostly the audit notebook contains information regarding day-to-day work performed by the audit staff on any particular date. Notes about all types of errors, difficulties & uncleared queries or points to be discussed with the auditor or clients and the points to be incorporated in the report are noted. It is a diary on which auditors scribble down all crucial inquiries to avoid the possibility of unquestioned material facts.

Contents of Audit Notebook- An audit notebook is a diary for auditors to record all crucial inquiries, observations, explanations, errors, and clarifications to avoid the possibility of unquestioned material facts. Some of the points which are noted down in an Audit Notebook are given below:

General Information

1. The nature of the business carried on and the important documents relating to the constitution of the business.
2. The name of the client and the audit year.
3. A list of books of accounts in use.
4. Particulars of the accounting and financial system followed and the internal check-in operation in the business.

5. Names of principal officers, their duties, and responsibilities.
6. Details regarding accounting and financial policies followed in the business.
7. A copy of the audit program.
8. The technical terms used in the business.
9. Notes and queries which might be required at a subsequent audit.
10. The accounting method is followed in the business.

Special Matters to be recorded in the Audit Notebook

1. Routine queries not cleared, i.e., missing receipts and vouchers, etc.
2. Details of mistakes and errors discovered.
3. The points raised during an audit to which the auditor's attention must be drawn, i.e., the company's failure to comply with the provisions of the Companies Act or the Memorandum of Association and other legal requirements.
4. Extracts from minutes, books and contracts, and correspondence with various government agencies, financial institutions, debtors, creditors, etc.
5. The points to be incorporated into the audit report.
6. The points which need further explanation and clarification, e.g., a change in the basis of valuation of finished stocks or the computation of depreciation, etc.
7. Date of commencement and completion of the audit.

Chapter 4 – Vouching

Q.1) Explain Vouching and its objects and Importance?

Ans. Vouching is an inspection by the auditor of the evidences supporting the transaction entered in the books. It is a technique used by the auditor to judge the truth of entries appearing in the books of accounts. The act of examining vouchers is defined as vouching. As per J. R. Batliboi : “Vouching means testing the truth of items appearing in the books of original entry.”

Objectives of vouching are:

1. All transactions have been recorded in the books of accounts and nothing has been left.
2. All entries recorded in the books of accounts are supported by documentary evidences which are available in the business.
3. No transaction which is not connected with the business has been recorded.
4. All transactions are properly authenticated by a responsible person.

Importance / Significance of vouching are:

1. Detect errors and frauds
2. Know the authenticity of transactions
3. Find unrecorded transactions
4. Ensures genuineness of the transactions

Q.2) Explain Vouchers

Ans. Voucher is known as the documentary or other evidence for the support of a transaction in the books of account.

Q.3) Explain the point to be consider by auditor before Vouching?

Ans.

1. That the date of the voucher falls within the accounting period;
2. That the voucher is made out in the client's name;
3. That the voucher is duly authorized;
4. That the voucher comprised all the relevant documents which could be expected to have been received or brought into existence on the transactions having been entered into, i.e., the voucher is complete in all respects; and
5. That the account in which the amount of the voucher is adjusted is the one that would clearly disclose the character of the receipts or payments posted thereto on its inclusion in the final accounts.
6. Date of the voucher.
7. Voucher is relates to business.
8. Voucher relates to the period, under audit.
9. Voucher must be in printed form.
10. Voucher is consecutively numbered and filled serially.
11. Tick and audit rubber stamp.
12. Signature of payee.
13. Amounts in words and figure.
14. Revenue stamp of one rupee, if it exceeds Rs. 500.
15. Signed and authorized by some responsible officer.
16. Comparison of evidence with accounting entries.
17. In case of alteration is made in voucher, it is properly initialed.
18. Proper filling.
19. In case of missing vouchers, reasons of their lost and duplicates copies.
20. Vouchers which have been inspected by auditor should be cancelled by stamp.

21. All vouchers relating to a particular period or particular accounts should be checked in one sitting or in a continuous process.
22. The auditor should not take the help of members of the staff of the client while vouching the entries.

Q.4) Explain the Audit of Cash Transactions

Ans. Following step to be followed for the Audit of Cash Transactions by the auditor:-

(1) Cash is a highly liquid asset. Hence it is necessary that the Auditor satisfy himself that the all the cash transactions entered in the books are genuine and correctly recorded in the books. Further the auditor has to ensure that every cash payment voucher has sufficient appropriate documentary evidence.

(2) Check the following

- Internal Control System
- Check the correctness of Book Keeping records
- Check whether accounting policies have been observed
- Check the documentary evidences of transactions
- Check the disclosures in the Financial Statements

(3) Casting (Totalling)

The totals of particular expenses may be inflated and this is a sign of fraud. Similarly, a cashier may mis-utilise the receipts by under-totalling the receipts column of the Cash Book. Such frauds may be detected only by checking the total columns of the cash columns and the respective ledgers.

(4) Bank Reconciliation Statement:

It is an important document for internal accounting control and it should be checked by the Auditor with due diligence and utmost care. Cheques issued but not presented for payment before the closing date, cheques deposited before the closing date but not cleared have to be appropriately investigated.

Q.5) Explain the Audit of Payments

Ans. Following step to be followed for the Audit of payment by the auditor:-

While auditing the payments, following areas have to be audited:

(1) Purchase of Goods: Cash purchases should be verified with receipts issued by the suppliers.

Evidence can be received by verifying Stock Ledger for the goods inward.

(2) Remuneration paid to Directors: Following points must be considered

- To verify the authority of purchasing an asset (Board of Directors in case of a company)
- To confirm whether no value for repairs have been capitalised.

(3) Payment for acquiring assets: Following point must be considered

- To check the receipt for the amount paid.
- To check the title of deed.
- To verify the authority of purchasing an assets (Board of Director in case of a company)
- To confirm whether no value for repairs have been capitalised.

(4) Payment of any expenses: As per the standard rules, every expenditure should be charged in the year for which the expenditure is incurred. It should be verified accordingly. Further, any expenditure personal in nature should not be charged in the business.

(5) Payment towards Taxes: Payment on account of Income Tax should be verified with the copy of the assessment Order and the receipt (Challan). Interest allowed on advance tax should be recorded as an Income while Interest or Penalty paid for non-payment or late payment of the taxes should be debited as an expenditure.

(6) Travelling Expenses: There are generally approved rules regarding travelling allowances in business organisations. So, this expenditure should be vouched accordingly. In absence of the rules, the Auditor should verify the actual amount incurred with the help of bills, etc.

The auditor should also satisfy himself that the expenditure were incurred in the interest of the company.

(7) Salaries and Wages: The payment of Salaries and Wages need to be vouched carefully. Following internal checks should be done:

- Appointment and promotion of employees
- Attendance of the employees
- Wages sanction
- Confirm that all payments made to the workers and other employees have been acknowledged by them. This can be done by verifying that 'receiver's signature' is present on the voucher making payment towards Salary.

(8) Petty Cash: Petty cash should be verified as follows:

- Trace the amount advanced to the petty cashier for meeting petty office expenses in the petty cash book
- Vouch the payments, wherever possible, by external evidence like Invoice or Cash Memo, etc.
- Check the column totals
- Verify the Cash balance in hand

9) Advertisement expenses: Advertisement expenses will be vouched in the following manner:

- Obtain the complete list of advertisement, media wise, along with the amount paid in respect of each category
- To ascertain whether there is a regular contract with an advertising agency
- Check the receipt for amount paid for the advertisement expenses incurred
- Verify that outstanding advertising expenses have been properly disclosed on the liabilities side of the balance sheet

(10) Payment of Dividend:

- Examine the provisions in the memorandum and articles of association regarding payment of dividends
- Examine the boards minutes regarding rate of dividend
- Verify the shareholders register and ensure that the names of all shareholders for entitled to receive dividends have been included
- Check the computation of Dividend
- See the counterfoils of cheques of amounts paid to shareholders

Q.5) Explain the Audit of Receipt

Ans. Following step to be followed for the Audit of Receipt by the auditor:-

(1) Cash Sales: To vouch cash sales, the system of internal check should be examined with finding out loopholes there in, whereby cash sales could have been misappropriated.

Cash sales are usually verified with the carbon copies of cash memos.

If a cash memo has been cancelled its original copy should be inspected it could be that the amount thereof have been misappropriated

(2) Receipts from Account Receivables: Receipts from account receivables should be checked with the counterfoils receipts issued to them. Comparison of the entries of Amount deposited in the bank account with closed on counterfoils of the pay in slip book should be made.

(3) Income from Investments: If investments are many that light generally would have an investment register. In such a case the dividend income is first vouched by reference to the counter files of dividend warrant. In case of interest on deposits with banks, verification should be done by reference to the bank statement and the rate of interest.

(4) Rental receipts:

Copies of bills issued to the tenants should be checked by reference of tenancy agreements.

Chapter 5 – Verification of Assets and Liabilities

Q.1) Explain Verification and its objects and Importance?

Ans. “Verification is the proof of accuracy of extension, footings, posting, existence and ownership of assets.”

Objectives of Verification- There are number of key attributes or assertions implied in the balance, and these provide the objectives against which auditor is seeking verification. The auditor must collect evidence to satisfy six objectives.

1. Completeness- which concerns whether the account balance in the financial statements represents all of the underlying assets, liabilities, income or expense, e.g. are all the fixed assets owned by the client recorded in the financial statements?

2. Existence- which concerns whether the account balance represents real assets or liabilities and whether any items have been duplicated, e.g. does the account balance represent fixed assets that physically exist?

3. Accuracy- which refers to whether the item has been correctly recorded with respect to party, price, date, description, and quantity, e.g. looking at the underlying entries for the account, has the clerk pressed the correct buttons on the calculator or the correct keys on the keyboard, or has the depreciation charged been correctly calculated?

4. Valuation- which concern whether the account balance is valued at the appropriate amount, e.g. has the correct depreciation rate been used, is that rate appropriate and is the fixed asset worth the amount at which it is recorded.

5. Ownership- which relates to a question of title – whether the asset is the property of the company, e.g. is the fixed assets owned by the company, or is there evidence that a third party such as a leasing company has an interest, or has the company bought assets which are subject to „reservation of title“ clauses?

6. Presentation- which relates to the manner of presentation of an account balance in the financial statements, e.g. whether creditor have been correctly split between short and long-term creditors.

Q.2) Explain Verification of Assets and its general principles?

Ans. “Verification of assets implies an enquiry into the value, ownership and title, existence and possession and the presence of any change on the assets.” Spicer and Pegler

The Institute of CA of India, states that verification of assets should be aimed at establishing their: existence, ownership, possession, free from encumbrance, proper recording and proper verification.

General Principles regarding Verification of Assets

1. That the assets were in existence on the date of balance sheet;
2. That the assets had been acquired for the purpose of the business and under a proper authority;
3. That the right of ownership of the assets vested in or belonged to the undertaking;
4. That they are free from any lien or charge not disclose in the balance sheet;
5. That they are correctly valued having regard to their physical condition; and
6. That their values are correctly disclosed in the balance sheet.
7. Where a company or partnership has taken over the assets of a going concern, the agreement of sale should be inspected and that amount paid for them ascertained. It should be further verified that the allocation of total cost among the various assets is fair and reasonable.
8. The cost of assets acquired piecemeal should be verified with their invoices, purchase agreements, or ownership rights and the receipts of the sellers in respect of the price paid. It should be verified that expenditure on assets newly acquired and that on the renewal and replacement of old assets has been correctly recorded, consistent with the method that has been generally followed in the past.

9. When an asset is sold, its sale-proceeds should be vouched by reference to the agreement, containing the terms and conditions of sale, counterfoil of the receipt issued to the purchaser or any other evidence which may be available. If the sale of fixed assets resulted in capital profit, it should be transferred to capital reserve. However, the profit limited to original cost or a loss should be transferred to the Statement of Profit and Loss.

10. It is obligatory for a company to provide for depreciation out of the profits in accordance with provisions under sub section (1) of section 123, before any profits can be distributed as dividend. The law requires that depreciation should be provided in the manner as specified in Schedule II of the Companies Act, 2013.

11. The existence of fixed assets, where practicable, should be verified by a physical inspection and, or by comparing the particulars of assets as are entered in the Schedule attached to Balance Sheet, with the plant or property register and reconciling their total values with the General Ledger balances.

12. Wherever possible, all the securities and document of title, cash, negotiable instruments, etc. representing the assets, should be inspected at the close of the last day of the accounting period. If this is not practicable and the examination is undertaken at the later date, a careful scrutiny of transactions subsequent to the date of the balance sheet must be made to ensure that the changes in their balance that have subsequently taken place and are supported by adequate evidence.

13. It should be ascertained that no unauthorized charge has been created against an assets and all the charges are duly registered and disclosed. Where shares or securities are lodged with a bank to secure a loan or an overdraft, a certificate should be obtained from the bank showing the nature of the charge, if any.

14. Where assets, e.g., government securities, share scrips and debenture bonds are in the custody of a third party other than bank, they must be inspected.

15. Where depreciable assets are disposed of, discarded, demolished or destroyed, the net surplus or deficiency, if material, should be disclosed separately.

Q.3) Explain Valuation and its objectives?

Ans. Valuation of assets refers to the assessment of the accuracy of the value of assets based on the utility which appears on the Balance Sheet of the firm at the end of the financial year. It facilitates checking the correct financial position of the enterprise. It covers:

1. Collecting all the necessary information about valuation.
2. Analyzing all the figures
3. Confirming the fact that the valuation follows the rules of GAAP.
4. Ensuring consistency in the methods followed for the valuation of assets every year.
5. Getting an opinion about the accuracy of valuation.

Objectives of Valuation are as follows:

1. Evaluate the actual financial position of the enterprise.
2. Determine the true position of assets at the Balance Sheet date.
3. Check the mode of investment of the company's capital.
4. Estimate the firm's goodwill.
5. Identify the difference in the value of assets when the company purchased them and at the date of the Balance Sheet. Also, find out the reasons for the difference.

Q.4) Difference between Vouching and Verification?

Ans.

BASIS	VOUCHING	VERIFICATION
Meaning	Vouching means checking the accuracy of the transactions recorded in the books of accounts.	Verification means a process to substantiate the validity of assets and liabilities appearing in the Balance Sheet.

Basis	Documentary Evidence	Observation and Documentary Evidence
Examination	Items of Profit & Loss account	Items of Balance Sheet
Carried out by	Audit clerks	Auditor
Time Horizon	Year-round	At the end of the financial year.
Objective	To examine the correctness, validity and completeness of the transactions.	To confirm the ownership, possession, existence, valuation and disclosure of the items appearing on the Balance Sheet.

Q.5) Difference between Verification and Valuation?

Ans.

BASIS	VERIFICATION	VALUATION
Meaning	Verification is the process in which the auditor checks whether the assets displayed in the balance sheet, exist in the name of the business. Also, it confirms whether they exist in reality or not, or whether there is any charge on them.	Valuation is the examination of the actual value of the assets and liability of the enterprise as depicted in the Balance Sheet.
Time	It takes place at the end of the financial year.	It takes place for the whole year's transactions.
Objective	To check the existence, ownership and possession of assets.	To find out the real values of assets as per GAAP.
Carried out by	Auditor	Management
Advice	The auditor does not seek external support for verification.	The auditor may seek advice from valuers for valuation.
Basis	Facts and Information	Estimations
Documentary Evidence	Title Deed, Receipt for payment etc.	Certificate offered by owners, directors or experts.
Performance of Work	Work is performed by an auditor or his staff.	Work is performed by the client's staff but tested by an auditor or his staff.
Guarantee by auditor	The auditor guarantees the verification of assets and liability.	The auditor does not guarantee the accuracy of the valuation of assets and liability.
Nature	Objective	Subjective
Sequence	Second	First

Q.6) Explain the Verification of Assets

Verification of assets implies an enquiry; with a view to obtain and examine the evidences regarding an asset. The evidences proves the following:

- That the asset exists.
- That the asset exists in the name of the business entity.
- That the assets are classified and presented as per the requirements of the existing laws.

The process of Verification satisfies the Auditor about the valuation of the assets and liabilities by inspecting the documentary evidences available, which in return helps the Auditor to frame his opinion on the financial statements.

Verification involves confirmation that the assets are held in the name of business entity only for the purpose of business. Verification is a guard against improper use of assets and it exhibits true and fair view of the state of affairs of the business organisation.

Verification also involves proper valuation of assets. Valuation means critically examining and determining the fair value of various assets appearing in the Balance Sheet.

General Principles of Verification of Assets:

- Ascertain that the assets were purchased under appropriate authority.
- Ascertain that the assets were purchased for the purpose of business only.
- Ascertain that no unauthorised charge has been created against any asset
- Ascertain that the assets have been disclosed in the Balance Sheet as per the relevant statutory requirements and Accounting Standards.
- Ascertain that the assets were existing as on the date of the Balance Sheet

Q.7) Explain the Verification of Depreciation:

Depreciation means the reduction in the value of an asset due to its use, leading its wear and tear, or due to obsolescence or due to general market trend. The prescribed rules state that the amount of depreciation of a depreciable asset must be allocated in every accounting period throughout the life of the asset.

There are two methods of depreciation - Straight Line Method (also known as Original Cost Method) and Written Down Value Method (also known as Reducing Balance Method).

Q.8) Explain the Verification of Reserves and Provisions:

Reserves are the amounts appropriated out of profits to equalise the amount of Dividend by the company or for expanding the business in the future. Provisions, on the other hand, are the amounts charged to provide for depreciation on or renewal of assets or to meet specific liability.

Reserves are of two types - Revenue Reserves and Capital Reserves

Revenue Reserves are those which are available for distribution amongst the shareholders. Whereas a Capital Reserve is the profit earned on a specific transaction - like Sale of fixed asset in excess of its book value or benefit gained at the time of re-issue of the forfeited shares.

Reserves may be retained in the business and can also be invested outside the business.

Q.9) Explain the Verification of Divisible Profits and Dividends

The Auditor needs to verify that all the applicable provisions of the relevant laws have been followed for making Provisions for Dividend. The Auditor also needs to check relevant agreements in this regard, if any. In case of Unclaimed Dividend, the Auditor needs to verify that the company has followed such rules as prescribed under Companies Act.

Further, the Auditor needs to verify that there is no such previous losses or depreciation that has been not provided for or in depreciation the books. This is set off against the profits company of the cannot current declare year of dividend, unless such losses the company.

Q.9) Explain the Verification of Investments:

Investments are the assets held by the business entity to earn dividend income or interest income or for capital appreciation. Generally, Investment constitutes a major portion of the total assets Auditor should follow the following steps to verify Investments.

Obtain the list of Investments held at the end of last year i.e. at the beginning of Current Year.

Obtain a schedule containing - Date of purchase, Cost Price, Book Value, etc.

Obtain the details about any additional purchase and/or any investment sold during the audit period.

Verify that the purchase/sale transaction had been duly authorised.

Verify that all the investments are properly classified and disclosed as per the various statutory requirements.

Verify that the prescribed rules as per AS-13 - Accounting for Investments' are followed. - Obtain the list of Investments in the shares or debentures of its subsidiary company.

Chapter 6 – Company Audit

Q.1) What are the Preliminaries thing to be done by auditor before starting the Company audit?

Ans. The Preliminaries thing to be done by auditor before starting the Company audit are as follow

- Appointment of Auditor
- Nature of Business of the Company
- Financial Accounting Year
- Board of Directors
- Acquaintance with Management
- Knowledge of the byelaws regarding Memorandum of Association and Articles of Association
- Study of Prospectus
- To Receive the List of Books
- Obtaining the list of Employees and Job description
- To obtain the knowledge of internal Control
- Acquisition of Previous Final Accounts and Audit Report.

Q.2) You are auditing the account of a public limited company how you will audit share capital?

Ans. Every company's lifecycle starts with raising of capital. Other than a private company, every other company issues a prospectus, which may be in the abridged form, or a Statement in lieu of Prospectus, before it proceeds towards allotment of share capital

Audit procedures

- Tally the period end share capital balance authorised issued and paid up, to the previous year audited financial statements.
- In case there is no change during the year, obtain a written confirmation/representation from the Company secretary that there were no changes to entity's capital structure during the year
- In case there is any change, verify whether the paid up capital as at the period end is within the limits of authorised capital. Authorized capital should be verified by examining MOA.
- Obtain the certified copies of relevant resolutions passed at the meetings of board of directors, shareholders authorising the increase/decrease in authorised share capital, if required or paid up share capital.
- In case of fresh issue made in the current year check with compliance of Companies Act, 2013 with regard to return of allotment, minimum subscription, minimum application money to be collected, maintenance of separate bank account, payment of underwriting commission as per Sec 40 etc.
- No shares have been issued at Discount. (Sec. 53 of companies Act)
- Check if shares are issued for cash or for consideration other than cash. (E.g.: To promoters for their services, underwriters for commission payable to them etc.)
- Compliance with SEBI regulations and Guidelines.
- Also, obtain and verify copies of forms filed with Ministry of Corporate Affairs (MCA) (Form SH 7 for increase in authorised share capital, Form PAS 3 for increase in paid up capital) and with Reserve Bank of India (Form FCGPR in case of Foreign Direct Investment (FDI) by a NON-resident shareholder) and verify the number of securities issued along with the issue price.
- In case there was increase in share capital, verify whether the Company has accurately calculated the required fee and stamp duty payable to MCA.

Q.3) You are auditing the account of a public limited company how you will share capital issue at premium and at discount?

Ans. **Share Issued at Premium:** In case a company has issued shares at a premium, that is, at amount in excess of the normal value of the shares, whether for cash or otherwise, Section 52 of the Companies Act, 2013 provides that a company shall transfer the amount received as premium to securities premium account and state the purpose for which the amount in the account can be applied. There is no restriction or conditions prescribed in the Act for issue of shares at premium.

Application of securities premium account:

The securities premium account may be applied by the Company for the following purposes:

- toward the issue of unissued shares of the company to the members of the company as fully paid bonus shares
- in writing off the preliminary expenses of the company
- in writing off the expenses of, or the commission paid or discount allowed on any issue of shares or debentures of the company

The auditor needs to verify

- whether the premium received on shares, if any, has been transferred to a "securities premium account"
- whether the application of any amount out of the said "securities premium account" is only for the purposes mentioned above

Share issued at discount: According to Section 53 of the Companies Act, 2013 a company shall not issue shares at a discount, except in the case of an issue of sweat equity shares given under Section 54 of the Companies Act, 2013.

Any share issued by a company at a discounted price shall be void. Where a company contravenes the provision of this section, the company shall be punishable with fine which may extend to an amount equal to the amount raised through the issue of shares at a discount or five lakhs, whichever is less. The company shall also be liable to refund all money received along with interest at the rate of 12% p.a. from the date of issue of such shares to the persons to whom such shares have been issued.

The auditor needs to check

- the movement in share capital during the year and wherever there is an issue.
- he should verify that the company has not issued any of its shares at a discount by reading the minutes of meeting of its directors and shareholders authorizing issue of share capital at the issue price.

Q.4) You are auditing the account of a public limited company how you will Borrowing?

Ans. Liabilities are the financial obligations of an enterprise other than owners' funds. Liabilities include borrowings, trade payables and other current liabilities, deferred payment credits and provisions. Verification of liabilities is as important as that of assets, for, if any liability is omitted or understated or overstated, the financial statements would not show a true and fair view of the state of affairs of the company. Borrowings are monies made available using external sources like bank loans, debentures, public fixed deposits etc.

Audit Procedures

- Review board minutes for approval of new lending agreements. During review, ensure that new loan agreements or bond issuances were authorized. Ensure that significant debt commitments were approved by the board of directors.
- Agree details of loans recorded (interest rate, nature and repayment terms) to the loan agreement. Verify that borrowing limits, if any, imposed by agreements are not exceeded.
- Roll out and obtain independent balance confirmations (SA 505) in respect of all the borrowings from the lender (banks/ financial institutions etc.).
- Agree details of leases and hire purchase creditors recorded to underlying contracts/agreements.

- In case of Debentures, Examine trust deed for terms and dates of redemption, borrowing restrictions and compliance with covenants.
- When debt is retired, ensure that a discharge is received on assets securing the debt.
- Obtain Written Representation that all the liabilities which have been recorded represent a valid claim by the lenders.
- Obtain a schedule of short term and long term borrowings (including debts outstanding at the end of the previous year, as well as any new debt or renewal of debt) showing beginning and ending balances and borrowings taken and repaid during the year, and perform the following:
 - Consider any evidence of additional debt obtained through examination of minutes of the board of directors, significant contracts, confirmations from banks/ lenders, support for subsequent cash disbursements (when testing payables) etc.
 - Trace the closing balances as per the schedules to the general ledger.
- Review subsequent transactions after the end of the reporting period to determine if there are unrecorded liabilities at year-end and the transactions are recorded in the correct period. (Eg: Fresh loan taken near the balance sheet date)

Q.5) You are auditing the account of a public limited company how you will Trade Receivables?

Ans. Trade receivable are an essential part of any organisation's balance sheet, often referred to as debtors. Typically, an invoice is raised and issued to the customer with the invoice amount being recorded as a debtor balance. Until the invoice is paid, the invoice amount is recorded in the organization's balance sheet as accounts receivable. If these balances are not recoverable later on, then these amounts need to be written off as bad and charged in the statement of profit and loss.

Audit Procedures

- Check whether there are controls in place to ensure that invoices cannot be recorded more than once and receivable balances are automatically recorded in the general ledger from the original invoice.
- Ask for a period-end accounts receivable aging report and trace the balance as per the report to the general ledger.
- Check whether realization is recorded invoice- wise or not. If not, check that money received from debtors is adjusted chronologically invoice-wise and on FIFO basis i.e. previous bill is adjusted first. If realization is made on account, verify whether the Company has obtained confirmations from debtors in respect of the same.
- If any large balance is due for a long time, auditor should ask for reasons and justification for the same.

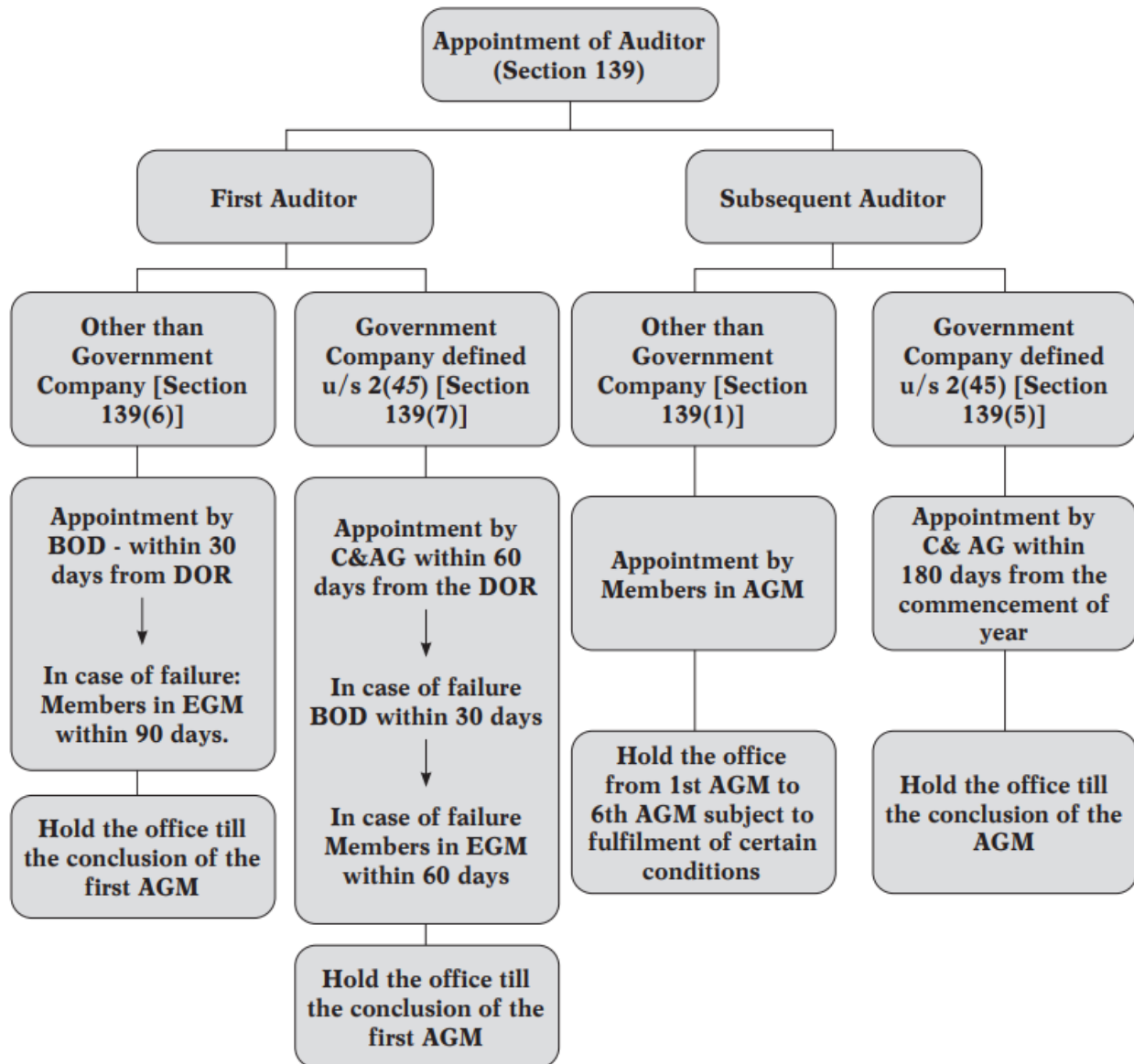
Chapter 7 – Audit and Auditor

Q.1) Explain the Appointment of Auditors?

Ans. Section 139 of the Companies Act, 2013 contains provisions regarding Appointment of Auditors.

(i) Appointment of First Auditors.

(ii) Appointment of Subsequent Auditors.



DOR – Date of Company Registration

EGM – Extraordinary General Meeting

C & AG - Comptroller and Auditor General of India

BOD – Board of Director

AGM – Annual General Meeting

Q.2) Explain the Qualification of the Appointment of an Auditor?

Ans. As per the Section 141, the necessary the Qualification of the Appointment of an Auditor are

(1) A person shall be eligible for appointment as an auditor of a company only if he is a chartered accountant within the meaning of the Chartered Accountants Act, 1949. [CA means a Chartered Accountant who holds valid Certificate of PRACTICE – Section 2(17)]

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.

In case of a partnership firm – Company appoints the “Firm” not the partner in individual capacity.

(2) Where a firm including a limited liability partnership (LLP) 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. [Section 141(2)]

Q.3) Explain the Disqualification of the Appointment of an Auditor?

Ans. According to Provisions of Section 141(3) of the Companies Act, 2013 , following persons shall not be eligible as auditor of the company: -

- a) A body corporate other than LLP registered under the LLP Act, 2008
- b) An officer or employee of the company.
- c) A person who is partner or who in the employment, of an officer or employee of the company.
- d) A person who or his relative or partner
 - (i) is holding any security/interest in the company or its subsidiary or of its holding or associate company or subsidiary of such holding company. It has been further provided that an relative may hold security or interest in the company of face value not exceeding one lac rupees.
 - (ii) is indebted to the company or its subsidiary, or its holding or associate company or subsidiary of such holding company, in excess of Rs. 5 lacs rupees
 - (iii) has given guarantee or provide any security in connection with the indebttness of any third person to the company or its subsidiary, or its holding or associate company or a subsidiary of such holding company for value in excess of Rs. 1 lacs.
- e) A person or a firm who (whether directly or indirectly) has business relationship with the company, or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company. Here the business relationship shall be construed as any transactions enter into for a commercial purpose except: -
 - i) Commercial transactions which are in the nature of professional services permitted to be rendered by an auditor or audit firm by the professional bodies regulated such members.
 - ii) Commercial transactions which are in ordinary course of business of the company at arm's length price as customer.
- f) A person whose relative is a director or is in the employment of the company as a director or key managerial personnel.
- g) A person
 - (i) who is in full time employment elsewhere or
 - (ii) a person or a partner holding appointment as its auditor is at the date of such appointment or reappointment holding appointment as auditor for more than 20 companies.
- 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.
- i) Any person whose subsidiary or associate company or any other form of entity is engaged as on the date of appointment in consulting or specialised services in reference to provision of Section 144 of the Companies Act, 2013.

Q.4) Explain the Remuneration of an Auditor?

Ans. As per section 142 of the Act, the remuneration of the auditor of a company shall be fixed in its general meeting or in such manner as may be determined therein. However, board may fix remuneration of the first auditor appointed by it.

Further, the remuneration, in addition to the fee payable to an auditor, include the expenses, if any, incurred by the auditor in connection with the audit of the company and any facility extended to him but does not include any remuneration paid to him for any other service rendered by him at the request of the company. Therefore, it has been clarified that the remuneration to Auditor shall also include any facility provided to him.

Q.5) Explain the Removal of Auditor?

Ans. According to Section 140(1), the auditor appointed under section 139 may be removed from his office before the expiry of his term only by a special resolution of the company, after obtaining the previous approval of the Central Government in that behalf as per Rule 7 of CAAR, 2014-

- (1) The application to the Central Government for removal of auditor shall be made in Form ADT-2 and shall be accompanied with fees as provided for this purpose under the Companies (Registration Offices and Fees) Rules, 2014.
- (2) The application shall be made to the Central Government within 30 days of the resolution passed by the Board.
- (3) The company shall hold the general meeting within 60 days of receipt of approval of the Central Government for passing the special resolution.

It is important to note that before taking any action for removal before expiry of terms, the auditor concerned shall be given a reasonable opportunity of being heard.

It is hereby clarified that in the case of a firm, the liability shall be of the firm and that of every partner or partners who acted in a fraudulent manner or abetted or colluded in any fraud by, or in relation to, the company or its director or officers.

As you would notice, the provisions of removal of auditor before expiry of his term are also meant to safeguard auditor's independence by imposing strict conditions like prior approval of Central government.

Q.6) Explain the Ceiling on number of Audits?

Ans. As per the section 141(3)(g) of the Companies Act, 2013 which prescribes that 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 person or partner is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies other than one person companies, dormant companies, small companies and private companies having paid-up share capital less than ` 100 crore, shall not be eligible for appointment as an Auditor of a Company.

In the case of a firm of auditors, it has been further provided that 'specified number of companies' shall be construed as the number of companies specified for every partner of the firm who is not in full time employment elsewhere.

This limit of 20 company audits is per person. In the case of an audit firm having 3 partners, the overall ceiling will be $3 \times 20 = 60$ company audits. Sometimes, a chartered accountant is a partner in a number of auditing firms. In such a case, all the firms in which he is partner or proprietor will be together entitled to 20 company audits on his account. Subject to the overall ceiling of company audits, how they allocate the 20 audits between themselves is their affairs.

It may also be noted that where any partner of the firm of chartered accountants in practice is also a partner of any other firm or firms of chartered accountants in practice, the number of audit assignments which may be taken for all the firms together in relation to such partner shall not exceed the specified number of audit assignments in the aggregate.

Q.7) Explain the Powers / Rights of Company Auditor?

Ans. The auditor has the following powers/rights while conducting an audit:

- (a) Right of access to books, etc. – Section 143(1) of the Act provides that the auditor of a company, at all times, shall have a right of access to the books of account and vouchers of the company, whether kept at the registered office of the company or at any other place and he is entitled to require from the officers of the company such information and explanation as he may consider necessary for the performance of his duties as auditor.

- (b) Right to obtain information and explanation from officers - This right of the auditor to obtain from the officers of the company such information and explanations as he may think necessary for the performance of his duties as auditor is a wide and important power.
- (c) Right to receive notices and to attend general meeting – The auditors of a company are entitled to attend any general meeting of the company (the right is not restricted to those at which the accounts audited by them are to be discussed); also to receive all the notices and other communications relating to the general meetings, which members are entitled to receive and to be heard at any general meeting in any part of the business of the meeting which concerns them as auditors.
- (d) Right to report to the members of the company on the accounts examined by him – The auditor shall make a report to the members of the company on the accounts examined by him and on every financial statements which are required by or under this Act to be laid before the company in general meeting and the report shall after taking into account the provisions of this Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of this Act
- (e) Right to Lien – In terms of the general principles of law, any person having the lawful possession of somebody else's property, on which he has worked, may retain the property for non-payment of his dues on account of the work done on the property.

Q.8) Explain the Duties of an Auditor as per Companies Act, 2013?

Ans. Sections 143 of the Companies Act, 2013 specifies the duties of an auditor of a company in a quite comprehensive manner. It is noteworthy that scope of duties of an auditor has generally been extending over all these years.

(1) Duty of Auditor to Inquire on certain matters: Under provisions of section 143(1), it is the duty of auditor to inquire into the following matters-

- (a) whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its members;
- (b) whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company;
- (c) where the company not being an investment company or a banking company, whether so much of the assets 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;
- (d) whether loans and advances made by the company have been shown as deposits;
- (e) whether personal expenses have been charged to revenue account;
- (f) where it is stated in the books and documents of the company that any shares have been allotted for cash, whether cash has actually been received in respect of such allotment, and if no cash has actually been so received, whether the position as stated in the account books and the balance sheet is correct, regular and not misleading.

(2) Duty to report: Under provisions of Section 143(2), the auditor shall make a report to the members of the company on the accounts examined by him and on every financial statements which are required by or under this Act to be laid before the company in general meeting and the report shall after taking into account the provisions of this Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of this Act or any rules made thereunder or under any order made under sub- section (11).

(3) Duty to Sign the Audit Report: As per section 145 of the Companies Act, 2013, the person appointed as an auditor of the company shall sign the auditor's report or sign or certify any other document of the company, in accordance with the provisions of section 141(2).

(4) Duty to comply with Auditing Standards: As per section 143(9) of the Companies Act, 2013, every auditor shall comply with the auditing standards.

(5) Duty to report on frauds:

- A. Reporting to the Central Government- As per section 143(12) of the Companies Act, 2013 read with Rule 13 of the Companies (Audit and Auditors) Rules, 2014, if an auditor of a company in the course of the performance of his duties as auditor, has reason to believe that an offence of fraud, which involves or is expected to involve individually an amount of ` 1 crore or above, is being or has been committed in the company by its officers or employees, the auditor shall report the matter to the Central Government within such time and in such manner as prescribed.
- B. Reporting to the Audit Committee or Board- In case of a fraud involving lesser than the specified amount [i.e. less than ` 1 crore], 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 prescribed.
- C. Disclosure in the Board's Report: The companies, whose auditors have reported frauds under this sub-section (12) to the audit committee or the Board, but not reported to the Central Government, shall disclose the details about such frauds in the Board's report in such manner as prescribed.

(6) Duty to report on any other matter specified by Central Government: The Central Government may, in consultation with the National Financial Reporting Authority (NFRA), by general or special order, direct, in respect of such class or description of companies, as may be specified in the order, that the auditor's report shall also include a statement on such matters as may be specified therein.

(7) Duty to state the reason for qualification or negative report: As per section 143(4), where any of the matters required to be included in the audit report is answered in the negative or with a qualification, the report shall state the reasons there for.

Q.9) Explain the Duties of an Auditor as per Chartered Accountant Act, 1949?

Ans. Chartered Accountant Act, 1949 specifies the duties of an auditor as follow:-

- Not to allowed unqualified person to practise in his name.
- Not to share his income with others
- Not to accept any share from income of others
- No partnerships with an unqualified person
- Shall not do canvassing
- Not to accept profit based fees.
- Not to increasing competition
- No to allow unauthorized person to sign
- To maintain secrecy
- No certificate without proper checking

Q.10) Explain the punishment of an Auditor for non-compliance?

Ans. Section 147 of the Companies Act, 2013 prescribes following punishments for contravention:

- (1) If any of the provisions of sections 139 to 146 (both inclusive) is contravened, the company shall be punishable with fine which shall not be less than Rs. 25,000, but which may extend to Rs. 5,00,000 and every officer of the company who is in default shall be punishable with fine which shall not be less than Rs. 10,000, but which may extend to Rs. 1,00,000.
- (2) If an auditor of a company contravenes any of the provisions of section 139, section 144 or section 145, the auditor shall be punishable with fine which shall not be less than Rs. 25,000, but which may extend to Rs. 5,00,000 or four times the remuneration of the auditor, whichever is less.
- (3) Where an auditor has been convicted under sub-section (2), he shall be liable to: -

- (i) refund the remuneration received by him to the company.
 - (ii) and pay for damages to the company statutory bodies or authorities or to members or the creditors of the Company for loss arising out of incorrect or misleading statements of particulars made in his audit report.
- (4) The Central Government shall, by notification, specify any statutory body or authority of an officer for ensuring prompt payment of damages to the company or the persons under clause (ii) of sub-section (3) and such body, authority or officer shall after payment of damages such company or persons file a report with the Central Government in respect of making such damages in such manner as may be specified in the said notification.
- (5) Where, in case of audit of a company being conducted by an audit firm, it is proved that the partner or partners of the audit firm has or have acted in a fraudulent manner or abetted or colluded in an fraud by, or in relation to or by, the company or its directors or officers, the liability, whether civil criminal as provided in this Act or in any other law for the time being in force, for such act shall be the partner or partners concerned of the audit firm and of the firm jointly and severally. However, in case of criminal liability of an audit firm, in respect of liability other than fine, the concerned partner or partners, who acted in a fraudulent manner or abetted or, as the case may be, colluded in any fraud shall only be liable.

Q.11) What are services not allowed to render by Auditor?

Ans. In accordance with section 144 of the Companies Act 2013, auditors are not allowed to render certain services. This section stipulates that an auditor appointed in accordance with section 139 of the Companies Act 2013 should not render any of the following services:

1. Bookkeeping or other services related to accounting records or financial statements of the company;
2. Internal audit;
3. Design and implementation of any financial information systems;
4. Actuarial services;
5. Investment advisory services;
6. Investment banking services;
7. rendering of outsourced financial services;
8. Management services;
9. Any other kind of service as may be prescribed in consultation with the Institute of Chartered Accountants of India.

Chapter 8 – Liabilities of an Auditor

Q.1) Explain the Civil Liabilities of an Auditor?

Ans. A Chartered Accountant is associated with the valuable profession. His primary duty is to present a report on the accounts and statements submitted by him to members of the company. He is responsible not only to the members of the company but also to the third parties of the company, i.e., creditors, bankers etc.

Normally the liability of auditor based on the work done by him as professional accountant and carry out his work due care, caution and diligence. The Civil of liabilities of an auditor is discussed below:

1. Liability for Negligence:- Negligence means breach of duty. An auditor is an agent of the shareholders. He has to perform his professional duties. He should take reasonable care and skill in the performance of his duties. If he fails to do so, liability for negligence arises. An auditor will be held liable if the client has suffered loss due to his negligence. It should be noted that an auditor will not be liable to compensate the loss or damage if his negligence is not proved.

2. Liability for Misfeasance or Breach of Duty:- Misfeasance means breach of trust. If an auditor does something wrongfully in the performance of his duties resulting in a financial loss to the company, he is guilty of misfeasance. In such a case, the company can recover damages from the auditor or from any officer for breach of trust or misfeasance of the company. Misfeasance proceedings can be initiated against the auditor for any untrue statement in the prospectus or in the event of winding up of the company.

3. Liabilities under Companies Act:- The following are the liabilities of an auditor under the provisions of the Companies Act.

Liability for Misstatements in the Prospectus [Sec.35]:- An auditor shall be held liable to compensate every person who subscribes for any shares or debentures of a company on the faith of the prospectus containing an untrue statement made by him as an expert. The auditor shall be liable to compensate him for any loss or damages sustained by him by reason of any untrue statement included therein. The auditor may escape from liability if he proves that:

- The prospectus is issued without his knowledge or consent.
- He withdrew his consent, in writing before delivery of the prospectus for registration.
- He should have withdrawn his consent after issue of prospectus but before allotment of shares and reasonable public notice has given by him regarding this.

4. Liability towards Third Parties

There are number of persons who rely upon the financial statements audited by the auditor and enter into transactions with the company without further enquiry viz. creditors, bankers, tax authorities, prospective shareholders, etc.

1. Liability for Negligence:- It has been held in the court that auditor is not liable to third parties, as there is no contract between auditor and third parties. He owes no duty towards them.

2. Liability for Frauds:- The third parties can hold the auditor liable, if there is fraud on the part of auditor even if there is no contractual relationship between auditor and third parties. In certain cases negligence of auditor may amount to fraud for which he may be held liable to third parties. But it must be proved that auditor did not act honestly and he knew about it.

Q.2) Explain the Criminal Liabilities of an Auditor under Companies act, 2013?

Ans. 1. Untrue statement in Prospectus [Sec.34]: The auditor is liable when he authorizes a false or untrue prospectus. When a prospectus includes any untrue statement, every person who authorizes the issue of prospectus shall be imprisoned for a period of six months to ten years or with a fine, which may be three times the amount involved in the fraud or with both.

2. Non compliance by auditor [Sec. 143 and 145]: If the auditor does not comply regarding making his report or signing or authorization of any document and makes willful neglect on his part he shall be punishable with imprisonment upto one year or with fine not less than ₹. 25,000 extendable to ₹. 5,00,000.
3. Failure to assist investigation [Sec.217 (6)]: When Central Government appoints an Inspector to investigate the affairs of the company, it is the duty of the auditor to produce all books, documents and to provide assistance to the inspectors. If the auditor fails to do so he shall be punishable with imprisonment upto one year and with fine up to ₹.1,00,000.
4. Failure to assist prosecution of guilty officers [Sec.224]: An auditor is required to assist prosecution when Central Government takes any action against the report submitted by the Inspector. If he fails to do so, he is found guilty and is punishable.
5. Failure to return property, books or papers [Sec.299]: When a company is wound up the auditor is supposed to be present and subject himself to a private examination by the court and is also liable to return to the court any property, books or papers relating to the company. If the auditor does not comply, he may be imprisoned.
6. Penalty for falsification of books [Sec.336]: An auditor when destroys, mutilates, alters or falsifies or secrets any books of account or document belonging to the company. He shall be punishable with imprisonment and also be liable to fine.
7. Prosecution of auditor [Sec.342]: In the course of winding up of a company by the Tribunal, if it appears to the Tribunal that an auditor of the company has been guilty of an offence, it shall be the duty of the auditor to give all assistance in connection with the prosecution. If he fails to give assistance he shall be liable to fine not less than ₹ 25,000 extendable upto ₹.1,00,000.
8. Penalty for deliberate act of commission or omission [Sec.448]: If an auditor deliberately make a statement in any report, certificate, balance sheet, prospectus, etc which is false or which contains omission of material facts, he shall be punishable with imprisonment for a period of six months to ten years and fine not less than amount involved in fraud extendable to three times of such amount.

Chapter 9 – Audit Report and Certificates

Q.1) Explain Audit Report and its Significance?

Ans. Under Section 227(2) of the Companies Act, 1956, the auditor is required to make a report to the members of the company on the accounts examined by him and on every balance sheet and profit and loss account and on every other document declared by the Act to be annexed to the balance sheet or profit and loss account which are laid before the company in general meeting during his tenure of office. Such a report is known as the Auditor's Report.

Importance / Significance of Audit Report- Audit report is important for all those persons and parties which are related to the organization. The audit report gives a time picture of the state of the organization. The main parties which benefit from an audit report are as follows :

1) Investor :- It is human nature that while making an investment the investor wants maximum safety and return for his investment. The audit report helps increasing the confidence of the investors in the organization and it on the basis of the audit report only that the investors decide to invest in an organization.

2) Shareholders :- They are the actual owners of a company, but they are usually very far from the place of business. They are large in number also as a result of which they cannot directly take part in the management of the company. Therefore, the company is managed by a group of representatives selected by the shareholders known as the Board of Directors. In this way, there is a separation of ownership and management in a company. Therefore, the correct information about the work done by directors is available to the shareholders from the audit report only.

3) Directors :- It is possible for the Directors of a company to fore-see all the activities of the company themselves. The main job of the directors is to formulate the policies of the company, on the basis of which work is done, by the employee. In such a situation the directors also want to know the extent to which the employees have done their work according to the policies of the company and their level of honesty and commitment towards their job. Such information can be obtained by them from the audit report.

4) Creditors :- The creditors of any organization are always eager to find-out about the financial position of the company to know whether their money is safe or not. Therefore, the creditors rely on the audit report to find-out about the financial situation of the organization/company. They can find-out from the audit report if their money is safe and whether the organization is in a position to return it or not.

5) Government :- Business and government have a direct relationship. The growth of business, industry, and finance plays an important role in the growth of the country. Erosion in the capital of the country, embezzlement of capital, discouragement to investments are such issues for which the participation of government is essential. The government also invests its funds in government companies. The government also give loans and financial assistance to other businesses and industries. Therefore, the government also wants to know whether its money is safe or not. Such information can be obtained from the audit report.

6) Taxation Officer :- Various officers such as income tax officers, sales tax officers, excise officers also rely on the audited accounts and take a decision on the basis of the report without doing much verification. This helps them in increasing the amount of tax. Such tax is an important source of revenue for the government therefore the audit report is also very important for the tax officer.

Q.2) Explain the Different type of Audit Report?

Ans.

1) Standard/Clean/Unqualified Report :- If no defect, illegal act, frauds are detected during the verification of the accounts of the company and if profit and loss account in the annual account of the company presents true and fair profit or loss and balance sheet shows true and fair economic condition

as of the date and auditor presents whatever report are called clean report. Clean report is also called report without defect or routine report or regular report.

A clean audit report is one which is issued by the auditor when he does not have any reservation with regard to the matters contained in the financial statements. In such a case, the audit report may state that the financial statements give a true and fair view of the state of affairs and profit and loss account for the period. The audit report should contain a clear written expression of opinion on the financial information and if the form or content of the report is laid down in or prescribed under any agreement or statute or regulation, the audit report should comply with such requirements. An unqualified opinion indicates the auditor's satisfaction in all material respects with the matters dealt with below or as may be laid down or prescribed under the relevant agreement or statute or regulation, as the case may be.

Under the following/circumstances an auditor is justified in issuing a clean report.

- The financial information has been prepared using acceptable accounting policies, which have been consistently applied.
- The financial information complies with relevant regulations and statutory requirements.
- There is adequate disclosure of all material matters relevant to the proper presentation of the financial information, subject to statutory requirements, where applicable.

2) Disclaimer of Opinion Report :- Audit report containing a disclaimer of opinion is also called disclaimer report. The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material & pervasive.

3) Adverse Opinion Report :- Audit report containing an adverse opinion is also called adverse report. The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

4) Qualified Report :- During the verification of the accounts of the company, any defect, illegal act, frauds, breach of provision of law is detected and the profit loss account does not show true and reasonable profit or loss of the concluding year and balance sheet does not show the true and fair economic condition as of that date, when auditor gives report about it is called qualified audit report. This type of audit is also called improved report or limited report.

Qualified audit report is one in which the auditor does not give clean report about the truthfulness & fairness of financial statement but makes certain reservations. While qualifying the audit report, it has to be seen that the subject matter of qualification is material but not so much as to affect the overall true & fair view of accounts. Where an auditor fails to obtain sufficient information to warrant an expression of opinion, then he is unable to form an opinion and, thus, he makes a disclaimer of opinion.

Accordingly, the auditor may state that he is unable to express an opinion because he has not been able to obtain sufficient & appropriate audit evidence to form an opinion. The necessity of a disclaimer of opinion may arise due to many reasons such as restriction on scope of examination or in certain circumstances the auditor may not access to all the books of account for certain reasons, e.g., books are seized by excise authorities or destroyed in fire, etc. In case he is unable to obtain audit evidence even from alternative sources, then the auditor can only state that a unable to forth an opinion. Therefore, an auditor is required to exercise judgement as to circumstances which may cause modification in the audit report. **The following are some of the circumstances when qualified audit report is issued:**

- If the auditor is unable to obtain all the information and explanations which he considers necessary for the purpose of his audit.
- If proper books of account have not been kept by the company in accordance with the law.
- If the Balance Sheet and Profit and Loss Account are not in agreement with the books of account and returns.
- If the profit and loss account and balance sheet do not comply, with the accounting standards referred to in sub-section (3c) of Section 211 of the Companies Act, 1956.

- If information required by law is not furnished.
- If there is contravention of the provision of the Companies Act, 1956 having a bearing on the accounts and transactions of the company.

Q..3) Difference between Audit Report and Audit Certificate?

Ans.

Audit Report	Audit Certificate
Detailed document detailing the findings of an audit, including information on the scope, objectives, and methodology of the audit.	A brief document certifying that an audit has been conducted, typically including only basic information such as the date of the audit, the name of the auditor, and the name of the audited entity.
Provides an in-depth assessment of the organization's financial statements and internal controls, including any areas of weakness or non-compliance that were identified during the audit.	Does not provide an assessment of financial statements or internal controls, it only confirms that an audit has been conducted.
May include recommendations for improvement to address any issues identified during the audit.	Does not include any recommendations for improvement.
Typically used for external financial reporting and regulatory compliance.	Typically used for internal purposes or for customers or suppliers as a proof that the company has been audited.
Can be a public document, depending on the purpose and audience of the report.	May be a confidential document, shared only with specific individuals or organizations.
Can be lengthy, providing a comprehensive overview of the audit process and findings.	Short and concise, typically only a page or two in length.

Q.4) Explain between Advantages and Disadvantages of Audit Report?

Ans. **Advantages of Audit Report:**

- Provides assurance on the accuracy and reliability of financial statements, which can enhance the credibility and confidence of stakeholders in the financial performance & position of the organization.
- Helps management identify and address internal control weaknesses, improve risk management, and enhance efficiency and effectiveness of operations.
- Helps identify non-compliance with laws, regulations, and contractual agreements, and can assist management in taking corrective actions.
- Provides a basis for independent opinion on the fairness of the financial statements, which can be useful to investors and other stakeholders in making investment and credit decisions.
- Helps detect fraud and other irregularities, which can protect the interests of shareholders and other stakeholders.
- Provides a basis for external benchmarking and comparison with industry peers, which can assist management in making strategic decisions.
- Facilitates the efficient and effective use of resources by focusing on the areas of highest risk and providing a systematic approach to testing internal controls and financial data.

Disadvantages of Audit Report:

- Audit report may be costly as they require an auditor to spend a significant amount of time and resources to conduct an audit, which can be a burden on the organization.

- Audit report may not be able to detect frauds or other illegal activities that are well-concealed, due to the inherent limitations of an audit.
- Audit report may not be able to provide assurance on the entire organization, such as its strategy, management, and operations, but only on the financial statements.
- Audit report can create a negative perception among stakeholders, such as customers, suppliers, and regulators, if it identifies significant deficiencies or material weaknesses in internal controls or compliance.
- Audit report may not be able to provide assurance on the future performance or prospects of the organization, but only on its past performance.
- Audit report may be limited by the availability and reliability of the financial and other data provided by management, and the auditor may have to rely on the representations of management.
- Audit report may not be able to detect all errors and frauds, for example if it is conducted in a short time frame or not in-depth enough.

Chapter 10 – Investigation

Q.1) Explain Investigation?

Ans. An investigation is a form of an examination or inquiry into the accounts of a company which have to be analyzed for a specific purpose. The main objective of an investigation is to collect information or evidence about the financial activities of a business organization. The investigation involves finding out the facts of the activity and discovering the truth rather than verifying the accuracy of the accounts.

Q.2) Explain the difference between Auditing and Investigation?

Ans.

BASIS	AUDITING	INVESTIGATION
Meaning	Examination of the financial records of a company for verification	Enquiry of the financial activities of a company for a special purpose
Objectives	Check accuracy and find errors	Find the cause of errors
Nature	Mandatory routine	Only for special purposes, occasionally
Subject matter	Examination of all the financial records of a company	Examination of only relevant records
Scope	Wide coverage of records	Narrow coverage of records
True position	Ascertains the true financial position of the company	Does not give the true financial position of the company
Reporting	The outcome is reported to the owners of the business entity.	The outcome is reported to the person(s) on whose behalf investigation is carried out.
Conducting Authority	Only by Chartered Accountants	Any inspector appointed
Period	One financial year	No fixed period
Predetermined findings	Conducted without any predetermined findings	Based on some preconceived notion
Evidence	Gathers only persuasive evidence	Gathers conclusive evidence
Guiding Standards	Guided by standards set by the Institute of Chartered Accountants	No set of standards

Q.3) Explain the point to be consider before starting Investigation?

Ans. Investigator should consider the following important importing before starting any Investigation.

- Determining the Objects or reason of Investigation
- Parties making use of Investigation Results
- Determining the duration for Investigation
- Acceptance of Fairness of Accounts
- Study of Technical features and system of accounting techniques used by Business
- Determining the Scope of Works of Investigation
- Advice of Experts for successful completion of his works

Q.4) Explain Step in Investigation?

Ans. As investigation involves a variety of situations, it is not possible to lay down any standardised procedure. However, usually, an investigation requires the following steps in order of sequence:

1. Determination of objectives and establishment of scope of investigation- At the stage of acceptance of the assignment, the investigator should be absolutely clear about what is sought to be achieved by the investigation. If instructions from the client leave matters vague and non-specific, it would be

proper for the investigator to have the matters discussed and obtain clearly written instructions covering the object, the scope and purpose of investigations and the issues incidental thereto

2. Formulation of the investigation programme- It is not possible to draw up one programme to serve different types of investigations which a professional accountant is called upon to carry out, for their scope and content have to be determined on a consideration of circumstances peculiar to each business or situation. The investigation programme should be drawn up having regard to:

- i. The nature of the business
- ii. The structure of business organization
- iii. The instructions from the client embodying the objectives and scope of work
- iv. The consequent scope and depth of investigation
- v. The necessity to extend the investigation into books and records belonging to others.
- vi. The investigator should concentrate on areas considered relevant rather than to undertake a wide-ranging verification.

3. Examination and study of various records by reference to appropriate evidence- Through examination, the investigator would be gathering relevant evidence connected with the matters to be investigated. In the course of examination of the documents and records, the investigator may require to obtain oral explanations from various personnel of the concerned business. In case his client is a person external to the business, it may be necessary for the investigator to get the matter formally agreed to by the business through the client.

4. Analysis, processing and interpretation of findings- Careful analysis and correlation of facts and figures will be necessary before the investigator can reach his conclusion. The conclusion should be well reasoned, backed by established facts and evidenced by proper records/ data. He must analyse the data objectively on the basis of evidence gathered by him and should not draw conclusions according to pre-conceived notions.

5. Preparation of report and drawing up of conclusions- Like all other work of an accountant, an investigation results in a report. It is submitted and addressed to the party at whose instance the investigation has been carried out. The nature of the report is governed mainly by two factors –

- (a) The instructions given by the client as regards the special aspects of the business which are required to be investigated;
- (b) The findings of the investigating accountant/ investigator.

Q.5) Explain Nature of Investigation?

Ans.

Private or Statutory Investigation

External or Internal Investigation

Optional or Compulsory Investigation

Normal or Intensive Investigation

Q.6) Explain Importance of Investigation?

Ans. The importance or significance of Investigation is manifold for different person in different circumstances such as:-

(1) **To Join a Partnership Firm as New Partner:** A person before joining a partnership firm will like to know the profitability, financial state of affairs of the assets, efficiency and the extent of the use of the capacity of the fixed capital in the firm, can appoint a person to conduct the investigation.

(2) **To purchase a running business:** A purchaser of an existing business may be interested to know the earning power and the future prospects of the business. He would like to know the worth of the business and how much he should pay for that business. The investigator has got a higher responsibility in this case as he would take the decision on the basis of his report.

- (3) **To lend money:** Banks and the financial institutions are the main sources from where one can borrow money. Before extending a loan to a customer, a bank would naturally like to examine thoroughly the financial position of the party. If the amount to be lent is a heavy one, the bank appoints an investigator to investigate the financial position of the borrower and to advise whether the money should be lent to the party or not.
- (4) **To detect fraud:** Investigation is done, sometimes to detect a suspected fraud. Fraud is generally done by those who handle cash and goods. The investigator should know from his client, the nature of fraud suspected and names of suspected persons. There is more possibility of fraud, if the internal check system is weak.
- (5) **For the valuation of shares:** The valuation of the shares of a public company listed on the stock exchange is easy but as the shares of a private limited company cannot be sold or purchased in the open market, its valuation is difficult. An investigation may be conducted on behalf of a prospective shareholder who wishes to make a valuation of shares of a limited company.
- (6) **To seek different avenues of investment:** When a person has to make an investment in a business, he keeps many factors in mind such as goodwill, earning capacity, future of its product and its financial position. Thus, when a person seeks different avenues of investment, an investigation may be conducted by him.
- (7) **When affairs of the company are not being properly managed:** The Central Government may appoint one or more competent persons as investigators to investigate into the affairs of any company and to report to the Central Government when it is suspected that the affairs of the company are not being properly managed.

Q.7) Explain the process of Investigation on behalf of an Intending purchaser?

Ans. The purchaser of the business wants to know the real position of the business. Keeping in view the business condition he has to decide whether he should purchase the business on that price or not? So the investigator should pay special attention on the following points :

1. Cause of Selling:- The investigator should pay special attention to this point that why the seller wants to sell the business? He should see that it is a genuine case of sale.
2. Examine the Trend of Business:- Investigator should examine carefully the trend of business whether it is going on the road of prosperity or not. In this regard he should compare expenses revenue and profit of the previous years.
3. Checking of Liabilities:- Investigator should verify that liabilities of the business are properly valued. It should be compared the figures shown and decide that it is correct or not.
4. Value of Assets:- Investigator should check that the assets have been properly valued and sufficient depreciation has been provided on these assets.
5. Verify the Goodwill:- Investigator should also check that good will of the business that is properly valued or not? He should also examine that sufficient provisions have been made for doubtful debts or not?
6. Checking of Auditors Report:- Investigator should also examine the auditors report if it is previously audited.
7. Verify the Profits:- Investigator should verify the profits of previous years which might have been inflated by inflation of closing stock.
8. Competition Situation:- Investigator should also check the competition situation which the concerned firm is facing in the market.
9. Examine the Capital:- Investigator should examine that working capital of the business is sufficient or not?
10. Proper Vouching:- Investigator should check that capital, expenditure, and revenue is properly vouched or not ? He also pay proper attention to the deferred revenue and expenditure.
11. Examination of Machinery:- Investigator should check the condition of machinery. Whether it is new, old or replaceable.

Chapter 11 – Audits of Different Institutions

Q.1) Explain Audits of Educational Institutions?

Ans. The special steps involved in the audit of School, College or University are the following-

(A) General :-

1. Examine the Trust Deed or Regulations, in the case of school or college and note all the provisions affecting accounts. In the case of a university, refer to the Act of Legislature and the Regulation framed thereunder.
2. Read through the minutes of the meetings of the Managing Committee or Governing Body, noting resolutions affecting accounts to see that these have been duly complied with, specially the decisions as regards the operation of bank accounts and sanctioning of expenditure.

(B) Fee from Students :-

1. Check names entered in the Students Fee Register for each month or term, with the respective Class Registers, showing names of students on rolls and test amount of fees charged; and verify that there operates a system of internal check which ensures that demands against the students are properly raised.
2. Check fees received by comparing counterfoils of receipts granted with entries in the Cash Book and tracing the collections in the Fee Register to confirm that the revenue from this source has been duly accounted for.
3. Total up the various columns of the Fees Register for each month or term to ascertain that fees paid in advance have been carried forward and that the arrears that are irrecoverable have been written off under the sanction of an appropriate authority.
4. Check admission fees with admission slips signed by the head of the institution and confirm that the amount has been credited to a Capital fund, unless the Managing Committee has taken a decision to the contrary.
5. See that free studentship and concessions have been granted by a person authorised to do so, having regard to the Rules prepared by the Managing Committee.
6. Confirm that fines for late payment or absence, etc. have been either collected or remitted under proper authority.
7. Confirm that hostel dues were recovered before student's accounts were closed and their deposits of caution money refunded.

(C) Other Receipts/Grants & Donations :-

1. Verify rental income from landed property with the rent rolls, etc.
2. Vouch income from endowments and legacies, as well as interest and dividends from investment; also inspect the securities in respect of investments held.
3. Verify any Government or local authority grant with the memo of grant. If any expense has been disallowed for purposes of grant, ascertain the reasons thereof.

(D) Expenditure :-

1. Verify that the Provident Fund money of the staff has been invested in appropriate securities.
2. 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.
3. Vouch, all capital expenditure in the usual way and verify the same with the sanction for the Committee as contained in the minute book.
4. Vouch, in the usual manner, all establishment expenses and enquire into any unduly heavy expenditure under any head. If there was any annual budget prepared, see that any excess under any head over the budgeted amount was duly sanctioned by the Managing Committee. If not, bring it to the Committee's notice in your report.
5. See that increase in the salaries of the staff have been sanctioned & minuted by the Committee.

(E) Assets & Liabilities :-

1. Report any old heavy arrears on account of fees, dormitory rents, etc. to the Managing Committee.
2. Confirm that caution money and other deposits paid by students on admission, have been shown as liability in the balance sheet not transferred to revenue, unless they are not refundable.
3. See that the investments representing endowment funds for prizes are kept separate and any income in excess of the prizes has been accumulated and invested along with the corpus.
4. Ascertain that the system ordering inspection on receipt and issue of provisions, foodstuffs, clothing and other equipment is efficient and all bills are duly authorised and passed before payment.
5. Verify the inventories of furniture, stationery, clothing, provision and all equipment etc. These should be checked by reference to Inventory Register or corresponding inventories of the previous year and values applied to various items should be test checked.

(F) Compliances :-

1. Confirm that the refund of taxes deducted from the income from investment (interest on securities etc.) has been claimed and recovered since the institutions are generally exempted from the payment of income-tax.
2. Finally, verify the annual statements of account and, while doing so see that separate statements of account have been prepared as regards Poor Boys Fund, Games Fund, Hostel and Provident Fund of staff, etc.

Q.2) Explain Audits of Clubs?

Ans. The special steps involved in such an audit are stated below-

1. Entrance Fee :- Vouch the receipt on account of entrance fees with members' applications, counterfoils issued to them, as well as on a reference to minutes of the Managing Committee.
2. Subscriptions :- Vouch members' subscriptions with the counterfoils of receipt issued to them, trace receipts for a selected period to the Register of Members; also reconcile the amount of total subscriptions due with the amount collected and that outstanding.
3. Arrears of Subscriptions :- Ensure that arrears of subscriptions for the previous year have been correctly brought over and arrears for the year under audit and subscriptions received in advance have been correctly adjusted.
4. Arithmetical accuracy :- Check totals of various columns of the Register of members and tally them across.
5. Irrecoverable Member Dues :- See the Register of Members to ascertain the Member's dues which are in arrear and enquire whether necessary steps have been taken for their recovery; the amount considered irrecoverable should be mentioned in the Audit Report.
6. Pricing :- Verify the internal check as regards members being charged with the price of foodstuffs and drinks provided to them and their guests, as well as, with the fees chargeable for the special services rendered, such as billiards, tennis, etc.
7. Member Accounts :- Trace debits for a selected period from subsidiary registers maintained in respect of supplies and services to members to confirm that the account of every member has been debited with amounts recoverable from him.
8. Purchases :- Vouch purchase of sports items, furniture, crockery, etc. and trace their entries into the respective inventory registers.
9. Margins earned :- Vouch purchases of foodstuffs, cigars, wines, etc., and test their sale price so as to confirm that the normal rates of gross profit have been earned on their sales. The inventory of unsold provisions and stores, at the end of year, should be verified physically and its valuation checked.

10. Inventories :- Check the inventory of furniture, sports material and other assets physically with the respective inventory registers or inventories prepared at the end of the year.
11. Investments :- Inspect the share scrips and bonds in respect of investments, check their current values for disclosure in final accounts; also ascertain that the arrangements for their safe custody are satisfactory.
12. Management Powers :- Examine the financial powers of the secretary and, if these have been exceeded, report specific case for confirmation by the Managing Committee.

Q.3) Explain Audits of Charitable Institutions?

Ans. In the case of audit of a charitable institution, attention should be paid to the following matters-

(1) General

- i. Studying the constitution under which the charitable institution has been set up.
- ii. Verifying whether the institution is being managed in the manner contemplated by the law under which it has been set up.
- iii. Examining the system of internal check, especially as regards accounting of amounts collected.
- iv. Verifying in detail the income and confirming that the amounts received have been deposited in the bank regularly and promptly.
- v. Examine the Trust Deed or the Regulations as laid down.

(2) Subscriptions and donations

- a. Ascertaining, if any, the changes made in amount of annual or life membership subscription during the year.
- b. Whether official receipts are issued;
 - i. confirming that adequate control is imposed over unused receipt books;
 - ii. obtaining all receipt books covering the period under review;
 - iii. test checking the counterfoils with the cash book; any cancelled receipts being specially looked into;
 - iv. obtaining the printed list of subscriptions and donations and agreeing them with the total collections shown in the accounts;
 - v. examining the system of internal check regarding moneys received from box collections, flag days, etc. and checking the amount received from representatives, with the correspondence and the official receipts issued; paying special attention to the system of control exercised over collections and the steps taken to ensure that all collections made have been accounted for; and
 - vi. verifying the total subscriptions and donations received with any figures published in reports, etc. issued by the charity.

(3) Legacies - Verifying the amounts received by reference to correspondence with any figures and other available information.

(4) Grants

- i. Vouching the amount received with the relevant correspondence, receipts and minute books.
- ii. Obtaining a certificate from a responsible official showing the amount of grants received.

(5) Investments Income

- i. Vouching the amounts received with the dividend and interest counterfoils.
- ii. Checking the calculations of interest received on securities bearing fixed rates of interest.
- iii. Checking that the appropriate dividend has been received where any investment has been sold ex-dividend or purchased cum-dividend.
- iv. Comparing the amounts of dividend received with schedule of investments making special enquiries into any investments held for which no dividend has been received.

(6) Rent

- i. Examining the rent roll and inspecting tenancy agreements, noting in each case: the amounts of the rent, and the due dates.
- ii. Vouching the rent on to the rent roll from the counterfoils of receipt books and checking the totals of the cash book.

(7) Special function, etc. - Vouching gross receipts and outgoings in respect of any special functions, e.g. concerts, dramatic performance, etc., held in aid of the charity with such vouchers and cash statements as are necessary. In particular, verifying that the proceeds of all tickets issued have been accounted for, after making the allowance for returns.

(8) Income Tax Refunds - Where income-tax has been deducted from the Investment income, it should be seen that a refund thereof has been obtained since charitable institutions are exempt from payment of Income-tax. This involves: vouching the Income-tax refund with the correspondence with the Income- tax Department; and checking the calculation of the repayment of claims.

(9) Expenditure

- i. Vouching payment of grants, also verifying that the grants have been paid only for a charitable purpose or purposes falling within the purview of the objects for which the charitable institution has been set up and that no trustee, director or member of the Managing Committee has benefited there from either directly or indirectly.
- ii. Verifying the schedules of securities held, as well as inventories of properties both movable and immovable by inspecting the securities and title deeds of property and by physical verification of the movable properties on a test- basis.
- iii. Verifying the cash and bank payments.
- iv. Ascertaining that any funds contributed for a special purpose have been utilised for the purpose.

Chapter 12 – Audit of Account of Private concerns & Partnership Firms

Q.1) Explain Audits of Sole Proprietorship Concerns?

Ans. A sole trader is under no legal obligation to have his accounts audited. However, many such individuals get their financial statement audited due to regulatory requirements, such as inventory brokers or on a specific instructions of the bank for approval of loans, etc.

Appointment of Auditor: Auditors of sole- proprietary concern shall be appointed by the sole proprietor himself. In case of change of auditor, it would be duty of incoming auditor to communicate with the previous auditor. As such, sole proprietor can determine the scope of the audit as well as the conditions under which it will be carried out.

Example- On these considerations, it is desirable that the contract of appointment of auditor in such a case should be in writing; also that it should clearly define the scope of the work which the auditor is expected to carry out. This helps to prevent misunderstanding. If the appointment of the auditor is not in writing, the auditor should write to his client explaining the scope of his duties. While doing so, he should state the limitations, if any, placed upon his work to obtain the client's confirmation.

The advantages and audit procedure discussed in following paragraphs of audit in case of partnership firm would be similar in case of proprietorship.

Q.2) Explain Audits of Partnership Firms?

Ans. Appointment of Auditors: The auditor to a firm is usually appointed by the partners either on the basis of a decision taken by them or to comply with a condition in the partnership agreement. His remuneration is also fixed by the partners. It is important that the letter of appointment should clearly state the nature and scope of audit which is to be carried out and particulars of limitations, if any, under which he would have to function.

Matters to be considered before starting audit:- Also, before starting the audit, he should examine the partnership agreement and note the provisions therein as regards the following matters:

1. The name and style under which the business shall be conducted.
2. The duration of the partnership, if any, that has been agreed upon.
3. The amount of capital that shall be contributed by each partner—whether it
4. will be fixed or could be varied from year to year.
5. The period at the end of which the accounts of the partnership will be closed periodically and the proportions in which the profit shall be divided among the partners or losses shall have to be contributed by them; whether the losses shall be borne by the partners or whether any of the partners will not be required to do so.
6. The provisions as regards maintenance of books of account and the matters which must be taken into account for determining the profits of the firm available for division among the partners e.g., creation of reserves, provision for depreciation, etc. also the period within which accounts can be reopened for correcting a manifest error.
7. Borrowing capacity of the partnership (when it is not implied as in the case of non-trading firms).
8. The rate at which interest will be allowed on the capitals and loans provided by partners and the rate at which it will be charged on their drawings and current accounts.
9. Whether any salaries are payable to the partners or withdrawals are permitted
10. Against shares of profits and, if so, to what extent?
11. Duties of the partners as regards the management of business of the firm;
12. Also, the partners who shall act as managing partners.

13. Who shall operate the bank account of the firm? How will the surplus funds of the partnership be invested?
14. Limitations and restrictions that have been agreed upon, the rights and powers of partners and on their implied authority to pledge the firm's credit or to render it liable.

Matters which should be specially considered in the audit of accounts of a partnership:

1. Letter of Appointment :- 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.
2. Partnership Documents:- 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 as are not of a routine nature.
3. Objects of Partnership:- 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.
4. Books of Account:- Examining whether books of account appear to be reasonable and are considered adequate in relation to the nature of the business of the partnership.
5. Mutual Interest:- 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 agreements.
6. Provision for Taxes:- 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.
7. Division of Profits:- Verifying that the profits and losses have been divided among the partners in their agreed profit-sharing ratio.

Chapter 13 – Cost Audit

Q.1) Explain Cost Audits and its objectives?

Ans. A cost audit is a critical examination of cost accounts and records. It ensures the accuracy and adhere to cost accounting standards and other related regulations. It aids in detecting discrepancies, promoting cost control and efficiency. It also enhances the economic use of resources in an organization. Cost Audit is the detailed checking of the costing system, technique, and accounts to verify their correctness and ensure adherence to the objective of cost accountancy.

Objectives of Cost Audit

- **Verifying the accuracy of the cost data:** The cost auditor examines a company's cost accounts and records to ensure that the reported cost data is accurate, reliable, and free from material misstatements.
- **Enhancing cost control:** It helps a company identify areas where it can improve its cost control processes. Therefore, it results in cost savings and improved profitability.
- **Identifying inefficiencies:** It helps identify areas where a company may be incurring unnecessary costs or where it can improve its production processes to reduce costs.
- **Ensuring compliance with regulations:** A company complies with relevant regulations and guidelines, such as those laid down by governmental agencies or professional bodies.
- **Improving decision making:** It gives management a better understanding of the company's cost structure. Moreover, it helps them to make more informed decisions about cost-related matters.

Q.2) Explain Advantages and Disadvantages of Cost Audits?

Ans. Cost audit benefits the management, society, shareholders, and the government. The **advantages are as under:**

Advantages to Management

- Management gets reliable data for its day-to-day operations like price fixing, control, decision-making, etc.
- A proper reporting system to management will closely monitor all wastages.
- Inefficiencies in the company's working will be brought to light to facilitate corrective action.
- Management by exception becomes possible through allocating responsibilities to individual managers.
- The budgetary control and standard costing system will be greatly facilitated.
- A company can establish a reliable check on the valuation of closing stock and work-in-progress and it also helps in the detection of errors and fraud.

Advantages to Society

- Price fixing often involves this method. Therefore, according to Audit Cost data, consumers are protected from exploitation by fixing prices.
- Since some industries do not allow price increases without proper justification, such as increased production costs. This will reduce inflation and maintain consumer living standards by limiting price hikes.

Advantages to Government

- When the Government enters into a cost-plus contract, a cost audit helps the government reasonably fix the contract's price.
- It fixes the ceiling prices of essential commodities, and thus, undue profiteering is checked.
- This allows the government to focus on inefficient units.
- It enables the government to decide in favour of protecting certain industries.

- Consequent management action can create healthy competition among the various units in the industry. This imposes an automatic check on inflation.
- It facilitates the settlement of trade disputes brought to the government.

Advantages to Shareholder

- It ensures that proper records are kept regarding purchases and utilization of materials, expenses on wages, etc. It also ensures that the valuation of closing stocks and work in progress is fair. Thus, companies can ensure their shareholders a fair investment return.

Disadvantages of Cost Audit

While cost audits can provide many benefits, they also have some disadvantages are as following:

- **Cost:** Conducting a cost audit can be costly and time-consuming. This process requires the engagement of specialized auditors, who may charge high fees for their services.
- **Complexity:** It involves a detailed examination of a company's cost accounts and records, which can be complex and require high expertise.
- **Resistance from management:** Companies may view cost audits as an intrusion into their operations and resist the audit process. This can lead to a lack of cooperation from management and a less effective audit process.
- **Difficulty in detecting fraud:** A cost audit is not suitable to detect fraud. Therefore, it can be difficult for auditors to identify fraudulent activities, especially if they are well-concealed.
- **Limited scope:** It only focuses on the cost aspects of a company's operations. Also it does not provide a comprehensive view of its financial performance.
- **Reliance on historical data:** A cost audit is based on historical cost data. It does not consider future trends or market conditions that may affect the cost of products or services.

Q.3) Explain the Phases or Aspects or Scope of Cost Audit?

Ans. The scope of cost audit has two important aspects: Propriety audit and Efficiency audit

1. Propriety Audit

This aspect of a cost audit is concerned with the actions and plans of management that affect the finance and expenditure of the business concern. Under this aspect, the cost auditor is required to ensure that an item of expenditure is sanctioned or approved by the proper authority. It is done with the help of documents and vouchers. In addition, the cost auditor must ensure that the item of expenditure is proper and reasonable on the grounds of propriety.

Thus, the cost auditor has to report:

- Whether or not the planned expenditure can yield optimal results
- Whether or not the size or channels of investment were designed to produce the best results
- Whether the return on investment in certain channels could be improved by another plan of action

2. Efficiency Audit

This aspect of a cost audit focuses on performance evaluation. In particular, it covers the verification of the facts (i.e., that the expenditure has been incurred according to the plan and the results obtained have also been produced according to the plan). The efficiency aspect of a cost audit involves examining the plan prepared in the form of budgets (financial and functional) and the comparison of the actual performance with the budgeted performance. The reasons for any variance are also analyzed.

Thus, the efficiency audit ensures that:

- Every dollar invested in capital or other areas yields the optimal return
- Investment in different spheres of the business is balanced to yield the optimal results

Therefore, the cost auditor plays the role both of a consultant and a financial adviser. They assist the chief executive of the business in judging the soundness of the financial plans and performance by coordinating the results of the actions of various department leaders.

Q.4) Explain the difference between Financial Audit and Cost Audit?

Ans. The basic nature of audit is checking, which is good for both the cost and financial audits. However, the following are the points of difference between these two audits:

Sr. no.	<u>Financial Audit</u>	<u>Cost Audit</u>
1	A financial audit is statutorily compulsory under companies.	Cost auditing is not compulsory except in certain cases.
2	A financial audit covers all the financial transactions recorded in financial books and financial records.	Cost auditing covers only cost records and cost accounts.
3	A financial audit aims to examine whether business transactions have been recorded correctly.	Cost auditing aims to verify cost accounts and ensures the plan prepared in this connection has been duly executed.
4	A financial audit is concerned with the past and history.	Cost auditing is concerned with a forward-looking approach.
5	A financial audit reports the true and fair view of the company's earnings and state of affairs.	Cost auditing is required to report to the management except for statutory audits.
6	Financial audit is in The financial aspect of the accounts is a matter of concern.	The cost aspect of the account is of main concern in cost auditing.
7	Financial auditing is concerned with the scrutiny of reliability or otherwise of transactions.	Cost auditing is concerned with the propriety and efficiency of the transactions.
8	Financial auditing is primarily concerned with serving the interests of the shareholders.	The cost audit is concerned with serving the interests of the management.
9	The role of the financial auditor is in the office.	The role of the cost auditor is in the factory.
10	A financial audit is conducted every year.	Cost audit may be done in the year the government or any other agency requires it.
11	In a financial audit, an auditor must check the closing stock's exact value for the balance sheet.	In a cost audit, an auditor has to check the adequacy of the stock, keeping in view the needs of the concern.
12	In the financial audit, the report is submitted to the management to be laid in the general meeting of the shareholders.	The report of the cost auditor is submitted to the company and the company law board.

Q.5) Explain the Cost Audit under Indian Companies Act, 2013?

Ans.

Who can be a Cost Auditor?

Only a Cost Accountant can be appointed as Cost Auditor for conducting cost audit. Cost Accountant means a cost accountant as defined in clause (b) of Sub-sec (1) of Sec 2 of the Cost & Works Accountants Act, 1959 & who holds a valid certificate of practice under sub-sec (1) of sec 6 of that Act. Provided that no person appointed statutory auditor of the company shall be appointed for conducting the audit of cost records. Only a Chartered Accountant can be appointed as Statutory Auditor of the Co., he cannot be cost auditor of same company even though he is cost accountant also.

When to appoint a Cost auditor?

A Cost auditor has to be appointed within one hundred and eighty (180) days from the starting of Financial Year by every company on whom these provisions are applicable.

Qualification, disqualification, rights and duties of Auditor [Section 148(5)]:

Qualification, disqualification, rights and duties of applicable to statutory auditor shall be applicable to Cost auditor. Cost Auditor shall submit its report to the board of directors of the company.

What is the procedure to appoint a Cost Auditor?

The companies which are required to appoint an Internal Auditor have to follow the below given procedure: –

1. Prepare notice of board meeting along with draft resolution(s) to be passed in the board meeting for candidate consideration for appointment as Cost Auditor and sending engagement letter or consent letter from the proposed Cost Auditor.
2. Obtaining engagement letter or consent letter.
3. Sending of Notice along with Agenda of Board meeting to all the Directors of company and finalising general meeting notice for ratification of appointment of cost auditor by shareholder of company.
4. Convene board meeting and pass the following Board Resolution.
5. Sending of Outcome of Board Meeting to Stock exchange wherever company's securities are listed within 30 minutes from the conclusion of meeting. (this point is applicable for listed companies only)
6. Sending of Appointment letter to Appointed Cost Auditor.
7. File e-Form returns along with attachments with the Registrar of Companies regarding appointment of Cost Auditor within thirty (30) days from date of Board Meeting.
8. Convening of General Meeting and passing of Ordinary resolution by shareholders.
9. Intimation to stock exchange wherever company's securities are listed within 30 minutes from the conclusion of meeting. (this point is applicable for listed companies only)
10. Filing of E-form for passing of ordinary resolution in general meeting within thirty (30) days from the general meeting.
11. Making entry in register, minute books, etc of company.

Chapter 14 – EDP Audit

Q.1) Explain EDP Audits and its Scope?

Ans. An analysis of an organization's computer & information system in order to evaluate the integrity of its production systems as well as potential security cracks. Enterprise Resource Planning systems are integrated programs that maintain all of a business's transactions in a single data base. ERP audits assess risks to the integrity of proprietary business data as it is accessed by multiple users across the company. ERP audits must be undertaken with great care as auditors will have access to financial accounting records, human resource records and management data. Invalid or fraudulent data entered at one point can affect the accuracy of data across the system.

Q.2) Explain Importance of EDP Audits?

Ans. Electronic Data Processing (EDP) audits are a critical component of modern business operations. EDP audits, often referred to as information technology (IT) audits or cybersecurity audits, focus on assessing the controls and processes related to an organization's electronic data processing systems. These audits play a vital role in ensuring the integrity, security, and reliability of digital information and technology infrastructure. Here are some key reasons why EDP audits are important:

- **Data Integrity:** EDP audits help ensure the accuracy, consistency, and reliability of data. They verify that data is processed correctly and that there are proper controls in place to prevent data manipulation or corruption.
- **Compliance:** In many industries, there are strict regulations and compliance requirements related to data security and privacy, such as GDPR, HIPAA, or SOX. EDP audits help organizations ensure they are in compliance with these regulations, reducing the risk of legal and financial penalties.
- **Risk Management:** By assessing IT systems and processes, EDP audits identify vulnerabilities and weaknesses in an organization's technology infrastructure. This allows for proactive risk management and the implementation of safeguards to protect against cyber threats and data breaches.
- **Cybersecurity:** EDP audits are instrumental in evaluating an organization's cybersecurity measures. They assess the effectiveness of security controls, such as firewalls, intrusion detection systems, and encryption, to protect against cyberattacks.
- **Resource Optimization:** Audits help organizations allocate their IT resources efficiently. By identifying redundant or obsolete technology, an EDP audit can lead to cost savings and improved resource allocation.
- **Operational Efficiency:** EDP audits can uncover inefficiencies in IT processes and workflows, allowing organizations to streamline operations and reduce downtime. This results in cost savings and improved overall efficiency.
- **Preventing Fraud:** EDP audits can detect fraudulent activities, including unauthorized access or misuse of data. They provide insights into where fraud risks may exist and help establish fraud prevention measures.
- **Business Continuity and Disaster Recovery:** EDP audits assess an organization's preparedness for IT disasters and disruptions. This includes evaluating backup and recovery procedures to ensure that critical data and systems can be restored in case of a catastrophe.
- **Reputation Management:** A well-executed EDP audit can help build trust with customers, clients, and stakeholders. Demonstrating a commitment to data security and privacy through audit reports can enhance an organization's reputation.

- **Strategic Decision-Making:** EDP audits provide valuable insights into an organization's IT environment, enabling informed strategic decision-making. This includes technology investments, upgrades, and long-term planning.
- **Third-Party Assurance:** EDP audits can be crucial when dealing with third-party vendors or service providers. They ensure that these external entities have adequate security measures in place to protect your data.

In today's digital age, where organizations rely heavily on technology and data, EDP audits are indispensable for maintaining trust, managing risks, and ensuring the smooth operation of businesses. They provide an objective and systematic evaluation of an organization's IT systems, helping to protect against data breaches, financial losses, and legal consequences.

Q.3) Explain Types of EDP Audits?

Ans. Electronic Data Processing (EDP) audits encompass a wide range of audit types, each with its specific focus and objectives. The choice of which type of EDP audit to conduct depends on the organization's needs and objectives. Here are some common types of EDP audits:

General Controls Audit:

Objective: Evaluate the overall control environment of an organization's IT systems. This includes assessing policies, procedures, and practices that affect multiple IT systems.

Focus: It looks at overarching controls like access management, change management, and disaster recovery planning.

Application Controls Audit:

Objective: Assess the controls within specific software applications. The focus is on the accuracy, completeness, and authorization of data processing within applications.

Focus: This audit examines the controls within individual applications, such as accounting software or inventory management systems.

Cybersecurity Audit:

Objective: Assess the security measures in place to protect an organization's digital assets from cyber threats and attacks.

Focus: Evaluating security controls, including firewalls, intrusion detection systems, and antivirus software.

Data Integrity Audit:

Objective: Verify the accuracy, consistency, and reliability of data throughout its lifecycle.

Focus: Ensuring that data is processed correctly, and there are controls in place to prevent data corruption or unauthorized changes.

Compliance Audit:

Objective: Ensure that an organization is complying with relevant laws, regulations, and industry standards related to data processing and IT systems.

Focus: Assessing adherence to specific compliance requirements such as GDPR, HIPAA, or SOX.

Disaster Recovery and Business Continuity Audit:

Objective: Evaluate an organization's preparedness for IT disasters and disruptions.

Focus: Assessing backup and recovery procedures to ensure that critical data and systems can be restored in case of a catastrophe.

IT Risk Assessment:

Objective: Identify and assess IT-related risks within an organization.

Focus: Evaluating vulnerabilities, potential threats, and the impact of IT risks on business operations.

IT Governance Audit:

Objective: Examine the structure and effectiveness of IT governance processes and practices.

Focus: Assessing how IT decisions are made, managed, and aligned with the organization's objectives.

Third-Party Vendor Audit:

Objective: Evaluate the security and compliance controls of third-party vendors or service providers that have access to an organization's data or systems.

Focus: Ensuring that third-party vendors meet security and data protection standards.

Post-Implementation System Audit:

Objective: Assess the effectiveness and efficiency of IT systems after they have been implemented.

Focus: Identifying any issues or areas for improvement in recently deployed systems.

Performance Audit:

Objective: Evaluate the efficiency and effectiveness of IT systems and processes.

Focus: Assessing how well IT resources are utilized and identifying areas for improvement.

Cloud Security Audit:

Objective: Assess the security of data and applications hosted in cloud environments.

Focus: Evaluating the security controls and practices related to cloud services and infrastructure.

Each type of EDP audit serves a unique purpose and provides valuable insights into an organization's IT systems and data processing practices. The choice of audit type should align with the organization's goals, risks, and compliance requirements.

Q.4) Explain Various Activities of Data Processing?

Ans. Data processing involves a series of activities that transform raw data into meaningful information that can be used for decision-making, analysis, and other purposes. These activities may vary depending on the specific context and the type of data being processed. Here are various activities involved in data processing:

Data Collection:

Objective: Gathering raw data from various sources, such as sensors, surveys, forms, databases, or digital sources.

Activities: Data can be collected manually, automatically, or through various data acquisition methods, including data entry, web scraping, or data feeds.

Data Entry:

Objective: Entering data into a digital system for processing and storage.

Activities: Manual data entry by individuals or automated data capture through devices, such as barcode scanners or optical character recognition (OCR) software.

Data Validation:

Objective: Ensuring that data is accurate, complete, and consistent.

Activities: Checking data for errors, inconsistencies, or missing values, and performing validation rules and checks.

Data Cleaning:

Objective: Removing or correcting errors, duplicates, or inconsistencies in the data.

Activities: Identifying and resolving data quality issues, including deduplication, standardization, and outlier detection.

Data Transformation:

Objective: Converting data from one format or structure to another, such as aggregating, filtering, or changing data types.

Activities: Data transformation may involve data enrichment, normalization, or the creation of derived variables.

Data Aggregation:

Objective: Combining and summarizing data from multiple sources into a single dataset.

Activities: Aggregating data typically involves operations like grouping, averaging, or summing data elements.

Data Analysis:

Objective: Analyzing data to extract meaningful insights, patterns, and trends.

Activities: Using statistical, mathematical, or machine learning techniques to explore, visualize, and draw conclusions from the data.

Data Modeling:

Objective: Creating mathematical models or algorithms to represent and predict patterns or relationships within the data.

Activities: Developing regression models, decision trees, neural networks, or other modeling techniques to make predictions or optimize processes.

Data Reporting:

Objective: Communicating the results of data analysis to stakeholders through reports, dashboards, or visualizations.

Activities: Creating and formatting reports or dashboards that present data insights in a user-friendly format.

Data Storage:

Objective: Storing data in a structured manner for future retrieval and analysis.

Activities: Data storage can be in relational databases, data warehouses, cloud storage, or other data repositories.

Data Retrieval:

Objective: Accessing stored data for various purposes, such as generating reports, responding to queries, or conducting further analysis.

Activities: Querying databases, using data retrieval APIs, or utilizing data access tools.

Data Security and Privacy:

Objective: Protecting data from unauthorized access, breaches, or misuse.

Activities: Implementing encryption, access controls, and data governance measures to safeguard sensitive data.

Data Backup and Recovery:

Objective: Creating copies of data to ensure its availability in case of data loss or system failures.

Activities: Setting up regular data backups and implementing recovery procedures.

Data Archiving:

Objective: Moving older or less frequently used data to long-term storage for compliance or historical reference.

Activities: Archiving data typically involves defining retention policies & data lifecycle management.

Data Governance:

Objective: Establishing policies, procedures, and accountability for managing and maintaining data quality and compliance.

Activities: Defining data standards, roles and responsibilities, and monitoring adherence to data governance policies.

These activities collectively form the data processing lifecycle, from data collection to data usage. The process may be iterative, and data processing activities often intersect and overlap to ensure that data remains accurate, reliable, and valuable for decision-making and other organizational needs.

Q.5) Explain Approaches to EDP Systems of Audit?

Ans. When conducting an audit of Electronic Data Processing (EDP) systems, auditors employ various approaches to assess the integrity, security, and reliability of an organization's IT systems and data processing. Here are some common approaches to EDP systems audit:

Substantive Testing:

Objective: Substantive testing focuses on verifying the accuracy and completeness of transactions and account balances. It aims to identify material misstatements in financial statements or other critical data.

Approach: Auditors perform substantive tests by selecting and testing a sample of transactions or records to confirm the validity of the information. This may involve procedures like vouching and tracing.

Compliance Testing:

Objective: Compliance testing assesses an organization's adherence to laws, regulations, and internal policies relevant to data processing, privacy, and security.

Approach: Auditors review controls, policies, and procedures to ensure compliance with relevant standards and regulations. They may also test a sample of transactions to check for compliance.

Controls Testing:

Objective: Controls testing evaluates the effectiveness of internal controls in place to safeguard data integrity and security.

Approach: Auditors assess and test controls such as access controls, segregation of duties, and change management procedures. This may include reviewing documentation, interviewing personnel, and performing walkthroughs.

Data Analytics:

Objective: Data analytics involves using advanced analytical tools to examine large datasets for patterns, anomalies, or irregularities.

Approach: Auditors use data analysis software to process and analyze data, identifying trends, outliers, and potential issues. This approach is often used in conjunction with other auditing methods.

Continuous Monitoring and Auditing:

Objective: Continuous monitoring and auditing aim to provide real-time or near-real-time assessment of key controls and data.

Approach: Auditors set up systems that continuously monitor and analyze data, allowing for the immediate detection of anomalies or control failures. This approach is particularly useful for IT security and compliance monitoring.

Risk-Based Approach:

Objective: A risk-based approach focuses on identifying and assessing risks specific to the organization's EDP systems.

Approach: Auditors conduct a risk assessment to determine which areas of the EDP systems are most vulnerable and where potential issues are most likely to occur. They then allocate audit resources accordingly.

Benchmarking:

Objective: Benchmarking involves comparing an organization's EDP systems and practices against industry standards or best practices.

Approach: Auditors assess an organization's IT systems against established benchmarks, identifying areas where improvements can be made to align with industry norms.

Fraud Detection and Investigation:

Objective: In cases where fraud is suspected or needs to be investigated, auditors focus on identifying fraudulent activities within EDP systems.

Approach: Auditors may use specialized forensic techniques, data analysis, and auditing procedures to uncover fraudulent transactions or activities.

Specialized Auditing Tools and Techniques:

Objective: In certain situations, auditors may employ specialized tools or techniques tailored to the unique aspects of an organization's EDP systems.

Approach: Auditors may use Computer-Assisted Audit Techniques (CAATs) or industry-specific tools to perform detailed testing and analysis.

The choice of approach depends on the nature of the audit, the objectives, and the risks involved. Auditors often combine multiple approaches to conduct a comprehensive audit of an organization's

EDP systems. It's essential for auditors to stay updated with technological advancements and emerging threats to adapt their audit approaches to the evolving IT landscape.

Q.6) Explain CAATs and some examples?

Ans. CAAT stands for "Computer-Assisted Audit Techniques." CAATs are specialized tools and techniques used by auditors to perform audits more efficiently and effectively, particularly in the context of electronic data processing systems. These techniques leverage the capabilities of computers and software to analyze, test, and extract data, making the audit process more accurate and efficient. CAATs are commonly used in financial and IT audits. Some common examples of CAATs include:

- **Data Extraction Tools:** These tools allow auditors to extract data from various data sources, such as databases and spreadsheets, for analysis. They can be used to collect large volumes of data quickly and accurately.
- **Data Analysis Software:** Software like Microsoft Excel, Access, or specialized data analysis tools enable auditors to perform data analytics, including trend analysis, regression analysis, and anomaly detection, to identify irregularities and patterns.
- **Audit Analytics Software:** These are specialized software packages designed for auditors. They often include predefined audit tests, data visualization tools, and advanced analytics capabilities to streamline audit procedures.
- **Sampling Tools:** CAATs can assist auditors in selecting random or judgmental samples from large datasets, helping to ensure that the audit process is representative while also reducing the manual effort involved.
- **Benford's Law Analysis:** This technique uses statistical analysis to detect anomalies in datasets based on Benford's Law, which states that in many naturally occurring datasets, the leading digits are not uniformly distributed.
- **Continuous Monitoring Tools:** CAATs can be used to set up continuous monitoring of key controls or performance metrics. This allows for real-time or near-real-time detection of issues or anomalies.
- **Statistical Software:** Statistical packages like R or SAS can be used for complex data analysis, hypothesis testing, and predictive modeling to uncover potential audit issues or trends.
- **Workflow Management Software:** These tools help auditors manage their audit processes, track progress, and allocate tasks efficiently.
- **Database Query Tools:** Query languages and tools can be used to extract, manipulate, and analyze data stored in relational databases, which are commonly used in financial and operational systems.
- **Forensic Software:** These tools are used in forensic accounting to investigate financial irregularities, fraud, and embezzlement by examining financial data, transaction trails, and digital evidence.

CAATs offer several advantages in the audit process, including increased accuracy, reduced manual effort, improved audit trail documentation, and the ability to process and analyze large volumes of data. They also help auditors identify anomalies and potential issues more effectively, making audits more valuable to organizations. However, auditors should be proficient in using CAATs and consider the specific requirements of their audit engagements to ensure that these tools are used appropriately.

Q.6) What are the Advantages and Limitations CAATs?

Ans. Computer-Assisted Audit Techniques (CAATs) offer numerous advantages to auditors, making the audit process more efficient and effective. However, they also have limitations and potential drawbacks. Here's a breakdown of the advantages and limitations of CAATs:

Advantages of CAATs:

- **Efficiency:** CAATs automate many audit procedures, reducing the time and effort required for data extraction, analysis, and testing. This allows auditors to complete audits more quickly.
- **Accuracy:** CAATs can perform calculations and analysis with a high degree of accuracy, reducing the risk of errors associated with manual calculations.
- **Scalability:** CAATs can process large volumes of data quickly, making them suitable for auditing complex and extensive datasets.
- **Consistency:** CAATs perform audit procedures consistently and without bias, ensuring that all data is treated equally.
- **Data Reusability:** Auditors can reuse CAAT scripts and procedures for future audits, saving time and effort in subsequent engagements.
- **Real-Time Monitoring:** CAATs can be set up for continuous monitoring of financial and operational data, allowing auditors to identify issues as they occur.
- **Customization:** Auditors can customize CAATs to meet the specific needs of an audit engagement, tailoring scripts and procedures to address unique risks and objectives.
- **Data Visualization:** CAATs often provide data visualization tools, making it easier to identify trends, patterns, and anomalies in data.
- **Audit Trail:** CAATs can generate detailed audit trail documentation, providing evidence of the steps taken during the audit process.
- **Improved Testing:** CAATs can perform more sophisticated testing, including regression analysis, anomaly detection, and trend analysis, which may not be feasible manually.

Limitations of CAATs:

- **Initial Setup:** Implementing CAATs requires an initial investment in terms of software, hardware, and training, which can be costly.
- **Technical Expertise:** Auditors need to be proficient in using CAATs and may require specialized training, which can be time-consuming.
- **Data Quality:** The effectiveness of CAATs relies on the quality and accuracy of the data they analyze. Poor data quality can lead to erroneous results.
- **Complexity:** Some audit software can be complex to use, and auditors may find it challenging to create and modify scripts or procedures.
- **Data Security and Privacy:** CAATs require access to sensitive data, and securing this data is a critical concern. Mishandling data can lead to privacy breaches.
- **Inflexibility:** Some CAATs may lack flexibility, making it challenging to adapt them to unique or changing audit requirements.
- **Overreliance:** Relying too heavily on CAATs can lead to complacency in the audit process, with auditors overlooking important manual checks.
- **False Positives and Negatives:** CAATs may generate false positives (identifying issues that aren't actually problems) or false negatives (failing to identify actual issues).
- **Continuous Monitoring Challenges:** Setting up and maintaining continuous monitoring systems with CAATs can be complex and resource-intensive.
- **Audit Judgment:** CAATs cannot replace human judgment and critical thinking. Auditors must interpret the results and exercise professional judgment.

In conclusion, while CAATs offer numerous advantages in terms of efficiency, accuracy, and scalability, they also come with limitations, including setup costs, the need for technical expertise, and potential issues related to data quality and security. Effective use of CAATs requires a balanced approach, combining automation with human judgment to ensure a comprehensive and accurate audit.

Question Paper – Year 2023 (Hons.)

Unit 1

1. What is meant by audit? Explain the Objects and Advantages of an Audit? 20

Or

What is internal audit? Give its objects and recruitment. Differentiate between Internal Check, Internal Audit and Internal Control. 20

Unit 2

2. “Vouching is the backbone of auditing”. In the light of this statement discuss the importance of vouching by giving some case law. 20

Or

What Qualifications are necessary for a company auditor in India? What are the provisions of the companies act 2013, regarding removal and remuneration of auditors? 20

Unit 3

3. Describe briefly the provisions of the companies act 2013, with regard to the right and duties of an auditor. 20

Or

Write a note “General Considerations in Company Audit” 20

Unit 4

4. What do you mean by investigation? What points to be considered while carrying out an investigation on behalf of a person who wants to purchase business? 20

Or

How you will audit the accounts of a charitable Institution? 20

Unit 5

5. How will you audit the account of:- (i) Private Concerns (ii) Partnership Firms. 20

Or

Write a note on the following? 20

- (a) EDP Audit and its Type. (b) Various Activities of Data Processing

Question Paper – Year 2022 (Hons.)

Unit 1

1. Discuss the basic principles governing of an audit. 20

Or

What is 'Internal Audit'? Mention its objects and advantages. What is the position of statutory audit in relation there to? (15+5)

Unit 2

2. What is a Voucher? What Points should be noted in examining a voucher? 20

Or

Explain the difference among vouching, verification and valuation. What are the duties of an auditor with respect of valuation of stock? 20

Unit 3

3. How will you audit the following:-

(a) Issue of Shares at a Premium (B) Buy Back of Own Shares. 20

Or

Distyngush between a "clean report" and a "A Qualified Report" of an auditor. Draft an imaginary clean report in the manner prescribed under the act? 20

Unit 4

4. Which facts are to be considered before investigation? Give difference between special Audit and Investigation? 20

Or

How you will audit the main items of income and expenditure of an educational institutions? 20

Unit 5

5. Define cost audit and Gives its nature and Objects? 20

Or

Explain Computer Assisted Audit Techniques? 20

Question Paper – Year 2020 (Hons.)

Unit 1

1. “Accountancy is a necessity while auditing is luxury for a business enterprise”. Do you agree? Give reasons for your opinion. 20

Or

What is an audit programme? Give essentials and advantages of a good audit programme. 20

Unit 2

2. What is meant by the term verification? What are the objectives and principles of verification. 20

Or

Describe briefly the provisions of the companies act, 2013 with regards to the appointment of an auditor. 20

Unit 3

3. State the rights and liabilities of the auditor of a company according to Indian companies act. 20

Or

What is an audit report? Explains the kinds of audit reports 20

Unit 4

4. Define the term investigation. Explain its nature and importance. 20

Or

How you will audit the main items of Income and Expenditure of an Educational Institution? 20

Unit 5

5. Explain objectives, advantages and nature of cost audit. 20

Or

(a) What points in the audit of a partnership firm are necessary to be kept in mind before starting audit? 12

(b) Write short note on approaches of EDP system of Audit. 8

Question Paper – Year 2023 (Pass Course)

Unit 1

1. What is meant by audit? Mention the objects and limitations of audit? 20

Or

What is internal audit? How is internal Audit an instrument of managerial control? Difference between internal audit and internal check. 20

Unit 2

2. “Vouching is the backbone of Auditing”. In the light of this statement discuss the importance of auditing? 20

Or

How company auditor is appointed? Explain the provision as per companies Act 2013? 20

Unit 3

3. Critically examine the liabilities of an auditor for misfeasance? 20

Or

What are the duties of an auditor in regard to: (i) Forfeiture of shares.
(ii) Issue of Shares at premium. (iii) underwriting commission. (iv) Preliminary Expenses 20

Unit 4

4. Explain the meaning, Scope and Objectives of Management Accounting. 20

Or

Shree Tata Limited requires a capital investment of Rs. 300 lacs. Interest on loan is 12% and tax rate is 30%. If the debt equity ratio insisted by the financial agencies is 2:1. Calculate the point of indifference for the project. 20

Unit 5

5. What do you mean by common-size statements? Discuss its utility for management? 20

Or

From the following information prepare the Balance Sheet. 20

i)	Total Debt to Net Worth	1:2
ii)	Total Assets turnover (Based on Revenue from Operation)	2 times
iii)	Gross Profit	30%
iv)	Average Collection Period (taking 1 year as 360 days)	40 Days
v)	Inventory turnover based on cost of revenue from operation and year end inventory	3 Times
vi)	Acid Test ratio	3:4
vii)	Equity Share Capital	Rs. 2,00,000
viii)	Reserve and Surplus	Rs. 3,00,000
ix)	Long Terms Debts	Nil

Question Paper – Year 2022 (Pass Course)

Unit 1

1. (a) Discuss Basic Principles governing an audit? 8+12
(b) What is auditing principles, auditing procedure and audit techniques? Explain difference between auditing principles, auditing procedure and audit techniques?

Or

- 2 Explain the Following (i) Routine Checking (ii) Test Checking (iii) Audit Evidence 5+5+10

Unit 2

3. “An Auditor is not a valuer and yet he is intimately connection with values.” Explain fully how you would reconcile this statement. 10+ 10

Or

- 4 (a) What will be the situation if any auditor gain disqualification after his appointment? Under what circumstances a company auditor may be appointment by board of Director

- 4 (b) Write Short notes on (i) Removal of Company auditor (ii) Remuneration of Company Auditor

Unit 3

5. “There may be (a) loss without negligence, or (b) negligence without loss, but the auditor cannot be held liable in either case.” Comment quoting some legal decision. 20

Or

- 6 Distinguish in clear and qualified report. Draft an Imaginary clean report in the manner prescribed under the act. 20

Unit 4

7. N. P. limited expects annual net operating income of Rs. 4 lacs. It has Rs. 10 lakhs outstanding debt, cost of debts is 10%. If the overall capitalisation rate is 12.5%, what would be the total value of the firm and the equity capitalisation rate according to 'Net operating income approach'? What will be the effect of the following on the total value of the firm and equity capitalisation rate, if

- (i) The firm increases the amount of debt from Rs. 10 lakh to Rs. 15 lakhs and uses the proceeds of the debts to repurchase equity shares.

- (ii) The firm returns debts of Rs. 5 lakhs by issuing fresh equity shares of the same amount. 20

Or

8. Tata Company Ltd has a capital of Rs. 8 lakhs divided into 30,000 equity share of Rs. 10 each, 30,000 10% debenture of Rs. 10 each and 2000 12% preference share of Rs. 100 each. The profit before interest and tax are Rs. 2,00,000 and rate of tax is 50%. You are required to calculate financial leverage. If the EBIT has increased by 40%, What will be new financial leverage and interpret it. 20

Unit 5

9. From the following information make out a Balance Sheet of maharaja Lute ltd. With as many detail as possible 20

i)	Sales	Rs. 36,00,000	vi)	Debtor turnover	15
ii)	Total Assets turnover	3	vii)	Total Asset / Net Worth	2.5
iii)	Fixed Assets turnover	5	viii)	Debt Equity	1:1
iv)	Current Assets turnover	7.5	ix)	Current Ratio	2:1
v)	Inventory turnover	20	x)	Equity Share capital : Reserve	2:1

Or

10. “Ratios are the symptoms like blood pressure, the pulse or the temperature of an individuals”. Explain the statement and give the fundamental ratios and other uses. 20

Question Paper – Year 2021 (Pass Course)

Unit 1

1. Give the main classes of errors and frauds found in the accounts with illustrations. Can the auditor prevent such errors and frauds? 20

Or

What is meant by Internal Check? Describe the advantages & disadvantages of Internal Check? 20

Unit 2

2. "Vouching is the backbone of auditing." In the light of this statement discuss the importance of vouching giving some case law. 20

Or

What qualifications are necessary for a company auditor of India? What are the provisions of the Companies Act, 2013 regarding removal and remuneration of auditor? 5 + 10 + 5

Unit 3

3. Discuss the liability of an auditor for criminal liability. 20

Or

What do you understand by "Audit Certificate"? What are its types? How it is different from audit report? 20

Unit 4

4. Explain the meaning, Scope and Objectives of Management Accounting. 4 + 8 + 8

Or

The following details of A Ltd. For the year ended 31st march 2020 are furnished below:

Operating leverage - 3:1, Financial leverage - 2:1
Interest charged per annum - Rs. 20 lakhs Corporate tax Rate - 50%
Variable Cost as percentage of sales – 60%

Prepare Income Statement 20

Unit 5

5. Write Short notes on:- 1. Comparative statements 2. Trend Analysis 20

Or

From the following information prepare the Balance Sheet of Ashutosh Ltd. 20

i)	Current Ratio	2.5
ii)	Liquid Ratio	1.5
iii)	Proprietary Ratio (Fixed Assets / Proprietary Funds)	0.75
iv)	Working Capitals	Rs. 60000
v)	Reserve and Surplus	Rs. 40000
vi)	Bank Overdraft	Rs. 10000
vii)	There is no long term loan or fictitious Assets	

Question Paper – Year 2020 (Pass Course)

Unit 1

1. . “Accountancy is a necessity while auditing is luxury for a business enterprise”. Do you agree? Give reasons for your opinion and examine critically the role of auditing in the efficient, honest and economical conduct of a business concern. 20

Or

What is an audit programme? What are its objects? Give essentials of an audit programme 8+4+8

Unit 2

2. How would vouch / verify the following books: 20

i) Purchase book ii) Purchase Return book iii) Sales book iv) Sales Return book

Or

What are the essential qualifications and disqualifications for appointment and reappointment of an auditor? 10 + 10

Unit 3

3. Mentions right of an auditor according to companies Act, 2013 20

Or

What do you understand by audit’s clean & qualified report? Give format of a qualified report? 10+10

Unit 4

4. Mention the function and limitations of Management Accounting. 10+10

Or

A. There are two firm A and B. Both the firms have capitalisation of Rs. 250000 each. Both the firms earns Rs. 40000 each before interest and tax. Firm A has obtained its whole capital through ordinary shares. Firm B has obtained Rs. 100000 through ordinary shares, Rs. 50000 through 10% Debentures and Rs. 100000 through 8% Preference shares. Corporate tax rate is 30%.

Comment on the policy of trading on equity followed by firm B 10

B. Karina Ltd has the following capital Structure:

Equity Share capital – Rs. 10,00,000 10% Preference Share capital – Rs. 10,50,000

8% Debentures – Rs. 12,50,000

The EBIT or operating Profit is Rs. 5,00,000. The rate of Income tax is 30% 10

Unit 5

5. Write Short notes on:- 20

1. Common-size statements

2. Significance and Limitations of cash flow Statement

Or

From the following information for the accounting year 2018-19 . You are required to calculate: 20

i) Revenue from Operations ii) Sundry Debtors iii) Closing Stock iv) Sundry Creditors

Debtor Velocity – 3 Months

Inventory Velocity – 6 Months

Creditor Velocity – 3 Months

Gross Profit Ratio – 20%

The gross profit for the year ended 31st March 2019 was Rs. 10,00,000. Inventory as on 31st March 2019 was Rs. 40000 more than that was on 1st April 2018. Bill Receivable and Bill Payable were Rs. 120000 and Rs. 73333 resp.