

Question 1

You are approached by a partnership firm to list out the advantages that will accrue to them, if the accounts are audited. State five important advantages.

(5 Marks) (May 2007)

Answer

Advantages of audit of accounts of a partnership firm: Advantages are as follows (any five):

- (i) Audited accounts provide a convenient and reliable means of settling accounts between the partners and thereby possibility of dispute among them is mitigated.
- (ii) On the retirement/death of a partner, audited accounts constitutes a reliable evidence for computing the amount due to the retiring partner or representative of deceased partner.
- (iii) Audited accounts are generally accepted by the Income tax authorities for computing the assessable income.
- (iv) Audited accounts are relied upon by banks for advancing loan.
- (v) Audited accounts can be helpful in the negotiation for sale or admission of a new partner.
- (vi) It is an effective safeguard against any undue advantage being taken by a working partner as against the non working partners.

Question 2

Write short note on Government Expenditure Audit.

(5 Marks) (May 2007)

Answer

Government Expenditure Audit: It is one of the major components of Government audit. The main aim is to ensure that:

- (i) The expenditure incurred conforms to the relevant provisions of the statutory enactments and is also in accordance with the financial rule and regulation. This is called audit against rules and orders.

Auditing

- (ii) There is proper sanction either special or general accorded by the competent authority for all expenditure. This is known as audit of sanctions.
- (iii) There are provisions or budget of funds out of which expenditure can be met. This is called audit against provisions of fund.
- (iv) The expenditure is incurred with due regard to broad and general principle of propriety. This is called propriety audit.
- (v) That the programmes, schemes and projects where large expenditure has been incurred are being run economically and yielding results. This is known as performance audit.

Question 3

State with reasons (in short) whether the following statements are true or false.

Government companies are also to be considered for the ceiling on number of audits.

(2 Marks) (Nov 2007)

Answer

True: In calculating the audit units only audit of corporations which are not companies and foreign companies are not included. Thus Government companies will be considered for ceiling on number of audits. (Section 224(1B) of the Companies Act, 1956)

Question 4

State any five special points which you, as an auditor, would look into while examining the income and collection of fund by an NGO engaged in providing relief work for flood victims.

(5 Marks)(Nov 2007)

Answer

Five special points to be looked into are:-

- (i) Grant donations and contributions received from various Government, other NGO, industry and public should be checked with reference to the grant letter, bank statements and ensured that they are properly accounted and banked.
- (ii) Foreign contribution received should be checked with reference to the correspondence receipt issued, bank statement, conversion into local currency. It should be ensured that all such contributions are as per RBI guidelines and be kept in separate bank account.
- (iii) In the case of any fund raising cultural or sports program, verify the internal control system, mode of receipt and the authority accountable. Ensure that all collections are duly receipted and deposited in the bank promptly.
- (iv) Check the fee received from members with the register of members.
- (v) Check interest and dividend received from investments with investment held.

Special Audits

Question 5

Write short notes on Power of CAG Under Section 619(3) in relation to audit of Government Company. (5 Marks) (Nov 2007)

Answer

Power of CAG under section 619 (3) : In the case of audit of government company the Comptroller and Auditor General of India have the following powers under section 619 (3) of the Companies Act, 1956.

- (i) To direct the manner in which the company's account shall be audited by the auditor and to give such instructions in regard to any matter relating to the performance of his function as auditor.
- (ii) To conduct a supplementary or test audit of the company's account by such person or persons as he may authorize in this behalf; and for the purpose of such audit, to require information or additional information to be furnished to person or persons so authorized, on such matters, by such person or persons and in such form, as the CAG may be general or special order, direct.

Question 6

Write short notes on Audit against Rules and Orders. (5 Marks)(May 2008)

Answer

Audit against Rules and Orders: Audit against rules and order aims to ensure that expenditure conforms to relevant laws, rules, regulations and orders. It is the function of audit to carry out examination of the various rules, orders and regulations to see that:

- (i) They are not inconsistent with any provisions of the constitution or any law made thereunder.
- (ii) They are consistent with the essential requirements of audit and accounts as determined by C&AG.
- (iii) They do not come in conflict with the orders of, or rule made by, any higher authority.
- (iv) In case they have not been separately approved by competent authority, the issuing authority possesses the necessary rule-making power.

Question 7

What steps would you take in to consideration in Auditing the receipts from patients of a Hospital? (6 Marks) (Nov 2008)

Answer

1. Examine the internal check system as regards the receipts of bills from the patients.
2. Vouch the register of patients with copy of bills issued to them.

Auditing

3. Verify bills for a selected period with the patient's attendance record to see that the bills have been correctly repaired.
4. See that bills have been issued to all the patients according to the rules of the hospital.
5. Check cash collections as entered in the cash book with the receipts, counterfoils and other evidence.
6. Compare the total income with the amount budgeted for the same and report to the management for significant variations which have been taken place.

Question 8

State with reasons (in short) whether the following statement is true or false.

Comptroller and Auditor General of India can be removed by the Prime Minister of India on the recommendation of his Council of Ministers. (2 Marks) (Nov 2009)

Answer

False: The Comptroller and Auditor General of India cannot be removed by the Prime Minister of India on the recommendation of his Council of Ministers. He can be removed on the ground of proven misbehavior or incapacity, when each House of Parliament decides to do so by majority of not less than 2/3 of the members of the house present and voting.

Question 9

What are the six important points that will attract your attention in the case of audit of a Hotel? (5 Marks) (Nov 2009)

Answer

Audit of a hotel

Following important points will attract the attention of the auditor in the case of audit of a Hotel:

- (i) *Internal Controls:* In view of the problems of pilfering in any hotel, the importance of internal controls cannot be overstressed. It is the responsibility of the management to introduce controls which will minimise the leakage as far as possible. If the internal control in a hotel is weak then there exist serious problems for the auditor. The hotel must prepare regularly (preferably weekly) its trading accounts for each sale point and undertake detailed scrutiny of the resulting profit percentages to ensure that is within the anticipated percentage. If the variation is above the permissible limit, he has to get the explanation from the concerned persons.
- (ii) *Room Sales:* The charge for room sales is posted to guest bills by the receptionist and 1 night auditor. The source of these entries is the guest register and test checks should be carried out to ensure that the correct number of guests is charged for the

Special Audits

current period. Difference, if any, should be investigated to ensure that they have been properly authorised.

- (iii) *Stocks*: The stocks in the hotels are readily portable and salable such as food and beverages stocks. All movements and transfers of such stocks should be properly documented to exercise control over each individual stored areas and sale points. The auditor should carry out test checks to ensure that all such documentation is accurately processed.

Areas where large quantities are stored should be kept locked by the manager. Unauthorised persons should not be permitted to enter the store area.

- (iv) *Fixed Assets*: Accounting policies for fixed aspects are likely to differ. Many hotels account for quasi-fixed assets such as silver cutlery on stock basis. This may lead to confusion between each stock items and similar assets. In these cases, it is important that very detailed definitions of stock items exist and the auditor should carry out tests to ensure that the definitions have been closely followed.
- (v) *Casual labour*: The hotel trade operates, to a very large extent, on casual labour. The record maintained of such wage payments is frequently found to be inadequate. Hence the auditor should ensure that proper internal control system exists to ensure that defalcation on this account does not take place.
- (vi) *Booking of hotel for special parties*: The auditor should ensure that the adequate and proper records are being maintained for booking of halls and other premises for special parties and receipts from guests are made on the basis of the tariff.

Question 10

Powers of C & AG in connection with the performance of his duties.

(5 Marks) (Nov 2009)

Answer

Powers of Comptroller and Auditor General in connection with the performance of his duties:

- (i) To inspect any an office of accounts under the control of the union or a State Government including office responsible for creation of initial or subsidiary accounts.
- (ii) To require that any accounts, books, papers and other documents which deal with or are otherwise relevant to the transactions under audit, be sent to specified places.
- (iii) To put such questions or make such observations as he may consider necessary to the person in-charge of the office and to call for such information as he may require for preparation of any account or report, which is his duty to prepare.

In carrying out the audit, the C&AG has the power to dispense with any part of detailed audit of any accounts or class of transactions and to apply such limited checks in relation to such accounts or transaction as he may determine.