

PAPER – 2 : AUDITING

Answer all the questions

Question 1

As an Auditor comment on the following:

- (a) Rapid Ltd. issued large number of cheques of high amount to their creditors in the last week of the financial year 2008-09. A sizeable proportion of the cheques remained un-presented and unpaid till 20th April, 2009. (5 Marks)
- (b) Grow More Pvt. Ltd., a whole seller in food and other agro products, has valued the year end inventory on net realisable value on the ground that AS-2 does not apply to inventory of agriculture products. (4 Marks)
- (c) Tom, Dick and Harry (Pvt.) Ltd. has paid up capital and reserves of Rs.51.00 lacs, sanctioned Cash Credit limit of Rs.26.00 lacs from Kangaroo Bank and a turnover of Rs.5.25 crores during the financial year 2008-09. Director (finance) of the company is of the opinion that CARO, 2003 is not applicable since balance in Cash Credit account as on 31.3.2009 is Rs.24.50 lacs and, moreover, one of the customer have returned goods worth Rs.50.00 lacs on 2.4.2009 out of sales made in March 2009. (5 Marks)
- (d) The books of accounts of Soft Ltd. were seized by Service tax department, who refused to handover the same to the company for audit purposes, although uncertified photocopies of the main books were made available to the company. Management of the company requests you to carry out the audit on the basis of the photocopy of the main books and issue a report. (4 Marks)

Answer

- (a) As per Guidance Note on Audit of Cash and Bank Balances issued by ICAI, where large number of cheques has been issued in the last few days of the year and a sizeable proportion of such cheques has subsequently remained unpaid / uncleared this may indicate an attention of understanding the creditors and understanding bank balances beside improving the current ratio. In such a case it may be appropriate for the auditor to:
 - (i) Obtain confirmation from the parties concerned to establish cheque issued to them
 - (ii) Examine whether reversal of entries is appropriate in the circumstances.In the instant case, the auditor should enquire about the motive of Rapid Ltd. in issuing cheques in the last dates of the year as also the actual date of issue of cheques. If the cheques were really issued in the last dates of the year, the auditor should not insist on reversal. However, if the cheques were handed over to the creditors after 31/3/2009, the auditor should insist on reversal of entry and if not agreed by the management, he may suitably qualify the report about the window dressing mentioning the fact and intention.
- (b) AS 2 on "Valuation of Inventories" does not apply to producers inventories of livestock, agriculture, forest product and mineral ores and gases. They are entitled to value their inventory at net realisable value as per established practice.

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However, this does not apply to trader's inventory of agriculture and food product.

In the instant Case, M/s. Grow More Ltd is covered by AS 2 as they are not the producer and their inventory is just of a trader. Hence they can not value their inventory at net realizable value. As envisaged in the AS 2, they should follow the same and value their inventory at lower of cost and net realizable value. If the management of M/s Grow More Ltd does not agrees, the auditor should qualify his report.

- (c) Companies (Auditor's Report) 2003 is applicable to a private limited company if all the following 3 condition are fulfilled:
- (i) Aid up capital and reserves are more than Rs.50 lacs and
 - (ii) Outstanding loans from bank or financial institution is more than Rs.25 lacs and
 - (iii) Turnover exceeds Rs.5 crores.

In the present case, the paid up capital and reserves are more than Rs.50 lacs. In the case of cash credit limit, the order will apply if on any day during the financial year the loan exceed Rs.25 lacs and not the year end balance. The company also has turnover of Rs.5.25 crores. Hence CARO 2003 is applicable to the company.

Contention of Director (Finance) that out of sales, goods worth Rs.50 lacs has been received back is not tenable sales return of next year can not be reserved or adjusted during 2008-09.

Considering that the company has availed cash credit to its limit at any time during the year CARO 2003 is very much applicable and auditor will have to give his report on the matter contained in the CARO, 2003

- (d) An auditor is required to comment, in his report, whether he has received and have full access to all the book of accounts and records of the entity he is auditing. If such book of accounts and records are not made available to him he may not in a position to review and comment on them and shall have to qualify his report. He has option of withdrawal from the assignment also.

In the instant Case of Soft Ltd, since books of account has seized by service tax authorities and only an uncertified copy of the main books of account has been made available, the degree of reliance which can be placed by the auditor will considerably increase if the xerox copies of the books of accounts are certified to be true by the management of Soft Ltd. In the absence of other records the auditor should also try to gather corroborative evidence like third party confirmation, inspection of tangible assets etc.

The request of the management give a clean report is not tenable. The auditor should qualify his report clearly stating that the audit has been conducted on the basis of xerox copies of main books only and corroborative evidences gathered by him.

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Question 2

Comment on the following:

- (a) Dark Ltd. had appointed R & Associates, Chartered Accountants, as their statutory auditors for the financial year 2008-09 in the AGM in place of retiring auditors P & Associates, Chartered Accountants. R & Associates refused to accept the appointment since it was not made in accordance with Sec. 225 of the Companies Act, 1956. On refusal by R & Associates, the directors requested P & Associates to take up the audit for the said financial year. (5 Marks)
- (b) CA Prabir, statutory auditor of 21st Century Credit Ltd., also holds a Credit Card of the said company with credit limit of Rs.1.00 lac for 45 days towards purchase of merchandise and cash withdrawal. (4 Marks)
- (c) PIN Ltd., in which 20% of the subscribed equity share capital is held by a State Government and 10% of the subscribed preference share capital by a Nationalised Bank, appointed CA G as their statutory auditor by passing an ordinary resolution. (5 Marks)
- (d) CA K, statutory auditor of BFS Ltd. is refused access to the branch records by the management on the plea that it has already been audited by a branch auditor whose report was forwarded to him. (4 Marks)

Answer

- (a) As per section 225(2) of the Companies Act, for appointing a person other than retiring auditor, full compliance with the provision is necessary. Non-compliance will render the appointment of new auditor illegal.

In the instant case since compliance with the sec. 225 was not made by Dark Ltd, R Associate was right in his refusal to accept the assignment. Even if he had accepted, it would have become illegal appointment.

At any AGM, appointment/re-appointment is one of the ordinary business. Till a formal resolution is passed, a retiring auditor cannot be said to be re-appointment since no resolution was passed for re-appointment of P Associates, his re-appointment after refusal by R Associate cannot be a valid one and he cannot take up the audit for the year 2008-09.

In the instant case, since appointment or re-appointment of R Associates is not valid it would result in re-appointment and power to appoint will vest with Central Government.

- (b) According to sec-226(3) of the Companies Act, one of the disqualifications from appointment as auditor is that of a person who is indebted to the company for more than Rs.1000 or who has given any guarantee or provided any security in connection with the indebtedness of any third party to the company for more than Rs.1000.

In the present case, even if the granting of credit card may be in the ordinary course of the company's business, CA P would be disqualified if he is indebted against the credit card for more than Rs.1000.

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However, in this case since CA P is just holder of a credit of Rs.1 lac and assuming that he have not contracted or incurred any liability , he will not be disqualified from appointment. In order to attract this clause, he must be indebted and not power or right to incur liability will disqualify him.

- (c) Sec. 224 A of the Companies Act, provides for appointment or re-appointment of auditors in certain cases only by special resolution. A company in which not less than 25% of the subscribed capital is held by:
- (i) A public financial institution or a government company or the Central or any State government
 - (ii) Any financial or other institution established by any Provincial or State Act in which a state government hold not less than 51% of the subscribed capital
 - (iii) A nationalised bank or an insurance company carrying on general insurance business or
 - (iv) Any combination of the above categories shall appoint a re-appoint an auditor in the AGM only by passing a special resolution here subscribed capital includes preference capital also.

In the instant case since 20% of subscribed equity capital of Pin Ltd is held by a state government and further 10% of subscribed preference share capital is held by a nationalised bank, it would require to pass a special resolution to make appointment of CA G as the auditor since appointment has been made by passing an ordinary resolution the appointment of CA G is not valid.

- (d) As per sec. 228(2) of the Companies Act, the right of access to the books of accounts and records is limited not only to those kept at head office but it also extends to branch, if the auditor considers it necessary to have access there to . This right is applicable even if the branch accounts have been audited by a branch auditor.

In the light of the above clause, in the present case, the action of the management of BFS Ltd in denying the access to branch books and record is not proper and leads to restrictions on the scope and right of the auditor. CA K shall have full access to all the books and record of BFS Ltd. do agree to provide the books and record of the branch. If the management of BFS Ltd. do agree to provide the books and records of the branch the auditor CA K should suitably qualify his report in this regard.

Question 3

- (a) Balance Sheet of Top Secret Ltd. of which you are the auditor, shows the following details:

(i)	Current Liabilities	Rs.	
	Fixed Deposit received	45.00 lacs	
	Interest accrued and due on unsecured loans	3.50 lacs	(4 Marks)
(ii)	Sundry Debtors	85.00 lacs	(4 Marks)

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Comment on the above as per disclosure requirements of Schedule VI to the Companies Act, 1956.

- (b) You have been appointed auditor for the first time of a Small and Medium Enterprise carrying on business for past several years. List down the sources from which you can obtain knowledge of the client's business before commencing the audit. (8 Marks)

Answer

- (a) Balance Sheet of Top Secret Ltd does not present a complete and full disclosure of the requirements as given in schedule VI to the Companies Act, 1956.

The figure presented suffers from the following mistakes:

- (i) Fixed deposit received is normally classified as loan depending upon security aspect. Normally it is classified as unsecured loans. Hence, fixed deposit of Rs.45 lacs needs to be shown as unsecured loan.

Interest accrued and due is classified along with the loans. Since it is related to unsecured loans, it should be shown under the same head.

- (ii) Sundry debtors

As per schedule VI to the Companies Act, 1956 sundry debtors are to be shown in the balance sheets:

- (i) Debts outstanding for a period exceeding 6 months
- (ii) Other debts

The security and reliability of the sundry debtors is also to be disclosed as follows:

- (i) Debt considered good and in respect of which the company is fully secured.
- (ii) Debt considered good for which the company had no security other than the debtors personal security and
- (iii) Debt considered doubtful or bad.

If any provision in respect of bad and doubtful is made then it should be shown as deduction. Such provision should not exceed the amount of debt stated to be doubtful or bad.

The debt due from the persons connected with the management should be classified as:

1. Debts due by directors or other officers of the company
2. Debts due by firms in which any director is a partner
3. Debts due by private companies in which any director is a director or a member
4. Debts due from other companies under the same management (disclosing the name of the company)

Maximum amount due by directors or other officers at any time during the year should be stated by way of note.

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- (b) The erstwhile AAS 20 (which has now been withdrawn) on “Knowledge of the Business” enumerates the various sources for obtaining the knowledge of the business. The various sources may be as follows:
- (a) Previous experience with the entity and its industry.
 - (b) Discussion with the directors and senior operating personnel of the entity.
 - (c) Discussion with internal audit personnel and review of internal audit report.
 - (d) Discussion with legal and other advisors and other auditors (like cost auditors).
 - (e) Discussion with the knowledgeable persons outside the company (customers, suppliers, consultants, etc).
 - (f) Publication related to the industry like trade journals, financial newspapers, periodicals etc.
 - (g) Legislation and regulations significantly affecting the entity
 - (h) Documents and papers from the company like minute of meetings, materials sent to the shareholders or regulatory authorities, promotional literature, previous years' annual reports, accounting and audit manual, marketing and sales plan etc.

Question 4

How will you vouch/verify the following?

- (a) Sale of Scrap
 - (b) Receipt of Capital Subsidy
 - (c) Postage and Courier Expenditure
 - (d) Bills Payable
- (4 x 4 = 16 Marks)

Answer

- (a) Sale of Scrap
 - (i) Evaluate the internal control on scrap as regards its generation, storage and disposal and enquire whether it actually followed or not.
 - (ii) As certain whether reasonable record for its sale and disposal are maintained or not
 - (iii) Review the production and cost records and prepare a reconciliation statement for determination of the extent of scrap that may arise.
 - (iv) Compare the generation and sales of scrap with the corresponding figures of last few years
 - (v) Check the rate at which different type of scrap material has been sold and compare the same with the rate of earlier years.
 - (vi) See that all the scrap the sold has been properly billed and check the calculations

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(vii) Ensure that there exists a proper procedure to identify the scrap material and good material is not mixed up with it.	
(b) Receipt of capital subsidy	
Document to be seen	Aspect to be verified
Application for subsidy	Examine the application made by the entity towards claim of Subsidy to ascertain the scheme under which the subsidy has been made available.
Subsidy File Correspondence	• Examine correspondence and other documents for grant for subsidy and note the conditions relating to its use. • Verify whether the conditions under which subsidy is granted have been fulfilled • e.g. purchase of a specific asset or setting up a factory at a specific location. • Vouch relevant entries for receipt of capital subsidy, tracing it into cash book and general ledger. • Examine whether subsidy receivable, if any, has been properly accounted for.
General Ledger	Ensure compliance with requirements of AS 12 on "Accounting for Government Grants" i.e., whether its relate to specific amount or in the form of promoters contribution and also compliance with the disclosure requirements.
Financial statement	
(c) Postage and Courier Expenditure	
Document to be seen	Aspect to be verified/auditor's duties
Internal controls	• Examine the internal control in respect of Petty cash payments, and note the authorisation procedure in respect of postage and courier expenditure/unused postage stamps/prepaid post covers, etc. • See where such controls have operated effectively over the period of audit.
Petty Cash Book	• Examine the petty cash book and test-check the entries relating to postage and courier expenditure, for a few months.

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	• Vouch the expenditure with respect to supporting documents, wherever applicable.
Dispatch Register	• Cross-check a few cases of postage/courier expenses with the dispatch register/outward mail register, to see whether any mail has been sent on that day.
Acknowledgements	• Where postage expenses are recorded in respect of Registered Post/Speed-Post with 'Acknowledgement Due', examine a few cases whether these "Acknowledgements" are being received from the parties.
Agreement with Courier Company	• Where agreements are entered into with a Courier Company/Agency for settlement of bills on a monthly basis, see whether the internal control procedure for authorising payment (at the month-end) is operating effectively. • See whether TDS has been deducted at source and remitted properly where the amount of the contract exceeds Rs.20, 000.
General Ledger/Financial Statements	• Verify whether year-end adjustments have been properly accounted in respect of postage stamps in hand. • Compute the percentage of postage expenditure to Total Turnover and compare the same with that of previous year to ensure reasonableness'

(d) Bills Payable

Following are the procedures adopted while vouching and verifying Bills Payable:

- (i) Vouch payments made to retire the bills on their maturity or earlier and confirm that relevant bills have been duly cancelled.
- (ii) Trace all the entries in the bills payable book into bills payable account and see that liability in respect of outstanding bills has been correctly ascertained and recorded.
- (iii) Reconcile the total of the schedule of bills payable outstanding at the end of the year with the balance in bills payable register.
- (iv) Obtain confirmation from the drawers or holder of the bills in respect of amount due on the bills held by them.

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- (v) Verify that the charge, if any, created on any asset for the payment of the bills have been appropriately disclosed.

Question 5

- (a) In the course of audit of an Educational Institution you are informed of a suspected fraud amounting to Rs.50,000 committed through the Cash Book by the cashier. List down the various ways through which this fraud might have been perpetrated. (8 Marks)
- (b) What are the specific objectives in the audit of Sales revenue? (4 Marks)
- (c) Mention the factors affecting the form and content of the Audit working papers. (4 Marks)

Answer

- (a) (i) Fraud through the cash book has been found to be perpetrated generally in the following ways:
1. Teeming and lading: Amount received from a student being misappropriated and cash received from subsequent student being adjusted to the account of student who has paid earlier.
 2. Adjustment of fictitious rebates, discounts etc in the students' accounts.
 3. Writing off as bad such balances which has already been realized.
 4. Omitting to record cash receipt or recording a lesser amount.
 5. Not accounting for miscellaneous receipt.
 6. Under casting of receipt side of cash book or wrong carry forward of balances.
 7. Writing down of assets value and selling them subsequently and mis – appropriating the difference
- (ii) Cash payment
- There may be possibility that payment has been inflated in the following manner:
- (a) Making payment against fictitious vouchers.
 - (b) Payment against inflated amounts in the vouchers.
 - (c) Manipulation of salary sheet by inclusion of dummy staff or inflating the sheet in any manner.
 - (d) Manipulation in petty cash expenses register with wrong casting, totalling etc.
 - (e) Over casting of payment side of cash book.
- (b) The specific objectives in the audit of sales revenue are to determine whether:
- (i) Sales accounting procedures are operating effecting to procedure reliable sales revenue figures for the period
 - (ii) Sales revenue have been recorded in the proper accounting period and are not overstated through improper credits for fictitious sales. Conversely whether sales

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revenue is understated through deferring the recording to subsequent period or omitting to record the sales.

- (iii) Allowance, returns and other deductions are fairly stated and properly treated in the accounts and that adequate provisions have been made for any significant additional amount that may be anticipated to be paid but not yet finally settled.
- (iv) Non-operating revenue have been segregated from sales revenue and have been appropriately treated in the accounts.
- (c) The form and content of working papers are affected by following matters:
 - (a) The nature of engagement
 - (b) The form of auditor's report
 - (c) The nature and complexity of the client's business
 - (d) The nature and condition of the client's record and degree of reliance on internal control
 - (e) The need for direction, supervision and review of work performed by assistants.

Question 6

ABC & Co. is appointed as auditors of Fortune Ltd. Advise the audit firm regarding:

- (a) Various factors which influence auditor's judgement in selecting sufficient appropriate audit evidence. (6 Marks)
- (b) Matters to be considered in developing overall audit plan for the expected scope and conduct of the audit. (10 Marks)

Answer

- (a) Various factors which influences auditors judgement in selecting appropriating audit evidence are:
 - (1) The degree of risk of misstatements which may be affected by factors such as:
 - (i) The nature of items
 - (ii) The adequacy of internal controls
 - (iii) The nature or size of the business
 - (iv) The financial position of the entity
 - (2) The materiality of the items
 - (3) The experience gained during previous audits
 - (4) The result of the audit procedure
 - (5) The type of information available
 - (6) The trend indicated by accounting ratios and analysis.

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- (b) M/s ABC Company should consider the following matters in developing his overall plan for the expected scope and conduct of audit of Fortune Ltd:
- (i) Terms of his engagement with the client and any statutory liabilities
 - (ii) Nature and timing of reports and other communication
 - (iii) Applicable legal or statutory responsibilities
 - (iv) Accounting policies adopted by the client and changes in those policies
 - (v) Effect of new accounting and auditing pronouncements on the audit
 - (vi) Identification of significant audits areas
 - (vii) Setting up of materiality levels for audit purpose
 - (viii) Condition requiring special attention, such as the possibility of material error or fraud or involvement of related parties transaction
 - (ix) Degree of reliance to be placed on accounting system and internal control.
 - (x) Nature and extent of audit evidence to be obtained
 - (xi) Work of internal auditor and extent of their involvement
 - (xii) Involvement of other auditors in the audit of subsidiary or branches.
 - (xiii) Involvement of experts
 - (xiv) Allocation of work between joint auditors
 - (xv) Staffing requirement.

Question 7

- (a) You have been appointed as auditors of an NGO engaged in providing relief work to the flood affected people. A review of the books of accounts reveals that the same are incomplete.

Discuss the important steps to be followed in the audit of incomplete Books and Records.

(10 Marks)

- (b) Financial controller of AAS Ltd. asked you, an internal auditor of the company, to prepare Financial Statements of the company and also assist in completing the books of accounts. You object to this on the grounds of conflict of interest. Prepare a small note for the Financial Controller explaining the scope and objective of an internal audit.

(6 Marks)

Answer

- (a) In the audit of incomplete records and books of an NGO, following important steps be followed:
- (i) Ascertain the exact status of accounting records available and obtain a list of such records
 - (ii) Ensure that management compiles the accounting records to the extent possible.

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- (iii) Perform compliance procedure to assets the control system in operation
 - (iv) Vouch receipt and payment transaction recorded in the available books of account with internal and external evidence
 - (v) Examine the system in operation in respect of custody of cash, receipt of donation, cash or kind and both indigenous and foreign
 - (vi) Enquire about the method and mode of disbursement of relief-cash and material and records kept in this regard.
 - (vii) Examine the system in operation in respect of custody of cash receipt and check books
 - (viii) Conduct surprise checks to verify cash in hand
 - (ix) Verify fixed assets by physical inspection
 - (x) Obtain indirect evidence to verify the existence of fixed assets
 - (xi) Apply analytical review procedures in depth
 - (xii) Formulate an appropriate audit opinion and if there is any restriction on the scope of audit, a disclaimer may be given.
- (b) Preparation of financial statements and assisting in writing book of account is not a function of internal auditor. Internal audit is a part of internal control system and its scope and function includes review and examination of accountancy financial and operational records and information and related control operations. As such, if the internal audit is engaged in the work as asked by the financial controller of AAS Ltd his independently will be lost.

In the instant case, the internal auditor should write to financial controller highlighting the scope and objective of internal audit as under:

- (a) Review of accounting system and related control system: One of the important tasks assigned to internal audit is review of the accounting system and related control monitoring their operations and effectiveness and recommending improvement thereto.
- (b) Examination of financial and operational information: This includes review of the means used to identify measure, classify and report such information and specific inquiry into individual items including detailed testing of transaction, balances and procedures.
- (c) Examination of the economy, efficiency and effectiveness of operation including non-financial control: This includes examining the efficiency, effectiveness and economy of the operations and suggesting method for improvement on an ongoing process.
- (d) Physical Verification: This includes periodic physical verification of tangible assets as to their existence and condition and reporting thereon.

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The scope and objective mentioned above vary widely and dependent upon the size and structure of the entity and requirement of the management.

Question 8

Write short notes on the following (any four) :

- (a) Power of CAG in connection with performance of his duties
- (b) Communication of material weaknesses in internal control
- (c) Professional Skepticism
- (d) Scope paragraph in the Auditor's report
- (e) Payment of interest out of Capital during construction
- (f) Auditor's lien. (4 x 4 = 16 Marks)

Answer

- (a) Power of C & AG in connection with performance of his duties under C & AG Act, the C & AG have the following powers in connection with the performance of his duties:
 - (i) To inspect any office of accounts under the control of the Union or a State Government including office responsible for the creation of the initial or subsidiary accounts.
 - (ii) To require that any accounts, books, papers and other documents, which deal with or 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 the preparation of any account or report which it is his duty to prepare.
 - (iv) To dispense with any part of detailed audit of accounts or class of transactions and to apply such limited checks in relation to such accounts or transaction as he may determine.
- (b) Communication of material weaknesses in Internal Control:

As a result of his study and evaluation of internal control, the auditor may become aware of weakness in the system. The auditor should make management aware as soon as practical and at an appropriate level of responsibility, of material weaknesses in the design or operation of the system. Such communication would normally be in writing. It is important to indicate in the letter that only those weaknesses, which have come to the auditor's attention as a result of the audit, have been reported and that the examination has not been designed to determine the adequacy of internal control for management purpose.
- (c) Professional skepticism

The auditor should plan and perform an audit with an attitude of professional skepticism. Such an attitude is necessary for the auditor to identify and properly evaluate the:

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- (i) Matters that increases the risk of a material misstatement in the financial statement resulting from fraud and error.
- (ii) Circumstances that make the auditor suspect that the financial statements are materially misstated.
- (iii) Evidence obtained that brings into question the reliability of management representations.

Unless the audit reveals evidence to the contrary, the auditor is entitled to accept records and documents as genuine. Hence an audit performed in accordance with auditing standards generally accepted in India rarely contemplate authentication of documentation nor are auditors trained as, or expected to be, experts in such authentication.

(d) Scope paragraph in the Auditors Report

The auditor's report should describe the scope of the audit by stating that the audit was conducted in accordance with the auditing standards generally accepted in India. An illustration of scope paragraph is as under:

"We conducted our audit in accordance with the auditing standards generally accepted in India, those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion."

- (e) Payment of interest out of capital during construction: Under section; 208 of the Companies Act, a company may pay interest out of capital subject to fulfillment of following conditions:
 - (i) It should be authorised by the article a by a special resolution
 - (ii) Sanction of the central government has been obtained
 - (iii) The payment of interest has been made only for such period as has been authorised by the central government and does not extend beyond the half year next following during which the construction was completed.
 - (iv) The rate of interest shall not exceed the rate as fixed by the central government
 - (v) Amount of interest should be added to the cost of the assets. Until so added it must be shown under miscellaneous expenditure in the balance sheet.
- (f) Auditor's lien: An auditor can exercise lien on books and documents placed at his possession by the client for non-payment of fees. Such lien can be exercised subject to the following conditions:
 - (i) Documents and books retained must belong to the client who owes the money
 - (ii) It must have come into possession of the auditor on the authority of the client.

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- (iii) Auditor can retain the documents only if he has done work on them.
- (iv) Only such document and books can be retained which are connected with the work on which fee has not been paid.

The auditor should provide reasonable facility for inspection of the books by the directors and others authorised to inspect the same.