

PAPER – 2 : AUDITING AND ASSURANCE

QUESTIONS

1. State with reasons (in brief) whether the following statements are **True** or **False**.
 - (i) Fraud means misappropriation of goods or cash and artificial manipulation of accounts by the management.
 - (ii) Disclosure of accounting assumptions is essential.
 - (iii) Non-Governmental Organisations are incorporated as Public sector Undertakings.
 - (iv) Stores and spare parts should be shown under Fixed Assets in the Balance Sheet as per Schedule VI to the Companies Act, 1956.
 - (v) Internal auditor of the company cannot be its cost auditor.
 - (vi) An undischarged insolvent Chartered Accountant is not qualified to be appointed as a statutory auditor.
 - (vii) The auditor should express qualified or adverse opinion if financial statements have not been prepared on going concern basis and adequate disclosure is also not made thereof in the financial statements.
 - (viii) The auditor is responsible for maintaining the internal control system in the organisation.
 - (ix) Voucher once used in audit should be destroyed to avoid risk of being used in more than one entry.
 - (x) As per CARO 2003, an auditor is always required to report in case of a substantial part of fixed assets have been disposed off during the year.

Standards on Auditing and Guidance Notes

2.
 - (i) In the light of SA 220, state the functions to be performed by an auditor while carrying out supervisory responsibilities during the audit?
 - (ii) How an auditor can identify the related parties?
3. What do you understand by external confirmation? Give some examples where external confirmations can be used as audit evidence.
4. “The auditors should communicate audit matters of governance interest arising from the audit of financial statements with those charged with the governance of an entity”. Briefly state the matters to be included in such Communication.

Nature of Auditing

5.
 - (i) State briefly the qualities of Auditors.
 - (ii) What are the inherent limitations of audit?
6. “The audit of a financial statement relieves the management of its responsibilities”. Comment

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Basic Concepts in Auditing

7. While examining the going concern assumption of an entity, what important indications should be evaluated and examined?
8. State your views on the following:
“Auditor’s assessment of materiality may be different at the time of planning the engagement than at the time of evaluating the results of his audit procedures”.

Preparation for an Audit

9. (i) What do you mean by Audit Documentation ?
(ii) How working papers aid in auditing?
(iii) XYZ Pvt. Ltd. Has decided to change its auditor. XYZ Pvt Ltd. requested its previous auditor to handover all of its previous years’ working papers. He, however, refused to handover the working papers. Comment.

Internal Control

10. (i) Write a short note on - Independence of Internal Auditor.
(ii) What are the inherent limitations of Internal Control System?

Vouching and Verification of Assets and Liabilities

11. How will you vouch/verify the following?
 - (i) Remuneration paid to Directors
 - (ii) Receipt of Capital subsidy
 - (iii) Buildings
 - (iv) Travelling expenses
12. How will you vouch and/or verify the following ?
 - (i) Sale proceeds of Scrap Material.
 - (ii) Trade Marks and Copyrights.
 - (iii) Machinery acquired under Hire-purchase system.
 - (iv) Work-in-progress.

The Company Audit – I

13. As an auditor, comment on the following situations/statements:
 - (i) ‘Bhim’ owes Rs. 1010 to ‘CIS’ Ltd., of which he is an auditor. Is his appointment valid? Will it make any difference, if the advance is taken for meeting-out travelling expenses?
 - (ii) A company has not provided depreciation on machinery on the plea that the machinery has been maintained in excellent condition and is as good as new.

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- (iii) ABC & Co. a firm of Chartered Accountants has three partners, A, B & C; A is also in whole time employment elsewhere. The firm is offered the audit of XYZ Ltd. and its twenty branches. The firm already holds audit of 40 companies including audit of one foreign company.
 - (iv) Keshav, a Chartered Accountant, was appointed as auditor of Y Ltd. in the Annual General Meeting of the company in September, 2009. In June, 2010 the company removed him through a resolution in the general meeting and appointed Raman as its auditor.
14. Discuss the provisions of the Companies Act, 1956 regarding the maintenance of proper books of accounts in respect of the following:
- (i) What are the items with regard to which the proper books of accounts should be maintained?
 - (ii) Where should these books be maintained?
 - (iii) What are the special provisions where the company has a branch?
 - (iv) What are the circumstances in which proper books are not deemed to be kept?
15. You have been asked by a company to compile financial statements for the purpose of obtaining loan from a Bank. Draft a report to be given to the Management for the same.
16. Explain how following are dealt in Auditor's Report as per CARO:
- (i) Fraud
 - (ii) Default in repayment of dues to a financial institution
 - (iii) Guarantees for loan taken by others.
17. Board of Directors of ABC Ltd. wants to transfer an amount of Rs. 25 lacs lying in unpaid dividend account to their Profit and Loss account on the plea that it is 3 years old and no shareholder is expected to turn up and claim the same. As an auditor what will be your advice to Board of Directors of ABC Ltd.
18. (i) Can the company delegate authority to its Board of Directors to appoint auditors in Annual General Meeting?
- (ii) Can the company authorise its Board of Directors to fix the remuneration of the auditors appointed under section 224?
19. Mr. Prakash is the statutory auditor of Soya Ltd, which has branch in Punjab .The Company in general meeting decided to have the accounts of Punjab Branch audited by Mr. Quaid who was appointed without Mr. Prakash's knowledge and consent. State your comments on the above with reasons.

The Company Audit – II

20. How would an auditor vouch/verify the following?
- (i) Issue of Sweat Equity Shares.
 - (ii) Alteration of share capital

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21. "Interest on share capital was paid to the shareholders as the company had a long gestation period before it could become operational". Comment.

Special Audits

22. (i) What special steps will you take into consideration in auditing the receipts from entry fees of an amusement park? Mention any four points specific to the issue.
- (ii) What special steps will you take into consideration in auditing the accounts of a hotel?
23. An audit of Expenditure is one of the major components of Government Audit. In the context of 'Government Expenditure Audit', write in brief, what do you understand by:
- (i) Audit against Rules and Orders
- (ii) Audit of Sanctions
- (iii) Audit against Provision of Funds
- (iv) Propriety Audit
- (v) Performance Audit
24. Explain in detail the duties of Comptroller and Auditor General of India.
25. You have been appointed as the auditor of a Multiplex Cinema House. Draw an audit programme in respect of its Revenue and Expenditure.

SUGGESTED ANSWERS/HINTS

1. (i) **False.** Fraud is an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.
- (ii) **False.** If the fundamental accounting assumptions, viz., Going concern, Consistency and Accrual are followed in preparation and presentation of the financial statements, specific disclosure is not required however if a fundamental accounting assumptions are not followed, the fact should be disclosed.
- (iii) **False.** Non-Governmental Organisations are generally incorporated as societies under the Societies Registration Act, 1860 or as a trust under the India Trust Act, 1882, or under any other law corresponding to these Acts enforced in any part of India. NGOs can also be incorporated as a company under section 25 of the Companies Act, 1956.
- (iv) **False.** Normally, stores and spare parts should be shown under Current Assets in the Balance Sheet as per Schedule VI to the Companies Act, 1956 but if it is in relation to acquisition of fixed assets or construction of fixed asset it will form part of Fixed Asset.

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- (v) **True:** As per notification issued by the DCA, cost auditor should not be the internal auditor of a company for the period for which he is conducting the cost audit. This is because if the cost auditor is internal auditor, he would not be able to discharge his duties properly.
 - (vi) **True:** An undischarged insolvent Chartered Accountant is debarred from the register of members of ICAI, so he cannot continue as the member of ICAI. Thus he is not qualified to be appointed as a statutory auditor.
 - (vii) **True.** As per SA 570 "Going Concern", if financial statements have not been prepared on the going concern basis and adequate disclosure is also not made thereof in the financial statements, the auditor should express a qualified or adverse opinion, as appropriate.
 - (viii) **False.** Management is responsible for devising and maintaining the system of internal control.
 - (ix) **False.** After the examination is over, each voucher should be either impressed with a rubber stamp or initialed so that it may not be presented again in support of another entry.
 - (x) **False.** As per CARO 2003 an auditor is required to report only in case of a substantial part of fixed assets have been disposed off during the year and it has affected the going concern concept.
2. (i) As per SA 220 "Quality Control for Audit Work", an auditor has to perform the following supervisory responsibilities during the audit:
- (a) The auditor is required to monitor the progress of the audit to consider whether:
 - (i) assistants have the necessary skills and competence to carry out their assigned tasks;
 - (ii) assistants understand the audit directions; and
 - (iii) the work is being carried out in accordance with the overall audit plan and the audit programme;
 - (b) The auditor should be informed of and should address significant accounting and auditing questions raised during the audit, by assessing their significance and modifying the overall audit plan and the audit programme as appropriate; and
 - (c) The auditor is required to resolve any differences of professional judgement between personnel and consider the level of consultation that is appropriate.
- (ii) **Identification of Related Parties:** As per SA 550 "Related Parties", the auditor should review information provided by the management of the entity identifying the names of all known related parties. Since it is the management, which is primarily responsible for identification of related parties, SA 550 requires that to identify

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names of all known related parties, the auditor may carry out the following procedures:

- (a) review his working papers for previous years for names of known related parties;
- (b) review the entity's procedures for identification of related parties;
- (c) inquire as to affiliation of directors, key management personnel and officers with other entities, etc.;
- (d) review shareholder records to determine the names of principal shareholders or, if appropriate, obtain a list of principal shareholders from the share register;
- (e) review memorandum and articles of association, minutes of the meetings of shareholders and the board of directors and its committees and other relevant statutory records such as the register of directors' interests;
- (f) inquire of other auditors such as internal auditor, special auditors appointed under any statute, cost auditors, and concurrent auditors of the entity as to their knowledge of additional related parties and review the report of the predecessor auditors;
- (g) review the entity's income tax returns and other information supplied to regulatory agencies; and
- (h) review the joint venture and other relevant agreements entered into by the entity.

In addition, the auditor needs to be alert for transactions which appear unusual in the circumstances and which may indicate the existence of previously unidentified related parties. Examples include–

- Transactions which have abnormal terms of trade, such as, unusual prices, interest rates, guarantees, and repayment terms.
- Transactions which lack an apparent logical business reason for their occurrence.
- Transactions in which substance differs from form.
- Transactions processed in an unusual manner.
- High volume or significant transactions with certain customers or suppliers as compared with others.
- Rendition of services without receipt or provision of management services at no charge.

Finally, the auditor should also obtain a written representation from the management concerning the completeness of information provided regarding the identifications of related parties.

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3. According to **SA 505 “External Confirmations”**, external confirmation is the process of obtaining and evaluating audit evidence through a direct communication from a third party in response to a request for information about a particular item affecting assertions made by management in the financial statements. In other words, we can say the process of external confirmation consist of:

- Selecting the items for which confirmations are needed.
- Designing the form of the confirmation request.
- Communicating the confirmation request to the appropriate third party.
- Obtaining response from the third party.
- Evaluating the information or absence thereof.

Examples of the situations where external confirmations can be used as audit evidence are:

- (a) Bank balance from bankers
- (b) Account receivable balances
- (c) Stocks held by third parties
- (d) Property title deeds held by third parties
- (e) Investments purchased but delivery not taken
- (f) Loan from lenders
- (g) Account payable balances
- (h) Long outstanding share application money.

4. **Communications of audit matters with those charged with governance**

SA 260 deals with communications of audit matters with those charged with governance. The following are the audit matters of governance interest which are to be communicated.

- (a) The general approach and overall scope of the audit, including any expected limitations thereon, or any additional requirements;
- (b) The selection of or changes in, significant accounting policies and practices that have, or could have, a material effect on the entity's financial statements;
- (c) The potential effect on the financial statements of any significant risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements;
- (d) Adjustments to financial statements arising out of audit that have, or could have, a significant effect on the entity's financial statements;
- (e) Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern;

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- (f) Disagreements with management about matters that, individually or in aggregate, could be significant to the entity's financial statements or the auditor's report. These communications include consideration of whether the matter has, or has not, been resolved and the significance of the matter;
 - (g) Expected modifications to the auditor's report;
 - (h) Other matters warranting attention by those charged with governance, such as material weaknesses in internal control, questions regarding management integrity, and fraud involving management;
 - (i) Any other matters agreed upon in the terms of the audit engagement.
5. (i) The person conducting audit is known as the auditor; he makes a report to the person appointing him after due examination of the accounting records and the accounting statement in the form of an opinion on the financial statements. The opinion that he is called upon to express is whether the financial statement reflect a true and fair view.

Qualities of Auditors: The auditor should possess specific knowledge of accountancy, auditing, taxation, etc. which are acquired by him during the course of his theoretical education.

The auditor should also have sufficient knowledge of general principles of law of contracts, partnership; specific statutes and provisions applicable, e.g. Companies Act, 1956, Co-operative Societies Act, etc.; client's nature of business and its peculiar features. Apart from the knowledge acquired by the auditor in the formal manner, the auditor should also possess certain personal qualities such as, tact; caution; firmness; good temper; judgement; patience; clear headedness and commonsense; reliability and trust, etc. Both practical training and theoretical education are equally necessary for the development of professional competence of an auditor for undertaking any kind of audit assignment.

In short, all those personal qualities that goes to make a good person contribute to the making of a good auditor. In addition, he must have the shine of culture for attaining a great height. He must have the highest degree of integrity backed by adequate independence. In fact, SA 200 mentions integrity, objectivity and independence as one of the basic principles.

Auditing is a profession, calling for wide variety of knowledge to which no one has yet set a limit, the most useful part of the knowledge is probably that which cannot be learnt from books because its acquisition depends on the alertness of the mind in applying to ever varying circumstances, the fruits of his own observation and reflection; only he who is endowed with common sense in adequate measure can achieve it.

Lord Justice Lindley in the course of the judgment in the famous *London & General Bank* case had succinctly summed up the overall view of what an auditor should be

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as regards the personal qualities. He said, “an auditor must be honest that is, he must not certify what he does not believe to be true and must take reasonable care and skill before he believes that what he certifies is true”.

- (ii) The objective of an audit of financial statements, prepared within 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 himself that the financial statements reflect a true and fair view of the financial position and operating results of the enterprise. The process of auditing, however, is such that it suffers from certain inherent limitations, i.e., the limitation which cannot be overcome irrespective of the nature and extent of audit procedures. Such limitations arise, first of all, on account of exercise of judgment in the auditor's work in deciding the extent of audit procedures and exercising judgement also in assessing the reasonableness of the judgment and estimates made by the management in preparing the financial statements. Secondly, much of the evidence available to the auditor can enable him to draw only reasonable conclusions therefrom. The audit evidence obtained by an auditor is generally persuasive in nature rather than conclusive in nature. Because of these factors, the auditor can only express an opinion. Therefore, absolute certainty in auditing is rarely attainable. There is also likelihood that some material misstatements of the financial information resulting from fraud or error, if either exists, may not be detected. Another reason which may contribute to inherent limitation is the fact that the entire audit process is generally dependent upon the existence of an effective system of internal control. In such an event, it is clearly evident that there will always be some risk of an internal control system failing to operate as designed. No doubt, internal control system also suffers from certain inherent limitations since any system of internal control is ineffective against fraud involving collusion among employees or fraud committed by management. Certain levels of management may be in a position to override controls; for example, by directing subordinates to record transactions incorrectly or to conceal them, or by suppressing information relating to transactions. Such inherent limitations of internal control system also contribute to inherent limitations of an audit. Therefore, it is quite apparent from above that an audit suffers from certain inherent limitations.
6. According to SA 200A, “Objective and Scope of the Audit of Financial Statements”, preparation of financial statements is the responsibility of the management of an entity. Auditor's responsibility is only to express an opinion on the financial statements based on his audit. Management's responsibilities include
- The maintenance of adequate accounting records and internal controls
 - The selection and application of accounting policies and
 - The safeguarding of the assets of the enterprise.

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Thus, the audit of the financial statements does not relieve management of any of its responsibilities regarding preparation of financial statements. In view of the above the above statements is true.

7. **Evaluating Going Concern Assumption:** According to SA 570, “Going Concern”, while planning and performing audit procedure and in evaluating the results thereof, the auditor should consider the appropriateness of the going concern assumption underlying the preparation of the financial statements. In assessing such a risk, the auditor should examine the following indications.

Financial Indications

- Negative net worth or negative working capital.
- Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment, or excessive reliance on short-term borrowings to finance long-term assets.
- Adverse key financial ratios.
- Substantial operating losses.
- Substantial negative cash flows from operations.
- Arrears or discontinuance of dividends.
- Inability to pay creditors on due dates.
- Difficulty in complying with the terms of loan agreements.
- Change from credit to cash-on-delivery transactions with suppliers.
- Inability to obtain financing for essential new product development or other essential investments.
- Entering into a scheme of arrangement with creditors for reduction of liability.

Operating Indications

- Loss of key management without replacement.
- Loss of a major market, franchise, licence, or principal supplier.
- Labour difficulties or shortages of important supplies.

Other Indications

- Non-compliance with capital or other statutory requirements.
 - Pending legal proceedings against the entity that may, if successful, result in judgments that could not be met.
 - Changes in legislation or government policy.
 - Sickness of the entity under any statutory definition.
8. SA 320 on “Materiality in Planning and Performing an Audit” recommends that the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected

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misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. SA 450 "Evaluation of Misstatements Identified during the Audit" , explains how materiality is applied in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements

While formulating an overall audit plan, SA 300(Revised) on "Planning an Audit of Financial Statement" also requires the auditor to consider the setting of materiality levels for audit purpose right from the initial stages. Accordingly, the auditor has to access the materiality aspect right from the initial stages. Accordingly, the auditor has to access the materiality aspect right from the initial stages of audit planning and throughout the process of conducting the audit till the audit opinions is formulated.

However, the auditor's assessment of materiality may be different at the time of initially planning the engagement than at the time of evaluating the results of his audit procedures. Since audit materiality related to specific amount balances and classes of transactions, helps the auditor decide such questions as what items to examine and whether to use sampling and analytical procedures. This enables the auditor to select audit procedures that, in combination, can be expected to support the audit opinion at an acceptably low degree of audit risk. Such selection of audit procedures would undergo a change as audit work progress. The assessment of materiality and audit risk the stage of evaluating the results of audit procedures would also change because of a change in circumstances or a change in the auditor's knowledge as results of audit. For example, if the audit is planned prior to period end, the auditor will anticipate the results of operations and the financial position. If actual results of operations and financial position are substantially different, the assessment of materiality and audit risk may also change. Additionally the auditor may, in planning the audit work, intentionally set the acceptable cut-off level for verifying individual transactions at a lower level than is intended to be used to evaluate the results of the audit. This may be done to cover a larger number of items and thereby reduce the likelihood of undiscovered misstatements and to provide the auditor with the major of safety when evaluating the effect of misstatements discovered during the audit.

9. (i) As per SA 230 'Audit Documentation', the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached is known as Audit Documentation.(terms such as "working papers" or "workpapers" are also sometimes used)..
- (ii) Working papers
- (a) aid in the planning and performance of the audit;
 - (b) aid in the supervision and review of the audit work; and
 - (c) provide evidence of the audit work performed to support the auditor's opinion.
- (iii) Working papers are the property of the auditor. The auditor may, at his discretion, make portions of or extracts from his working papers available to his client. Auditor should adopt reasonable procedures for custody and confidentiality of his working papers. Requests are sometimes received by the members of the Institute, who

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have/had been performing the duties as the auditors of an enterprise, to provide access to their audit working papers. The requests may be made by the clients or other auditors of the enterprise or its related enterprise such as a parent enterprise. An auditor is not required to provide the client or the other auditors of the same enterprise or its related enterprise such as a parent or a subsidiary, access to his audit working papers. The main auditors of an enterprise do not have right of access to the audit working papers of the branch auditors. In the case of a company, the statutory auditor has to consider the report of the branch auditor and has a right to seek clarifications and/or to visit the branch if he deems it necessary to do so for the performance of the duties as auditor. An auditor can rely on the work of another auditor, without having any right of access to the audit working papers of the other auditor. For this purpose, the term 'auditor' includes 'internal auditor'. As stated above, the client does not have a right to access the working papers of the auditor. However, the auditor may, at his discretion, in cases considered appropriate by him, make portions of or extracts from his working papers available to the client. Therefore XYZ Pvt. Ltd. can not force the auditor to handover his working papers.

10. (i) **Independence of Internal Auditor:** The concept of independence is equally relevant for internal auditor also. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. Internal auditor is part of the management but he evaluates the functioning of the management at different levels.

Therefore, to be efficient and effective, the internal auditor must have adequate independence. It may be noted that by its very nature, the internal audit function cannot be expected to have the same degree of independence as is essential when the external auditor expresses his opinion on the financial information. To ensure his independence he is made responsible directly to the Board of Directors through audit committee. Such a channel of communication provides an independent mode whereby an internal auditor can communicate and share his views on the scope of internal audit, findings, etc. If internal auditor is made subordinate to lower level, his independence will be effected which will affect his functioning and effectiveness. An outsider, like a firm of chartered accountants, if acting as internal auditor, is likely to be more independent than an employee of the organization.

- (ii) Internal control can provide only reasonable but not absolute assurance that its objective relating to prevention and detection of errors/frauds, safeguarding of assets etc., are achieved. This is because it suffers from some inherent limitations, such as:-
- (a) Management's consideration that cost of an internal control does not exceeds the expected benefits.
 - (b) Most controls do not tend to be directed at unusual transactions.
 - (c) The potential of human error due to carelessness, misjudgment and misunderstanding of instructions.

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- (d) The possibility that control may be circumvented through collusion with employees or outsiders.
- (e) The possibility that a person responsible for exercising control may abuse that authority.
- (f) Compliance with procedures may deteriorate because the procedures becoming inadequate due to change in condition.
- (g) Manipulation by management with respect to transactions or estimates and judgements required in the preparation of financial statements.
- (h) Inherent limitations of Audit.

11. (i) **Remuneration paid to Directors**

The following points must be considered while vouching the directors' remuneration in case of a public company and private company which is a subsidiary of a public company –

- (a) *Examine the Entitlement:* The directors are not automatically entitled to remuneration. It is paid either according to the term of articles of association or in accordance with a resolution of the general meeting.
- (b) *Examine Adherence to Legal Provisions:* The auditor should examine adherence to relevant sections of the Act such as –
 - Section 309(3) and (4) which deals with manner of payment of managerial remuneration.
 - Section 309(2) which deals with payment of fees for each meeting of the Board, or a committee thereof, attended by him.
 - Section 198 which has prescribed the overall limit to managerial remuneration.
 - Part II Schedule XIII to the Act that has laid down conditions for payment of remuneration for companies having profits, those having no profits or inadequate profits and companies having negative effective capital.
 - Section 310 which provides for increase in remuneration.

(ii) **Receipt of Capital Subsidy**

- (a) Refer to office copy of application made for the claim of subsidy to ascertain the purpose and the scheme under which the subsidy has been made available.
- (b) Examine documents for the grant of subsidy and note the conditions attached with the same relating to use of subsidy.

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- (c) See that conditions to be fulfilled and other terms especially whether the same is for a specific asset or is for setting up an industrial unit at a specified area/location.
- (d) Check the relevant entries in the books for receipt of subsidy.
- (e) Ensure that compliance requirements of AS 12 on “Accounting for Government Grants” i.e. whether it relates to specific amount or in the form of promoters’ contribution and accordingly accounted for and also compliance with the disclosure requirements.

(iii) Buildings

- (a) Examine the title deeds of buildings to see whether the client holds the title on the balance sheet date. If the property has been mortgaged, the title deeds will be in the possession of the mortgagee, from whom a certificate should be obtained to that effect.
- (b) Verify the original cost of buildings by reference to the deed of conveyance. If the building is constructed by the client, verify the original cost by reference to the cost as recorded in the books of account of the year in which the construction was completed.
- (c) Verify that appropriate depreciation has been provided against the buildings. In case no depreciation is provided on the buildings, a note to this effect should be given in the profit and loss account.
- (d) See the appropriate lease deed, if the building is leasehold, to ascertain the cost, amortisation, etc. Also ensure that all covenants in the lease deed have been fulfilled by the client.
- (e) See that the buildings have been valued at cost less depreciation. If any revaluation has taken place, see the basis of revaluation and ensure that the disclosure of the same has been made. In case of a company, the requirements of Schedule VI have been complied with.
- (f) See that the relevant particulars of buildings have been entered in the fixed assets record maintained by the client.

(iv) Travelling expenses

- (a) It is normally payable to staff according to rules approved by directors or partners. Where no rules exist, the auditor should recommend that these be framed for controlling the expenditure. In the absence of T.A. Rules, the expenditure should be vouched on the basis of actual expenditure incurred. A voucher should be demanded for all items of expenses incurred, except those which are capable of independent verification.
- (b) As regards travelling expenses claimed by directors the auditor should satisfy himself that these were incurred by them in the interest of the business and that the directors were entitled to receive the amount from the business.

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- (c) The voucher for travelling expenses should normally contain the name and designation of the person claiming the amount, particulars of the journey, amount of railway or air fare, amount of boarding or lodging expenses or daily allowance along with the dates and times of arrival and departure from each station and other expenses claimed, e.g., tips, conveyance, etc.
- (d) If the journey was undertaken by air, the counterfoil of the air ticket should be attached to the voucher; this should be inspected. For travel by rail or road, the amount of the fare claimed should be checked from some independent source.
- (e) Particulars of boarding and lodging expenses and in the case of halting allowance the rates thereof should be verified.
- (f) The evidence in regard to sundry expenses claimed is generally not attached to T.A. bills. So long as the amount appears to be reasonable it is usually not questioned.
- (g) All vouchers for travelling expenses should be authorised by some responsible official.
- (h) In case of foreign travel or any extraordinary travel, the expenses, before being paid, should be sanctioned by the Board. The travelling advance taken, if any, should be settled on receipt of final bills. At the year, the amount not settled should be shown appropriately in the Balance Sheet.
- (i) Unless the articles specifically provide or their payment has been authorised by a resolution of shareholders, directors are not entitled to charge travelling expenses for attending Board Meetings.

12. (a) Sale Proceeds of Scrap Material

- (i) Review the internal control on scrap materials, as regards its generation, storage and disposal and see whether it was properly followed at every stage.
- (ii) Ascertain whether the organisation is maintaining reasonable records for the sale and disposal of scrap materials.
- (iii) Review the production and cost records for determination of the extent of scrap materials that may arise in a given period.
- (iv) Compare the income from the sale of scrap materials with the corresponding figures of the preceding three years.
- (v) Check the rates at which different types of scrap materials have been sold and compare the same with the rates that prevailed in the preceding year.
- (vi) See that scrap materials sold have been billed and check the calculations on the invoices.
- (vii) Ensure that there exists a proper procedure to identify the scrap material and good quality material is not mixed up with it.
- (viii) Make an overall assessment of the value of the realisation from the sale of scrap materials as to its reasonableness.

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(b) Trade Marks and Copyrights

- (i) Obtain schedule of Trade Marks and Copyrights duly signed by the responsible officer and scrutinise the same and confirm that all of them are shown in the Balance Sheet.
- (ii) Examine the written agreement in case of assignment of Copyrights and Assignment Deed in case of transfer of trade marks. Also ensure that trade marks and copyrights have been duly registered.
- (iii) Verify existence of copyright by reference to contract between the another and noting down the terms of payment of royalty.
- (iv) See that the value has been determined properly and the costs incurred for the purpose of obtaining the trade marks and copyrights have been capitalised.
- (v) Verify existence of copyright by reference to contact between the author and the entity and to check the payments of royalty made to author.
- (vi) Ascertain that the legal life of the trade marks and copyrights have not expired.
- (vii) Ensure that amount paid for both the intangible assets is properly amortised having regard to appropriate legal and commercial considerations.

(c) Machinery acquired under Hire-purchase system

- (i) Examine the Board's Minute Book approving the purchase on hire-purchase terms.
- (ii) Examine the hire-purchase agreement carefully and note the description of the machinery, cost of the machinery, hire purchase charges, terms of payment and rate of purchase.
- (iii) Assets acquired under Hire Purchase System should be recorded at the full cash value with corresponding liability of the same amount. In case cash value is not readily available, it should be calculated presuming an appropriate rate of interest.
- (iv) Hire purchased assets are shown in the balance sheet with an appropriate narration to indicate that the enterprise does not have full ownership thereof. The interest payable along with each installments, whether separately or included therein should be debited to the interest account and not to the asset account.

(d) Work-in-Progress

The audit procedures regarding work-in-progress are similar to those used for raw materials and finished goods. However, the auditor has to carefully assess the stage of completion of the work-in-progress for assessing the appropriateness of its valuation. For this purpose, the auditor may examine the production/costing records (i.e., cost sheets), hold discussions with the personnel concerned, and obtain expert opinion, where necessary. The auditor may advise his client that where possible the

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work-in-progress should be reduced to the minimum before the closing date. Cost sheets of work-in-progress should be verified as follows:

- (i) Ascertain that the cost sheets are duly attested by the works engineer and works manager.
- (ii) Test the correctness of the cost as disclosed by the cost records by verification of quantities and cost of materials, wages and other charges included in the cost sheets by reference to the records maintained in respect thereof.
- (iii) Compare the unit cost or job cost as shown by the cost sheet with the standard cost or the estimated cost expected.
- (iv) Ensure that the allocation of overhead expenses had been made on a rational basis.

Compare the cost sheet in detail with that of the previous year. If they vary materially, investigate the cause thereof.

13. (i) **Indebtedness to the Company:** As per Section 226(3) (d) of the Companies Act, 1956, a person who is indebted to the company for an amount exceeding Rs.1000/- or who has given any guarantee or provided any security in connection with the indebtedness of any third person to the company for an amount exceeding Rs.1000/- then he is not qualified for appointment as an auditor of a company. Accordingly, Bhim's appointment is not valid and he is disqualified as the amount of debt exceeds Rs.1000. Even if the advance was taken for meeting out travelling expenses particularly before commencement of audit work, his appointment is not valid because in such a case also the auditor shall be indebted to the company. The auditor is entitled to recover fees on a progressive basis only.
- (ii) **Non-Provision of Depreciation:** The machinery is as good as new. The plea of the management of the company not to provide for depreciation on its assets in a particular year on account of the reason that the company has maintained the machinery in an excellent way during the year is not acceptable because as per the definition of depreciation given in AS 6 on "Depreciation Accounting", "depreciation is a measure of the wearing out, consumption or other loss of value of a depreciable asset arising from use, effluxion of time or obsolescence through technology and market changes".
- Thus, depreciation also arises due to efflux of time and, therefore, depreciation should be provided irrespective of whether the assets were maintained very well during the year. Hence, the mere fact that the assets have been maintained excellently during the year is not an acceptable ground for the management not to provide for depreciation.
- (iii) **Ceiling on Number of Company Audits:** According to Section 224(1B) of the Companies Act, 1956 certain chartered accountants cannot hold more than the specified number of company audits. The specified number is to be computed in the following manner:

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In the case of firm of chartered accountants, the specified number should be construed as twenty companies (out of which not more than ten may have a paid-up share capital of rupees twenty five lakhs or more) per such partner who is not in whole-time employment elsewhere.

In the firm of ABC & Co., A is in whole-time employment elsewhere; therefore, he will be excluded in determining the number of company audits that the firm can hold. If B and C do not hold any audits in their personal capacity or as partners of other firms, the total number of company audits that can be accepted by ABC & Co., is forty, out of which not more than twenty companies may have a paid-up share capital of rupees twenty five lakhs or more.

Branch audits are not to be counted in computing this specified number. Therefore, it does not matter whether XYZ Ltd. is having twenty branches. Audits of the accounts of foreign companies are also not to be included within the specified number as such companies are outside the scope of section 224.

Thus, the acceptance of audit of XYZ Ltd. and its twenty branches will accordingly be within specified limits.

- (iv) **Removal of an Auditor:** The removal of auditor Keshav, a chartered accountant, before the expiry of the term of an auditor's appointment by M/s Y Limited is invalid. Sub-section (7) of Section 224 of the Companies Act, 1956 provides that an auditor may be removed from office before the expiry of his term, by the company only in a general meeting after obtaining the prior approval of the Central Government in that behalf.

However, such approval is not required for the removal of the first auditor appointed by the Board of Directors under the proviso to sub-section (5) of Section 224. Since prior approval of the Central Government has not been obtained, the removal of Keshav is not valid and, therefore, Keshav continues to be the auditor. The appointment of Raman in his place is void.

14. (i) Section 209(1) of the Companies Act, 1956 requires that every company shall keep proper books of account with respect to—
- (a) All sums of money received and expended by the company and the matters in respect of which the receipt and expenditure take place;
 - (b) All sales and purchases of goods by the company;
 - (c) The assets and liabilities of the company; and
 - (d) In the case of a company pertaining to any class of companies engaged in production, processing, manufacturing or mining activities, such particulars relating to utilisation of material or labour or to other items of cost as may be prescribed, if such class of companies is required by the Central Government to include such particulars in the books of account:
- (ii) Every company shall keep proper books of account at its registered office. It is however provided in section 209(1) that all or any of the books of account (above)

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may be kept at such other place in India as the Board of directors may decide and when the Board of directors so decides, the company shall, within seven days of the decision, file with the Registrar a notice in writing giving the full address of that other place.

- (iii) Sub section (2) of Section 209 of the Companies Act, 1956 states that where a company has a branch office, whether in or outside India, the company shall be deemed to have complied with the provisions of sub-section (1), if proper books of account relating to the transactions effected at the branch office are kept at that office and proper summarised returns, made up to dates at intervals of not more than three months, are sent by the branch office to the company at its registered office or the other place referred to in sub-section (1) of Section 209.
- (iv) Sub section (3) of Section 209 of the Companies Act, 1956 states that for the purposes of sub-sections (1) and (2) of section 209 , proper books of account shall not be deemed to be kept with respect to the matters specified therein,—
 - (a) if there are not kept such books as are necessary to give a true and fair view of the state of affairs of the company or branch office, as the case may be, and to explain its transactions; and
 - (b) if such books are not kept on accrual basis and according to the double entry system of accounting.

15. Draft Report of an Engagement to Compile Financial Statements - SRS 4410

To

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.....

On the basis of the accounting records and other information and explanations provided to us by the management, we have compiled, the unaudited balance sheet of(*name of the entity*) as at March 31, XXXX and the related profit and loss account and the cash flow statement for the period then ended.

The management of the _____ (*name of the entity*) is responsible for:

- (a) Completeness and accuracy of the underlying data and complete disclosure of all material and relevant information to the accountant.
- (b) Maintaining adequate accounting and other records and internal controls and selecting and applying appropriate accounting policies;
- (c) Preparation and presentation of financial statements in accordance with the applicable laws and regulations, if any.
- (d) Establishing controls to safeguard the assets of the entity and preventing and detecting frauds or other irregularities.

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- (e) Establishing controls for ensuring that the activities of the entity are carried out in accordance with the applicable laws and regulations and preventing and detecting any non compliance.

The compilation engagement was carried out by us in accordance with the Standard on Related Services (SRS) 4410 , “Engagements to Compile Financial Information”, issued by the Institute of Chartered Accountants of India.

The balance sheet and the profit and loss account are in agreement with the books of account. We have not audited or reviewed these financial statements and accordingly express no opinion thereon.

For ABC & Co.

Chartered Accountants

.....

Signature

(Name of the accountant and membership number)

Date:

Place:

16. In the light of CARO 2003, the role of auditor is to report on the below mentioned aspects in following manner:

(i) Fraud.

The auditor should state whether any fraud on or by the company has been noticed or reported during the year, if yes, the nature and the amount involved.

(ii) Default in repayment of dues to a financial institution.

When the company has defaulted in repayment of dues to a financial institution or bank or debenture holders then the auditor has to state the period and amount of default.

(iii) Guarantees for loan taken by others.

The auditor should comment whether the company has given any guarantee for loans taken by others from banks, financial institutions, the terms and conditions of which are prejudicial to the interest of the company.

17. According to Section 205A, of the Companies Act, 1956 it is compulsory for a company to transfer the amount of dividend, which remains unpaid or unclaimed within 30 days of the declaration, to a special bank A/c to be opened in any scheduled bank.

Furthermore, if the money so transferred to the unpaid dividend remains unclaimed for a period of seven years from the date of such transfer, such money should be transferred to Investor Education and Protection Fund established under Section 205C of the Act.

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In the instant case, action of the company in transferring the amount after 3 years from unpaid dividend A/c to Profit & Loss Account is non-compliance of the section and may invite imprisonment and/or fine. The auditor should advise the board of directors of ABC Ltd., not to transfer the said amount to its Profit & Loss Account in violation of Section 205A and if the board of directors does not agree, he should qualify his report.

18. (i) The company Annual General Meeting should appoint the auditors themselves. However, it is not allowed for the AGM to delegate power to the Board of Directors for the following reasons:
- (a) There are no express provisions which allows delegation { except section 228(3) (a) permits delegation of authority to the Board to appoint Branch auditors}.
 - (b) The only situations where the Board of Directors are permitted to appoint Auditors are:
 - Appointment of first auditors
 - Filling up casual vacancy except when the casual vacancy caused due to resignation of auditor.
 - (c) The aim of the act is to ensure that members can safeguard their financial interests.
- (ii) **Yes.** Section 224(8) (a) states that the remuneration of the auditors of a company may be fixed by the Board or the Central Government if an auditor is appointed by the Board of directors or Central Government, as the case may be.
19. As per section 228(3)(a), where a company in general meeting decides to have the accounts of a branch audited otherwise than by the company's auditor, the company in that meeting shall do either of the following two things:-
- (a) appoint a person qualified for appointment as auditor of the company under section 226, or if the branch is situated outside India, a person qualified under section 226 or accountant duly qualified to be auditor under the laws of that country, or
 - (b) authorise the Board of directors to appoint such a person in consultation with the company's auditor.

So, it is clear that if a company itself appoints the branch auditor there is no need for consultation with the statutory auditor (as is the case in the present problem). The need for consultation with company's auditor arises only when the Board of directors appoints the branch auditor in pursuance of the meeting's authorization under section 228(3) (a). In that case, the Board of Directors should appoint the branch auditor in consultation with the company's auditor.

20. (i) Issue of Sweat Equity Shares

The Companies (Amendment) Act, 1999 recognised that in the wake of globalisation of corporate sector, the employees will have to be rewarded suitably to share in the growth of company. By insertion of section 79A, the employees may be compensated in the

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form of “sweat equity shares”. As per explanation to section 79A, the expression “sweat equity shares” means equity shares issued by the company to employees or directors at a discount or for consideration other than cash for providing know-how or making available right in the nature of intellectual property rights or value additions, by whatever name called. The auditor may see that the sweat equity shares issued by the company are of a class of shares already issued and following conditions are fulfilled:

- (a) The issue of sweat equity shares is authorised by a special resolution passed by the company in the general meeting;
- (b) The resolution specifies the number of shares, current market price, consideration, if any, and the class or classes of directors or employees to whom such equity shares are to be issued;
- (c) Not less than one year has, at the date of the issue elapsed since the date on which the company was entitled to commence business;
- (d) The sweat equity shares of a company whose equity shares are listed on a recognised stock exchange are issued in accordance with the regulations made by the Securities Exchange Board of India in this behalf:

Provided that in the case of a company whose equity shares are not listed on any recognised stock exchange, the sweat equity shares are issued in accordance with the guidelines as may be prescribed.

For the purposes of this sub-section, the expression “a company” means the company incorporated, formed and registered under this Act and includes its subsidiary company incorporated in a country outside India.

(ii) **Alteration of Share Capital**

A company, having a share capital, if so authorised by its Articles, may alter its share capital by an ordinary resolution without confirmation of the Court, in any of the manners authorised by Section 94. Each alteration made should be noted in every copy of the Memorandum of Articles issued subsequent to date of the alteration (Section 40). The auditor’s duties in the circumstances shall be:

- (a) to verify that the alteration of capital is authorised by the Articles;
- (b) to inspect the minutes of the shareholders authorising the alteration;
- (c) to obtain Allotment Lists containing details of the new holdings of share or stock by each member and to verify the same with the entries.
- (d) to inspect the directors’ resolution in regard to allotment, consolidation, conversion or sub-division passed pursuant to the resolution of the members;
- (e) to examine the cancelled share certificates, if any, and agree the same with the counterfoils of new certificates issued;
- (f) to see that the procedure, prescribed by the Articles in this regard, has been complied with;
- (g) to verify that the share capital account is correctly shown in the Balance Sheet; and

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- (h) to see that the necessary intimation to the Registrar contemplated by Section 95 has been sent.
- 21.** Section 208 of the Companies Act, 1956 permits payment of interest to shareholders out of capital, where there is a long gestation period in the following manner:
1. Where any shares in a company are issued for the purpose of raising money to defray the expenses of the construction of any work or building, or the provision of any plant, which cannot be made profitable for a lengthy period, the company may—
 - (a) pay interest on so much of that share capital as is for the time being paid up, for the period and subject to the conditions and restrictions mentioned in sub-sections (2) to (7); and
 - (b) charge the sum so paid by way of interest, to capital as part of the cost of construction of the work or building, or the provision of the plant.
 2. No such payment shall be made unless it is authorised by the articles or by a special resolution.
 3. No such payment, whether authorised by the articles or by special resolution, shall be made without the previous sanction of the Central Government.

The grant of such sanction shall be conclusive evidence, for the purposes of this section, that the shares of the company, in respect of which such sanction is given, have been issued for a purpose specified in this section.
 4. Before sanctioning any such payment, the Central Government may, at the expense of the company, appoint a person to inquire into, and report to the Central Government on, the circumstances of the case; and may, before making the appointment, require the company to give security for the payment of the costs of the inquiry.
 5. The payment of interest shall be made only for such period as may be determined by the Central Government; and that period shall in no case extend beyond the close of the half-year next after the half-year during which the work or building has been actually completed or the plant provided.
 6. The rate of interest shall, in no case, exceed twelve per cent per annum or such other rate as the Central Government may, by notification in the Official Gazette, direct.
 7. The payment of the interest shall not operate as a reduction of the amount paid up on the shares in respect of which it is paid.
 8. Nothing in this section shall affect any company to which the Indian Railway Companies Act, 1895 (10 of 1895), or the Indian Tramways Act, 1902 (4 of 1902) applies.
- 22. (i) Audit of receipts from Entry Fees of an Amusement Park**
- (a) Evaluate the internal control system regarding entry and collection for entry tickets including rotation of staff.
 - (b) Ensure that tickets are pre numbered.

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- (c) Ensure that the deposit of cash collected into the bank account very same next day.
- (d) Compute analytical ratios in respect of the receipts pattern i.e. on weekends, holidays, etc. and make comparisons to draw conclusions.

(ii) Audit of accounts of Hotel.

The business of running a hotel is very much dissimilar to running an industrial unit for manufacturing of products. It is a service-oriented industry. The business is characterized by handling of large amounts of liquid cash, stock of foods providing a variety of services, and keeping watch on customers to ensure that they do not leave hotel without settling the dues. In view of these, the following matters require special attention by the auditor.

1. *Internal Control:* Pilferage is one of the greatest problems in any hotel and it is extremely important to have a proper internal control to minimize the leakage. The following points should be checked:
 - (a) Effectiveness of arrangement regarding receipts and disbursements of cash.
 - (b) Procedure for purchase and stocking of various commodities and provisions.
 - (c) Procedure regarding billing of the customers in respect of room service, telephone, laundry, etc.
 - (d) System regarding recording and physical custody of edibles, wines, cigarettes, crockery and cutlery, linen, furniture, carpets, etc.
 - (e) Ensure that trading accounts are prepared preferably weekly, for each sales point. A scrutiny of the percentage of profit should be made, and any deviation from the norms is to be investigated.
2. *Room Sales and Cash Collections*
 - (a) There are various sales points scattered in a hotel and sales are both for cash and credit. The control over cash is very important. The charge for room sales is made from the guest register, and tests are to be carried out to ensure that the correct numbers of guests are charged for the exact period of stay. Any difference between the rate charged to the guests and standard room rent is to be investigated to see that it is properly authorized.
 - (b) The total sales reported with the total bills issued at each sales point have to be reconciled.
 - (c) Special care must be taken in respect of bills issued to customers who are staying in the hotel, because they may not be required to pay the bills immediately in cash but at a future date or by credit cards. Billing is to be done room-wise. It must be ensured that all customers pay their bills on leaving the hotel or within specified dates.
3. *Stock:* the stocks in a hotel are all saleable item like food and beverages. Therefore, following may be noted in this regard:

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- (a) All movement and transfer of stocks must be properly documented.
 - (b) Areas where stocks are kept must be kept locked and the key retained by the departmental manager.
 - (c) The key should be released only to trusted personnel and unauthorized persons should not be permitted in the stores area.
 - (d) Many hotels use specialized professional valuers to count and value the stocks on a continuous basis throughout the year.
 - (e) The auditor should ensure that all stocks are valued at the year end and that he should himself be present at the year end physical verification, to the extent practicable, having regard to materiality consideration and nature and location of inventories
4. *Fixed Assets:* The fixed assets should be properly depreciated, and the Fixed Assets Register should be updated.
5. *Casual Labour:* In case the hotel employs a casual labour, the auditor should consider, whether adequate records have been maintained in this respect and there is no manipulation taking place. The wages payment of the casual labour must also be checked thoroughly.
6. The compliance with all statutory provisions, and compliance with the Foreign Exchange Regulations must also be verified by the auditor, especially because hotels offer facility of conversion of foreign exchange to rupees.
7. Other special aspects are to be verified as under
- (a) Consumption shown in various physical stock accounts must be traced to the customers' bills to ensure that all issues to the customers have been billed.
 - (b) All payments to the foreign collaborator, if any, are to be checked.
 - (c) Expenses and receipts are to be compared with figures of the previous year, having regard to the average occupancy of visitors and changes in rates.
 - (d) Special receipts on account of letting out of auditorium, banquet hall, spaces for shops, boutiques, and special shows should be verified with the arrangements made.
 - (e) In depth check should be carried out on the customers' ledgers to verify that all charges have been properly made and recovered.
 - (f) The occupancy rate should be worked out, and compared with other similar hotels, and with previous year. Material deviations should be investigated.
 - (g) Expenses for painting, decoration, renovation of building, etc. are to be properly checked.
 - (h) It is common that hotels get their bookings done through travel agents. The auditor should ensure that the money is recovered from the travel agents as

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per credit terms allowed. Commission paid to travel agents should be checked by reference to the agreement on that behalf.

- (i) Apart from control over stock of edibles, control over issue and physical stock of linen crockery, cutlery, glassware, silver, toilet items, etc. should be verified.
- (j) The auditor should verify the restaurant bills with reference to KOT (Kitchen order Ticket).
- (k) The auditor should ensure that all taxes have been included in the client's bills.
- (l) Computation and payment of salaries and wages vis-a-vis number of employees must be checked.

23. Government Expenditure Audit

Audit of government expenditure is one of the major components of government audit conducted by the office of C & AG. The basic standards set for audit of expenditure are to ensure that there is provision of funds authorised by competent authority fixing the limits within which expenditure can be incurred. Briefly, these standards are explained below:

- (i) **Audit against Rules & Orders:** The auditor has to see that the expenditure incurred conforms to the relevant provisions of the statutory enactment and is in accordance with the financial rules and regulations framed by the competent authority.
- (ii) **Audit of Sanctions:** The auditor has to ensure that each item of expenditure is covered by a sanction, either general or special, accorded by the competent authority, authorising such expenditure.
- (iii) **Audit against Provision of Funds:** It contemplates that there is a provision of funds out of which expenditure can be incurred and the amount of such expenditure does not exceed the appropriations made.
- (iv) **Propriety Audit:** It is required to be seen that the expenditure is incurred with due regard to broad and general principles of financial propriety. The auditor aims to bring out cases of improper, avoidable, or in fructuous expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations. Audit aims to secure a reasonably high standard of public financial morality by looking into the wisdom, faithfulness and economy of transactions.
- (v) **Performance Audit:** This involves that the various programmes, schemes and projects where large financial expenditure has been incurred are being run economically and are yielding results expected of them. Efficiency-cum-performance audit, wherever used, is an objective examination of the financial and operational performance of an organisation, programme, authority or function and is oriented towards identifying opportunities for greater economy, and effectiveness.

24. Duties of C&AG: The Comptroller & Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 lays down duties of the C&AG as under:

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- (i) Compile and submit Accounts of Union and States - The C&AG shall be responsible for compiling the accounts of the Union and of each State from the initial and subsidiary accounts rendered to the audit and accounts offices under his control by treasuries, offices or departments responsible for the keeping of such account.
- (ii) General Provisions Relating to Audit - It shall be the duty of the C&AG –
 - (a) to audit and report on all expenditure from the Consolidated Fund of India and of each State and of each Union Territory having a Legislative Assembly and to ascertain whether the moneys shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been applied or charged and whether the expenditure conforms to the authority which governs it;
 - (b) to audit and report all transactions of the Union and of the States relating to Contingency Funds and Public Accounts;
 - (c) to audit and report on all trading, manufacturing profit and loss accounts and balance-sheets and other subsidiary accounts kept in any department of the Union or of a State.
- (iii) *Audit of Receipts and Expenditure* - Where any body or authority is substantially financed by grants or loans from the Consolidated Fund of India or of any State or of any Union Territory having a Legislative Assembly, the Comptroller and Auditor General shall, subject to the provisions of any law for the time being in force applicable to the body or authority, as the case may be, audit all receipts and expenditure of that body or authority and to report on the receipts and expenditure audited by him.
- (iv) *Audit of Grants or Loans* - Where any grant or loan is given for any specific purpose from the Consolidated Fund of India or of any State or of any Union Territory having a Legislative Assembly to any authority or body, not being a foreign State or international organisation, the Comptroller and Auditor General shall scrutinise the procedures by which the sanctioning authority satisfies itself as to the fulfillment of the conditions subject to which such grants or loans were given and shall for this purpose have right of access, after giving reasonable previous notice, to the books and accounts of that authority or body.
- (v) *Audit of Receipts of Union or States* - It shall be the duty of the Comptroller and Auditor General to audit all receipts which are payable into the Consolidated Fund of India and of each State and of each Union Territory having a Legislative Assembly and to satisfy himself that the rules and procedures in that behalf are designed to secure an effective check on the assessment, collection and proper allocation of revenue and are being duly observed and to make this purpose such examination of the accounts as he thinks fit and report thereon.
- (vi) *Audit of Accounts of Stores and Stock* - The Comptroller and Auditor General shall have authority to audit and report on the accounts of stores and stock kept in any office or department of the Union or of a State.

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- (vii) *Audit of Government Companies and Corporations* - The duties and powers of the Comptroller and Auditor General in relation to the audit of the accounts of government companies shall be performed and exercised by him in accordance with the provisions of the Companies Act, 1956.

25. Audit Programme of Multiplex

1. Peruse the Memorandum of Association and Articles of Association of the entity.
2. Ensure the object clause permits the entity to engage in this type of business.
3. In the case of income from sale of tickets:
 - (a) Verify the control system as to how it is ensured that the collections on sale of tickets of various shows are properly accounted.
 - (b) Verify the system of relating to on line booking of various shows and the system of realization of money.
 - (c) Check that there is overall system of reconciliation of collections with the number of seats available for different shows on a day.
4. Verify the internal control system and its effectiveness relating to the income from cafes shops, pubs etc., located within the multiplex.
5. Verify the system of control exercised relating to the income receivable from advertisements exhibited within the premises and inside the hall such as hoarding, banners, slides, short films etc.
6. Verify the system of collection from the parking areas in respect of the vehicles parked by the customers.
7. In the case of payment to the distributors verify the system of payment which may be either through out right payment or percentage of collection or a combination of both. Ensure at the time of settlement any payment of advance made to the distributor is also adjusted against the amount due.
8. Verify the system of payment of salaries and other benefits to the employees and ensure that statutory requirements are complied with.
9. Verify the payments effected in respect of the maintenance of the building and ensure the same is in order.