

PAPER – 6 : AUDITING AND ASSURANCE

QUESTIONS

Nature of Auditing

1. Comment on the following statements:
 - (a) "Generally an audit is not concerned with the propriety of business conduct".
 - (b) "Some material misstatement remains unreported by the auditor."
2. "The audit of financial statements relieves the management or those charged with governance of their responsibilities". Elucidate.

Basic Concepts in Auditing

3. What are audit working papers and why should they be carefully preserved by the Auditor?
4. A senior assistant of A & Co. Chartered Accountants detected a mistake of ₹ 7 per interest payment which have recurred number of times. General Manager (Finance) of R Ltd. suggested him not to request for passing any adjustment entry as individually the errors were of small amounts. The company had 1,500 deposit accounts and interest was paid quarterly.

Preparation for an Audit

5. Medical Council of India organised a three-day International Conference of Doctors in Delhi. You are asked to audit the accounts of the conference. Draft the audit programme for audit of receipt of participation fees from delegates to the conference. Mention any six points, peculiar to the situation, which you will like to include in your audit programme.
6. What are the obvious assertions in the following items appearing in the Financial Statements?
 - (a) Profit and Loss Statement

Travelling Expenditure	₹ 50,000
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 - (b) Balance Sheet

Debtors	₹ 2,00,000
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Internal Control

7.
 - (a) An assistant of Ash & Co., Chartered Accountant drew up his audit programme without evaluating internal controls of R Ltd. You, as an Engagement Partner, briefly explain the importance and methods of evaluation of internal control system in his audit program.
 - (b) Explain briefly the approaches to EDP auditing?

8. (a) Distinguish between the Internal Control Questionnaire and Internal Control Evaluation.
- (b) You are the internal auditor of AB Manufacturing Co. Ltd. The Managing Director has asked you to inquire into the causes of abnormal wastage of raw materials during the month of September, 2010.

The wastage percentages are as follows:

June, 2010	1.2%
July, 2010	1.1%
August, 2010	1.3%
September, 2010	3.6%

How will you proceed to carry out the Assignment?

Vouching & Verification of Assets and Liabilities

9. How will you vouch and/or verify the following ?
- Unclaimed wages
 - Retirement gratuity to employees
 - Agent's commission
10. Enunciate the General principles of verification of Assets.
11. Write short notes on the following:
- Outstanding Assets.
 - Intangible Assets
 - Floating Charge
12. How will you vouch and/or verify the following?
- Remuneration to directors.
 - Consignment sales.
 - Royalties received.

The Company Audit

13. As an auditor, comment on the following situation/statements:
- Travelling expenses of ₹ 3.25 lakhs shown in Profit and Loss Account of X Ltd., including a sum of ₹ 2.10 lakhs spent by a Director on his foreign travel for Company's business accompanied by his father for his medical treatment.
 - Mr. Rajesh is appointed as the auditor of NOIDA Travels Ltd. with audit fees of ₹ 35,000. He purchased air ticket from Delhi to Kolkata and back for ₹ 18,000 from

the client for his personal work and the amount remains unpaid at the end of the year as it is a general practice of the client to give credit to all. Mr. Rajesh claims that he does not incur any disqualification as contained in Section 226(3)(d) of the Companies Act.

14. Give your comments on the following:

- (a) Mr. Budha, Statutory Auditors of Secret Ltd. was not permitted by the Board of Directors to attend general meeting of the company on the ground that his right to attend general meetings is restricted only to those meetings at which the accounts audited by him are to be presented and discussed.
- (b) M/s Young & Co., a Chartered Accountant firm, and Statutory Auditors of Old Ltd., is dissolved on 1.2.2011 due to differences of opinion among the partners. The Board of Directors of Old Ltd. in its meeting on 6.2.2011 appointed another firm M/s Sharp & Co. as their new auditors for one year.
- (c) At an Annual General Meeting, Mr. R a retiring auditor claims that he has been reappointed automatically, as the intended resolution of which a notice had been given to appoint Mr. P, could not be proceeded with, due to Mr. P's death.

15. (a) M/s Anand Pvt. Ltd. is incorporated on 1st July, 2010. During the year ended 31st March, 2011, it had issued shares (fully paid up) of ₹ 40 lakhs, had borrowed ₹ 7.5 lakhs each from 2 financial institutions and its turnover (Net of excise ₹ 50 lakhs which is credited to a separate account) is ₹ 475 lakhs. Will Companies Auditors Report Order, 2003 (CARO) be applicable to M/s Anand Pvt. Ltd.?

- (b) As the statutory auditor of Bhim Ltd. (to whom CARO, 2003 is applicable), how would you report on the physical verification of only 50% (in value) of items of inventory has been conducted by the company. The balance 50% will be conducted in next year due to lack of time and resources.

16. (a) You are appointed as an auditor of ZED Ltd. which had the following items under the head "Reserves and Surplus" in the Balance Sheet as on 31st March, 2011:

	Amount ₹ in lacs
Securities Premium Account	80
Capital Reserve	60
General Reserve	90

The company had an accumulated loss of ₹ 40 lacs on the same date, which it has disclosed under the head "Profit and Loss Account" on the assets side of the Balance Sheet. Comment.

- (b) Write a short note on Disclosure requirements of bank balances of a limited company

Special Audits

17. (a) As an auditor, how will you react to an expenditure incurred by a government department which was sanctioned by a fellow officer of the competent authority as the concerned officer was on leave?
- (b) The assessing officer in order to ensure that there was no loss of revenue, increased the income of all assesses between 50 per cent and 100 per cent. State your view, if you were entrusted to carry out an audit of receipt of the said assessing government department.
18. A Non-Government Organisation (NGO) operating in Delhi had collected large scale donations for Japan Tsunami victims. The donations so collected were sent to different NGOs operating in Tamil Nadu for relief operations. This NGO operating in Delhi has appointed you to audit its accounts for the year in which it collected and remitted donations for Japan Tsunami victims. Draft audit programme for audit of receipts of donations and remittance of the collected amount to different NGOs. Mention six points each, peculiar to the situation, which you will like to incorporate in your audit programme for audit of said receipts and remittances of donations.

Standards on Auditing and Guidance Notes

19. As a statutory auditor, how would you deal with the following?
- (a) The Managing Director of the Company has committed a "Teeming and Lading" Fraud. The amount involved has been however subsequently after the year end deposited in the company.
- (b) The accountant of C Ltd. has requested you, not to send balance confirmations to a particular group of debtors since the said balances are under dispute and the matter is pending in the court.
20. (a) Explain the term "Applicable Financial Reporting framework" in context of the relevant Standard on Auditing.
- (b) "The auditor shall evaluate the requirements of the applicable financial reporting framework". Comment.

SUGGESTED ANSWERS/HINTS**Nature of Auditing**

1. (a) Generally an audit is not concerned with the propriety of business conduct
- The objective of an audit of financial statements of an enterprise is to enable an auditor to express an opinion as to the truthfulness and fairness of financial statements. The auditor's opinion helps to establish reliability of the financial statements.

The auditors, however, does not give opinion on the propriety of business conduct or its future prospects. SA 200 (revised), “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing” has specifically pointed out that the user of the financial statements should not assume that the auditor’s opinion is an assurance as to future viability of the enterprise or the efficiency or effectiveness with which the management has conducted the affairs of the enterprise.

In pursuance of the role of the auditor in lending credibility to the financial statements the Companies Act, 1956, has provided that he should be concerned about propriety of some specific transactions.

Section 227(1A) of the Act requires the auditor to enquire into six specified matters and report by exception. This section has been inserted into the Act to ensure that the funds of the company have not been siphoned off by the directors. Also under CARO, 2003 issued by the Central Government in pursuance of powers given to it by Section 227 (4A) of the Companies Act, 1956, the company auditor is required to examine the financial propriety of some transactions.

Further, SA 570, “Going Concern” requires the auditors to evaluate whether the going concern concept is applicable to the circumstances of the entity and whether it will continue for a foreseeable future i.e., a period not exceeding one year after balance sheet. In other words, future viability for one year is to be assessed.

To conclude, we can say that though, generally, an audit is neither concerned with propriety of business conduct nor its future viability yet the auditor would be required to examine the former for the purposes of Section 227(1A) and Section 227(4A) of the Act and the latter for assessing applicability of going concern assumption as per the requirements of SA 570, “Going Concern”.

(b) Some material misstatement remains unreported by the auditor

The objectives of an audit of financial statements, prepared with in a framework of recognised accounting policies and practices and relevant statutory requirements, if any, is to enable an auditor to express an opinion on such financial statements. In forming his opinion on the financial statements, the auditor follows procedures designed to satisfy him that the financial statements reflect a true and fair view of the financial position and operating results of the enterprise. The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. This is because there are inherent limitations of an audit, which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor’s opinion being persuasive rather than conclusive. The limitations of an audit arise from:

- i. The nature of financial reporting;

- ii. The nature of audit procedures; and
- iii. The need for the audit to be conducted within a reasonable period of time and at a reasonable cost.
- iv. Other Matters that Affect the Limitations of an Audit

As per SA 200(revised), "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing" has emphasized that an auditor cannot be relied upon to discover all the frauds and errors. According to SA 240, "The Auditor's responsibilities Relating to Fraud in an Audit of Financial Statements" an auditor conducting an audit in accordance with SAs is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. This implies that some risk of material misstatement could be present in the financial statements and the auditor will fail to detect it.

The Standard has attributed this to inherent limitations of financial audit viz. use of judgment and selective testing by the auditor, inconclusiveness of evidence and limitations of internal control. Similar view is stated in the decision given in London and General Bank case. The auditor is not an insurer. Based on above professional and judicial pronouncements, we can conclude that auditor is not guilty of negligence, if some material misstatements remain undetected despite adopting adequate audit procedures. But the auditor will have civil liability towards client and third parties for negligence if audit has not been performed with reasonable care and skill. Besides this he has criminal liabilities under various sections of the Companies Act, 1956.

2. The audit of financial statements relieves the management or those charged with governance of their responsibilities

As per SA 200(revised), "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing", management and, where appropriate, those charged with governance have responsibility:

- (a) For the preparation and presentation of the financial statements in accordance with the applicable financial reporting framework; this includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; and
- (b) To provide the auditor with:
 - (i) All information, such as records and documentation, and other matters that are relevant to the preparation and presentation of the financial statements;
 - (ii) Any additional information that the auditor may request from management and, where appropriate, those charged with governance; and

- (iii) Unrestricted access to those within the entity from whom the auditor determines it necessary to obtain audit evidence.

Further, it lays down that the overall objectives of the auditor are:

- (1) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and
- (2) To report on the financial statements, and communicate as required by the SAs, in accordance with the auditor's findings.

Thus, on the basis of overall objective and scope of the audit of financial statements, as outlined by SA 200(revised), "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing", we can conclude that the audit of a financial statement does not relieve the management or those charged with governance of their responsibilities of preparing the financial statements. The auditor's responsibility is limited to performing an audit of the financial statement and expressing an opinion, thereon, through audit report. During the course of audit, the auditors may suggest adjustments to financial statements. However, management or those charged with governance is responsible for all decisions concerning preparation and disclosure in the financial statements.

Basic Concepts in Auditing

- 3. **Audit Working Papers:** As per SA 230(Revised) "Audit Documentation", Audit Working Papers are the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached.

Working papers are the

- (a) Evidence of the auditor's basis for a conclusion about the achievement of the overall objective of the auditor; and
- (b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.

Besides they serve a number of additional purposes, including the following:

- Ø Assisting the engagement team to plan and perform the audit.
- Ø Assisting members of the engagement team responsible for supervision to direct and supervise the audit work, and to discharge their review responsibilities in accordance with SA 220.
- Ø Enabling the engagement team to be accountable for its work.
- Ø Retaining a record of matters of continuing significance to future audits.

- Ø Enabling the conduct of quality control reviews and inspections.
- Ø Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.

Working papers are the property of the auditor (unless otherwise specified by law or regulation). He may at his discretion, make portions of, or extracts from, working papers available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the auditor or of his personnel

Retention of working papers: Working papers should be retained, long enough, for a period of time sufficient to meet the needs of his practice and satisfy any legal or professional requirement of record retention. Firms are required to establish policies and procedures for the retention of engagement documentation. The retention period for audit engagements ordinarily is no shorter than seven years from the date of the auditor's report, or, if later, the date of the group auditor's report.

4. Responsibility of Auditor while detection of mistake

Materiality has been defined by SA 320 "Materiality in Planning and Performing an Audit" as Misstatements, including omissions, if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. In the situation given the error, apparently, seems to be of small amount (₹ 7) an General Manager (Finance) is of the opinion it is , hence, not material and thus there is no need to pass any adjustment entry. The audit assistant should not accept the argument of the General Manager because there are 1500 deposit accounts and interest payment is quarterly. If the cumulative effect of these small amounts is considered, as per the requirements of SA 320 error of ₹ 7 which has recurred a number of times may become material. If considered "immaterial" it may cause an overstatement of income. Hence, the auditor should apply expanded substantive procedures to assess the cumulative effect of these small amounts.

Preparation for an Audit

5. Audit of Receipts of Participation Fees

The organization of three-day International Conference of Doctors in Delhi by Medical Council of India is a one-time event. Normally, in view of mega-size of the event, a special cell is made in the organization to handle the entire event. Since few people would be handling the event, the internal controls may not be that strong and, thus, more emphasis is required to be given on substantive procedure. Audit of receipt of participation fees should be under the following areas:

(I) Internal Control System

- (i) Examine the organization structure of special cell created for the International Conference, if any, and division of responsibilities amongst persons and

control/custody over receipt books.

- (ii) Verify the internal control system for restricting the participation of unregistered delegates.

(II) Rate of Participation Fees

- (i) Verify with reference to resolution passed by the Organizing Committee/Medical Council of India.
- (ii) Also verify the rate from the literature/registration form circulated for promotion of conference.

(III) Receipts of Participation Fees

- (i) Verify counter foil of the receipts issued for individual registration.
- (ii) Ensure that receipts are issued for all the registration received in cash.
- (iii) Trace the receipts in Bank Statement or Cash Book – as the case may be.
- (iv) Verify Bank Reconciliation Statement and list out dishonoured cheques.
- (v) Verify subsequent recovery in respect of dishonoured cheques.

(IV) Overall Checking

- (i) Verify the total receipts of participation fees shown in the financial statements with reference to total number of receipts issued to participants.
- (ii) Cross check the total number of delegates with reference to the following:
 - (a) Kits distributed to participants.
 - (b) Bill of caterer for providing meals during conference.
 - (c) Capacity of the Hall.
 - (d) Participation Certificate if any issued.

- (V) **Foreign Delegates:** In case of foreign delegates – if registration fees are higher – ensure that they are registered at higher fees.

(VI) Special Issues

- (i) Take out list of absentees and in case of nil absentees, probe the issue further.
- (ii) If certain participants are exempted from payment of fees – obtain the list along with proper authorization in this regard.

6. (a) Travelling expenditure: ₹ 50,000

- (i) **Occurrence:** Travelling expenditure was actually incurred and pertains to the entity during relevant period.
- (ii) **Obligation:** Expenditure was actually incurred for the purpose of business.

- (iii) **Completeness:** Total amount of expenditure is ₹ 50,000.
 - (iv) **Measurement:** It has been treated as revenue item and charged to the profit and loss of the period.
 - (v) **Presentation and disclosure:** Expenditure is disclosed as per GAAP and relevant statutory requirements, if any.
- (b) Debtors: ₹ 2, 00,000
- (i) **Existence:** Debtors exist at the date of balance sheet.
 - (ii) **Rights:** They represent the total credit sales outstanding on the balance sheet date i.e. are an asset of the entity.
 - (iii) **Completeness:** There are no unrecorded debtors as on the date of balance sheet
 - (iv) **Valuation:** Debtors are recorded at proper amount i.e. adequate provision for bad and doubtful debts has been made against them.

Internal Control

7. (a) Review of internal control by the auditor

The examination and evaluation of the internal control system is an indispensable part of the overall audit programme as the auditor needs reasonable assurance that the accounting system is adequate and that all the accounting information which should be recorded has in fact been recorded. Internal control normally contributes to such assurance. The auditor should gain an understanding of the accounting system and related internal controls and should study and evaluate the operations of these internal controls upon which he wishes to rely in determining the nature, timing and extent of other audit procedures.

The review of internal controls will enable the auditor to know:

- (i) whether errors and frauds are likely to be located in the ordinary course of operations of the business;
- (ii) whether an adequate internal control system is in use and operating as planned by the management;
- (iii) whether an effective internal auditing department is operating;
- (iv) whether any administrative control has a bearing on his work (for example, if the control over worker recruitment and enrolment is weak, there is a likelihood of dummy names being included in the wages sheet and this is relevant for the auditor);
- (v) whether the controls adequately safeguard the assets;
- (vi) how far and how adequately the management is discharging its function in so

far as correct recording of transactions is concerned;

- (vii) how reliable the reports, records and the certificates to the management can be;
- (viii) the extent and the depth of the examination that he needs to carry out in the different areas of accounting;
- (ix) what would be appropriate audit technique and the audit procedure in the given circumstances;
- (x) what are the areas where control is weak and where it is excessive; and
- (xi) whether some worthwhile suggestions can be given to improve the control system.

The auditor can formulate his entire audit programme only after he has had a satisfactory understanding of the internal control systems and their actual operation. If he does not care to study this aspect, it is very likely that his audit programme may become unwieldy and unnecessarily heavy and the object of the audit may be altogether lost in the mass of entries and vouchers. It is also important for him to know whether the system is actually in operation. Often, after installation of a system, no proper follow up is there by the management to ensure compliance. The auditor, in such circumstances, may be led to believe that a system is in operation which in reality may not be altogether in operation or may at best operate only partially. This state of affairs is probably the worst that an auditor may come across and he would be in the midst of confusion, if he does not take care.

A review of the internal control can be done by a process of study, examination and evaluation of the control system installed by the management. The first step involves determination of the control and procedures laid down by the management. By reading company manuals, studying organisation charts and flow charts and by making suitable enquiries from the officers and employees, the auditor may ascertain the character, scope and efficacy of the control system. To acquaint himself about how all the accounting information is collected and processed and to learn the nature of controls that makes the information reliable and protect the company's assets, calls for considerable skill and knowledge. In many cases, very little of this information is available in writing; the auditor must ask the right people the right questions if he is to get the information he wants. It would be better if he makes written notes of the relevant information and procedures contained in the manual or ascertained on enquiry.

To facilitate the accumulation of the information necessary for the proper review and evaluation of internal controls, the auditor can use one of the following to help him to know and assimilate the system and evaluate the same :

- (i) Narrative record;

- (ii) Check List;
- (iii) Questionnaire; and
- (iv) Flow chart.

(b) Approaches to EDP Auditing

Computerisation of accounts does not affect the basic objective of auditing. However, the auditor would need to modify his audit procedures, approach and technical capabilities so as to be able to form an opinion on the accounts processed in a computerised environment. The auditor must plan whether or not to use the computer. The two approaches are commonly called "auditing around the computer" and "auditing through the computer".

Audit around the Computer: Audit around the computer involves forming of an audit opinion wherein the existence of computer is not taken into account. Rather the principle of conventional audit like examination of internal controls and substantive testing is done. The auditor views the computer as a black box, as the application system processing is not examined directly. The main advantage of auditing around the computer is its simplicity. Audit around the computer is applicable in the following situations:

- (i) The system is simple and uses generalised software that is well tested and widely used.
- (ii) Processing mainly consists of sorting the input data and updating the master file in sequence.
- (iii) Audit trail is clear. Detailed reports are prepared at key processing points within the system.
- (iv) Control over input transactions can be maintained through normal methods, i.e. separation of duties, and management supervision.

Generalised software packages, like payroll and provident fund package, accounts receivable and payable package, etc. are available, developed by software vendors. Though the auditor may decide not to go in details of the processing aspects, if there are well tested widely used packages provided by a reputed vendor. However, he has to ensure that there are adequate controls to prevent unauthorised modifications of the package. However, it may be noted that all such generalised packages do not make the system amenable to audit. Some software packages provide generalised functions that still must be selected and combined to achieve the required application system. In such a case, instead of simply examining the systems input and output, the auditor must check the system in depth to satisfy him about such system. The main disadvantages of the system of auditing around the computer are:

- (1) It is not beneficial for complex systems of large scale in very large multi unit, multi locational companies, having various inter unit transactions. It can be

used only in case of small organisations having simple operations.

- (2) It is difficult for the auditor to assess the degradation in the system in case of change in environment, and whether the system can cope with a changed environment

Audit through the Computer: The sophistication of computers have finally reached the point where auditors can no longer audit around the system. They are forced to treat the computers as the target of the audit and audit through it. Auditing through the computer requires that the auditor submits data to the computer for processing. The results are then analysed for the processing reliability and accuracy of the computer programme. Technical and other developments that necessitated this approach include the following:

- Ø On-line data entry.
- Ø Elimination or reduction of print-outs.
- Ø Real time files up dating.

The auditor can use the computer to test:

- (i) the logic and controls existing within the system; and
- (ii) the records produced by the system.

Depending upon the complexity of the application system being audited, the approach may be fairly simple or require extensive technical competence on the part of the auditor.

There are several circumstances where auditing through the computer must be used:

- (1) The application system processes large volumes of input and produces large volumes of output that make extensive direct examination of the validity of input and output difficult.
- (2) Significant parts of the internal control system are embodied in the computer system. For example, in an online banking system a computer programme may batch transactions for individual tellers to provide control totals for reconciliation at the end of the day's processing.
- (3) The logic of the system is complex and there are large portions that facilitate use of the system or efficient processing.
- (4) There are substantial gaps in the visible audit trail.

The primary advantage of this approach is that the auditor has increased power to effectively test a computer system. The range and capability of tests that can be performed increases and the auditor acquires greater confidence that data

processing is correct. By examining the system's processing, the auditor also can assess the system's ability to cope with environment change.

The primary disadvantages of the approach are generally high costs and the need for extensive technical expertise when systems are complex. However, these disadvantages are really not that important if auditing through the computer is the only viable method of carrying out the audit.

Auditing through computer may be conducted through test data, computer programme, etc.

8. (a) Internal Control Questionnaire (ICQ) and Internal Control Evaluation (ICE)

The internal control questionnaires show the area where weakness occur or likely to occur. They do not give any idea of the importance of those weaknesses. The Internal Control Evaluation brings to light importance of those weakness disclosed by ICQ.

Main points of distinctions are:

- (i) ICQ incorporates a large number of detailed questions but does not attempt to distinguish their relation in materiality. ICE isolates the main control objectives within the area of review.
- (ii) Weaknesses are highlighted by answer "Yes" on ICE compared with 'No' on ICQ.
- (iii) Answer 'no' in ICQ indicates a weakness real or potential, but its significance is not revealed. Whereas ICE requires audit personnel to state whether, an apparent weakness may prove to be material in relation to the accounts as a whole.
- (iv) The 'Control Checklist' in ICE is more than a summary of key control factors, and is no substitute for ICQ.

(b) Abnormal Wastage of Raw Material

The rate of wastage in September, 2010 has risen sharply as compared to previous months. Under the circumstances, before setting for detailed investigation, the internal auditor need to understand the manufacturing environment right from the stage of purchase of materials, the movement of stock flow through the production process while its becomes finished goods. To locate the reasons for the abnormal wastage, the internal auditor should first of all assess the general requirements as under:

- (i) Procure a list of raw materials, showing the names and detailed characteristics of each raw material.
- (ii) Obtain the standard consumption figures, and ascertain the basis according to which normal wastage figures have been worked out. Examine the break up of a normal wastage into that in process, storage and handling stages. Also

obtain control reports, if any, in respect of manufacturing costs with reference to predetermined standards.

- (iii) Examine the various records maintained for recording separately the various lots purchased and identification of each lot with actual material consumption and for ascertaining actual wastage figures therein.
- (iv) Obtain reports of Preventive Maintenance Programme of machinery to ensure that the quality of goods manufacture is not of sub-standard nature or leads to high scrap page work.
- (v) Assess whether personnel employed are properly trained and working efficiently.
- (vi) See whether quality control techniques have been consistent or have undergone any change.
- (vii) Examine inventory plans and procedures in report of transportation storage efficiency, deterioration, pilferage and whether the same are audited regularly.
- (viii) Examine whether the basis adopted for calculating wastage for September is the same as was adopted for the other three months.
- (ix) Obtain a statement showing break up of wastage figures in storage, handling and process for the four months under reference and compare the results of the analysis for each of the four months.

Some specific reasons for abnormal wastage in process specific may be considered by the auditor are as under:

- (1) Examine laboratory reports and inspection reports to find out if raw materials purchased were of a poor quality or were of sub-standard quality. This will be most useful if it is possible to identify the wastage out of each lot that has been purchased.
- (2) Machine breakdown, power failure, etc. may also result into loss of materials in process. Check the machine utilisation statements.
- (3) A high rate of rejections in the finished lots may also be responsible for abnormal wastage; therefore, examine the inspectors' reports in respect of inspection carried out on the completion of each stage of work or process.
- (4) It is possible that the wastage may have occurred because the particular lot out of which issues were made in September, 2010 was lying in the store for a long time, leading to deterioration in quality or because of a change in the weather which may have led to the deterioration. Compare the wastage figures of September, 2009 with those of September, 2010.
- (5) Abnormal wastage in storage and handling may arise due to the following reasons:
 - (i) *Write offs on account of reconciliation of physical and book stocks:* In

case of periodical physical stock taking, such write offs will be reflected only in the month such reconciliation takes place.

- (ii) *Accidental, theft or fire losses in storage*: The auditor should examine the possibility of these for the purpose.
- (6) Examine whether any new production line was taken up during the month in respect of which standard input-output ratio is yet to be set-up.

Vouching and Verification of Assets and Liabilities

9. (a) Unclaimed wages

- (i) In the case of unclaimed wages, a schedule is generally prepared by the client's staff showing the names of workers, the amount due and the period covered. The auditor should examine such a schedule and ensure that the said amount has been deposited into a bank in a separate account by referring to counterfoil of pay-in-slip
- (ii) In organizations where unclaimed wages are deposited with the main cashier, the auditor should vouch such deposit with an acknowledgement letter duly signed by cashier.
- (iii) Subsequent payment out of unclaimed wages should be verified with referenced to separate vouchers which should also be signed by the head of department to which the employee belongs or by concerned supervisor. Such signatures are necessary to certify proper identification of the employee.

(b) Retirement gratuity to employees

- (i) Examine the basis on which the gratuity payable to employees is worked out. The liability for gratuity may either be worked out on actuarial rules or agreement or on the presumption that all employees retire on the balance sheet date.
- (ii) Ensure that the basis of computing gratuity is valid.
- (iii) Verify computation of liability of gratuity on the aggregate basis.
- (iv) Check the amount of gratuity paid to employees who retired during the year with reference to number of years of service rendered by them.
- (v) See that the annual premium has been charged to Profit and Loss Account in case the concern has taken a policy from LIC.
- (vi) Ensure that the accounting treatment is in accordance with AS-15 (Revised), "Retirement Benefits".

(c) Agent's commission

- (i) The payment to agent for his commission is checked with reference to commission account, sales report sent by him and agreement between the

client and the agent for details such as rate of commission and other terms and conditions.

- (ii) The auditor should check the relevant calculations himself and trace such payments to bank statements.

10. General principles of verification of Assets

It is not sufficient for the auditors only to verify correctness of the amount of assets shown in the balance sheet, he must verify them by actual inspection or otherwise and establish the existence of assets.

Points requiring auditor's attention for verification are as under:

- (i) **Cost** - In regard to assets, verification procedure need not generally be extended to determination of the correctness of costs and authority to incur costs unless the items concerned were purchased during the accounting period under review. In such cases the auditor should check the correctness of costs through normal vouching method. He should ensure that adequate distinction has been made between 'revenue' and 'capital' nature of costs.
- (ii) **Ownership** – Where ownership of assets is evidenced by documents of title etc. as in the case of immovable property, a reference should be made to such documents. If the documents are held by third person the auditor should either obtain a certificate directly from that party or arrange to inspect them at the third party's place of business.
- (iii) **Valuation** - It must be ascertained that all assets are valued in accordance with appropriate accounting policy. For the valuation made, the basis must be consistently applied, unless circumstances necessitated a change. Even then a disclosure is required for the change and its monetary effect.
- (iv) **Existence** – Physical inspection should be done wherever possible. Where physical inspection is not possible, the possibility of obtaining indirect evidence be considered e.g. machinery imported held in customs godown or materials sent to subcontractor for job work or fabrication. In such circumstances certificating of such parties should be obtained and if considered necessary even physical verification may be requested.
- (v) **Presentation in accounts** - Material assets must be properly disclosed and correctly described in the accounts. It should be seen that the description given to them is clear and complete and is not misleading e.g. stating loans on the assets side of the balance sheet "as dependent upon realization" is just misleading as was held in the case of London and General Bank Ltd. care must be taken to see that disclosures required under the statute or statement issued by ICAI are complied with.

11. (a) Outstanding Assets

It is a well accepted accounting principle that all expenditure pertaining to the year alone should be charged against year's revenue and all income whether received or not should be accrued for the year. Following this principle one has to make certain year end adjustments in the books of account and outstanding assets are brought to book in that process. If expenditure has been made on certain revenue heads, the benefit of which is to be derived even after the year is over and adjustment is made to the original figure of expenditure so as to carry forward the sum that does not pertain to the year an outstanding asset is created. Similarly, if certain income has accrued for the year but has not been received, the amount that has so accrued is usually brought into books as year end adjustment and thereby creating an outstanding assets account.

Generally, outstanding assets are those items for which amounts are yet to be received though services, etc. have been rendered, or items for which benefit of service will be received later. For example, in case insurance amount has been paid in advance then the proportion thereof applicable to the period subsequent to the date of the balance sheet should be calculated and shown as an outstanding assets. Other examples of outstanding assets may include rent receivable, commission receivable, advertising amount paid in advance, interest receivable on loans, etc.

(b) Intangible Assets

An intangible asset is that asset which does not have a physical identity but which is used by the enterprise for production or supply of goods or for retails to other or for administrative purpose. Such asset does not have any physical existence but their presence in the business is indicated with a value placed thereon. These assets include rights and benefit to owners subject to their being useful. For example: goodwill, patents, copyright etc. AS 26, "Intangible Assets", applies to, among other things, expenditure on advertising, training, start-up, research and development activities. Research and development activities are directed to the development of knowledge. Therefore, although these activities may result in an asset with physical substance (for example, a prototype), the physical element of the asset is secondary to its intangible component, that is the knowledge embodied in it. This standard also applies to rights under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights. An intangible asset should be measured at cost. After initial recognition an intangible asset should be carried at its cost less any accumulated amortisation and any impairment losses.

Auditor should also ensure that proper disclosure is made in the financial statements about the carrying amount, amortisation methods, useful lives, etc.

(c) Floating Charge

Floating charge refers to a general charge on some or all the assets of an enterprise which is not attached to any specific assets and is given as a security against a debt. It has the effect of creating an immediate charge on the property of the company leaving the company to deal with the same in the ordinary course of business, but subject to the limitations imposed in the instrument of creating the charge. The floating charge, however, becomes fixed or crystallised and the creditor becomes entitled to proceed against the assets on which the charge was created, on violation of any of the terms of the instruments creating the charge. This charge is also required to be registered within 30 days of its creation under section 125 of the Companies Act, 1956.

12. (a) Remuneration paid to Directors

- (i) Refer to General Meeting or Board meeting resolution for the appointment and terms of appointment of the directors.
- (ii) Examine Articles of Association and general meeting resolution to determine the mode of payment-monthly, quarterly, or by way of commission.
- (iii) Check agreement with the director.
- (iv) Verify director's attendance in the board meetings.
- (v) Ensure compliance with the provisions of Sections 198, 309, 349 and 350 and Schedule XIII of the Companies Act, 1956, where appropriate.
- (vi) Check computation of the net profits and the commission payable to directors in terms of clause 4A of Part II of Schedule VI to the Companies Act, 1956.

(b) Consignment Sales

- (i) Ascertain that credit has been taken only for the profit on the goods sold through the consignee before the year end. No profit should be taken for the profit on goods remaining in the hands of the consignee.
- (ii) Verify credits in the Consignment Account with the help of the Account Sales received from the consignee. The gross sale proceeds should be credited to the Consignment Account and debited to the consignee's account.
- (iii) Verify the terms of agreement between the consignor and the consignee to check the commission and other expenses debited to the Consignment Account and credited to the Consignee's A/c. The Account Sales also must be correspondingly checked.
- (iv) Ensure that the stock lying with the consignee at the end should be taken in the balance sheet at cost on a consistent basis and credited to the Consignment A/c to arrive at the result of the consignment transactions.

- (v) Obtain confirmation of the balance in the account of the consignee from the consignee.
 - (vi) Sometimes, the goods are consigned not at cost but at an inflated price. The auditor should see that the necessary adjustments to remove the loading are made at the end of the year.
 - (vii) Ensure that the goods consigned are not treated as ordinary sales. In cases it is so, the auditor should see that necessary adjustments are made at the year end in respect of the unsold goods, commission and the expense incurred by consignee. The consignee should not be shown as a debtor for unsold goods and in valuation of stock, these goods should be included in stock at cost worked out on a consistent basis.
- (c) Royalties Received
- (i) Verify the relevant contract and ascertain the provisions relating to the conditions of royalty such as rate, mode of calculation and due date.
 - (ii) Check the periodical statement received in respect of books printed, sold and stock lying at different locations..
 - (iii) Check the computation in the royalty statement and ensure that any deduction or adjustment made from the royalty due is as per agreement conditions.
 - (iv) Verify the provisions for the royalty to be received as at the end of the year.

The Company Audit – I

13 (a) Reimbursement of personal expense of Director

All payments to Directors as remuneration or perquisites whether in the case of a public or private company are required to be authorised both in accordance with the Companies Act and Articles of Association of the company. Articles may provide that such remuneration require sanction of the shareholders either by ordinary or special resolution while in some cases it may require only approval of Directors. If the terms of appointment of a Director include payment of expenses of a personal nature, then such expenses can be incurred by the company; otherwise, no such expense can be incurred or reimbursed by the company.

The auditor has to ensure that if such expenses are paid, he has to disclose the fact in his report, as also in the accounts. In this regard attention is invited to section 227 (1A) (e) of the Companies Act wherein auditor has to inquire into whether personal expenses have been charged to revenue. However, reporting requirements "the requirement of identifying and reposting on personal expenses" has been dispensed with in CARO, 2003.

In the given situation, the auditor should vouch travelling expenses in the usual manner. If the director has spent entire time for company's business, the amount of

₹ 2.10 lakhs spent by him on foreign travel should be charged to the revenue of the company. If the director has, along with attending the company's business, spent time on medical treatment of his father, then the auditor should suggest a reasonable basis to allocate a part of ₹ 2.10 lakhs to be charged to the profit and loss account of the company and the rest to be treated as personal expenses.

(b) Disqualification of auditors

The guidance note on "Independence of Auditors" issued by the ICAI in this context recommends that "a question of indebtedness may also be raised where an auditor of a company purchases goods or services from the company audited by him. In such a case, if the amount outstanding exceeds ₹ 1000, irrespective of the nature of the purchase or period of credit allowed to other customers, the provisions concerning disqualification of auditor as contained in section 226 (3) (d) will be attracted." This is applicable in the case of purchase of air tickets for personal work by the auditor of a company on normal terms and conditions of the business of the company as the amount outstanding at the end of the year exceeded ₹ 1000. Therefore, the contention of Mr. Rajesh that he does not incur disqualification is not correct as he has purchased a ticket of the value of ₹ 18,000. The provisions concerning disqualifications of auditor as contained in section 226 (3) (d) will be attracted.

14. (a) Right to attend the Meeting

According to Section 231 of the Companies Act, 1956 the auditors of a company are eligible and entitled to attend any general meeting of the company and not only those meetings at which the accounts audited by them are to be presented and discussed. However, it is not mandatory for the auditor to attend such meetings.

In the instant case, the board of directors of Secret Ltd., have no right to restrict Mr. Buddha from attending the general meeting as Mr. Buddha has right to attend such meeting conferred by Section 231.

Thus, the action of the board of directors is contrary to the provisions of law and curtails the right of the auditor.

(b) Casual Vacancy

Section 224(6)(a) of the Companies Act, 1956 lays down that the Board of Directors may fill any casual vacancy in the office of an auditor provided that where such vacancy is caused by the resignation of an auditor, the vacancy shall be filled in general meeting.

The expression "casual vacancy" has not been defined in that Act. Talking its natural meaning it may arise due to a variety of reasons which include death, resignation, disqualification, dissolution of the firm etc.

Furthermore Section 224(6)(b) stipulates that any auditor appointed in a casual vacancy shall hold office until the conclusion of the next AGM.

In the instant case the action of the board of directors in appointing M/s Sharp & Co. to fill up the casual vacancy due to dissolution of M/s Young & Co., is correct. However, the board of directors are not correct in giving them appointment for one year. M/s Sharp & Co. can hold office until the conclusion of next AGM only.

(c) Reappointment of Retiring Auditor

Section 224(2) of the Companies Act, 1956 dealing with reappointment of auditors specifies that subject to the provisions of sub-section (1B) and section 224A, at any Annual General Meeting a retiring auditor, by whatsoever authority appointed, shall be re-appointed unless, *inter alia*:

"Where notice has been given of an intended resolution to appoint some person or persons in the place of a retiring auditor, and by reason of the death, incapacity or dis-qualification of that person or of all those persons, as the case may be, the resolution cannot be proceeded with."

However, it should be noted that even for the re-appointment of a retiring auditor, the passing of a resolution is essential. Section 224 of the Companies Act, 1956, requires that a resolution has to be passed by the company every year. In the absence of a resolution, the retiring auditor is not re-appointed automatically.

Thus, the claim of Mr R would not hold good.

The Company Audit – II

15 (a) Applicability of CARO, 2003

The Companies (Auditor's Report) Order (CARO), 2003, exempts private limited companies from its application which fulfils all the following conditions:

- (i) the paid up capital and reserves are ₹ 50 lakhs or less;
- (ii) it has not accepted any public deposits;
- (iii) it has no outstanding loan of ₹ 10 lakhs or more from any bank or financial institution; and
- (iv) its turnover does not exceed ₹ 5 crores.

In the case of M/s Anand Pvt. Ltd., its paid-up capital is less than ₹ 50 lakhs, turnover is less than ₹ 5 crores since excise duty is not taken into account if it is credited separately to excise duty account; and, it is also implied from the facts that it has not accepted any public deposits. However, it fails to fulfill the condition relating to outstanding loan because as per the statement on CARO, 2003, issued by the Institute, requires that the amount of outstanding loan taken from bank/financial institution have to be considered on a cumulative basis. M/s Anand

Pvt. Ltd. has total borrowings of ₹ 15 lakhs and thus fails to satisfy all conditions and accordingly CARO, 2003 will be applicable.

(b) Physical verification of inventory

Para 4(ii)(a) of CARO, 2003 requires the auditor to state in his report whether physical verification of inventory has been conducted at reasonable interval by the management. Physical verification of inventory is the responsibility of the management which should verify all material items at least once in a year and more often in appropriate cases. The auditor in order to satisfy himself about verification at reasonable intervals should examine the adequacy of evidence and record of verification. In the given case, the above requirement of CARO, 2003 has not been fulfilled as such and the auditor should point out the specific areas where he believes the procedure of inventory verification is not reasonable. He may consider the impact on financial statement and report accordingly.

16. (a) Debit Balance of Profit and Loss Account

Part I of Schedule VI to the Companies Act, 1956 requires that the debit balance of Profit and Loss Account shall be shown as deduction from the uncommitted reserves, if any. Hence, the accumulated loss of ₹ 40 lakhs should be deducted from the General Reserve of ₹ 90 lakhs, and the net amount of ₹ 50 lakhs should be shown as General Reserve on the Liabilities side of the Balance Sheet. Securities Premium Account and Capital Reserves are not uncommitted reserves and, thus, these shall also be shown on the liabilities side of the balance sheet under the heading of "Reserves and Surplus". In the present case, the disclosure requirements of Schedule VI to the Act have not been followed and, accordingly, the auditor should modify his report.

(b) Disclosure Requirements for Bank Balance

As per Part I of Schedule VI to the Companies Act, 1956, the disclosure requirements for bank balance were as under:

- (i) Bank balance with scheduled bank.
- (ii) Bank balance with banks other than scheduled banks.

The other particulars are to be stated are as under:

- (1) Balances lying with scheduled banks in current accounts, call accounts, deposit accounts.
- (2) Where the balance is with non-scheduled bank, the name of the banker, balances lying with such bankers on current accounts, call accounts and deposit accounts, the maximum amount outstanding with them during the year should be specified.

- (3) the nature of the interest, if any, of any director or his relative [or the managing agent/secretaries and treasurers of any associate of the latter] in each of the bankers (other than Scheduled Banks) referred to in (b) above.]

Special Audits

17. (a) Audit of Sanctions

The auditor has to ensure that each item of the government expenditure is covered either by general or special sanction of the competent authority. The audit of sanction is directed both in respect of ensuring that the expenditure is properly covered by sanction and the authority sanctioning is competent for the purpose by virtue of the powers vested in it by the provisions of the constitution and of the laws, rules or orders made there-under, or by the rules of delegation of financial powers made by the authority competent to do so. Accordingly, if the concerned officer has not delegated the financial authority to the fellow officer, the sanction of expenditure should be considered as improper. Hence the auditor should mention the fact in his report.

(b) Audit of Receipts

Audit of receipts provides for ensuring whether debts due to government have been correctly evaluated, assessed, realized and credited to government account by the designated authorities. The main emphasis is on examining the procedure regarding the refund of all revenue receipts. The basic principle of audit of receipts is that it is more important to look at the general than on particular individual cases of assessment, demand, collection and refund. A review of the judicial decisions taken by tax authorities is also done to judge the effectiveness of the assessment procedure. Amongst evaluation of procedure, the auditor shall be expected to follow up of claims on tax payers and exercise due diligence. It is but normal that the claim should not be abandoned or reduced except with adequate justification and proper authority. Flowing from the above, the action of assessing officer is unjustifiable since it is arbitrary and violates the principle of natural justice as well.

18. (i) Receipt of Donations

- (1) Internal Control System: Existence of internal control system particularly with reference to division of responsibilities in respect of authorised collection of donations, custody of receipt books and safe custody of money.
- (2) Custody of Receipt Books: Existence of system regarding issue of receipt books, whether unused receipt books are returned and the same are verified physically including checking of number of receipt books and sequence of numbering therein.
- (3) Receipt of Cheques: Receipt Book should have carbon copy for duplicate receipt and signed by a responsible official. All details relating to date of cheque, bank's name, date, amount, etc. should be clearly stated.

- (4) Bank Reconciliation: Reconciliation of bank statements with reference to all cash deposits not only with reference to date and amount but also with reference to receipt book.
 - (5) Cash Receipts: Register of cash donations to be vouched more extensively. If addresses are available of donors who had given cash, the same may be cross-checked by asking entity to post thank you letters mentioning amount, date and receipt number.
 - (6) Foreign Contributions, if any, to receive special attention to compliance with applicable laws and regulations.
- (ii) Remittance of donations to different NGOs
- (1) Mode of Sending Remittance: All remittances are through account payee cheques. Remittances through Demand Draft would also need to be scrutinised thoroughly with reference to recipient.
 - (2) Confirming Receipt of Remittance: All remittances are supported by receipts and acknowledgements.
 - (3) Identity: Recipient NGO is a genuine entity. Verify address, 80G Registration Number, etc.
 - (4) Direct Confirmation Procedure: Send confirmation letters to entities to whom donations have been paid.
 - (5) Donation Utilisation: Utilisation of donations for providing relief to Tsunami victims and not for any other purpose.
 - (6) System of NGOs' Selection: System for selecting NGO to whom donations have been sent.

Standards on Auditing and Guidance Notes

19. (a) Fraud Committed by Managing Director

The Managing Director of the company has committed a "Teeming and Lading" fraud. The fact that the amount involved has been subsequently deposited after the year end is not important because the auditor is required to perform his responsibilities as laid down in SA 240, "The Auditor's responsibilities relating to Fraud in an Audit of Financial Statements". First of all, as per SA 240, the auditor needs to perform procedures whether the financial statements are materially misstated. Because an instance of fraud cannot be considered as an isolated occurrence and it becomes important for the auditor to perform audit procedures and revise the audit risk assessment. Secondly, the auditor needs to consider the impact of fraud on financial statements and its disclosure in the audit report. Thirdly, the auditor should communicate the matter to the Chairman and Board of Directors. Finally, in view of the fact that the fraud has been committed at the highest level of management, it affects the reliability of audit evidence previously obtained since there is a genuine doubt about representations of management. Finally,

the auditor shall have to report under CARO, 2003 indicating the nature and amount involved in respect of fraud noticed during the year.

(b) External confirmation Requests

SA 505, "External Confirmations", establishes standards on the debtor's use of external confirmation as a means of obtaining audit evidence. It requires that the auditor should employ external confirmation procedures in consultation with the management.

If management refuses to allow the auditor to send a confirmation request, the auditor shall:

- (i) Inquire as to management's reasons for the refusal, and seek audit evidence as to their validity and reasonableness;
- (ii) Evaluate the implications of management's refusal on the auditor's assessment of the relevant risks of material misstatement, including the risk of fraud, and on the nature, timing and extent of other audit procedures; and
- (iii) Perform alternative audit procedures designed to obtain relevant and reliable audit evidence.

If the auditor concludes that management's refusal to allow the auditor to send a confirmation request is unreasonable, or the auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures, the auditor shall communicate with those charged with governance in accordance with SA 260 (Revised), "Communication with Those Charged with Governance". The auditor also shall determine the implications for the audit and the auditor's opinion in accordance with SA 705, "Modifications to the Opinion in the Independent Auditor's Report".

20. (a) Applicable financial reporting framework

As per SA 200 "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing", the financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation and presentation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation.

The term "fair presentation framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:

- (i) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- (ii) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the

financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

The term “compliance framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (i) or (ii) above.

(b) Evaluation of the requirements if the applicable financial reporting framework

As per SA 700, “Forming an Opinion and Reporting on Financial Statements”, the auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments.

In particular, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework:

- (i) The financial statements adequately disclose the significant accounting policies selected and applied;
- (ii) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;
- (iii) The accounting estimates made by management are reasonable;
- (iv) The information presented in the financial statements is relevant, reliable, comparable and understandable;
- (v) The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and
- (vi) The terminology used in the financial statements, including the title of each financial statement, is appropriate.

ANNEXURE

LIST OF INSTITUTE'S PUBLICATIONS RELEVANT FOR NOVEMBER, 2011 EXAMINATION

The following List of Institute's Publications is relevant for the forthcoming examination i.e. November, 2011. Students may kindly take it into consideration while preparing for the examination.

Professional Competence Course
Paper 2 : Auditing and Assurance

I. Statements

1. Statement on Reporting under Section 227 (1A) of the Companies Act, 1956
<http://220.227.161.86/18799announ10264b.pdf>
2. Statement on the Companies (Auditor's Report) Order, 2003 (2005 Edition)
<http://220.227.161.86/18798announ10264a.pdf>

II. Standards on Auditing (SAs)

S.No	SA	Title of Standard on Auditing	Effective Date
1	SA 200	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing http://220.227.161.86/18132sa200_rev.pdf	April 1, 2010
2	SA 210	Agreeing the Terms of Audit Engagements http://220.227.161.86/16837sa210revised.pdf	April 1, 2010
3	SA 220	Quality Control for an Audit of Financial Statements http://220.227.161.86/18133sa220_rev.pdf	April 1, 2010
4	SA 230	Audit Documentation http://220.227.161.86/15372Link7_SA230-standard.pdf	April 1, 2009
5	SA 240	The Auditor's responsibilities Relating to Fraud in an Audit of Financial Statements http://220.227.161.86/15374Link9_240SA_REVISED.pdf	April 1, 2009
6	SA 250	Consideration of Laws and Regulations in An Audit of Financial Statements http://220.227.161.86/15376Link11_SA250-text.pdf	April 1, 2009
7	SA 260	Communication with Those Charged with Governance http://220.227.161.86/15378Link13_SA%20260-text.pdf	April 1, 2009
8	SA 265	Communicating Deficiencies in Internal Control to Those Charged with Governance and Management http://220.227.161.86/16838sa265.pdf	April 1, 2010
9	SA 299	Responsibility of Joint Auditors http://220.227.161.86/15379Link14_299SA-AAS12.pdf	April 1, 1996

10	SA 300	Planning an Audit of Financial Statements http://220.227.161.86/15381Link16_300SA_REVISED.pdf	April 1, 2008
11	SA 315	Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment http://220.227.161.86/15382Link17_315SA.pdf	April 1, 2008
12	SA 320	Materiality in Planning and Performing an Audit http://220.227.161.86/16839sa320revised.pdf	April 1, 2010
13	SA 330	The Auditor's Responses to Assessed Risks http://220.227.161.86/15384Link19_330SA.pdf	April 1, 2008
14	SA 402	Audit Considerations Relating to an Entity Using a Service Organization http://220.227.161.86/16840sa402revised.pdf	April 1, 2010
15	SA 450	Evaluation of Misstatements Identified during the Audits http://220.227.161.86/16841sa450revised.pdf	April 1, 2010
16	SA 500	Audit Evidence http://icai.org/resource_file/15576sa500revised.pdf	April 1, 2009
17	SA 501	Audit Evidence - Specific Considerations for Selected Items http://220.227.161.86/18134sa501_rev.pdf	April 1, 2010
18	SA 505	External Confirmations http://220.227.161.86/18135sa505_rev.pdf	April 1, 2010
19	SA 510	Initial Audit Engagements-Opening Balances http://220.227.161.86/15390Link25_510text.pdf	April 1, 2010
20	SA 520	Analytical Procedures http://220.227.161.86/18136sa520_rev.pdf	April 1, 2010
21	SA 530	Audit Sampling http://220.227.161.86/15393Link28_530text.pdf	April 1, 2009
22	SA 540	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures http://220.227.161.86/15395Link30_540text.pdf	April 1, 2009
23	SA 550	Related Parties http://220.227.161.86/15397Link32_550text.pdf	April 1, 2010
24	SA 560	Subsequent Events http://220.227.161.86/15399Link34_SA%20560_Standard_OK_OK.pdf	April 1, 2009
25	SA 570	Going Concern http://220.227.161.86/15401Link36_SA570-final_standard.pdf	April 1, 2009
26	SA 580	Written Representations http://220.227.161.86/15403Link38_sa580.pdf	April 1, 2009
27	SA 600	Using the Work of Another Auditor http://220.227.161.86/18836sa600_aas.pdf	April 1, 2002
28	SA 610	Using the Work of Internal Auditors http://220.227.161.86/16842sa610revised.pdf	April 1, 2010

29	SA 620	Using the Work of an Auditor's Expert http://220.227.161.86/18137sa620_rev.pdf	April 1, 2010
30	SA 700	Forming an Opinion and Reporting on Financial Statements http://220.227.161.86/17874sa700annx1.pdf	April 1, 2011
31	SA 705	Modifications to the Opinion in the Independent Auditor's Report http://220.227.161.86/17875sa705annex2.pdf	April 1, 2011
32	SA 706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report http://220.227.161.86/17876sa706annex3.pdf	April 1, 2011
33	SA 710	Comparative Information – Corresponding Figures and Comparative Financial Statements http://220.227.161.86/18793annex1SA710.pdf	April 1, 2011
34	SA 720	The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements http://220.227.161.86/15578sa720ann.pdf	April 1, 2010
35	SRE 2400	Engagements to Review Financial Statements http://220.227.161.86/18727annex1200410.pdf	April 1, 2010
36	SRE 2410	Review of Interim Financial Information Performed by the Independent Auditor of the Entity http://220.227.161.86/18728annex2200410.pdf	April 1, 2010
37	SAE 3400	The Examination of Prospective Financial Information http://220.227.161.86/15410Link45_3400SAE-AAS35.pdf	April 1, 2007
38	SRS 4400	Engagements to Perform Agreed Upon Procedures Regarding Financial Information http://220.227.161.86/15411Link46_4400SRS-AAS32.pdf	April 1, 2004
39	SRS 4410	Engagements to Compile Financial Information http://220.227.161.86/15412Link47_4410SRS-AAS31.pdf	April 1, 2004

*Effective date means that the SA is effective for audits of the financial statements for periods beginning on or after the specified date

III. Guidance Notes/Study Guide/Monograph

1. Guidance Note on Audit of Inventories.
2. Guidance Note on Audit of Debtors, Loans and Advances.
3. Guidance Note on Audit of Investments.
4. Guidance Note on Audit of Miscellaneous Expenditure.
5. Guidance Note on Audit of Cash and Bank Balances.
6. Guidance Note on Audit of Liabilities.
7. Guidance Note on Audit of Revenue.
8. Guidance Note on Audit of Expenses.
9. Guidance Note on Provision for Proposed Dividend

** Text of applicable Guidance notes is available in the Volume II of Paper -2, Auditing and Assurance Study Material.