D.N.R COLLEGE (AUTONOMOUS), BHIMAVARAM
DEPARTMENT OF COMMERCE

II B.COM (GEN&CA) – IV SEMESTER

AUDITING

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LECTURER IN COMMERCE

AUDITING

UNIT-1
Essay questions

1.a. Define Auditing? Explain the objectives of Auditing.

The term audit is derived from Latin word "Audire" means to hear. In the middle ages business man appoint auditor when there is suspected fraud in cash transactions. It is only the cash audit but the modern audit undergone wide changes and its scope is widened.

Meaning:-Auditing is a systematic examination of books of accounts, documents of a business.

Definition:- Montgomerry defines Auditing as " a systematic examination of books and records of a business in order to ascertain or to verify and to report upon the facts regarding its financial operations and the results thereof"

"Lancaster"

defines auditing as" the process of checking, vouching and verification by which the auditor seeks to establish the accuracy or otherwise of a balance sheet"

Objectives of auditing:-the objectives of modern auditing are divided into two types

1. Primary objectives
2. Subsidiary objectives

1. **Primary Objectives:-**The main or primary objectives of auditing is to report whether the balance sheet presents a true and fair state of affairs, and the profit and loss account presents a true and fair view of the profit or loss for the financial period.
2. **Subsidiary objectives:-**

   a. Detection of errors:-Error may be defined as "a mistake of negligence or misjudgment without an intention to defraud" some errors may arise due to the negligence or carelessness of the Clark. Such errors are called "clerical errors" or "Technical errors" audit aims at finding out all errors.

   (i) Errors of omission
   (ii) Errors of commission
   (iii) Errors of duplication
   (iv) Compensating errors
   (v) Errors of Principle

(i) Errors of Omission: This types of errors arise when a transaction is either not recorded at all or partially recorded Eg: goods worth Rs. 200 are sold to Kumari. In case this transaction is not at all recorded. it is called error of omission. Such errors will not affect the trial balance. It can be detected only with a careful examination but partial omission can be detected easily.

(ii).Errors of commission: These types of errors arise when transaction is incorrectly recorded. Wrong entries, postings, castings, Calculations are good examples. These types of errors will affect trial balance. So it can be detected easily.

(iii).Error of Duplication: This type of errors arises when a transaction is entered twice in the journal or posted twice to the ledger for Eg:- a credit purchase of RS 500 may be entered twice in the purchase book and posted twice to the concerned accounts in the ledger. It will not affect the trial balance. so more care is required to detect duplicate errors.

(iv). Compensating Errors:-It is also called off setting errors because the effects are offset. when one error is counter balance or compensated by any other error or errors. It is called a compensating error for Eg:- if one account is under debited by RS.100 and if another account is over debited by Rs. 100. It is dangerous type of error. so the auditor must detect these types of errors more carefully.

(v) Errors of principle:-This type of errors arises when a transaction is not recorded in the books according to the fundamental and accepted principles of accounting, wrong allocation of expenditure between capital and revenue, wrong valuation of assets are some examples. It will affect the P&L A/c but not affect the trial balance much more care is required to this type of errors.

(b). Detection of frauds: frauds means "the willful misrepresentation made with an intention of deceiving others."

Frauds are three types they are

1. Misappropriation of cash
2. Misappropriation of Goods
3. Manipulation of Accounts

1. Misappropriation of cash:-It is very common inevery business it may be made by omission of cash receipts, by recording receives less than actually received by including fictitious payments etc., Auditor must take care to detect Misappropriation of cash by checking the cash book, invoices, vouchers, wages sheets etc.,

2. Misappropriation of goods:- this types of fraud is also very common. It is committed by the employees of the business. the employees may take some goods when they leave the concern after the day's work auditor must verify shock register stores, stores books, purchase and sales records etc.,

3. Manipulation of accounts:-Accounts are manipulated to show more or less profits and generally committed by the directions or officials by means of efficient checking making enquires the auditor will be able to detect such frauds.

C. Prevention of errors and frauds:-Preventions of errors and frauds is as important as detection but a audit is a postmortem examination. So an auditor cannot prevent the occurrence of the errors and frauds. He can only report the defects to the management he can advise his client and to such departments certain effects to prevent their future occurrence.

1.b. Write the classifications of errors and Frauds.

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Auditor will not prevent the errors and frauds because auditing is a postmortem examination. he can only suggest methods to his client for prevention of errors and frauds.

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1.c. What are the differences between accounting and auditing?

Accountancy : "Accountancy begins where book keeping ends . It means that an accountant comes into pictures only when the book keepers has done the job . The work as accountant is to check arithmetical accuracy of the accounts prepare by book keeper. Finally the accountant has to prepare trading profit & loss A/c and the balance sheet.

Auditing: "Auditing begins where accountancy ends." After the accountant is completed his work an auditor is invited to verify work done by the accountant. Auditing is concerned with making an analytical and critical examination of the books of accountants.

Differences between Accountancy and Auditing:

Criterion	Accounting	Auditing
Definition	Accounting is keeping records of the financial transactions and preparing financial statements	Auditing is critical examination of the financial statements to give an opinion on their fairness
Timing	Continuous with daily recording of financial transactions	Periodic process and carried out after the preparation of final accounts
Beginning	Starts where book-keeping ends	Starts where accounting ends.
Period	Concentrates on the current financial transactions and activities	Concentrates on the past financial statements
Coverage	All transactions, records and statements having financial implications	Final financial statements and records.
Level of Detail	Very detailed and captures all details related to financial transactions and records	Uses financial statements and records on sample basis.
Type of Checking	Checking details related with all financial records	Carried out through test checking or sample checking.
Focus	To accurately record and present all financial transactions and statements.	To verify the accuracy of the financial statements
Objective	To determine the financial position, profitability and performance.	To add credibility to the financial statements
Legal Status	Governed by Accounting Standards	Governed by Standards on Auditing
Performed by	Accountants	Auditors.
Status	Carried out by an internal employee	Carried out by an external person or independent agency
Appointment	By the management	By the shareholders
Qualification	Specific qualification is not	Some specific qualification is

	compulsory	compulsory
Remuneration Type	Salary	Auditing fee
Remuneration Fixation	By the management	By the shareholders
Scope Determination	by the management	by the relevant laws
Necessity	Necessary for all organizations in the day-to-day or routine operations	Not necessary in the day-to-day operations
Deliverables	Financial statements e.g. Income Statement or P/L, Balance Sheet, Cash Flow Statement, etc.	Audit Report
Report Submission	To the management	To the shareholders
Guidance	Accountants may make suggestions for the improvement of accounting and related activities	Auditor usually does not make suggestions
Liability	Generally ends with the preparation of the accounts	Liability after preparation and submission of the audit report
Shareholders' Meetings	Accountant does not attend	Auditor may attend
Professional Misconduct	Accountant is not usually prosecuted for professional misconduct	Auditor can be prosecuted for professional misconduct
Removal	By the management	By the shareholders

(or)

1.a. explain the advantages of auditing.

Definition:- Montgomerry defines Auditing as " a systematic examination of books and records of a business in order to ascertain or to verify and to report upon the facts regarding its financial operations and the results thereof"
Advantages of Auditing:-Audit is an instrument of financial control. it has a great practical utility it is not a luxury but a necessity it is very essential. It has the following advantages**.**

1. **Verification of financial position:** verified financial statements are useful in many respects. The reliability of the accounts and financial statements is increased.
2. **Detection and prevention of frauds and errors:** Auditing helps in the detection and preventions of frauds and errors in time.
3. **Moral check on the employees:** Auditing acts as great moral check on the employees. It makes the clients staff alert, careful and vigilant they keep the accounts regular and up-to-date.
4. **Tool of management:** Audited accounts can be safety relied upon the management for the purpose of decision making.

5. **Reliable for Tax purposes:** Generally, audited accounts are preferred by the income tax and the sales tax authorities.
6. **Helpful in insurance claims:** Audited accounts are helpful in calming reasonable amount for the insurance company in fire accident etc.
7. **Helpful in raising further finance:-**To the Investors bankers and other financial institutions audited accounts helps for sanctioning loans.
8. **Helpful to setting disputes:-**Audited accounts will be minimize the disputes among partners in matters of accounts. They are also helpful in setting disputes between partners at the time of the retirement or death of a partner.
9. **Safeguards the interests of the shareholders:-** Auditing safeguards the interests of shareholders. It serves as a good check on directors.
10. **Helpful in securing license:-**For the purpose of insurance licenses. The government requires audit accounts.
11. **Helps comparative study:-**Auditing facilities comparative study of the working from year-to- year.
12. **Reliable as evidence:-** Audited accounts are more reliable as evidence in the court of law.

1.b. Explain the role of auditor in checking corporate frauds.

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Role of auditor in checking corporate frauds.

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Auditor will not prevent the errors and frauds because auditing is a postmortem examination. he can only suggest methods to his client for prevention of errors and frauds.

a. Detection of errors:- Error may be defined as "a mistake of negligence or misjudgment without an intention to defraud" some errors may arise due to the negligence or carelessness of the Clark. Such errors are called "clerical errors" or "Technical errors" audit aims at finding out all errors.

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An auditor is a watchdog not a bloodhound:-This famous statement was made by lopes L.J. in the course of his judgment in "Kingston cotton mills case."

Kingston cotton mills case:- In this case the accounts of the company are falsified by over valuation of stock in trade for number of years as a result dividends are paid from capital. The auditor relied upon the stock sheets certified by the manager of the company. Further he qualified the balance sheet with the remarks "As per managers certificate" The auditor of the company was sued for negligence for relying upon the stock sheet is certified by the manager of the company.

It was held that:-"It was not a part of his duty to value the stock in the absence of subscriptions circumstances. The auditor could rely on the stock sheets certified by responsible offices."

Lopes statement:- lopes L.J. stated that auditor is a watch dog not a bloodhound.

Auditor is a watchdog:-An auditor is an agent of shareholders he has to safeguard. The interest of shareholders he must discharge his duties faithfully. Honestly and efficiently he has to see that the fairness of balance sheet with open eyes. If the auditor fails to disclose the frauds in the balance sheet he is responsible.

Not a blood hound:-blood hound suspects each and every person auditor is not blood hound he is not a detective if the auditor is appointed as investigator on that time he should be a blood hound.

Not or detective: auditor is not a detective he need not necessarily be suspicion in his attitude he need not begin his work with suspicion that something is wrong he come trust the servants of the company.

Auditor is not a Insurer: - auditor is not an insurer against fraud or error he doesn`t guarantee that the accounts audited by him absolutely free from error and frauds.

Auditor is not a valuer: - auditor is not a value the may relay on the certificate of responsible officers of the company.

Conclusion: - An auditor is not a detective, value or insurer he must safeguards the interest of shareholders with open eyes he is a watchdog but not a blood hound.

1.c. "Auditor is a watchdog but not a blood hound" Discuss the statement.

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Short Questions

6.a. What are the limitations of auditing?

Definition:- Montgomerry defines Auditing as " a systematic examination of books and records of a business in order to ascertain or to verify and to report upon the facts regarding its financial operations and the results thereof"

The audit suffers from the following short comings. They are

1. **Want of complete picture:** The audit may not give complete picture. If the accounts are prepared with the intension to defraud other. Auditor may not be able to detect them.
2. **Problem of dependence:** Sometimes the auditor has to depend on explanations, classification and information from staff of the client. He may or may not get correct or complete information.
3. **Post mortem examination:** Auditing is a post – Mortem examination. There is no use of such examination. When events have already been occurred.
4. **Existence of errors in audited accounts:** It is not possible for the auditor in all cases to check each and every transactions of business as a result there may be errors in audited accounts.
5. **Lack of expertise:** Auditor has to seek opinion of experts of certain matters be depend upon on such matters. So, the report may be not always correct.
6. **Diversified situations:** Auditing is considered to be a mechanical work. Auditors may not be in a position to frame audit programmers which can be followed in all situations.
7. **Quality of the auditor:** Success of auditing depends upon the quality of the auditor. Audit work can be done by different auditors with difference in sincerity.
8. **Existence of defective policies:** The auditor can only report on the truth and fairness of the financial statements but the other defects relating to management and control may not be possible table covered by the auditor.

6.b. Write about the importance of auditing.

Definition:- Montgomerry defines Auditing as " a systematic examination of books and records of a business in order to ascertain or to verify and to report upon the facts regarding its financial operations and the results thereof"

Detects Errors Or Frauds
Auditing helps in identifying all errors or frauds in the financial books of business by examining them. Auditors examine every financial record to verify their accuracy and discover all mistakes or frauds committed within the organization.
Assurance To Owners And Investors
It provides assurance to owners and investors by checking all internal workings of the organization. Business owners will be satisfied by auditing reports that the books of accounts are properly maintained and all departments are working efficiently. Investors to gain confidence once the accuracy of financial records is verified.
Ensures Validation Of Accounts
Auditing ensures the authenticity of all accounts by performing a detailed examination and presenting a trusted opinion regarding them. It checks the regularity of accounts and finds out whether they follow all prescribed rules and regulations.
Helps In Decision Making
It supports management in decision making by providing them with crucial information regarding the organization. Auditing is an examination process which is done by a highly qualified professional having good knowledge of subjects like finance and accounts.
Independent View Point
Auditing is an independent examination of accounts which is done by auditors which are external to the organization. Auditors properly inspect books of accounts and present their fair view without any biases or hidden agenda.
Satisfies Stakeholders
It helps in gaining the confidence of all stakeholders in the organization. Auditing reports provide a transparent view of organization operations and financial records. Financial accounts after getting audited gain more creditability and provide satisfaction to all creditors.
Provide Easy Access To Loans
Audit reports serve as an efficient tool for raising the required funds from banks or other financial institutions. These reports contain accurate information regarding the business organization and depict a fair financial position.
Establishes Morale Check
Auditing enables in keeping a check over the performance and efficiency of organizations. Workers and staff work honestly and do not try to cheat or commit fraud due to the fear of being identified under the auditing process. It helps in avoiding all irregularities and makes all employees attentive.

6.c. Explain the differences between book keeping, accountancy and auditing

Book keeping: Book keeping as an art of recording the business transactions in the books of original entry and the ledgers.
Accountancy: Accountancy means compilation of accounts in such a way that one is in position to know the state of affairs of the business.
Auditing : The auditing means the verification of vouchers to find out their accuracy and give true and fair view in respect of final accounts.
Following are the basic differences between book keeping, accountancy and auditing.

1. Book keeping as an art of recording the business transactions in the books of original entry and the ledgers. Accountancy means compilation of accounts in such a way that one is in position to know the state of affairs of the business. The auditing means the verification of vouchers to find out their accuracy and give true and fair view in respect of final accounts.
2. The primary work is done by the book keeper and accountant while finishing touch is given by the auditors.
3. Where the Book keeping ends the work of Accounts begins where the work of an accountant
4. A book keeper and an accountant has to record the transaction in the books of accounts while an auditor has to check and verify such transactions and accounts and send a report to the persons who appointed him.
5. The book keeper or the accountants are the employee of the business firm while the auditor is an independent identity.
6. The accountant can give the information to the management as per the records maintained by them. Normally, he does not give and suggestion or advice to management while the auditor can give suggestions or advice on the basis of their finding from the accounts records.
7. Auditor should be a qualified accountant i.e. chartered accountant but in case of accountant it is not compulsory. He/she may or may not be a chartered accountant.

7.a. Write the scope of Auditing .

Definition:- Montgomerry defines Auditing as " a systematic examination of books and records of a business in order to ascertain or to verify and to report upon the facts regarding its financial operations and the results thereof"

Scope of audit: The principal areas to be covered by an audit including the following. The scope of audit in sole trade and partnership business and other institutions lies between the contracts of audit. But in the case of companies the scope is defined by the company law. Auditor must follow rules and regulations of company law.

Verification of financial accounts: The objective of modern audit is to verify the true and fair position of the financial books and records.

Detects Errors Or Frauds

Auditing helps in identifying all errors or frauds in the financial books of business by examining them. Auditors examine every financial record to verify their accuracy and discover all mistakes or frauds committed within the organization.

Validity of transactions: A proper verification of the validity of the transactions with their supporting document (vouchers).

Verification of Assets: A detailed verification of the ownership existence of value of the assets appearing in the balance sheet.

Verification of liabilities: A proper verification of liabilities stated in the balance sheet.

Principle of documentation: The auditor should maintain documents which are important in providing evidence of audit.

Principle of planning: The auditor should plan the audit work to enable him conduct of efficient audit.

Statutory requirements: A concentrate confirmation about the fulfillment of the statutory requirements while recording transactions.

Audit Conclusions and Reporting:

After the examiner gathers all proof, he should now shape his viewpoint as audit report based on the accompanying standards

7.b. State the basic principles of Auditing?

Definition:- Montgomerry defines Auditing as " a systematic examination of books and records of a business in order to ascertain or to verify and to report upon the facts regarding its financial operations and the results thereof"

Audit principles: Audit principles are the basic truths. Which are indicating of the objectives of auditing. The audit principles suggest the manner in which the objectives of audit are accomplish the following are the basic principles of auditing.

Principle of independence: The audit work should be independent from accountancy. The auditor should examine the books of accounts in differently and independently.

Principle of objectivity: The audit work should be based on evidences and should be done impartially.

Principle of full disclosure: The employer or client should make available all proofs, explanations and records to the auditor. The auditor should may declare clearly the result of his examination.

Principle of materiality: Principle of materiality is fundamental to the whole process of auditing. The auditor has to analyses and take decision regarding various items whether they are material are not during the course of an audit.

Confidentiality:

The auditor comes across a great deal of sensitive monetary data of the association.
he should likewise be extremely cautious with archives, authentications, and so forth that the association shares with him.

Skill and Competence:

The examiner should be capable and prepared in the strategies of auditing, for example, he should be qualified as an examiner. Furthermore, as an expert, he should be aware and upgrade on the latest changes, declarations, rules, and so forth.

Planning:

A review plan permits the inspector to arrange his work and empowers him to be more proficient and ideal. Each review plan is distinctive as it must be redone as indicated by the type of association, the sort of business they lead, the extent of the review, the productivity of the inside controls, and so forth.

Audit Evidence:

The auditor should gather sufficient proof to help him in his last assessment. He must make documentation to each and every activity while the auditing work in process.

Accounting Systems and Internal Controls:

The inspector needs to guarantee that the records of the association are exact and address a valid and reasonable image of the monetary status of the organisation. Auditor should examine the accounting system and internal controls.

Documentation:

Much of the time, the examiner keeps a review notepad, a review or audit plan, and an evaluating document or an audit file.

Audit Conclusions and Reporting:

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7.c.What are the Characteristics of Auditing?

Definition:- Montgomerry defines Auditing as " a systematic examination of books and records of a business in order to ascertain or to verify and to report upon the facts regarding its financial operations and the results thereof"

Systematic Process

Auditing is a systematic process of examining the authenticity of the book of accounts. It follows a logical and scientific series of steps for examining financial accounts.

Detection of Errors and Frauds:

Its main motive is to detect errors and frauds in the books of accounts and financial statement.

Independent Examination

It is an independent evaluation done by the body of individuals who are external to the business. These persons have the required qualifications for conducting auditing and give their views or opinions without any biases.

Expresses Opinion

The auditor does not only examine the accounts but also give his opinions regarding them. He expresses whether accounts present a true and fair picture of the organization and also comply with required laws.

Evidence

Auditing process requires collecting various financial and non-financial documents for verifying accounts. The auditor evaluates various documents such as certificates, vouchers, questionnaires etc. for examining purpose.

Established Criteria

In auditing, the whole examination of evidence collected is done in accordance with the established criteria or principles.

Ensures the correctness of Trading, Profit and Loss Account and BalanceSheet

It ensures the correctness of Trading, Profit and Loss Account and Balance Sheet whether it reflects a true and fair view of the state of affairs of the business.

Ensure the following of Accounting standards.

It further ensures that the financial statements follow the accounting standards.

UNIT II

Essay Questions

2.a)Define Auditing? Explain various types of Audit.

Definition:- Montgomerry defines Auditing as " a systematic examination of books and records of a business in order to ascertain or to verify and to report upon the facts regarding its financial operations and the results thereof"

Types of audit

Based on ownership

1. Sole proprietary audit
2. Partnership audit
3. Co-operative society audit
4. Company audit
5. Trust audit
6. Government department audit

Based on time scale scope

1. Continuous audit
2. Financial audit
3. Interim audit
4. Occasional audit
5. Partial audit
6. Balance sheet audit
7. Cash audit

Best on objectives

1. Independent and financial audit
2. Internal audit
3. Cost audit
4. Government audit
5. Secretarial audit
6. Management audit

I. Based on partnership:-

1. **Solo proprietary audit:-** sole proprietary are not required by any law to have their accounts audited. The scope and work of auditor will depend upon the agreement that he has entered into with the client.
2. **Partnership audit:-** partnership act of 1932 does not require the audit of the books. Auditor is appointed by an agreement he should always obey of the scope of agreement.
3. **Cooperative society audit:-** The capital of co-operative society is contribute by all the members and management down by some members. so, independent financial audit is required.
4. **Company audit:-** It is mandatory for companies to get their books of accountants audited by a qualified auditor. Because of company form of organization the ownership and management lie in the hands of different people.
5. **Trust Audit:-** trust are created for the benefit of some religious or charitable purpose. They receive many from different sources. So according to trust deed it is compulsory to audit they accounting books.
6. **Government department audit:-** it is compulsory the audit of books of government departments like electricity boards they have also the systems of internal audit.

II. Based on time and scope of audit:-

1. **Continuous audit:-** In this type of audit , auditor and his staff audit the books of accounts throughout the world year. Auditor examines books of accounts and regular intervals like weekly, monthly and quarterly. it is desired every large business.

2. **Final audit:-**It is also known as periodical audit or annual audit. Auditor verifies the books of accounts at the end of the financial year when the Transaction are completed recording. Generally this type of audit is common in the case of small concerns.
3. **Interim audit:-**Generally this audit is conduct between the two annual audit the purpose is to enable the company to declare interim dividend.
4. **Occasional audit:-**This type of audit is conducted once in a while at the desired owner of the business.
5. **Particular audit:-W**hen an auditor is asked to carry out the audit of the records and books of particular books only it is called partial audit.
6. **Balance sheet audit:-T**his type of audit is mainly forward in USA in this audit the liabilities and assets will be carefully verified.
7. **Cash audit:-** in this audit the auditor verifies the transactions recorded in the debit and credit side of the cash book only.

III. Based on objective :-

1. **Independent and financial audit:-T**he objective of an undefended financial audit is ascertain whether the independent financial audit is most common type of audit.
2. **Internal audit:-I**nternal audit conducted by the internal employees of the company. it involves an examination of various activities and deportment to agreement.
3. **Cost audit:-** cost audit is compulsory companies which follows cast according to records their business transactions. Generally companies engaged in processing and mining activities under takes cost audit.
4. **Government audit:-** In India the controller and auditor general conducts the audit the central and state governments. Its aims to verify the proper sections correctly recorded and confirm with the rules.
5. **Tax audit:-T**he purpose of cash audit is two assist tax authorities to make correct assessment of tax.
6. **Secretarial audit:-** Many companies have a department called secretarial department. which ensure that the company complies with the provisions of the companies act of 2013.
7. **management Audi**t:- management audit means the audit of management the process and functions .auditor examines the proper and maximum utilization of available resources.
8. **Private auditor general audit:-**Private audit it means where the audit is not compulsory under any statuette but it undertaken mainly satisfaction of the owners and to get advantages there form.
9. **Statutory audit:-** Statutory audit is an which mode compulsory by a statue or law undertaking which established with status must audit their books regularly.

b)What are the differences between Continuous audit and Final audit?

Continuous Audit

It is defined as an audit in which the auditor examines the accounting records at regular intervals throughout the accounting year. When it is required that the auditor check the accounts more regularly, the shareholders may appoint the auditor to perform continuous audit.

Final Audit

The term "final audit" refers to an audit in which the auditor reviews the accounts for the entire financial year in one continuous session. Final audits are often begun after the conclusion of the accounting year; however, in order to finish the audit as quickly as possible after the year end, final audits may be initiated prior to the end of the accounting year.

Differences between Final audit and Continuous audit:

Basis	**Final Audit**	**Continuous Audit**
Period	At the end-of-year final audit is done.	A continuous audit is one that continue the entire year.
Scope	When compared to a continuous audit, a final audit does not include extensive checking.	Accounts are thoroughly examined during a continuous audit.
Frauds	In final audit, the chances of fraud and errors are considerable.	Errors and frauds are less likely with continuous auditing.
Visits	The auditor visits once a year for final audit.	During a continuous audit, the auditor visits several times.
Dividend	Only the final dividend is declared due to the final audit.	Continuous audit is particularly important for declaring interim and final dividends.
Business Scale	Final audit is quite beneficial for small businesses.	For large businesses, continuous audit is
Checking	Employees are subjected to fewer checks during the final audit.	Continuous auditing keeps a close eye on staff.
Fee	The fee for a final audit is lower than the fee for a continuous audit.	The cost of a continual audit is higher than the cost of a final audit.
Time of Conduct	A final audit is undertaken once all entries and records have been completed.	When entries and records are being prepared, a continuous audit can be done.
Suitability	In case of effective control system final audit may be conducted.	In case of poor internal control system continuous audit system is suitable.
Proper Planning	In case of final audit effective planning is not made because accounts are prepared late.	In case of continuous audit planning is effective because accounts are prepared in time.

c)Distinguish between statutory audit and general Audit.

Ans:- **Statutory Audit**:- many undertakings have been established by statues which make it audit compulsory. The audit of their accounts in known as 'stationary audit' in other words, statutory audit which is made compulsory by the statue or law.

Private Audit (or) General Audit:- where the audit is not compulsory under any statue, but it is undertake mainly for the satisfaction of the owners and to get advantages thereof it is called "private audit" it is also called the "general audit.

Basis	**Statutory audit**	**General audit:**
Related to	This relates to the audit of companies, trusts, public utilities, public corporation etc.,	This relates to the audit of sole traders, partnership firms, charitable institutions etc.,.
Legal requirement	It is legally compulsory.	It is voluntary.
Auditor appointment	Auditor is appointed under statue.	Auditor is appointed under an agreement.
Qualification of auditor	Auditor must be chartered accountant	Auditor need not be a chartered accountant.
Rights and duties of auditor	Rights, duties & reliabilities of auditor are statutory there are defined by statute.	There are customary and contractual they are defined by the agreement.
Scope of partial audit	Complete audit must be conducted there is no scope for partial audit.	There is scope for partial audit.
Report	Auditor has to give a report in the prescribed form.	Auditor can give a report in any form he likes.
Purpose	The purposes of audit is to comply with the requirements of law.	The purpose of audit varies from one enterprise to another. The audit is done to suit to the needs of the enterprise and its purpose.
Compulsion of audit	This audit is to carried out compulsory in every year.	It may be carried at the desire of the business concern and not compulsory every year.

(OR)

a)What is Continuous Audit? Explain its advantages and disadvantages.

Continuous audit also called detailed audit or 'running audit" a continuous audit is one in which the audit is one in which the audit staff is engaged continuously in checking the accounts of the client during the financial period. In other words it implies a detailed examination of all the transactions by the auditor continuously through out of the year.

Definition:-According to Batlibai " a continuous audit involves a detailed examination of all the transactions attending at regular intervals. Say, weekly or monthly during a whole of the trading period."

Advantages of continuous audit: following are the important relative advantages of continuous audit.

1. **Easy and quick discovery of errors and frauds:-** Errors and frauds can be discovered easily and quickly because the audit staff attends the work it regular intervals. Such errors and frauds can also be rectified immediately.
2. **Opportunities for fraud minimized:-** The frequent visits of the auditors reduces the opportunities or chances for frauds.
3. **Work up to date:-**The entire work will be done up to date and clients, staff will be regular.

4. **Moral check on client's staff:-** The frequent visits of the auditors imposes the moral check over the client staff. It also encourages honesty, efficiency and alertness of the client staff. It boost their moral in general.
5. **Quick Presentation of accounts:-**The audited accounts can be presented to the management just after the closing of the financial year, in other words audited accounts can be presented in time. If facilities the early declaration of dividends in case of a company.
6. **Efficient audit work:-** The auditor gets a sufficient time for the auditor work auditing would never be done in hurry the account books are properly checked in detailed there are no chance of omitting important points and issues. So audit will be more efficient and detailed.
7. **Preparation of interim financial statements**:-Interim statements can be easily prepared in interim dividend is to be declared continuous audit helps in interim audit also interim figures can be published in time.
8. **Convenient to the auditor:-** it is more continent to the auditor also due to make easy arrangements for his work over the whole financial period and may seek greater co-operation from his staff.
9. **Benefits of auditors advice:-T**he auditor comes more and more in touch with the business affairs and it's technical details. He can give therefore valuable advises for the improvement of the accounting system and other operations of the business concern.
10. **Desired information:-** The management of the business can get any desired audited information as and when necessary.

<u>Disadvantages of continuous audit:-</u>

1. **Alteration of figures:-**The client or his staff may alter the figures fraudulently after audit ,this is a real danger or defect of continuous audit.
2. **Losing the thread of work:-**The auditor is like loss the thread or sequence of audit work. So, the link between present and past cannot be maintained.
3. **Dislocation of work:-**Auditor frequent visuals may dislocate the work of the of the clients staff. The efficiency of the client's staff may be affected.
4. **Expensive:-C**ontinuous audit is expensive due to heavy audit fees and other incidental expenses connected with the audit staff.
5. **Mechanical:-**The audit work may become dull (or) mechanical since it continues throughout the year.
6. **Unhealthy relationship:-** Unhealthy relationship may develop between the auditor and staff of the company.

b)Discuss the advantages and disadvantages annual Audit.

Annual Audit: Annual Audit is also known as Periodical Audit or Final Audit or Complete Audit. This type of Audit is usually done at the end of the year after the preparation of the Final Accounts. The Auditor does the audit work till the time all the account books and statements prepared are verified and examined by him his staff. This type of Audit is done only once a year. Such audit is most suitable and satisfactory as well as practical for the small organisations. However, extensive examination of Account Books is not possible under such audit.

"Annual Audit is that which starts at the end of the financial year concerning to the Audit. It does not have of Continuous Audit." **Lawrence R. Dicksee**

"Annual Audit means such Audit which does not start before the close of the financial year and continues till the time the audit work is completed." **Walter W. Bigg**

<u>Advantages of Annual Audit</u>

Periodical Audit has the following advantages:-

Saving of Time

In such Audit the Auditor comes to the organization for audit work only at the end of the year. He does the audit work in less time and this suits the organization also.

No Chance of the Figures Alterations-

Unlike Continuous Audit, in Periodical Audit there is no possibility of making alteration in the figures in the account books, as audit is done only after the finalization of the accounts.

Economical-

Periodical Audit is quite economical since the audit fees charged by the Auditor is comparatively less as also the organisation has to bear the expenses of Auditor's staff only once in a year.

Continuity in Work-

Periodical Audit does not disturb the smooth and routine working of the commercial organisation. The audit work does not obstruct in any manner the accounting work, because the old books are closed and they are replaced by the new books of account. This process does not come in the way of the smooth working of the organisation.

Advantages to the Auditor-

Periodical Audit is also advantageous to the auditor since he gets all the account books, vouchers and necessary information at a time. He thereby is able to complete his work without loss of time. He can also take up the audit work of other organizations simultaneously.

True Profit Or Loss

Final audit examines the profit and loss account of the company which helps to know the true profit or loss of the business.

True Financial Statement

Balance sheet is properly checked by the auditor at the end of every year. It helps to know the actual financial position of the business.

Increase Goodwill

Periodical audit provides up-to-date information about profit, loss, financial position of the business. It helps to increase goodwill and image of the business.

<u>Disadvantages of Annual Audit</u>

Periodical Audit has the following disadvantages:-

Lack of Deep Checking-

The commercial organisation writes the account books throughout the year and prepares the final accounts on its basis only at the end of the year. Audit work takes place only at the end of the year within a limited time and an Auditor thereby can not make extensive examination.

Low Moral check-

This type of audit work does not leave any moral impact upon the employees because they know that their work is to be audited at the end of the year and that too after several months. This makes them careless. It is also possible that by the time audit takes place they leave the organisation for good.

Difficulty in Detecting Errors and Frauds-

The audit work starts only after the end of the year. The Auditor feels difficulty in detecting the errors and frauds at this stage. Especially when the errors and frauds are intentionally done. The intentional errors and frauds are committed by the staff of the commercial organisation throughout the year, and therefore, it is not an easy task for the auditor to detect them within a limited time at his disposal during the course of such audit.

Delay in Audit Report-

Annual Audit is done only at the end of the year. The Auditor takes his own time in the preparation and submission of the audit report. The management and the shareholders of the commercial organisations thus have to wait for long for getting the audit report.

Inconvenient for Big Trading or Manufacturing Business Institutions-

In large-scale commercial and manufacturing organisations the number of transactions taking place is quite large. The production is done on a massive scale and the sales turnover is also quite high. In such cases, Periodical Audit is not suitable for such organisations. Continuous Audit is a best choice for them.

c)Distinguish between internal audit and Independent Audit?

Internal audit "internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations." The purpose of internal audit is to help businesses meet strategic objectives, detect fraud, and improve operations. Internal auditors also ensure that corporate governance is functioning correctly. Depending on the size of the organization, the internal audit function may be performed by a company's internal audit department or it may be outsourced. The scope of their work is directed by management.

Independent Audit

An independent audit is an examination of the financial records, accounts, business transactions, accounting practices, and internal controls of business concern by an "independent" auditor.

Its purpose is to provide assurance to investors, lenders, and other stakeholders that a company's issued financial statements present the organization's results in a materially correct and fair manner. This assurance is provided by verifying that a company is reporting its financial results in accordance with the relevant accounting standards.

The following are the main difference between internal Audit and independent audit.

Basis	**Internal audit**	**Independent audit**
1. Conducting persons	Internal audit conducted by the employees itself.	Independent audit is conducted by an independent professional auditor.
2. Object	It serves primarily the needs of management.	It is conducted to safeguard the interest of proprietor and third parties directly.
3. Aim	It is aimed at improving and complying with establishment policies and procedures.	It is aimed at ensuring the experience and ability of financial accounts under data.
4. Main concern of auditor	The main concern of internal auditor is with the presentations and detection of frauds.	The main concern of auditor is to ensure that the annual accounts of true and fair.
5. Appointment of auditor	The internal auditor is appointed by the management.	The independent auditor is appointed by the proprietors.
6. Status of auditor	The internal auditor is dependent on the management.	The independent auditor is not depend on the management.
7. Remuneration	The remuneration of internal	The remuneration of the

	auditor is fixed by the management.	independent auditor is fixed by the proprietors and shareholders.
8. Authority of management	The duties of an internal auditor may be reduced as desired by the management.	The duties of independent auditor cannot be reduced by the management.
9. Time period	Internal auditor is carried on continuously throughout the year.	Independent audit is carried on periodically and usually once a year.
10. Report	Internal auditor has to submit a report if any to the management after the audit work is over.	Independent auditor has to submit report to shareholders or proprietors of the audit work are over.
11. Scope of auditor service	The services of an internal auditor can be easily terminated by the management.	These services of an independent auditor can be terminated by the shareholders or proprietors but not by the management.

Short questions

8.

a)What is Cost Audit? State the objectives of Cost Audit

Cost audit

A cost audit represents the verification of cost accounts and checking on the adherence to cost accounting plan. Cost audit ascertains the accuracy of cost accounting records to ensure that they are in conformity with cost accounting principles, plans, procedures and objectives.[

Objectives of cost audit:- cost audit has both general and the social objectives. The main objectives of cost audit are as follows.

1. To find out of the cost accounts have been properly maintained according to the principles of cost accounting.
2. To certify that the management is adhering to procedures and process of cost accountancy which are pre-determined.
3. To ensure that the cost accounts are correct to detect all errors or frauds.
4. To excess moral checks on the cost accounting staff and secure efficiency in the cost accounting system and procedures.
5. To pinpoint the inefficiency to the use of materials, labor and machine and assets the management thereby.
6. To find out how far the parties of cost records and helpful for the management to take decision.
7. To reduces the volume of the extensional auditor.
8. To facilitate the reasonable fixation of price of goods and services.
9. To facilitate the settlement of bills in the case of cost fewer contracts entered into by the government.

b)What is the difference between interim Audit and Internal audit.

Interim Audit:- it means an audit conduct between two periodical audits generally it is conducted with a view to find out interim profit to enable the company to declare interim dividend. it may also become necessary in case of the partnership concern the time of admission, retirement or death of a partner.

Internal Audit:- it means continuous audit of the accounts of the business by specially trained employees of the business. Internal auditor audits the accounts and other relevant records daily and regularly internal audit may be in addition to the statutory audit.

Basis	**Interim Audit**	**Internal audit**
1. Period of conduct	Interim audit is done at any time during the course of the financial year.	Internal audit is a part of the normal administrative routine. it is done daily under regularly.
2. Audit conducting person	In the case of interim auditor, the audit is an outsider.	But internal auditors are the officials are employees of the concern itself.
3. Continuity	Interim audit is done up to a date in a year.	Internal audit is continuous during the whole year.
4. Object	The main object of interim audit is to known the correct profit or loss for the interim period. So that interim dividend can be declared.	Internal audit is aimed at detection and prevention of errors and frauds earlier.
5. Audit report	In the case of interim audit the auditor has to submit his report.	No report is to be submitted in the case of internal audit.
6.Auditor work pressure	This is to reduce work pressure at final stage. So for a company having an year end in December, auditor may commence work in September to reduce work pressure at year end.	Internal audit is continuous during the whole year by internal staff of business itself. Aimed at detection and prevention of errors and frauds earlier.

c)Explain the objectives of Government Audit.

Government audit: Government audit is applicable to Government departments and departmental undertakings. Government of India maintains a separate department known as Accounts and Audit Department. Comptroller and Auditor General (CAG) of India heads this department.

Objectives of Government Audit:

The objectives of government audit are as follows:

1. To make sure that the expenditure is incurred out of the fund, which the competent authority has sanctioned.
2. To verify that the expenditure of the government department is sanctioned as per the rules and regulations of the department concerned.
3. To see that the expenditure already sanctioned has been incurred by an officer who is authorized to do so.
4. To ensure that the payments have been made to the right persons and they are duly entered in the books on the basis of receipts received from them.
5. To see that the payments have been properly classified into capital and revenue.
6. To check the existence of stock and stores and their proper valuation.
7. To ensure that expenditures have been incurred in the interest of public.
8. To ensure that stocktaking is done periodically and stock registers are maintained up-to-date.
9. To ensure that whether money due from others has been regularly recovered while verifying the receipts.

9.

a) **What do you mean by Management audit? What are its advantages?**

Management audit: Management audit is an audit of the management. It analyses the different ways to overcome in efficiencies or weaknesses. It is generally conducted at the instance of the management. It is the method of evaluating the total efficiency of the management from the top level to the lowest level.

Advantages of Management Audit:

Helps in decision-making:

Management audit provides information about strong and weak points of the management after reviewing policies and programs. It helps in decision-making areas such as make or buy, closing down of a unit, acquisition of a business, etc. So, it helps to the smooth operation of an organization.

Identifies the strength and weakness:

It examines the functions of management and identifies the strength and weakness in the management process.

Suggestions to the management:

Management audit provides suggestions to the management which helps to maintain effective management. It suggests ways to utilize the resources of the organization effectively.

Increase management efficiency.

After reviewing the defects and deficiencies, it provides appropriate suggestions which help to increase management efficiency.

Helps to attain the goal:

Management audit helps the management providing suggestions to attain the goal of an organization. It helps to improve the communication system by keeping the whole management team under constant review.

Proper utilization of organizational resources:

It helps in proper utilization of organizational resources to achieve predetermined goals and objectives.

b)Explain the guidelines of Trust Audit

Trust Audit

Audit of charitable institutions is to allow the assessing officer to convince himself concerning the genuineness of the privilege/exemption claim under section 11. It is even to verify if the trust has complied with qualifications guided by the law or ordinance. The Auditor has to check the 'balance sheet' and the 'profit and loss' exhibiting an authentic and fair view. He should consider all the concerning compliance with the provisions of the Act.

Guidelines of Trust Audit

1. In order to audit a charitable or religious trust , the auditor will have to check the following of the trust bye laws, rules and regulations application of funds provisions of trust act of concerned states constitution bye laws, rules and regulations objects application of funds minutes of meeting of trustees

2. Auditing the receipts sources contribution & grant fund raising receipts program sources membership fees subscription

3. Check Letter of Appointment and ensure scope of audit & responsibility of the auditor us clearly indicated.

4. See that the necessary resolutions are passed and the authority has signed letter of appointment.
5. Obtain previous audit report and communicate with previous auditor, if any and obtain books of account along with list showing books maintained by trust.
6. Obtain certified copy of balance sheet and income & expenditure for period under audit
Obtain certified copy of balance sheet and income & expenditure account of last year, if any
7.Procure certified copy of trust deed showing objects and conditions of Trust.
8. Evaluate Internal Control Systems and determine extent of further checking. Also enquire about system of accounting.

c)Discuss the necessity of financial Audit.

Definition of Financial Audit

A financial audit is an independent, objective evaluation of an organization's financial reports and financial reporting processes. The primary purpose for financial audits is to give regulators, investors, directors, and managers reasonable assurance that financial statements are accurate and complete.

Necessity of financial Audit.
1. **"True and fair" view**
To assure stakeholders that management has provided a "true and fair" view of the business's financial position.
2. **Minimizing the risk of fraud**
This confirms that company's financial processes are all above board – minimizing the risk of fraud – and accounting documents aren't covering up for any financial mismanagement.
3. Enhancing the quality of business.
By identifying controls or processes that could be improved, thereby enhancing the quality of business.
4.Conduct by independent body
They are usually conducted on an annual basis. While financial audits can be conducted internally (by an employee), most of the time, stakeholders will want an audit from an independent body.
5.Certified Public Accountant (CPA)
As such, probably need to reach out to a Certified Public Accountant (CPA) firm to conduct audit.
6.To ensure that the financial records are accurate
Ultimately, the aim of a financial audit is to ensure that the financial records are an accurate representation of organization's financial performance.

UNIT – III
ESSAY QUESTIONS

3a)Define Audit Programme? What are its advantages and disadvantages?

Audit programme : Before starting an audit, a programme of work generally drawn by the auditor. This programme is known as audit programme. It is the auditor's plan of work.

Definition:- According to "settler" an audit programme is " an outline of all procedures to be followed in order to arrive at an opinion concerning the clients financial statements."

Attention should be on the following points :

Preparation of the audit programme :

1. He should study the nature of the business and Scope of audit work

2. He should obtain all important accounting books and list of important officers.

3. He should obtain information about creditors, debtors, suppliers etc.,

4. He should study important document and prospectus

5. He should verify and obtain a written statement of condition of internal check.

6. The audit programme should be flexible.

Advantages: The following are the main advantages of audit programme.

1. Immediate begin of audit work: Audit work can be started immediately in a proper system.

2. Not omit any part of work:- A well defined audit programme will mot omit any part of work.

3. Work distribution: The audit work will be distributed among the audit staff according to their qualification and experience.

4. Efficiency in work: The audit staff is designed specific duties so they bound to be more careful and efficient.

5. Valuable evidence: The written audit programme can be produce as evidence to prove against the charge of negligence in a court.

6. Guidance to junior clerks: A well defined audit programme will guide junior clerks to perform the work.

7. Guidance to future auditors:- A well defined audit programme helps in preparing audit programmes of subsequent years.

8. Time scheduling: It helps to complete the audit work within the schedule time.

9. Work progress : The audit programme facilitates to watch the progress made by the audit staff in the audit.

Disadvantages:

1. Mechanical work: An audit programme makes the clerks mechanical and specialized in only work. They cannot be assigned other works.

2. Discourages Initiative: Audit programme discourages the initiative of the staff, they will not make any suggestions also in certain circumstances.

3. Rigidness: A rigid audit programme for all kind of business is useless.

4. Difficult to include new items: An audit programme makes difficult to not include new items in it if required.

5. Hurried work:- Work may be hurried up to complete in required schedule.

6. **Waste for small business:** It is unnecessary for small business concerns.

b)What is internal check? Explain its advantages

.

Internal check : In a small business, the owner can personally supervise every operation effectively. So there is no scope for errors and frauds. But in a big business, the number of employees is considerable. So, the owner or management cannot effectively supervise every operation. Internal check and internal audit are some of the means designed to secure control over the operation of the business.

Definition: De Paula defines internal check as "a continuous internal audit carried on by the staff itself, by means of which the work of each individual is independently checked by the other members of the staff".

Advantages of internal check: Internal check system is vital significance for the efficient running of the business It provides advantages not only to the business but also to the owner and the auditor. They are as follows:

1. Proper division of work and responsibilities: It enables proper division of work and responsibilities among the members of the staff.

2. Detection of frauds:- It helps in the detection and rectification of errors and frauds easily and quickly.

3. Accurate records: It facilitates accurate record of all transactions.

4. Minimizes the chances of fraud:- It minimizes the possibility of frauds and errors.

5. Efficiency of staff: It increases the efficiency of the staff enables them to learn honesty, straight forwardness and hard work.

6. Promptness in preparing accounts: It enables the prompt preparation of final accounts.

7. Test checks can be applied: It relieves the auditor for making detailed checking of accounts. The auditor can apply test check.

8. Helpful to owners:- It enables the proprietor to be satisfied with the genuineness of the accounts.

9. Safeguards from misappropriations: Internal check is a safeguard against fraud, errors, wastes and misappropriations.

10.Avoids collusion: Internal check avoids collusion between two or more persons. Lessens the possibility to fraud.

11. Use of time to time review: The system of internal check system can be reviewed by time to time for effective management.

c)What do you mean by internal control? What are its essentials?

Internal control:- Internal control means the whole system of controls established by the management to safeguard its assets and secure the accuracy and reliability of records. The internal control include internal check and internal audit. They are not only finance controls and their scope is wider.
Internal control again divided into two parts.
1. Administrative controls.
2. Accounting controls.
It is established by the management. It contains financial and non-financial controls.Helps the management to obtain information, protection and control.

Definition:' According to Spicer and Pegler "Internal control is best regarded as indicating the whole system of controls, financial and otherwise, established by the management in the conduct of a business including internal check, internal audit and other form of control".

Objectives: The following are the objectives of internal control.

1. Safeguarding the assets, of the concerned by avoiding frauds, wastes and inefficiency and causes beyond the control of the management. (etc., five, earthquakes thefts etc.).

2. Measuring the implementation of business policy.

3. Measuring the performance of business activities and the members of the staff.

4. Ensuring maximum accuracy of all data and statements and policy decisions.

5. Aid in the management planning

Essentials of a good internal control system : The following are the essentials of a good internal control system.

1. C**omplete plan:** There should be a complete plan, organization with proper delegation of authority and responsibility
2. S**cientific system:** There should be a scientific system for authorization or recording of transactions or procedures for the custody of books and record and various documents.
3. **Control over receipts and payments:** There should be an effective system of control over receipts and payments of cash
4. **Clarity in defining:** Systems of internal check and internal audit should be clearly define.
5. **Use of Modern mechanical appliances:** Modern mechanical appliances such as cash registers, time recording clocks, calculating machines, franking machines etc., should be introduced. The mechanical appliances help in preventing the commission of errors or frauds.
6. **Effective procedures:** Effective procedure should be laid down for receiving, issuing and maintaining stock.
7. **Proper managerial supervision:** There should be proper managerial supervision for all types of controls
8. **Provision for review of the entire system:** There should be enough provision for review of the entire system of internal control system from time to time by the management.

(or)

a)What are the precautions to be taken by an auditor before the commencement of a new Audit?

Commencement of a new Audit:

The audit of accounts of a concern involves sound planning, conduct and judgment. An auditor must prepare well before he actually conducts audit. He should not commence his work in a hurry. He must devote time to thinking before acting because he has to determine the future course of action. He has to take certain steps before commencing the actual audit work such steps are known as preliminary steps. They are.

1. letter of appointment: The auditor must satisfy himself that he has been duly appointed to act as an auditor in the case of companies he should see that his appointment is in accordance with the provisions of the Company Act.

2. Nature of business:- He should study the nature and technical details of the business of his client he should visit factory, understand the process and nature of the equipment material and labor used.

3.Scope of audit work: The auditor should obtain instructions in writing from his client about the nature and scope of his work and duties Companies Act prescribes the scope and duties of auditor clearly.

4. Methods of accounting employed :

He should examine the system of accounting employed in the concern. If the system is not sound he should ask the client to modify the system.

5.List of books: He should obtain a list of all the books maintained by the concern and the names of the incharge of books.

6.List of debtors and creditors:- He should also asks his client to prepare a list of debtors and creditors and other important suppliers and contracts.

7.**List of important officers:** He should obtain a list of important Officers of client and clarity about their power and duties.

8.Instruction to client; He should instruct his client to balance the books, prepare profit and loss account and balance sheet.

9.Last year final accounts: He should study the previous years balance sheet to verify the position of various assets and liabilities.

10.Condition of internal check:- He should obtain a written statement of the internal check. He should decide whether to rely or not to rely upon it.

11.Reasons for change the auditor:- If he is appointed in the place of a retiring auditor he should enquire the reasons for the change.

12.Study of structure of management: The auditor must know the structure of management of the clients business about the key persons incharge of the management and their duties

13.S**tudy of documents:** He should study the important documents of the business. In the case of partnership audit, he should study partnership deed and in the case of company audit he should study memorandum and articles of association.

14Study of prospectus: The auditor must also go through the prospectus, contracts with vendors etc.,

15.Preparation of audit programme: The final step is preparation of audit programme according to the requirements.

b)What is Internal Control? Why to have Internal Control?

Internal control:- Internal control means the whole system of controls established by the management to safeguard its assets and secure the accuracy and reliability of records. The

internal control include internal check and internal audit. They are not only finance controls and their scope is wider.
Internal control again divided into two parts.
1. Administrative controls.
2. Accounting controls.
It is established by the management. It contains financial and non-financial controls.Helps the management to obtain information, protection and control.

Definition:' According to Spicer and Pegler "Internal control is best regarded as indicating the whole system of controls, financial and otherwise, established by the management in the conduct of a business including internal check, internal audit and other form of control".

Objectives: The following are the objectives of internal control.

1. Safeguarding the assets, of the concerned by avoiding frauds, wastes and inefficiency and causes beyond the control of the management. (etc., five, earthquakes thefts etc.).

2. Measuring the implementation of business policy.

3. Measuring the performance of business activities and the members of the staff.

4. Ensuring maximum accuracy of all data and statements and policy decisions.

5. Aid in the management planning

Essentials of a good internal control system : The following are the essentials of a good internal control system.

1. C**omplete plan:** There should be a complete plan, organization with proper delegation of authority and responsibility
2. S**cientific system:** There should be a scientific system for authorization or recording of transactions or procedures for the custody of books and record and various documents.
3. **Control over receipts and payments:** There should be an effective system of control over receipts and payments of cash
4. **Clarity in defining:** Systems of internal check and internal audit should be clearly define.
5. **Use of Modern mechanical appliances:** Modern mechanical appliances such as cash registers, time recording clocks, calculating machines, franking machines etc., should be introduced. The mechanical appliances help in preventing the commission of errors or frauds.
6. **Effective procedures:** Effective procedure should be laid down for receiving, issuing and maintaining stock.
7. **Proper managerial supervision:** There should be proper managerial supervision for all types of controls
8. **Provision for review of the entire system:** There should be enough provision for review of the entire system of internal control system from time to time by the management.

C) Explain the merits and demerits of Internal Audit.
Many times the management of an organization or the board of a company has to reflect on the operations of their enterprise. Are the goals being met? Are accounting policies and standards being followed? Is the risk being managed? An internal audit is a great way to answer these questions.
Internal Audit
An internal audit is the evaluation of all aspects of an organization by an internal auditor, i.e. one who works as an employee of the organization. He keeps tabs on the financial reporting,

accounting, operations, risk management, internal controls and all other such aspects of an organization.

Unlike a statutory audit which only happens at the end of the year, an internal audit may happen daily, weekly, monthly, quarterly etc. It is, in fact, a continuous process.

Advantages of Internal Audit

More Effective Management

One of the biggest benefits of an internal audit is that it facilitates more effective management of the organization.

The internal auditor will be able to point out any weaknesses of the organization in the operations or internal controls of the company.

So the management can use these insights to better the chances of achieving their goals.

On going Review

The process of internal audit gives the organization a unique opportunity to conduct a review of the performances in the ongoing year itself.

They do not have to wait for the end of the year to review the company's performance. This also means that if they are not on the correct path, this will help them change course and correct their mistakes immediately.

Performances of Staff Improve

The staff of the company remains alert and active. This is because there is the fear of their mistakes being caught by the internal auditor almost immediately.

This will help improve their efficiency and performance.

Ensures Optimum Use of Resources

One other benefit of the process of internal control is that it can be used as a tool to promote the optimization of resources. It will help point out the areas in which resources are being underutilized or wasted.

Division of Work

Internal audit helps promote the division of labor. It is important to keep a check on and observe the activities of all the departments and all of their employees. Division of labor will help in achieving this.

Up-to-date Reports:

Internal Audit "reports" directly to management or the Board Improves the "control environment" of the organization

Process dependent:

Makes the organization process-dependent instead of person-dependent

Identifies redundancies:

Identifies redundancies in operational and control procedures and provides recommendations to improve the efficiency and effectiveness of procedures

Early Warning System:

Serves as an Early Warning System, enabling deficiencies to be identified and remediated on a timely basis ultimately increases accountability within the organization.

Limitations of Internal Audit: The following are the limitations of internal audit.

Time Lag

There will always be a time lag between accounting and auditing. Internal audit cannot begin till the accounting is complete. They cannot be done simultaneously. So if the accounting process is delayed, so is the internal audit.

High Cost: The expense of setting up and working an Internal Audit is expensive.

Unsatisfactory for a Small Organization: Internal Audit is not reasonable for small associations because of the inclusion of significant expenses.

Questionable Opinion: Internal Auditors are workers of the association and subsequently the report given by them may not be valid and reasonable. Frequently, the outside examiner has hesitations about the assessments communicated by the Internal Auditor.
Insufficiency: When the records of tasks are not checked after they are finished or when there is a delay between two reviews, Internal Audit may get inadequate.
Absence of Expertise: Internal Audit staff often come up short on the necessary aptitude and skills as they are not, in most cases, as qualified as chartered accountants.

SHORT QUESTIONS

10.a)Explain about the test checking.
Test checking:- In small business concerns transactions are every few so it is possible to the auditor to verify each and every transaction but in big concerns transactions are many. So it is not possible to check every transaction auditor and he can limits his checking by applying test checking.
Meaning:- Test checking means to select and the examine a representative sample from a large number of similar items.
Precautions to be taken by auditor: - If the test checks do not reveal any error the auditor may safety assume that the result of the work is equally correct. If the test check indicates the existence of errors the auditor must conduct detailed checking. The following are the some precautions must be taken by the auditor while applying test checking.

1. Entries of all the types should be selected and all the books should be selected.
2. He must check the entries at random.
3. He must select the different periods for different books and records.
4. The client should not be known the natural of the test check.
5. Test must not be apply in small business concerns.
6. Bank statements and cash entries should be checked completely no test check should be applied.

Advantages of test checking:-

1. Test checking reduces the work and time consumption .So he may devote his time on important matters.
2. By test checking he will know the condition of internal check.
3. Useful when the test checks are drawn intelligent.
4. It keeps the client staff alert because auditor may check any record.
5. Applying test checking reduces the cost of auditing.

b)What are the contents of Audit Notebook?
Audit notebook is a dairy or register maintained by audit staff to note errors, doubtful queries and difficulties. The purpose is to note down various points which need to be either clarified with the client or the chief auditor. The audit notebook is also used for recording important points to be included in the auditor report. It is a complete record of doubts and their clarifications.
Contents of an audit notebook: - An audit notebook usually contains the following information about the audit work performed by the audit staff.

1. A list of books of accounts maintained.
2. The names, duties and the responsibilities of principal officers.
3. The particular of missing receipts and vouchers.
4. Mistakes and errors detected.
5. The points calling for clarification and explanation.

6. The points deserving the attention of the auditor.
7. Various totals and balances.
8. Extracts from the minutes and contracts.
9. The points to be part of the auditor's reports.
10. Date of commitment and completion of the audit.

c)Discuss the demerits of Internal Audit.

Many times the management of an organization or the board of a company has to reflect on the operations of their enterprise. Are the goals being met? Are accounting policies and standards being followed? Is the risk being managed? An internal audit is a great way to answer these questions.

Internal Audit

An internal audit is the evaluation of all aspects of an organization by an internal auditor, i.e. one who works as an employee of the organization. He keeps tabs on the financial reporting, accounting, operations, risk management, internal controls and all other such aspects of an organization.

Unlike a statutory audit which only happens at the end of the year, an internal audit may happen daily, weekly, monthly, quarterly etc. It is, in fact, a continuous process.

Demerits of Internal Audit: The following are the limitations of internal audit.

Time Lag

There will always be a time lag between accounting and auditing. Internal audit cannot begin till the accounting is complete. They cannot be done simultaneously. So if the accounting process is delayed, so is the internal audit.

High Cost: The expense of setting up and working an Internal Audit is expensive.

Unsatisfactory for a Small Organization: Internal Audit is not reasonable for small associations because of the inclusion of significant expenses.

Questionable Opinion: Internal Auditors are workers of the association and subsequently the report given by them may not be valid and reasonable. Frequently, the outside examiner has hesitations about the assessments communicated by the Internal Auditor.

Insufficiency: When the records of tasks are not checked after they are finished or when there is a delay between two reviews, Internal Audit may get inadequate.

Absence of Expertise: Internal Audit staff often come up short on the necessary aptitude and skills as they are not, in most cases, as qualified as chartered accountants.

11.

a)Explain the difference between internal check and internal control.

Ans:- **Internal Check:-** It is an arrangement of the duties of the members of this staff in such a way that the work perform by one person is automatically and independently checked by another.

Internal control: - internal control means the whole system of control established by the management to safeguard its assets and ensure the accuracy and reliability of its records.

Basis	**Internal control**	**Internal check**
Meaning	Internal control means the whole system of controls established by the management to safeguard of its assets and reliability of records.	Internal check means it is an arrangement of duties of company staff in such a way that the work performed by one person automatically checked by another.

Nature	It is a whole system of controls maybe financial or non - financial.	It aims at account keeping or organizing the accounting work in efficient way.
Object	The main object of internal control is to ensure efficient and economical functioning of business.	It’s object is to minimize the chances of commission of errors and frauds.
Scope	It's scope is wider it includes internal audit, internal check and other controls.	It is a part of whole system of internal control its scope is limited.
Auditor's position	Internal control is efficient, detailed examination of books is not necessary it reduces the work of the auditor.	The soundness of the system of internal check leaves the auditor he can apply the test check.
Flexibility	The internal control system is reviewed on a regular basis by management in light of changes inside the company, changes in the economic environment. So, it is flexible.	However, once implemented in the business, internal checks are often static for a given length of time and hence less flexible than internal controls.

b)What are the merits of internal control?

Definition:' According to Spicer and Pegler "Internal control is best regarded as indicating the whole system of controls, financial and otherwise, established by the management in the conduct of a business including internal check, internal audit and other form of control”.**Merits of internal control:**

1. It establishes the processes

Internal controls outline employee protocol and procedures so employees aren't left guessing how to perform their job duties or which procedure to follow. Employees so they are promptly informed of changes to improve efficiency and reduce errors.

2. It improves process performance

As processes are implemented, the continuous monitoring of their effectiveness helps management make decisions about whether the process is working or if it needs additional attention.

3. It improves operational efficiency

Internal controls can improve the efficiency of operations by removing unnecessary or duplicate steps in a procedure or process.

4. It keeps duties separated

Internal controls ensure the separation of duties to avoid conflicts of interest and reduce the chances of financial mismanagement.

5. It mitigates business risk

One function of internal controls is to limit the company's losses due to misappropriated or mishandled funds by employees or management.

6. It organizes information

Organizing information improves efficiency by ensuring financial data is secure yet accessible.

7. It produces timely financial statements
Timely financial statements not only aid management in making decisions about the company's future, but also protect stakeholders and the company's reputation.
8. It reduces errors
Internal controls help in the reduction of errors by defining protocols and procedures to reduce employee mistakes and make improvements as needed.
9. It improves accountability
Accountability is achieved when clear protocols as to how data is transmitted, recorded, shared and reported are outlined.

c)Discuss the Objectives of Audit Programme.
Audit programme "Before starting an audit a programme of work is generally drawn by the auditor. This programme is known as the audit programme."
Definition:- According to "settler" "an audit programme of all procedures to be followed in order to arrive at an opinion concerning the client's financial statements."
Objectives of audit programme:-

1. Ascertain the exact scope of duties and study the different aspects and the operations of the client's business.
2. Obtain a list of all the books in use in business together with the names of the persons incharge of them.
3. Examine carefully the system of accounting employed and make a special note on any weakness and techniques of this system.
4. Obtain financial and statistical records and legal documents.
5. Obtain a written statement of the internal check in operation and examine it thoroughly.
6. Unnecessary procedure for checking should be avoided.
7. Audit programme should be drawn up for each audit according to the work involved and after taking option of the experienced of audit staff.
8. The programme adapted must be elastic or flexible.
9. It must be capable of necessary changes.

UNIT – IV
ESSAY QUESTIONS

4.a)Define voucher? What are the precautions to be taken by an auditor while examining the vouchers?

Voucher:- A voucher is a documentary evidence in support of any entry or transaction in the books of accounts. Eg: sales vouchers, sales and purchase invoices, debit note, credit notes counter foils of payments and receipts etc.,

Types of vouchers: vouchers are of two types

a) l. Primary Vouchers.

b) 2. Collateral vouchers.

“A primary voucher" is the original written evidence and a subsidiary evidence that means carbon copy of the voucher is known as "collateral vouchers"

Special points: The auditory should be very careful in examine each voucher and he should pay Special attention to the following points. He should follow the following procedure in the course of vouching.

1. The first step is the auditor should instruct his client to see that all the vouchers are numbered and serially files.
2. He must verify whether the voucher is in the name of the client.
3. Its date relates to the period under audit.
4. The amount entered in the words and number is correct one.
5. The particulars of the vouchers agree with the nature of the transaction
6. He should verify it is properly stamped.
7. It should be passed by a responsible official.
8. It appears to be Genuine.
9. He should note the list of missing vouchers.
10. The vouchers inspected by the auditor should be cancelled by a stamp or a red marks, so that they may not be produced again.
11. Vouching should be complete at once in one sitting for a particular period of time.
12. To check and investigate the books of accounts if they are in the name of Director, Manager, Partner or any other employee of the company.
13. Receipt should clearly mention “advance payment” if it is do.
14. An Auditor should verify that every payment voucher of above Rs. 5,000/- should bear the revenue stamp.
15. Without existence of adequate internal control system in organization, an Auditor should not opt for test checking.
16. Checking the classification of account must be done.
17. Cash purchase should not be recorded twice, once in cash purchase and second one in credit purchase.
18. An Auditor should refer the resolution as passed at the meeting for certain transactions.
19. An Auditor should verify that accounting entries are done on the basis of capital and revenue items.
20. Every alteration in voucher must be authenticated by concerned officer.

b) How to vouch Cash receipts?

Vouching of Cash Receipts (Debit Side of Cash Book)

We will discuss the cash receipts which are placed on the debit side of cash book for following items −

Opening Balance of Cash Book

Opening balance of cash book represents cash in hand at the start of the year and should verified from the balance sheet of last financial year.

Cash Received from Debtors

Consider the following points for verification of cash received from debtors −

- The carbon copies or counterfoils of cash receipt book should be verified.
- Cash receipt should be serially numbered.
- Cash received should be entered on the same date when the cash is actually received.
- The discount allowed to customers should be properly authorized by a responsible officer.
- Correspondence with customer and ledger account should be tallied.

Repayment of Loan by Others

Repayment of loan by others may be verified in the following ways −

- Calculation of interest received and interest should be credited to interest received account.
- Verification from bank statement if directly deposited by party into bank.
- Checking of carbon copies or counterfoils of cash receipts.
- To ensure that there should be no violation of Income Tax rules as payment of loan exceeding Rs. 20,000/- cannot be repaid in cash. It should be through Cheques, Demand Draft, NEFT, RTGS or any other available banking channels.

Rent Received

- To check rental agreement or lease deed.
- In case where the rental income is received from more than one property, separate account for each property should be maintained.
- The Auditor should verify that the rent for all the twelve month is received or not.
- The amount of rent should be verified from the rent deed or the lease deed.
- If TDS (Tax Deducted at Source) is deducted by the party, there should be proper accounting of TDS.

Sale of Investments

- To check bank statement if the sales proceeds have reached the bank account.
- To verify broker commission, note or debit note, if investments are sold through broker.
- To ensure separate accounting is being done for capital receipts and revenue receipts. Dividend or profit or loss on sale of investment is a revenue receipt and the sales proceeds of the investment cost should be booked as capital receipt.

Subscription

Subscriptions are received from the members of a club and the following points need to be considered by the Auditor while vouching subscription −

- Subscription register should be verified.
- Verification of subscription received during the year and the subscription receivable.
- Counterfoil of cash receipt should be verified.

Sale of Fixed Assets

- To check minutes of the meetings of the Board of Directors.
- Sale agreement or sale contract.
- Verification of agent account if sale is made through an agent.
- Profit or Loss on sale of fixed assets should be booked to revenue account.
- Authorization of sale of fixed assets.
- Sale proceed of fixed assets should be credited to fixed assets account after deducting expenses on sale of fixed assets if any.

Interest and Dividend Received

- Verification of the dividend warrant letter along with the covering letter for verification of dividends in case of dividends received through cheque.
- Verification of bank statement, if the dividend is directly credited to the bank account.
- Interest on security can be vouched from the securities schedule.
- Interest on fixed deposit can be verified from bank statement and TDS certificates.
- Interest received from outsiders to whom company has granted loan could be verified from statement of account of party along with TDS certificates.
- All interest received and accrued should be properly accounted for in the books of accounts.

Commission Received

- Verification of agreement on the basis of which the commission is received.
- Calculation of the commission receivable.
- The commission received should be verified from counterfoils, bank statements, cash receipts, etc. and the provision for commission receivable should be rightly accounted for in the books of accounts.
- Commission receivable on "sale of goods sent on consignment" should be verified from sale account.

Installments Received on Hire-Purchase Sale

- Study of the Hire-Purchase agreement for hire-purchase-sale price, number of installment, rate of interest etc.
- Profit on sale on hire-purchase should be duly calculated on the basis of installment received during the year.

c)What is Investigation? Explain the advantages of investigation.

Investigation : Investigation is a detailed examination of accounts and enquiry into the state of affairs of the business or for a specific purpose. It involves the process of analyzing, collecting and presenting facts in a manner which enables the parties to know the essential facts regarding the matter under enquiry. Investigation covers more than one financial period and the programme depends on each type of investigation.

Example: Investigation is conducted in deduction of suspected fraud and theft, to identify causes for continuous loss and low productivity and to evaluate the credit worthiness of business.

Definition:

According to **Spicer and Pegler,** "The term investigation implies an examination of records for some special purpose".

Taylor and Perry, "Investigation involves and enquriy into the fact beyond the books of accounts into the technical, financial and economic position of the organisation".

Objectives and Advantages of Investigation

Investigation of accounts of a business will helpful under the following circumstances:

- When a person intends to purchase a business, by investigation he can know the real worth of the business and to evaluate the credit worthiness of business.

- When a new company wishes to purchase a running business or firm. By investigation it can know the true and fair financial position and state of internal control employed in the business
- When a person desires to enter into a partnership firm as a new partner. He appoints an investigator to know the goodwill of the business and current financial position of the business and credit worthiness of business.
- When a person wishes to lend money to a business and wants to know its financial position. He appoints an investigator to know the credit worthiness of business.
- When a person seeks avenues of investments. By investigation he can enquire the profitability of his investments.
- When a person wishes to make a valuation of shares of a limited company. By investigation he can know the real position and value of shares.
- When the proprietor of a business suspects fraud. Sometimes they suspect fraud in business, they appoint investigator to investigate where the suspect fraud is recognized. Investigation helps to locate the suspected fraud.
- When it is suspected that the affairs of the company are not being properly managed, i.e. statutory investigation is conducted and it reveals the true position of management.

(OR)

a)What is vouching? Explain its objectives and importance?
vouching: vouching means testing the truth of the items appearing in the books of original entry with the support of any documentary evidence is known as voucher:
Definition: "vouching consist in comparing entries in the books of accounts with documentary evidence in support there of"--L.R. Dicksee

Vouching is the practice followed in an audit, with the objective of establishing the authenticity of the transactions recorded in the primary books of account. It essentially consists of verifying a transaction recorded in the books of account with the relevant documentary evidence and the authority on the basis of which the entry has been made; also confirming that the amount mentioned in the voucher has been posted to an appropriate account which would disclose the nature of the transaction on its inclusion in the final statements of account. Vouching does not include valuation.

The vouchers are of two types.
1. Primary vouchers

2. Collateral vouchers

"primary vouchers" are the original documentary evidences and collateral vouchers" are their Xerox copies. .

Objectives Of Vouching: The following are the main objectives of vouching.

1. To see that all the transactions are properly accounted for in the books of accounts.

2. To see that no transaction which does not relate to the business is recorded in the books of account.

3. To see that no fraudulent transactions are recorded in the books of accounts.

4. To see that all the entries and transactions are supported by necessary evidence.

5. To see that all the entries and transactions are authenticated by responsible persons.

6. To detect frauds and errors.

Importance of vouching: The following are the main advantages of vouching is the most important work of an auditor.

Vouching can be described as the essence or backbone of auditing. The success of an audit depends on the thoroughness with which vouching is done. After entering in all vouchers, only then can auditing start. Vouching is defined as the "verification of entries in the books of account by examination of documentary evidence or vouchers, such as invoices, debit and credit notes, statements, receipts, etc.

1. **Back bone of auditing:** vouching is the important tool in the hands of an auditor to find out the accuracy of transactions, it is the back bone of auditing.

2. Basic principle of auditing: vouching is the back bone of auditing. The audit success depends upon intelligent vouching.

3. Verifies the validity of financial statements: Auditor verifies the each financial transaction with their valid documentary evidences.

4. Promotes the accuracy of accounts : vouching is the most important work of an auditor. It helps the auditor to verify the accuracy of accounts.

5. Detection of even clever frauds : vouching tests the fairness of the transactions recorded in the accounting books. Auditor can detect even clever frauds with intelligent and careful vouching.

6.Verifies the authenticity of transactions:- vouching verifies the entries and transactions are properly authenticated by responsible persons.

7. Audit success: The success of auditing depends upon intelligent and efficient vouching,

8. Promotes proper maintenances of accounts: The main objective of vouching is to see that no fraudulent transactions are recorded in the books of accounts. It promotes proper maintenances of accounts.

9. Great tool for auditor : vouching plays an important role in auditing it is the great

tool in the hands of auditor for efficient auditing.

b)What are the differences between investigation and Auditing?

Investigation definition: Investigation is a detailed examination of accounts and enquiry into the state of affairs of the business or for a specific purpose. It involves the process of analyzing, collecting and presenting facts in a manner which enables the parties to know the essential facts regarding the matter under enquiry. Investigation covers more than one financial period and the programme depends on each type of investigation.
Auditing definition:- Montgomerry defines Auditing as " a systematic examination of books and records of a business in order to ascertain or to verify and to report upon the facts regarding its financial operations and the results thereof".

S. No.	Basis of Difference	Auditing	Investigation
1	Meaning	Auditing is concerned with examining the accounts and reporting on financial statements.	Investigation is the examination of accounts of a business for special purpose.
2	Objective	The objective of Auditing is to express an opinion on the financial statements of the concern.	Investigation is done for some specific purpose.
3	Compulsion	It is compulsory in case of Joint stock companies.	It is not compulsory
4	Period	Auditing is done at the end of the financial year.	Investigation can be done over a period of years.
5	Conduct	Audit is conducted on behalf of the owners of the company	Investigation is conducted on behalf of outsiders and owners at some times.
6	Scope	It is has a narrow scope	It has a wide scope
7	Appointment	An auditor is appointed by the shareholders or directors or by Government.	An investigator is appointed by the outsider.
8	Report	Auditor has to give a report about the true and fair view of the final accounts.	The Investigator gives a report on the basis of conclusion and enquiries. Expression of the opinion is not necessary.
9	Qualification	Only Chartered Accountants are qualified to conduct audit.	An investigation need not be conducted by a Chartered Accountant.
10	Process of Work	Investigated accounts are not audited in ordinary course.	Generally audited books of accounts are taken up for investigation.

c)Write the steps in sales ledger Audit.

Steps in Sales Ledger Audit

Following is the procedure for conducting the Audit of the Sales Ledger (Customer's Ledger). The audit of the sales ledger (customer's ledger) should be taken up only after the books of prime entry i.e., sales day book, sales return book, main journal and cash book have been vouched, Bank Reconciliation Statement has been examined and queries arising out of vouching and examination of BRS have been satisfactorily resolved.

The following steps will be generally required in the audit of the sales ledger:

1. Opening Balances
2. Postings
3. Totals
4. Agreement with Accounts
5. Credit Balances

6. Composition of Balances
7. Foreign Currency Debtor Balances
8. Subsequent Collections
9. Direct Confirmations
10. Tracing into the Final Accounts
11. Credit Card Receivables

Opening Balances

Check the opening balances with the audited balance sheet of last year.

Postings

Check the postings from the sales day book, sales return journal, credit notes register, debit notes register, main journal, and bills receivable book.

Totals

Check totals i.e., castings of accounts of individual customers.

Agreement with Accounts

Check the total balances of individual customer's accounts. Tally this total with the accounts in the general ledger.

Credit Balances

Pay special attention to credit balances. It may be such that money has been received in advance from a customer or that the sales entry (debiting customer and creditors: sales) must have been omitted.

Composition of Balances

Match each debit for sales to the customer with the corresponding collection on the credit side. Many customers (particularly big companies) send the remittance advice showing the invoices against which payments have been made.

Long Outstanding Balances

This has been listed as a fraud risk factor by SA 240. This could mean any of the following possibilities:

1. Bad debts requiring write-offs.
2. Fictitious sales booked in previous year to bolster profits.
3. Misappropriation of collections.
4. Omission of postings for collections.
5. In case of closely-held companies or firms, the money has been paid to proprietor, partner or director who has deposited it in his personal account.

Foreign Currency Debtor Balances

See that these are stated in the balance sheet by converting the foreign currency receivable into rupees by applying the closing rate. The differences arising i.e. exchange differences should be adjusted in the Profit and Loss Account as per AS-11.

Subsequent Collections

Verify the genuineness of the debtor balances by checking whether they have been collected in the following period.

Direct Confirmations

Obtain direct confirmations of debtor balances by sending out confirmation requests.

Tracing into the Final Accounts

Trace the debtor's balances into the schedules of balances from thereon into groupings, from there into final accounts.

Credit Card Receivables

In case the company accepts payment by credit cards, check reconciliation of receivables as per books with credit card company's statements.

Short Questions

12.a)How to vouch credit purchases?
Vouching of Credit Purchases:

Transactions relating to credit purchases are recorded in Purchase Book. The main objective of vouching purchase book is to ensure that all the goods purchased during the year are being received and the client makes payment only for the goods being delivered by the supplier. The auditor before vouching the purchase book should satisfy himself about the effectiveness of the Internal check and control system relating to purchases.

Auditors Duty:
While vouching purchase book the auditor should consider the following points:

1.The auditor should examine theinternal check system employed and its following will be observed while vouching of credit purchases.

(a) There should be proper record for all the purchases orders. A duplicate copy of the order is kept in the office for record.

(b) A copy of purchase order shall be sent to accounts department.

(c) All goods received should be recorded on goods received note; a copy of it should be sent to Accounts department.

(d) Payment to supplier is made only after verification of receipt of goods and the price quoted in purchase order.

2. The auditor should see that only credit purchases of goods are recorded in purchases book.

3. The purchase book can be verified from purchase invoices, copies of orders placed, goods received note, goods inward book, copies of challans from supplier.

4. The quantity mentioned in the invoice must be the same as it shown in the purchase order.

5. The price charged by the supplier must be as per quotation/price list of supplier.

6. The purchase of goods is sanctioned by a responsible officer and only those goods are purchased in which the organization deals with.

7. The supplier bill must be in the name of the business and for the period under audit.

8. The goods purchased must not be for the personal use of directors or officers.

9. While vouching the purchase vouchers, each voucher should be stamped after examination, so that it could not be produced again.

10. The totaling and casting of purchases book should be verified. It should also be seen that all taxes, octroi and freight are added to the purchases and trade discounts allowed are deducted.

b)What is an Investigation? Explain the features of Investigation.
Investigation definition: Investigation is a detailed examination of accounts and enquiry into the state of affairs of the business or for a specific purpose. It involves the process of analyzing, collecting and presenting facts in a manner which enables the parties to know the essential facts regarding the matter under enquiry. Investigation covers more than one financial period and the programme depends on each type of investigation.

The following are the objectives of investigation.

1. Investigation to ascertain the financial position and the earning capacity of a business purpose on behalf of purchases of business.

2. Investigation on behalf of a person who wants to join and established partnership.

3. Investigation on behalf of a person who wants to lend money to a business.

4. Investigation to ascertain the extent of fraud suspected by the proprietor.

5. Investigation on behalf of a prospective shareholder

6. Investigation to find out the causes for abnormal fluctuations in profits.

7. Investigation on behalf of income tax authorities for detection of disclosed income.

8. Investigation for claims anther an insurance policy covering consequential losses.

Characteristics of Investigation:

The following are the important characteristics of investigation.

1. It involves critical examination and verification of specific records.

2. The investigation must get in writing the objectives of investigation.

3. It is undertaken with certain suspicion.

4. The scope of investigation may be limited or external control existence in the business while investigating.

5. It is started with a suspicious mind and propose as future course of action alongwith the report on the existing situation.

6. Its report is analytical, descriptive, so that relevant and correct conclusions may be drawn and action initiated.

c)Distinguish between Vouching and Routine checking.

Routine checking:-

Routine checking means checking entries in the books of original entry and ledgers it includes checking of castings, postings, carry forwards etc., It checks for arithmetic accuracy of accounting Books.

Vouching:-

Vouching means testing the truth of the items appearing in the books of original entry with their related documentary evidences. Routine checking is one part of vouching

Differences between Routine checking & Vouching

Routine checking	vouching
Meaning	
1. Routine checking is the checking for examine the arithmetical accuracy of accounting Books.	1. Vouching means verifying the truth of items appearing in the books of original entry with their related vouchers.
Scope	
2. The Scope of routine checking is limited. It is the verification of arithmetical accuracy of the books of original entry and ledger.	2. The scope of vouching is widen the auditor must verify each and every transaction in original entry and also is subsidiary Books.
Object	

3.The object of routine checking is to ascertain the arithmetical accuracy of accounts	3. Its objects is to ascertain the accuracy of the entries in the books of accounts.
Detection of errors & frauds	
4. In Routine checking simple frauds & errors can be detected.	4. In vouching errors of principle can be detected.
Detection of Intelligent frauds	
5.In the routine checking it detect simple frauds only	5. By vouching even well designed frauds also can be detected.
Personnel	
6.Routine checking generally conducted by junior auditing staff	6.vouching is conducted by senior auditing staff
Status	
7.Routine checking is a part in vouching	7.The Scope of vouching is widen, it includes routine checking also
Nature of work	
8.Routine checking is a mechanical work	8. But vouching is done with carefulness and with Intelligence.

UNIT-V

ESSAY QUESTIONS

5.a)Explain the qualifications and disqualifications of an auditor of a Joint Stock Company.

Appointment of Auditor and his qualifications and disqualifications:

According to the Indian companies Act the accounts of a joint stock companies can be audited only by qualified auditors and section 226 of the Companies Act contains provisions relating to the qualifications and disqualifications of the auditors of a Joint Stock Company.

Qualifications of Company Auditor:-

According to Provisions of Section 141(1) of the Companies Act, 2013 "a person shall be eligible for appointment as an auditor of a company only if he is a chartered accountant within the meaning of Chartered Accountants Act, 1949 and holds a valid Certificate of Practice.

It has been further provided that the firm shall also considered to appointed by its firm name whereof majority of partners practicing in India are qualified for appointment as auditor of a company.

According to Provisions of Section 141(2) of the Companies Act, 2013, a firm including limited liability partnership who are chartered accountants shall be authorised to act as auditor and sign on behalf of the such limited liability partnership or firm.

He should be a holder of a certificate under the certified auditors rules, 1961. Such certificate entities him to act as auditor anywhere in India. Such an auditors is called "Certified Auditor".

A person shall appointed as an auditor if he is chartered accountant within the meaning of Chartered Accountants Act, 1949 and holding valid certificate of practice and acting in capacity as

- a) Individual
- b) Partnership Firm
- c) Limited Liability partnership

It has been further provided that only partners who are Chartered Accountants will be authorised to sign on behalf of the firm.

Disqualifications of Auditor:

According to Provisions of Section 141(3) of the Companies Act, 2013 , following persons shall not be eligible as auditor of the company: -

a) A body corporate other than LLP registered under the LLP Act, 2008

b) An officer or employee of the company.

c) A person who is partner or who in the employment, of an officer or employee of the company.

d) A person who or his relative or partner

- e) is holding any security/interest in the company or its subsidiary or of its holding or associate company or subsidiary of such holding company. It has been further provided that an relative may hold security or interest in the company of face value not exceeding one lac rupees.
- (f) is indebted to the company or its subsidiary, or its holding or associate company or subsidiary of such holding company, in excess of Rs. 5 lacs rupees

- (g) has given guarantee or provide any security in connection with the indebtness of any third person to the company or its subsidiary, or its holding or associate company or a subsidiary of such holding company for value in excess of Rs. 1 lacs.
  (h)A Surety or guarantor of a debt exceeding $1000 taken by a third person from the company.
  (i)A director or member of a private company.
  (j)An undischarged insolvent or an insane person.
  Further, if the auditor holds appointment as auditor in the specified number of companies as per section 224, he will be disqualified for further appointment as auditor of any other company.

b)What are the rights and duties of an auditor according to Company Act?

Rights of an Auditor: An Auditor must certain right to perform the duties assigned to him honestly and effectively. In the case of sole trader business and partnership the rights of an auditor depend up on the agreement and in Company the rights and duties of an auditor are statutory.

Rights of an auditor according to Companies act 1956:- The Company Act given certain powers to the auditor of a company to enable him to perform his duty without any interference they are:

1. Right to Access the books, vouchers etc: The auditor has a right to access the books of a company at any time he is free to visit and verify the books of the company.

2. Right to call for information & explanations:- The auditor has a right to ask the directions and officers of the company to give information or explanations which are necessary in his audit work.

3. Right to Receive notices:- Auditor has a right o receive notices and other communications relating to any general meeting of the Company.

4. Right to attend general meeting:-The auditor has a right to attend general meeting of the share holders he has also a right to speech at such meeting where accounts are discussed.

5. Right to make a statement: The Auditor has a right to make any statement at a meeting where his certified accounts are discussed.

6. Right to correct & wrong the statement: The auditor has a right to correct the wrong statement make by the directories relating to accounts.

7. Right to Report to the members of the company:-The auditor has a right to report to the members of the accounts are unsatisfactory he has a right to qualify in report.

8. Right to Refuse to start audit work:- The auditor has a right of refuse to start audit work until the management balance the books.

9. Right to visit Branches:- the auditor has a right to visit branches of a company and audit the accounts maintain by them.

10. Right to claim Remuneration:- The auditor has a right to claim remuneration for the work he done.

Duties of company Auditor:-

The following are the main duties of company Auditor

1.To report on the accounts audited by him: The main duty of an auditor is he should report on the accounts audited by him because he is appointed by the shareholders and responsible for shareholders. He should state that he get all required information and the books of accounts are in accordance with law and fairness of P&L and balance sheet.

2. To Assist Investigators/Inspectors:- It is the duty of an auditor to give all assistance to the inspectors appointed to investigate affairs of the company.

3. Certification of Statutory Report: The Auditor has to certify the statutory report is correct according to company law.

4. Certification of Prospects: The duty of auditor is to certify the prospects issued by an existing company on its state of affairs.

5. To Certify declaration of Solvency: In the case of numbers voluntary wind up the auditor is required to certify the solvency of the company.

6. To Suggest alter the system of Accounting:- It is the duty of the auditor to satisfy with the system of accounting otherwise he must suggest the directors to alter the system.

7. Make report on public Deposits: Company can accept public deposits but they should follow the RBI guidelines. The Auditor should verify in accordance with rules.

8. Duty to see that his appointment is proper:- It is the duty of an auditor to see that his appointment is proper and he should communicate this to retired auditor.

b)Explain the contents of audit report requires under section-227 of the Company Act.

Audit Report : Shareholders are the real owners of a Joint Stock Company. Audit is legally compulsory to all companies. Audit safeguards the interests of the shareholders. Section 227 (2) of the Companies Act prescribes the duty of making a report by an auditor. He is required to make a report to the shareholders of the company on the accounts examined by him and on Balance Sheet, and profit and loss account. Such a report is known as the "Auditor's Report". Thus an auditor has a statutory duty to make a report to shareholders about the affairs of the company.

Meaning of Audit Report: An auditor's report is the medium through which an auditor expresses his opinion on the financial statements. It is nothing but a statement of facts. The facts are those which have not only been collected but also considered at the same time. L**ancaster** has defined a report as "a report is a statement of collected and considered facts, so drawn up as to give clear and concise information to persons who are not already in possession of the full facts of subject matter of the report."

Importance of Audit Report: Audit report is mere importance to the shareholders. It is a tangible proof of the financial state of affairs of the company. It indicate show the interests of the share holders are being looked after by the management. It is an evidence of the auditor's work.

Contents of Audit Report: The auditor's report has to contain certain matters. It must be clear and concise. It should be based on actual information. It should be convincing. It should be unbiased. The auditor has to take utmost care and caution in drafting his report. According to Section 227 (3) of the Companies Act, an auditor should state in the report:

1. Whether he has obtained the necessary information.

2. Whether proper books of accounts have been kept by the company as required by law.

3. Whether the report on the accounts of any branch office audited by other auditor has been forwarded to him.

4. Whether the company's balance sheet, and profit and loss account are in agreement with the books, accounts and returns.

5. Whether any other statements have been included as required by the Central Government,

The auditor's report shall also include a statement on such additional matters as specified by the Central Government under Section 227 (4-A) of the Companies Act. If the auditor is satisfied with all points mentioned under section 227 (3) of the companies Act, he gives a positive answer for them.

Types of Auditor's Report: The auditor's report may be clean report, or qualified report. According to work, the auditor's report can be of three types: 1) Final Report, 2) Interim Report, and 3) Partial Report.

Clean Report: It is also called "unqualified report" or "conventional report". Auditor usually gives a clean report where an auditor gives an opinion on the various matters without any reservations, it is considered as an unqualified opinion or clean.

Qualified report.

It is also known as negative report. The auditor gives a qualified report when he is not satisfied with the affairs of the company he mentioned those qualities which he is not satisfied he inserts qualifications, modifications or reservations.

(OR)

a)Discuss the liabilities of auditor according to company Act.

Liabilities of an Auditor: An auditor must fully understand his obligations due to the fact that the reports prepared by him are likely to be relied on. An auditor must use his skill and care that the report should reflect the true financial affairs of the company.

Types of liability:

Auditors are liable for both criminal and civil offences if committed by them. The criminal liability arises when individuals or organizations breach a law imposed by the government. Criminal law governs relationships between individuals and the state.

Civil Liability:

1. Liability for Negligence:

Negligence means breach of duty. An auditor is an agent of the shareholders. He has to perform his professional duties. He should take reasonable care and skill in the performance of his duties. If he fails to do so, liability for negligence arises. An auditor will be held liable if the client has suffered loss due to his negligence.

2. Liability for Misfeasance:

Misfeasance means breach of trust. If an auditor does something wrongfully in the performance of his duties resulting in a financial loss to the company, he is guilty of misfeasance. In such a case, the company can recover damages from the auditor.

Criminal offences:

Like any individual, auditors are also bound by the laws of the country. Under the present laws, auditors would be prosecuted for acts amounting to fraud, etc.

1. Untrue statement in Prospectus [Sec.34]

The auditor is liable when he authorizes a false or untrue prospectus. When a prospectus includes any untrue statement, every person who authorizes the issue of prospectus shall be imprisoned for a period of six months to ten years or with a fine, which may be three times the amount involved in the fraud or with both.

2. Non compliance by auditor [Sec. 143 and 145]:

If the auditor does not comply regarding making his report or signing or authorization of any document and makes wilful neglect on his part he shall be punishable with imprisonment up to one year or with fine not less than ₹. 25,000 extendable to ₹. 5,00,000.

3. Failure to assist investigation [Sec.217 (6)]:

When Central Government appoints an Inspector to investigate the affairs of the company, it is the duty of the auditor to produce all books, documents and to provide assistance to the inspectors. If the auditor fails to do so he shall be punishable with imprisonment upto one year and with fine up to ₹.1,00,000.

4. Failure to assist prosecution of guilty officers [Sec.224]:

An auditor is required to assist prosecution when Central Government takes any action against the report submitted by the Inspector. If he fails to do so, he is found guilty and is punishable.

5. Failure to return property books or papers [Sec.299]:

When a company is wound up the auditor is supposed to be present and subject himself to a private examination by the court and is also liable to return to the court any property, books or papers relating to the company. If the auditor does not comply, he may be imprisoned.

6. Penalty for falsification of books [Sec.336]:

An auditor when destroys, mutilates, alters or falsifies or secrets any books of account or document belonging to the company. He shall be punishable with imprisonment and also be liable to fine.

7.Criminal Liability under Indian Penal Code

According to Sec.197 of the Indian Penal Code, the auditor is similarly liable for falsification of any books, materials, papers that belongs to the company.

8. Liability under Income Tax Act [Sec.278]

For tax evasion exceeds ₹.1,00,000, rigorous imprisonment of six months to seven years.

b)State the qualities of a good audit report.

Audit Report:

An audit report is the ultimate product of every audit. It is nothing but a statement that combines all the observations made by an auditor while reviewing a company's financial statements.

Auditor is responsible of doing verification and examination of books of accounts and submit their report. Thus, an audit assignment starts with the appointment of auditors and ends when the auditors submit their final report to the company.

Qualities of a good audit report:

A good auditor's report should generally have the following characteristics:

1. Factual information:

The audit opinion should be based on an objective examination of the facts.

2. Effective presentation:

The report should be presented in an effective manner so that it enhances readability. As far as possible, it should be divided into separate paragraphs.

3. Independent and unbiased approach:

The auditor's report should demonstrate an impartial attitude. It should be guided by an objective, independent and unbiased judgment. The report must not be influenced by any financial interest of the auditor in the company or its management.

4. Honest identification of weaknesses in control:

The auditor should state his understanding of the internal control system of the entity and the degree of reliance placed on the system during the course of the audit. He should mention that he has reviewed the internal controls from time to time so as to ascertain their adequacy.

5. Clear expression of opinion:

The auditor's report must include a clear written opinion on the financial information. A clean report signifies the satisfaction of the auditor in all respects and where a qualified, adverse, or disclaimer of opinion is to be given or a reservation of opinion on any matter is to be made, then the auditor must state the reasons thereof.

6. Precise, brief and relevant:

The report should be drawn in a brief manner. It must be brief but no fact should be left out.

7. Easy language:

In addition, the report should be in a simple language so that it can be understood easily. The report must be clear and comprehensive. Notes, if any, must be included with the report.

8. Dated:

Needless to mention, an audit report has to specify the date on which it is drawn up. This should be the date of completion of the audit and in no case, should be earlier than the date on which the auditor has gathered sufficient and appropriate audit evidence to be able to support his opinion.

9. Addressed properly:

An audit report is addressed to the company's members and is considered at the AGM of the company. It should be appropriately addressed as required by the engagement letter and legal requirements.

10. Signature:

The audit report has to be signed by the auditor in his personal name. In the case where a firm is appointed as the company's auditor, the report should be signed in the personal name of the auditor as well as in the name of the firm.

c)What is qualified report? Explain the contents of qualified report.

Qualified Report:

It is also known as negative report. The auditor gives a qualified report when he is not satisfied with the affairs of the company he mentioned those qualities which he is not satisfied he inserts qualifications, modifications or reservations.

A qualified opinion highlights the reason for the audit report being qualified. A qualified opinion is also given in the case when adequate disclosures are not made to the financial statements.

Audit Report Contents : Audit Report Contents are the basic structure of the audit report which needs to be clear, providing sufficient evidence providing the justification about the opinion of the auditors and includes Title of Report, Addressee details, Opening Paragraph, scope Paragraph, Opinion Paragraph, Signature, Place of Signature, and Date of the Report. The following is the example for qualified report.

FORM OF AUDIT REPORT

To.

The Shareholders of XYZ Limited.

We have audited the attached balance sheet of XYZ Limited as on 31st March 2023 and also the Profit and Loss Account of the Company for the year ended on that date and report that:

(1) We have obtained all the information and explanation which to the best of our knowledge and belief were necessary for the purpose of our audit.

(2) In our opinion, proper books of accounts as required by law have been kept by the Company so far as appears from our examination of the books subject to the comments given hereunder:

- In the absence of the Stock Registers, adjustments relating to balances on the registers have been accepted on the basis of management decisions.

(3) The Balance Sheet and Profit and Loss Account dealt with by the report are in agreement with the books of accounts and returns.

(4) Subject to the qualification given below in our opinion and to the best of information and according to the explanation given to us, the accounts together with the notes thereon and documents attached thereto give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view:

- In the case of the Balance Sheet of the state of affairs of the company as on 31st March, 1999 and
- In the case of the Profit and Loss Account of the profit for the year ended on that date.
- The provision for depreciation of fixed assets inadequate.
- The stock-in-trade has been valued at market price which is higher than the cost price.

XYZ
(Chartered Accountant)
Name :

Dated : ___________
Mumbai : _________

Short questions

13. a)Explain the Criminal liabilities of an Auditor.

Liability of auditor:
Auditors are liable for both criminal and civil offences if committed by them. The criminal liability arises when individuals or organizations breach a law imposed by the government. Criminal law governs relationships between individuals and the state.

Criminal offences:
Like any individual, auditors are also bound by the laws of the country. Under the present laws, auditors would be prosecuted for acts amounting to fraud, etc.

1. Untrue statement in Prospectus [Sec.34]
The auditor is liable when he authorizes a false or untrue prospectus. When a prospectus includes any untrue statement, every person who authorizes the issue of prospectus shall be imprisoned for a period of six months to ten years or with a fine, which may be three times the amount involved in the fraud or with both.

2. Non compliance by auditor [Sec. 143 and 145]:

If the auditor does not comply regarding making his report or signing or authorization of any document and makes wilful neglect on his part he shall be punishable with imprisonment up to one year or with fine not less than ₹. 25,000 extendable to ₹. 5,00,000.

3. Failure to assist investigation [Sec.217 (6)]:

When Central Government appoints an Inspector to investigate the affairs of the company, it is the duty of the auditor to produce all books, documents and to provide assistance to the inspectors. If the auditor fails to do so he shall be punishable with imprisonment upto one year and with fine up to ₹.1,00,000.

4. Failure to assist prosecution of guilty officers [Sec.224]:

An auditor is required to assist prosecution when Central Government takes any action against the report submitted by the Inspector. If he fails to do so, he is found guilty and is punishable.

5. Failure to return property books or papers [Sec.299]:

When a company is wound up the auditor is supposed to be present and subject himself to a private examination by the court and is also liable to return to the court any property, books or papers relating to the company. If the auditor does not comply, he may be imprisoned.

6. Penalty for falsification of books [Sec.336]:

An auditor when destroys, mutilates, alters or falsifies or secrets any books of account or document belonging to the company. He shall be punishable with imprisonment and also be liable to fine.

7.Criminal Liability under Indian Penal Code

According to Sec.197 of the Indian Penal Code, the auditor is similarly liable for falsification of any books, materials, papers that belongs to the company.

8. Liability under Income Tax Act [Sec.278]

For tax evasion exceeds ₹.1,00,000, rigorous imprisonment of six months to seven years.

b)How an auditor can be appointed in a joint stock company?

Appointment of Auditor: After incorporation of a company in the first annual general meeting, an Auditor must be appointed by the Board of Directors. The Auditor will typically hold term till the conclusion of 5 years. The appointment of an Auditor can also be made for a period of 1 year, renewable at each annual general meeting.

First Auditor: The appointment of First Auditor of the Company must be completed by the Board of Directors within 30 days of incorporation. In case the Board of Directors fail to appoint an Auditor, the members of the company must be informed. The members will then be required to appoint an Auditor within 90 days at an Extra Ordinary General Meeting.

Rotation of Auditor: Individuals as an Auditor cannot be appointed as an Auditor for a term of more than 5 years. A firm of Auditors cannot be appointed as Auditors for more than two terms of 5 years. An Auditor who has completed his/her term of 5 years will also not be eligible for re-appointment for 5 years from completion of his/her term.

Casual vacancy Any casual vacancy of the auditor must be filled by the Board of Directors within 30 days. If the casual vacancy is on account of a **resignation of an auditor**, then the appointment of the auditor must be approved at an Extra-Ordinary General Meeting convened within 3 months of the recommendation of the Board.

Re-appointment: A retiring auditor can be re-appointed at an Annual General Meeting if:

- The auditor is not disqualified for re-appointment.
- The auditor has not given the company a notice in writing of his unwillingness to be re-appointed.
- A special resolution has not been passed at that meeting appointing some other auditor or providing expressly that he shall not be re-appointed.

If at any Annual General Meeting, no auditor is appointed or re-appointed, the existing auditor will continue to be the auditor of the company.

c)Explain about Qualified report.

Qualified report.

It is also known as negative report. The auditor gives a qualified report when he is not satisfied with the affairs of the company he mentioned those qualities which he is not satisfied he inserts qualifications, modifications or reservations.

FORM OF Qualified REPORT

To.
The Shareholders of XYZ Limited.

We have audited the attached balance sheet of XYZ Limited as on 31st March 2023 and also the Profit and Loss Account of the Company for the year ended on that date and report that:

(1) We have obtained all the information and explanation which to the best of our knowledge and belief were necessary for the purpose of our audit.

(2) In our opinion, proper books of accounts as required by law have been kept by the Company so far as appears from our examination of the books subject to the comments given hereunder:

- In the absence of the Stock Registers, adjustments relating to balances on the registers have been accepted on the basis of management decisions.

(3) The Balance Sheet and Profit and Loss Account dealt with by the report are in agreement with the books of accounts and returns.

(4) Subject to the qualification given below in our opinion and to the best of information and according to the explanation given to us, the accounts together with the notes thereon and documents attached thereto give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view:

- In the case of the Balance Sheet of the state of affairs of the company as on 31st March, 1999 and
- In the case of the Profit and Loss Account of the profit for the year ended on that date.
- The provision for depreciation of fixed assets inadequate.
- The stock-in-trade has been valued at market price which is higher than the cost price.

XYZ
(Chartered Accountant)
Name :

Dated : __________
Mumbai : _________