

MOCK TEST PAPER – 1
INTERMEDIATE (IPC) : GROUP – II
PAPER – 6: AUDITING AND ASSURANCE
SUGGESTED ANSWERS/HINTS

1. (a) (i) Basic elements of the Auditor's Report:

As per SA 700(Revised), "Forming an Opinion and Reporting on Financial Statements", the auditor's report includes the following basic elements, ordinarily, in the following layout:

- (i) Title;
- (ii) Addressee;
- (iii) Introductory Paragraph
- (vi) Management's Responsibility for the Financial Statements.
- (v) Auditor's Responsibility
- (vi) Auditor's Opinion
- (vii) Other Reporting Responsibilities
- (viii) Signature of the Auditor
- (ix) Date of Auditor's Report.
- (x) Place of signature

(ii) Responsibilities of joint Auditors

SA 299 on Responsibilities of Joint Auditors requires that joint auditors should by mutual discussion divide the audit work among themselves. It further states that each joint auditor is responsible only for the work allocated to him, whether or not he has prepared separate report on the work performed by him.

On the other hand, all joint auditors are jointly and severally responsible:

- (i) in respect of the work which is not divided among joint auditors and is carried out by all of them;
- (ii) in respect of decision taken by all joint auditors concerning the nature, timing or extent of the audit procedures to be performed by any of the joint auditors.
- (iii) in respect of matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors;

- (iv) for examining that the financial statements of the entity comply with the disclosure requirements of the relevant statute; and
 - (v) for ensuring that the audit report complies with requirements of the statute.
- (b) (i) **Revaluation of Fixed Assets:** The revaluation of fixed assets is a normally accepted practice which involves writing up the book value of fixed assets. AS 10 on 'Accounting for Fixed Assets' requires that "an increase in net book value arising on revaluation of fixed assets is normally credited directly to owner's interests under the heading of revaluation reserves and is regarded as not available for distribution". Thus, creation of revaluation reserves does not result into any cash inflows and represents unrealised gains. However, brought forward losses are in the nature of revenue losses. As a matter of prudence, revenue losses can be adjusted against revenue reserves only and not the capital reserves. Therefore, the accounting treatment followed by the entity is not correct and the auditor should qualify the audit report by mentioning the above fact.
- (ii) As per AS 6 on Depreciation Accounting, assessment of depreciation and the amount to be charged in respect thereof in an accounting year/period are usually based on the following three factors:-
- (i) Historical Cost.
 - (ii) Expected useful life of the asset.
 - (iii) Estimated residual value of the asset.

If the management's estimate of the useful life of an asset is shorter than that envisaged under the relevant statute (Companies Act) the depreciation is appropriately computed by applying a higher rate. The depreciation rate provided in Schedule XIV is the minimum rate and a company can charge higher than those prescribed.

Hence, in the instance case decision of Lehar Ltd., to write off the cost of water treatment plant over four years is absolutely correct and as per AS-6.

However, the company has wrongly charged full year's depreciation during 2012-13 instead of half year's depreciation as per requirement of Schedule XIV. The auditor should highlight this to the company and ask to rectify the same.

2. (a) As per SA 240, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. It is important that management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to

commit fraud because of the likelihood of detection and punishment. Such a system reduces but does not eliminate the possibility of fraud and error. An auditor conducting an audit in accordance with SAs is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements will not be detected, even though the audit is properly planned and performed in accordance with the SAs. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error. This is because fraud may involve sophisticated and carefully organized schemes designed to conceal it, such as forgery, deliberate failure to record transactions, or intentional misrepresentations being made to the auditor. Such attempts at concealment may be even more difficult to detect when accompanied by collusion. The subsequent discovery of material misstatement of the financial information resulting from fraud or error existing during the period covered by the auditor's report does not, in itself, indicate that whether the auditor has adhered to the basic principles governing an audit. The question of whether the auditor has adhered to the basic principles governing an audit (such as performance of the audit work with requisite skills and competence, documentation of important matters, details of the audit plan and reliance placed on internal controls, nature and extent of compliance and substantive tests carried out, etc.) is determined by the adequacy of the procedures undertaken in the circumstances and the suitability of the auditor's report based on the results of these procedures. The liability of the auditor for failure to detect fraud exists only when such failure is clearly due to not exercising reasonable care and skill. Thus, in the instant case after the completion of the statutory audit, if a fraud has been detected, the same by itself cannot mean that the auditor did not perform his duty properly. If the auditor can prove with the help of his papers (documentation) that he has followed adequate procedures necessary for the proper conduct of an audit, he cannot be held responsible for the same. If however, the same cannot be proved, he would be held responsible.

- (b) According to the SA 540, "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosure" accounting estimate means an approximation of a monetary amount in the absence of a precise means of measurement. This term is used for an amount measured at fair value where there is estimation uncertainty, as well as for other amounts that require estimation. SA 540 addresses only accounting estimates involving measurement at fair value, the term "fair value accounting estimates" is used.

Because of the uncertainties inherent in business activities, some financial statement items can only be estimated. Further, the specific characteristics of an asset, liability or component of equity, or the basis of or method of measurement prescribed by the financial reporting framework, may give rise to the need to

estimate a financial statement item. Some financial reporting frameworks prescribe specific methods of measurement and the disclosures that are required to be made in the financial statements, while other financial reporting frameworks are less specific.

Some accounting estimates involve relatively low estimation uncertainty and may give rise to lower risks of material misstatements, for example:

- Accounting estimates arising in entities that engage in business activities that are not complex.
- Accounting estimates that are frequently made and updated because they relate to routine transactions.

For some accounting estimates, however, there may be relatively high estimation uncertainty, particularly where they are based on significant assumptions, for example:

- Accounting estimates relating to the outcome of litigation.
- Fair value accounting estimates for derivative financial instruments not publicly traded.

Additional examples of accounting estimates are:

- Allowance for doubtful accounts.
- Inventory obsolescence.
- Warranty obligations.
- Depreciation method or asset useful life.
- Provision against the carrying amount of an investment where there is uncertainty regarding its recoverability.
- Outcome of long term contracts.

Financial Obligations/Costs arising from litigation settlements and judgments.

3. (a) **Selection of Audit Sample:** Audit Sampling means the application of audit procedures to less than 100% of the items within an account balance or class of transactions to enable the auditor to obtain and evaluate audit evidence about some characteristics of the items selected in order to form or assist in forming a conclusion concerning the population.

The audit sample collection on a random basis ensures that all items in the population have an equal chance of selection, for example, by use of random number tables. This method is considered appropriate, provided the population to be sampled consists of reasonably similar units and fall within a reasonable range.

Thus, strictly speaking, in case of selection of an audit sample on the basis of random tables there is no need to follow any other statistical process for selection of sample.

In fact, selection of an audit sample on random basis is the pre-requisite for application of statistical techniques. However, certain methods such as Haphazard Sampling and Block Sampling may result in selection of a sample which is not free from bias.

Therefore, whenever audit sample selection has been done on a random basis i.e. selection of a representative sample, no statistical process for selection of sample needs to be followed.

- (b) **Relationship between materiality and audit risk:** SA 320 on 'Materiality in Planning and Performing an Audit' requires that the auditor should consider materiality and its relationship with audit risk when conducting an audit. Materiality depends on the size and the nature of the items judged in the particular circumstances of its misstatement.

The audit should be planned so that audit risk is kept at an acceptably low level. There is an inverse relationship between Materiality and the degree of audit risk. Higher the materiality level the lower the audit risk and vice-versa. After the auditor has assessed the inherent and control risks, he should consider the level of detection risk that he is prepared to accept and, based upon his judgment, select appropriate substantive audit procedures. If the auditor does not perform any substantive procedures, detection risk, that is, the risk that the auditor will fail to detect a misstatement, will be high.

The auditor's assessment of audit risk may change during the course of an audit according to the need and development of the circumstances.

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

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

- (i) The system is simple and uses generalised software that is well tested and

widely used.

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

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

- (a) It is not beneficial for complex systems of large scale in very large multi unit, multi locational companies, having various inter unit transactions. It can be used only in case of small organisations having simple operations.
- (b) It is difficult for the auditor to assess the degradation in the system in case of change in environment, and whether the system can cope with a changed environment

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

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

The auditor can use the computer to test:

- (a) the logic and controls existing within the system; and

(b) the records produced by the system.

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

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

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

The primary advantage of this approach is that the auditor has increased power to effectively test a computer system. The range and capability of tests that can be performed increases and the auditor acquires greater confidence that data processing is correct. By examining the system's processing, the auditor also can assess the system's ability to cope with environment change.

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

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

4. (a) **Contingent liabilities:** Accounting Standard (AS) 29 on 'Provisions, Contingent Liabilities and Contingent Assets', defines '*Contingent Liability*' as a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or

as a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or a reliable estimate of the amount of the obligation cannot be made.

The auditor may take following steps:

- (i) Inspect the minute books of the company to ascertain all contingent liabilities known to the company.
 - (ii) Examine the contracts entered into by the company and the likelihood of contingent liabilities emanating therefrom.
 - (iii) Scrutinise the lawyer's bills to track unreported contingent liabilities.
 - (iv) Examine bank letters in respect of bills discounted and not matured.
 - (v) Examine bank letters to ascertain guarantees on behalf of other companies or individuals.
 - (vi) Discuss with various functional officers of the company about the possibility of contingent liability existing in their respective field.
 - (vii) Obtain a certificate from the management that all known contingent liabilities have been included in the accounts and they have been properly disclosed.
 - (viii) Ensure that proper disclosure has been made as per Revised Schedule VI to the Companies Act, 1956 and AS 29, "Provisions, Contingent Liabilities and Contingent Assets".
- (b) **Endowment Policies**
- (i) Ascertain the specific purpose for which the endowment policy is taken, e.g., Sinking Fund policies for redemption of debentures, redemption of leases or policies taken for other similar purposes, etc.
 - (ii) Verify the terms and conditions of policies and ensure that all such conditions are in force and being followed.
 - (iii) Check that premium has been deposited in time and the policy is in force.
 - (iv) Examine that proper disclosures have been made in the financial statements in respect of items for which the policy has been taken.
- (c) **Advertisement Expenses:** The following steps may be taken by the auditor to vouch/verify the different items:
- (i) Ascertaining the value of advertisement expenses to ensure that the said expense has been properly allocated.
 - (ii) Examining that such expenses relate to the client's business.
 - (iii) Review and examination of the complete list of media of advertisement indicating the dates, location, timing, etc., along with the amounts paid in respect of each category.
 - (iv) Examination of the receipts for amounts paid.
 - (v) Reviewing the contracts with the different agencies and ensuring that the billing conforms to the term and conditions specified therein.

(vi) Ensuring that all such outstanding expenses have been properly accounted for.

(d) Wages Paid to Seasonal Labourers

- (i) Ascertain and evaluate the internal control system for recruitment and usage of seasonal labourers.
- (ii) Examine that these labourers are hired on proper authority and the rates of pay are authorized at appropriate levels.
- (iii) Ensure that the attendance is properly checked by the Time Keeping Department.
- (iv) Check that the certificate regarding work done by the labourers has been given by the proper person, in case the labourers have been appointed on a per piece basis.
- (v) Check the computation of wages payable to the labourers, after taking into account the deductions.
- (vi) Confirm that all the payment to the labourers have been acknowledged.
- (vii) See the time and job records, to ensure that the labourers have been paid for time worked. See the treatment of abnormal idle time.
- (viii) Reconcile the number of seasonal labourers on payroll as per the Personnel Department's records vis-à-vis the number of labourers to whom the wages have been paid, to ensure that there are no ghost workers. This assumes greater importance, if the seasonal labourers are hired on temporary basis, and not on permanent payroll.

5. (a) Appointment of Auditors

The implication of shareholding of 51% of paid-up capital by various co-operative and term lending institutions is two fold as discussed below:

In terms of Section 224A of the Companies Act, 1956, a company in which not less than 25% of the subscribed share capital is held, whether singly or in any combination, by:

- (i) a public financial institution or a Government company or the Central Government or any state government; or
- (ii) any financial or other institution established by any Provincial or State Act in which a State Government holds not less than 51% of subscribed share capital; or
- (iii) a nationalised bank or an insurance company carrying on general insurance business,

the appointment or re-appointment of an auditor in the Annual General Meeting shall be made only by passing a special resolution.

In this case, NM & Co. were appointed as auditors of the public limited company where 51% of the paid-up share capital was held by co-operatives and term lending institutions. Presuming that such institutions are covered by the aforesaid criteria, passing a special resolution was necessary. Hence, the appointment of NM & Co., chartered accountants, was null and void provided such institutions are covered by Section 224A.

Section 619 B read with Section 619 of the Companies Act, 1956 requires that a company in which the central government or any state government or any government company or any government corporation hold either singly or jointly not less than 51% of the paid-up share capital, the auditors of such companies are to be appointed by the central government on the advice of the Comptroller and Auditor General of India.

However, the co-operative and term lending institutions are not covered within the definition of corporation/institution owned by the Central/State Government. Accordingly, the provisions of Section 619 will not apply in this case, although the co-operatives and term lending institutions hold majority share capital.

- (b) **Purchase of goods on credit by the auditor:** Section 226(3) of the Companies Act, 1956 specifies that a person shall be disqualified to act as an auditor if he is indebted to the company for an amount exceeding one thousand rupees.

This provision aims to ensure that the auditor is independent and under no financial obligation to the company.

Where an auditor purchases goods or services from a company audited by him on credit, he is definitely indebted to the company and if the amount outstanding exceeds rupees one thousand, he is disqualified for appointment as an auditor of the company.

It will not make any difference if the company allows him the same period of credit as it allows to other customers on the normal terms and conditions of the business. The auditor cannot argue that he is enjoying only the normal credit period allowed to other customers. In fact, in such a case he has become indebted to the company and consequently he is deemed to have vacated his office.

- (c) **Matters to be reported by auditor under section 227 (3):** Under Section 227(3) of the Companies Act, 1956, the report of the auditor shall state -
- (i) Whether he has obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purposes of his audit;
 - (ii) Whether, in his opinion, proper books of accounts as required by law have been kept by the company so far as appears from his examination of those books; whether proper returns adequate for the purposes of his audit have been received from the branches not audited by him;

- (iii) Whether the report on the accounts of the branches audited by branch auditors under Section 228 has been forwarded to him and how he had dealt with the same in preparing the auditor's report;
 - (iv) Whether the company's balance sheet and profit and loss account are in agreement with the books of accounts and returns;
 - (v) Whether in his opinion the profit and loss account and balance sheet comply with the accounting standards referred to in Section 211(3C);
 - (vi) In thick type or in italics the observations or comments of auditors which have any adverse effect on the functioning of the company;
 - (vii) Whether any director is disqualified from being appointed as director under section 274(1)(g);
 - (viii) Whether the cess payable under Section 441A had been paid and if not details of amount of cess not so paid.
6. (a) **Buy-back of shares by the company**
- (i) Ensure that the buy-back has been done only out of the company's free reserves or its securities premium account or out of the proceeds of any shares or other specified securities other than out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities.
 - (ii) Check authorisation in the Articles of Association which is a prerequisite of any buyback.
 - (iii) Examine special resolution passed in the general meeting authorising buyback.
 - (iv) Ascertain that quantum of buy-back is either equal to or less than 25% of the total paid up share capital and free reserves but in case of buy-back of equity shares in any financial year it should not exceed 25% of its total paid-up equity capital in that financial year.
 - (v) Check that the debt equity ratio should not be more than 2 : 1 except in cases where Central Government allows higher ratio for a class or classes of companies.
 - (vi) Ensure that shares or other specified securities to be bought back should be fully paid-up.
 - (vii) Buy-back should be completed within 12 months from the date of passing the special resolution.
 - (viii) Ascertain that declaration of solvency in Form No.4A was filed with the SEBI and/or the Registrar of Companies before making buy-back but subsequent the passing of the special resolution.

- (ix) See that SEBI (buy-back of securities) Regulations, 1998 have been followed by listed company.
- (b) **Splitting of shares of face value from ₹ 10 to ₹ 1 per share**
 - (i) Confirm that alteration was authorised by articles.
 - (ii) Verify the minutes of the Board meeting and ordinary resolution passed in the general meeting in which the approval of members is obtained.
 - (iii) Verify also with reference to Form No.5 filed with the ROC.
 - (iv) Verify that alteration had been effected in copies of Memorandum Articles, etc.
 - (v) Verify that proper accounting entries have been passed. Register of members may also be checked to see that the necessary alteration have been effected therein.
- (c) 1. **General**
 - (i) Study the constitution under which the charitable institution has been set up whether under the Society Registration Act, as a trust or as a company limited by guarantee. Verify whether it is managed as contemplated by the law and rules and regulations made thereunder.
 - (ii) Examine the internal control structure particularly with reference to admission to hostel, expenses incurred on different kinds of activities.
 - (iii) Verify the broad nature of expenses likely to be incurred with reference to the previous year's annual audited accounts.
- 2. **Verification of the receipts**
 - (i) Check the amounts received on account of, monthly rentals, etc., and receipts issued for the same.
 - (ii) Ascertain that there is adequate internal control over the issue of official receipts, custody of unused receipt books, printing of receipt books, etc.
 - (iii) Cross - tally the rent received along with the number of students (from the student register) staying in the hostel during the year.
 - (v) Check the amounts received from additional services rendered like guest fees, receipts for breakage, fines, penalties, etc.
- 3. **Verification of expenses**
 - (i) Check the day-to-day administration expenses incurred along with the necessary vouchers, supporting for the same like salary registers, repairs register, etc.;
 - (ii) Verify whether the expenses incurred are in conformity with the budgets prepared internally or filed with the relevant authorities.

- (iii) Check the amount spent on provisions of hostel facilities with reference to bills, etc.
 - (iv) See that whenever heavy expenditure has been incurred on renovation of the hostel, computer centre, etc. the same is accounted for properly.(if such facilities are being provided by the hostel)
- 4. Verify investments made from surplus funds as well as existing investments by physically verifying the same and that they are in the name of the institution and that there is no charge/pledge against the same.
- 5. Verify all capital expenditure and expenditure on repairs, etc., incurred with the vouchers and also whether proper tenders, etc., were invited for the same. See that all furniture, glass, cutlery, kitchen utensils, liner, etc. are adequately depreciated.
- 6. Library Facilities: See that proper library register are maintained. The system regarding issue and receipt of books is in order. Late fee fines and money received on account of lost book is accounted for properly. Obsolete books are written off only after proper authorisation. Expenses incurred on newspapers and weekly magazines as compared to Journals and periodicals have been accounted for properly.
- 7. Check the provision of other additional facilities like computer facilities, etc. Ensure that proper registers are maintained for charging fees, based on monthly or hourly basis. In case such facility is extended to each room, whether the charges are payable on lump-sum basis or on actual usage basis. Also ensure that amounts spent have been allocated properly.
- 8. Verify whether the institution is eligible for income tax exemption and if not, whether provision for taxation has been made.
- 7 (a) Contents of Audit Note book: Audit note book contains large variety of matters observed during the course of audit. Significant matters observed during audit which should be recorded in audit note book are normally the following:
 - (i) Audit queries not cleared immediately.
 - (ii) Mistakes or irregularities observed during the course of audit.
 - (iii) Unsatisfactory book-keeping arrangements, costing method.
 - (iv) Important information about the company which is not apparent from the accounts.
 - (v) Special points requiring consideration at the time of verification of annual accounts.
 - (vi) Important matters for future reference.

(b) Statutory Auditor versus Internal Auditor:

STATUTORY AUDITOR	INTERNAL AUDITOR
1. The extent of the work undertaken by statutory auditor arises from the responsibility placed on him by the statutes.	The extent of the work undertaken by the internal auditor is determined by the management.
2. The approach of this auditor is governed by his statutory duty to satisfy himself that the accounts to be presented to the shareholder show a true and fair view of the financial position.	The approach of this auditor is with a view to satisfy that the accounting system is efficient, so that the accounting information presented to the management is accurate and discloses material facts.
3. This auditor is responsible directly to the shareholder.	This auditor is responsible to management.
4. External auditor is not the employee of the company so he has independent status.	Internal auditor may be an employee of the company. So in that case, he can not enjoy independence that statutory auditor has.

(c) Attendance at stock taking

1. The physical verification of stock is the responsibility of the management. The auditor may find it appropriate to attend the stock taking, if the inventory value is material in his opinion.
2. The extent of participation in inventory taking depends upon the internal control system prevailing, results of examination of inventory records and analytical review procedures.
3. When auditor attends inventory taking, he ensures that the instructions given for inventory taking is followed.
4. He test checks few items by himself for their existence and quantum. He selects to test high value items importantly.
5. The physical conditions of stock – like its age, deterioration, obsolescence etc., are looked into by auditor.
6. The auditor reviews stores records and notes down major discrepancies for reconciling them in a subsequent date.
7. The cut off arrangement is also looked into to ensure that the entity accounts for stock for which liability had been booked and excludes stock which had been sold.

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

section 619 (3) of the Companies Act, 1956.

- (i) To direct the manner in which the company's account shall be audited by the auditor and to give such instructions in regard to any matter relating to the performance of his function as auditor.
 - (ii) To conduct a supplementary or test audit of the company's account by such person or persons as he may authorize in this behalf; and for the purpose of such audit, to require information or additional information to be furnished to person or persons so authorized, on such matters, by such person or persons and in such form, as the CAG may be general or special order, direct.
- (e) The report of board of directors on annual accounts shall also include a 'Director's Responsibility statement' indicating therein:
- (i) That applicable accounting standards have been followed while preparing annual accounts and material departure, if any, have been explained.
 - (ii) That the directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for the period.
 - (iii) That the directors have taken proper care for maintenance of adequate accounting records in accordance with the provisions of the Companies Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.
 - (iv) That the accounts have been prepared on a going concern basis.