

CMA Inter – Corporate Accounting & Auditing

Last Day – Revision Strategy

Chapter	Estimated Time (In Hours)	Source
<i>Provisions of Audit</i>	2.5	<i>Marathon + Imp. Questions</i>
<i>Shares & Debentures</i>	2.5	<i>Revision Series</i>
<i>Schedule III</i>	1	<i>Revision Series</i>
<i>Banking, Electricity & Insurance</i>	1.5	<i>Revision Series</i>
<i>Audit of Different Undertakings</i>	1	<i>Marathon + Imp. Questions</i>
<i>Cash Flow Statement</i>	1	<i>Revision Series</i>
<i>Ind AS 1, 2, 10, 19, 33 and 37</i>	1.5	<i>Revision Series</i>
<i>Basic Concepts of Auditing</i>	2	<i>Marathon + Imp. Questions</i>

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Audit - Some Important Questions

Question 1

PQR & Co. a firm of Chartered Accountants has three partners, P, Q & R; P is also in whole time employment elsewhere. The firm is offered the audit of XYZ Ltd. which is a private limited company with paid up share capital of ₹120 crore. The firm already holds audit of 40 companies including audit of one dormant company. Examine whether acceptance of audit of XYZ Ltd. will be within the specified limits.

Answer:

As per Section 141(3)(g), a person or a partner of a firm shall not be eligible for appointment as the auditor of a company if -

- (i) Such person is in full time employment elsewhere; or
- (ii) Such person or partner is, at the date of such appointment or reappointment, holding appointment as auditor of more than twenty companies, other than one person companies, dormant companies, small companies and private companies having paid up capital less than ₹100 crore.

In the given case, P is in whole-time employment elsewhere, thus excluded for calculation of the limit for the firm. If Q and R do not hold any audits in their personal capacity/as partners of other firms, the total number of company audits to be accepted by PQR & Co. is 40. Since audit of dormant companies are excluded from the limit, the firm holds $(40-1) = 39$ eligible audit assignments. Thus, acceptance of audit of XYZ Ltd. will accordingly be within specified limits.

Question 2

(MQP June 23 1)

Analyze the pros and cons of joint audit.

Answer:

The benefits of joint audit are as follows:

- a) *Joint audit reduces the workload of a single auditor.*
- b) *Since different auditors may be engaged to handle different parts of accounts, timely completion of work is possible even in a large organization.*
- c) *The auditors may share their expertise and solve critical problems in the process.*
- d) *Joint audit improves the quality of audit work to a great extent.*
- e) *There may be healthy competition among the auditors which improves the quality and speed of the audit work.*
- f) *Under joint audit, it is possible to get the benefit of extensive knowledge of different auditors at the same time.*

The limitations of joint audit are enumerated below:

- a) *Established auditors may have a superiority complex over the less experienced one.*
- b) *It is not suitable for a small entity due to substantial cost burden.*
- c) *At times, lack of coordination among the auditors may slow down the speed of work.*
- d) *There may be uncertainty about the liability of any work.*
- e) *Areas of common concern may be neglected.*
- f) *The auditors have to share the fees.*

Question 3

What is the procedure of appointing a cost auditor in a company?

Answer:

As per Section 148(3) of the Companies Act 2013, cost audit shall be conducted by a Cost Accountant who shall be appointed by the Board. No person appointed under Section 139 as an auditor of the company shall be appointed for conducting the audit of cost records. The auditor so appointed shall comply with the cost auditing standards.

Rule 6 of the Companies (Cost Records and Audit) Rules 2014 –

- 1) *The category of companies specified in rule 3 and the thresholds limits laid down in rule 4, shall within one hundred and eighty days of the commencement of every financial year, appoint a cost auditor.*
- 2) *Every company referred to in sub-rule (1) shall inform the cost auditor concerned of his or its appointment as such and file a notice of such appointment with the Central Government within a period of 30 days of the Board meeting in which such appointment is made or within*

a period of 180 days of the commencement of the financial year, whichever is earlier, through electronic mode, in Form CRA-2, along with the fee as specified in Companies (Registration Offices and Fees) Rules, 2014.

Every cost auditor appointed as such shall continue in such capacity till the expiry of 180 days from the closure of the financial year or till he submits the cost audit report, for the financial year for which he has been appointed.

Question 4

Discuss the procedure of submission of Cost Audit Report as per Section 148(5) read with Rule 6 of the Companies (Cost Records and Audit) Rules 2014.

Answer:

As per Section 148(5) read with Rule 6 of the Companies (Cost Records and Audit) Rules 2014:

- (a) Every cost auditor, who conducts an audit of the cost records of a company, shall submit the cost audit report along with his or its reservations or qualifications or observations or suggestions, if any, in Form CRA-3.
- (b) The cost auditor shall forward his duly signed report to the Board of Directors of the company within a period of 180 days from the closure of the financial year to which the report relates and the Board of Directors shall consider and examine such report, particularly any reservation or qualification contained therein.
- (c) The company covered under these rules shall, within a period of 30 days from the date of receipt of a copy of the cost audit report, furnish the Central Government with such report along with full information and explanation on every reservation or qualification contained therein, in Form CRA-4 in Extensible Business Reporting Language format in the manner as specified in the Companies (Filing of Documents and Forms in Extensible Business Reporting language) Rules, 2015 along with fees specified in the Companies (Registration Offices and Fees) Rules, 2014”.

Provided that the Companies which have got extension of time of holding Annual General Meeting under section 96 (1) of the Companies Act, 2013, may file Form CRA-4 within resultant extended period of filing financial statements under section 137 of the Companies Act, 2013.

If the Central Government is of the opinion that any further information or explanation is necessary, it may call for such further information and explanation and the company shall furnish the same within such time as may be specified by that government.

Question 5

Discuss the procedure to be followed for fixing the remuneration of a Cost Auditor and the reporting requirements of Cost Audit as per CRA-3.

Answer:

As per Section 148(3) of the Companies Act 2013 read with Rule 14 of the Companies (Audit and Auditors) Rules 2014, the remuneration of the cost auditor shall be decided by the Board as recommended by the Audit Committee, if any, which shall be ratified by the shareholders subsequently. In the case of companies which are not required to constitute an audit committee, the Board shall appoint an individual who is a cost accountant or a firm of cost accountants in practice as cost auditor and the remuneration of such cost auditor shall be ratified by shareholders subsequently.

Reporting Requirements of Cost Audit as per CRA-3:

As per Companies (Cost Records and Audit) Rules 2014 as amended up to date, a cost auditor needs to report the following in CRA-3.

- (a) Whether he has obtained all the information and explanations, which to the best of his knowledge and belief were necessary for the purpose of the audit.*
- (b) Whether in his opinion, proper cost records, as per rule 5 of the Companies (Cost Records and Audit) Rules, 2014 have been maintained by the company in respect of its product(s)/ service(s) under reference.*
- (c) Whether in his opinion, proper returns adequate for the purpose of the cost audit have been received from the branches not visited by him.*
- (d) Whether in his opinion, and to the best of his information, the said books and records give the information required by the Companies Act, 2013, in the manner so required.*
- (e) Whether in his opinion, the company has adequate system of internal audit of cost records which to his opinion is commensurate to its nature and size of the business.*
- (f) Whether in his opinion, information, statements in the annexure to the cost audit report give*

a true and fair view of the cost of production of product(s)/rendering of service(s), cost of sales, margin and other information relating to product(s)/service(s) under reference.

(g) Whether detailed unit-wise and product/service-wise cost statements and schedules thereto in respect of the product /service of the company duly audited and certified by him are kept in the company

Question 6

Recommend the important issues to be reviewed while conducting the audit of issue of debentures by a company.

Answer:

The audit procedure to be applied to conduct audit of the issue of debentures include the following:

- *The auditor should verify that the prospectus had been duly filed with the registrar before the date of allotment of debentures.*
- *He should check the amount collected in the cash book with the counterfoils of receipts issued to the applicants and also cross check the amount into the application and allotment book.*
- *He should examine the debenture trust deed and note the conditions contained therein as to issue and repayment.*
- *If the debentures are covered by a mortgage of a charge, it should be verified that the charge has been correctly recorded in the register of mortgage and charges and it has also been registered with the registrar of the companies.*
- *Compliance with SEBI guidelines should also be ensured.*

Where debentures have been issued as fully paid up to vendors as a part of the purchase consideration, the contract in this regard should be checked.

Question 7

Discuss the matters to be included in audit report as per CARO-2020.

Answer:

(a) Notification

The Ministry of Corporate Affairs, Government of India notified Companies (Auditor's Report) Order 2020 on 25th February, 2020. This order was issued in supersession of Companies (Auditor's Report) Order 2016. Accordingly, CARO 2020 is applicable for all statutory audits commencing on or after 1st April, 2021 corresponding to the financial year 2020-21

B. Eligible Companies

It shall apply to every company including a foreign company as defined in clause (42) of Section 2 of the Companies Act, 2013 (18 of 2013) [hereinafter referred to as the Companies Act], except –

- (i) a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949);
- (ii) an insurance company as defined under the Insurance Act, 1938 (4 of 1938);
- (iii) a company licensed to operate under section 8 of the Companies Act;
- (iv) a One Person Company as defined in clause (62) of section 2 of the Companies Act and a small company as defined in clause (85) of section 2 of the Companies Act; and
- (v) a private limited company, not being a subsidiary or holding company of a public company, having a paid-up capital and reserves and surplus not more than one crore rupees as on the balance sheet date and which does not have total borrowings exceeding one crore rupees from any bank or financial institution at any point of time during the financial year and which does not have a total revenue as disclosed in Scheduled III to the Companies Act (including revenue from discontinuing operations) exceeding ten crore rupees during the financial year as per the financial statements.

Matters to be Included in Auditor's Report

Non-current Assets [Clause 3(i)]

- a) whether the company is maintaining proper records showing full particulars, including

quantitative details and situation of Property, Plant and Equipment and full particulars of intangible assets;

- b) whether these Property, Plant and Equipment have been physically verified by the management at reasonable intervals; and whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account;*
- c) whether the title deeds of all the immovable properties (other than properties where the company is the lessee and the lease agreements are duly executed in favour of the lessee) disclosed in the financial statements are held in the name of the company. If not, provide the details thereof in the prescribed format.*
- d) whether the company has revalued its Property, Plant and Equipment (including Right of Use assets) or intangible assets or both during the year and, if so, whether the revaluation is based on the valuation by a Registered Valuer; specify the amount of change, if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets;*
- e) whether any proceedings have been initiated or are pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and rules made thereunder, if so, whether the company has appropriately disclosed the details in its financial statements.*

Inventory [Clause 3(ii)]

- a) whether physical verification of inventory has been conducted at reasonable intervals by the management and whether, in the opinion of the auditor, the coverage and procedure of such verification by the management is appropriate;*
- b) whether during any point of time of the year, the company has been sanctioned working capital limits in excess of five crore rupees, in aggregate, from banks or financial institutions on the basis of security of current assets;*

Investment, Providing Guarantee/security, Granting Loan or Advances [Clause 3(iii)]

- a) whether during the year the company has made investments in, provided any guarantee or security or granted any loans or advances in the nature of loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or any other parties, if so, -*
 - (i) whether during the year the company has provided loans or provided advances in the nature of*

loans, or stood guarantee, or provided security to any other entity

- b) *whether the investments made, guarantees provided, security given and the terms and conditions of the grant of all loans and advances in the nature of loans and guarantees provided are not prejudicial to the company's interest;*
- c) *in respect of loans and advances in the nature of loans, whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;*

if the amount is overdue, state the total amount overdue for more than ninety days

- d) *whether any loan or advance in the nature of loan granted which has fallen due during the year, has been renewed or extended or fresh loans granted to settle the overdue of existing loans given to the same parties,*

Loan to Director and Investment by the Company [Clause 3 (iv)]

In respect of loan, investment, guarantees and security, whether provisions of Sections 185 and 186 of the Companies Act, 2013 have been complied with.

Acceptance of Deposits [Clause 3 (v)]

In case the company has accepted deposits, whether the directives issued by the Reserve Bank of India and the provisions of Sections 73 to 76 or any other relevant provisions of the New Act and the rules framed thereunder.

Maintaining Cost Records [Clause 3 (vi)]

Where maintenance of cost records has been specified by the Central Government under sub-section (1) of Section 148 of the New Act, whether such accounts and records have been made and maintained.

Statutory Dues [Clause 3 (vii)]

- a) *Is the company regular in depositing undisputed statutory dues including provident fund, employees' state insurance, income tax, sales tax, wealth tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues with the appropriate authorities? And if not, the extent of the arrears of outstanding statutory dues as at the*

last day of the financial year concerned for a period of more than six months from the date, they became payable, shall be indicated by the auditor.

- b) *In case dues of income tax or sales tax or wealth tax or service tax or duty of customs or duty of excise or value added tax or cess have not been deposited on account of any dispute, then the amount involved*

Disclosure of Unrecorded Income [Clause 3 (viii)]

Whether any transactions not recorded in the books of account have been surrendered or disclosed as income during the year in the tax assessments under the Income Tax Act, 1961

Repayment of Loan [Clause 3 (ix)]

- a) *whether the company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender, if yes, the period and the amount of default to be reported*
- b) *whether the company is a declared willful defaulter by any bank or financial institution or other lender;*
- c) *whether term loans were applied for the purpose for which the loans were obtained; if not, the amount of loan so diverted and the purpose for which it is used may be reported;*
- d) *whether funds raised on short term basis have been utilized for long term purposes, if yes, the nature and amount to be indicated;*

Utilization of IPO/ Further Public Offer etc. [Clause 3 (x)]

- a) *whether moneys raised by way of initial public offer or further public offer (including debt instruments) during the year were applied for the purposes for which those are raised, if not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported;*
- b) *whether the company has made any preferential allotment or private placement of shares or convertible debentures (fully, partially or optionally convertible) during the year and if so, whether the requirements of section 42 and section 62 of the Companies Act, 2013 have been complied with*

Reporting of Fraud [Clause 3 (xi)]

- a) *whether any fraud by the company or any fraud on the company has been noticed or reported*

- during the year, if yes, the nature and the amount involved is to be indicated;
- b) whether any report under sub-section (12) of section 143 of the Companies Act has been filed by the auditors in Form ADT-4 as prescribed under rule 13 of Companies (Audit and Auditors) Rules, 2014 with the Central Government;
 - c) whether the auditor has considered whistle-blower complaints, if any, received during the year by the company;

Nidhi Company [Clause 3 (xii)]

- a) whether the Nidhi Company has complied with the Net Owned Funds to Deposits in the ratio of 1: 20 to meet out the liability;
- b) whether the Nidhi Company is maintaining ten per cent. unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability;
- c) whether there has been any default in payment of interest on deposits or repayment thereof for any period and if so, the details thereof;

Question 8

Discuss the rights of a company auditor.

Answer:

The Companies Act, 2013 provides the following statutory rights to a company auditor:

- i. **Inspect Books of Accounts and Vouchers:** Every auditor of a company shall have the right of access, at all times, to the books of account and vouchers of the company, whether kept at the registered office of the company or at any other place. In addition, auditor of a holding company shall also have the right of access to the records of all its subsidiaries and associate companies in so far as it relates to the consolidation of its financial statements with that of its subsidiaries [Section 143(1)].
- ii. **Obtain Information and Explanations:** The auditor shall be entitled to require from the officers of the company such information and explanation as he may consider necessary for the performance of his duties as the auditor [Section 143(1)].
- iii. **Inspect Branch Offices and Branch Accounts:** The company auditor is also entitled to inspect

the accounts of any branch office in case he considers it necessary in order to discharge his duties as the company auditor. He can do so, even if a separate auditor has already been appointed to audit the branch accounts [Section 143(8)].

- iv. **Receive the Report of Branch Audit from the Branch Auditor:** *In case a separate auditor has been appointed to audit the branch accounts, the company auditor has the right to receive the branch audit report from the branch auditor so appointed and use it to prepare the overall audit report [Section 143(8)].*
- v. **Sign the Audit Report and Other Documents:** *The company auditor also has the right to sign the auditor's report or sign or certify any other document of the company in accordance with the provisions of sub-section (2) of Section 141 [Section 145].*
- vi. **Have Audit Report Read at the AGM:** *The company auditor has the right to have the report read before the company in the General Meeting (especially in case the qualifications, observations or comments on financial transactions or matters, mentioned in the auditor's report, have any adverse effect on the functioning of the company) and the same shall be open to inspection by any member of the company [Section 145].*
- vii. **Receive Notices and Attend General Meetings:** *The company auditor is entitled to receive all notices of, and other communications relating to, any general meeting and to attend such meetings either by himself or through his authorized representative, who shall also be qualified to be an auditor. The auditor shall also have the right to be heard at such meeting on any part of the business which concerns him as the auditor [Section 146].*
- viii. **Attend the Meeting of the Audit Committee:** *The auditors of a company shall have a right to attend the meetings of the Audit Committee and to be heard in the meetings when the Committee considers the auditor's report but shall not have the right to vote [Section 177(7)].*
- ix. **Right to be Indemnified:** *The auditor of a company shall also have the right to be indemnified for any expenses incurred by him in defending himself in case the judgement in any law suit (whether civil or criminal) against the company goes in favour of the auditor.*

Question 9

Demonstrate the audit procedure to be followed for the audit of Property, Plant and Equipment.

Answer:

Property, Plant and Equipment constitute a significant portion of total assets of an entity. audit process for PPE is governed by the relevant Accounting Standard (AS 10 or Ind AS 16) in organizations which are required to comply with Accounting Standards.

Audit Procedure to be Followed:

The auditor shall resort to the following audit procedure:

(1) Existence

- i. The auditor must ensure physical verification of the assets to confirm that they exist and are under the possession of the client.
- ii. He shall demand explanations for any discrepancies found in the above process.
- iii. He shall specifically ensure that assets that are not in the working condition have been accounted for as deletions.

(2) Rights and Obligations

- i. The auditor should verify that PPE additions have been approved by the responsible official and such additions are as per the capital expenditure budget approved by the board for the financial year concerned.
- ii. The auditor shall check that PPE purchase invoices are in the name of the client that entails the legal ownership

(3) Cut-off

- i. The auditor shall see that the Net Block of assets shown in the Balance Sheet comprises all assets existed and under the ownership of the company on the reporting date and depreciation pertains to the current period only.

(4) Completeness

- i. He shall also verify the PPE schedule (asset class wise) maintained by the management and

tally the closing balances to the entity's books of accounts.

- ii. He should check the arithmetical accuracy of the movement in PPE schedule and reconcile the opening balance with the closing balance of each class of asset by considering the additions and disposals during the year.

(5) Valuation

- i. The auditor shall see that all items of PPE have been carried at cost less accumulated depreciation less accumulated impairment loss. The auditor shall verify whether depreciation has been charged on all items except the freehold land.
- ii. He shall also verify the installation certificate to know the date of installation of the asset.

(6) Presentation and Disclosure

- i. In case of a company, the auditor should ensure that all items of PPE have been disclosed in the balance sheet of the company under the head 'Non-current Assets' and sub head 'Fixed Assets' as 'Tangible Asset' as per Schedule III of the Companies Act 2013.
- ii. He shall also ensure that all the relevant information has been disclosed in the 'Notes to Accounts' section.

Question 10

Discuss and Analyze the statement 'Reporting on Internal Financial Control over Financial Reporting – Auditor's Responsibility'

Answer:

Sec 143(3)(i) of Companies Act, 2013 requires that the report of the auditor should state as to whether the company has adequate Internal Financial Control system in place and the operating effectiveness of such controls.

Further, Rule 10A of Companies (Audit & Auditors) Rules 2014 states that:

- a) For the financial years commencing on or after 1st April 2015, the report of the auditor should state about existence of adequate Internal financial controls and its operating effectiveness.
- b) The auditor of a company may voluntarily include the statement referred to in this rule for the financial year commencing on or after 1st April 2014 and ending on or before 31st March 2015.

As per the Guidance Note issued by The Institute of Chartered Accountants of India in this respect -

- *The auditor's objective in an audit of internal financial controls over financial reporting is to express an opinion on the effectiveness of the company's internal financial controls over financial reporting and the procedures in respect thereof are carried out along with an audit of the financial statements.*
- *Globally, auditor's reporting on internal controls is together with the reporting on the financial statements and such internal controls reported upon relate to only internal controls over financial reporting.*

Accordingly, the term 'internal financial controls' wherever used in this Guidance Note in the context of the responsibility of the auditor for reporting on such controls under Section 143(3)(i) of the Act, per se implies and relates to internal financial controls over financial reporting.

Therefore, 'internal financial controls over financial reporting' shall mean 'A process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal financial control over financial reporting includes those policies and procedures that –

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;*
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and*
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.*

An auditor needs to conduct an audit of IFC-FR through a proper planning followed by testing the design effectiveness of control and operating effectiveness of control and thereafter report on IFC over Financial Reporting.

The Guidance Note also provides that reporting on the adequacy and operating effectiveness of IFC-FR would apply even in case of consolidated financial statements, for the respective components included in the consolidated financial statements only if it is a company under the 2013 Act. However, reporting on IFC will not be applicable with respect to interim financial statements, such as quarterly or half-yearly financial statements, unless such reporting is required under any other law or regulation.

Question 11

What are the possible organization forms of educational institutions? How will you conduct audit of receipt related items of an educational institution?

Answer:

Educational institutions of any state in India are generally established and run under the Societies Registration Act 1960 or Public Trust Act of the state concerned. Similarly, central educational institutions are guided by the respective regulations issued by the Ministry of Education from time to time. In some cases, large educational institutions like universities are established by Central or State governments by enacting special legislation.

Audit procedure to verify the receipts related transactions:

- (i) **Tuition Fees:** Tally the counterfoils of fee receipt with fee register to see whether they have been duly recorded or not. Check the register to identify whether all the students have paid their fees in due time. If any student has deposited the fees beyond the due date, check whether late fine has been charged or not and whether the same has been properly recorded. See whether all collections are deposited in the bank account at the end of the day.*
- (ii) **Admission Fees:** Check admission fees with admission slips signed by the head of the institution and confirm that the amount had been credited to a Capital Fund, unless the Managing Committee has taken a decision to the contrary.*
- (iii) **Other Fees:** Verify the collection of other fees such as library fees, session fees or development fees, fees for hostel etc. based on the counterfoils and fee registered and ensure that the fees have been accounted for in appropriate heads.*
- (iv) See that all arrears on account of fees, fines, etc. have been taken into consideration at the end of accounting period. See that free studentship and concessions have been granted by an authorised person only.*
- (v) Confirm that hostel dues were recovered before students' accounts were closed and their deposits of caution money refunded.*
- (vi) Verify grants received from Government or other organisations based on the sanction letter and bank statement.*
- (vii) Ensure that donation received, if any, has been acknowledged and recorded properly in the*

books of accounts.

(viii) Vouch income from endowments and legacies, as well as interest and dividends from investment; also inspect the securities in respect of investments held.

Question 12

How will you conduct the audit of a local self-government?

Answer:

The auditor is supposed to consider the following general points in conducting the audit of local self-government:

- a) Ensure that his appointment is in line with the respective regulation of the local body and approved by the appropriate authority.*
- b) Obtain a detail understanding of the rules and regulations that governs the operations, especially the financial control and accounting of the organisation.*
- c) Consult the relevant documents, minutes and resolutions of various meetings of different committees.*
- d) With regards to various government schemes which are implemented through local bodies, check the utilization of grant, appropriate authorization being maintained throughout and adequacy of accounting.*
- e) Apply in depth investigation in areas with potential fraud such as revenue collection, various waiver schemes, use of casual labour etc.*
- f) Whenever there is a provision of funds, ensure that the expenditure is incurred from the provision and the same has been authorized by the competent authority.*
- g) Ensure that where huge financial expenditure is involved, the schemes are running economically and is expected to generate the targeted outcome.*

Question 13

Demonstrate the comparative features of permanent and current audit file with example.

Answer:

Permanent audit file contains all the documents which are of continuing importance for the audit of succeeding years.

Accordingly, permanent audit file contains documents such as:

Legal and organizational structure of the entity, e.g., Memorandum of Association and Article of

Association in case of a company;

Extracts or copies of legal documents, agreements and minutes relevant to the audit;

On the other hand, temporary audit file contains documents relevant for the audit of the current year only.

Accordingly, current audit file contains documents such as:

Correspondence relating to acceptance of annual reappointment.

Extracts of important matters in the minutes of Board Meetings and General Meetings relevant to the audit.

Question 14

Distinguish between Statutory Audit and Non-Statutory Audit.

Answer:

S. No.	Points of Distinction	Statutory Audit	Non-statutory Audit
1.	Legal compulsion	It is compulsory.	It is voluntary.
2.	Scope	The relevant statute or law determines the scope of work.	The employer or partners determine the scope of work.
3.	Qualification of auditor	The academic or professional qualification is prescribed for the auditor.	The auditor need not possess any academic or professional qualifications.
4.	Powers, rights and duties of an auditor	The statute dictates the powers, rights and duties of an auditor.	The agreement between an auditor and firm decides these matters.
5.	Independence	The auditor has independence in status and in mental attitude.	The auditor does not enjoy such independence.
6.	Auditor's liability	The auditor is liable for negligence under the Common Law and for misfeasance under the relevant statute governing the audit.	The auditor is liable for negligence only under the Common Law.
7.	Publication of audit report	The audit report is published for the public.	The audit report is made known to the employers or partners.

Question 15

Describe the contents of Audit Working Papers.

Answer:

As per SA-230, 'Audit Documentation', an auditor should follow the guidelines mentioned below to decide on the form, content and extent of audit documentation (or working papers).

The auditor shall prepare audit working papers on a timely basis. They should be prepared while performing the task itself rather than after the audit work is performed. The auditor shall prepare audit working papers that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:

- a) the nature, timing and extent of audit procedures performed to comply with the SAs and applicable legal and regulatory requirements;*
- b) the results of the audit procedures performed and the audit evidence obtained; and*
- c) significant matters arising during the audit, the conclusion reached thereon and significant professional judgments made in reaching those conclusions.*

In documenting the nature, timing and extent of audit procedures performed, the auditor shall record:

the identifying characteristics of the specific items or matters tested;

who performed the audit work and the date such work was performed; and

who reviewed the audit work performed and the date and extent of such review.

The auditor shall document discussions of significant matters with management, those charged with governance and others, including the nature of the significant matters discussed and when and with whom the discussions took place.

If the auditor identified information that is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor shall document how the auditor addressed the inconsistency.

If, in exceptional circumstances, the auditor judges it necessary to depart from a relevant requirement in a SA, the auditor shall document how the alternative audit procedures performed achieved the aim of that requirement, and the reasons for the departure.

Question 16

Distinguish between Audit and Investigation.

Answer:

It is to be noted that both Auditing and Investigation have a fact-finding character. Both involve a systematic and critical examination of the available evidence, yet these are quite distinct from each other as follows:

	BASIS	AUDIT	INVESTIGATION
1.	Meaning	Auditing is an independent and systematic examination of the evidence underlying the accounting or other data in accordance with the generally accepted auditing practices to ascertain the true and fair view of the financial statements of an enterprise.	An investigation may be defined as an examination of accounts and records with a view to ascertain any fact for some special purpose which varies from assignment to assignment.
2.	Scope	The audit has a wide scope. In statutory audit, the scope is determined by the relevant law and in case of a private audit (e.g., management audit) by a client.	The scope of investigations, on the other hand, is limited as regards the period or areas to be covered.
3.	Objective	In audit, the accounts and records are verified as to their truth and fairness.	Investigation is for special purpose (e.g., investigation on the behalf of incoming partner)
4.	Audit Procedure	The audit is conducted in accordance with the generally accepted auditing principle.	Investigations involve an extended auditing procedure.
5.	Evidence	An auditor will evaluate the accounting records predominantly based on persuasive evidence.	An investigator can draw his conclusions only on the basis of substantial or sometimes conclusive evidence.
6.	Approach	Auditor is skeptical and not suspicious.	Whereas an investigator starts with suspicion and collects evidence to either confirm or dispel that suspicion.
7.	Periodicity	Auditing is a routine exercise	Investigation may spread over a

	(normally conducted annually).	period longer than one year.
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Question 17

Discuss the concept of Branch Audit.

Answer:

Section 128(1) of the Companies Act, 2013 provides that every company shall prepare and keep at its registered office books of account and other relevant books and papers and financial statements for every financial year which give a true and fair view of the state of the affairs of the company, including that of its branch office or offices, if any, and explain the transactions effected both at the registered office and its branches and such books shall be kept on accrual basis and according to the double entry system of accounting.

The Board of Directors may, however, decide to keep all or any of the aforesaid books of account and other relevant papers at such other place in India. In such circumstances, the company shall, within seven days thereof, file with the Registrar a notice in writing giving the full address of that other place.

Section 128(2) further specifies that, where a company has a branch office in India or outside India, it shall be deemed to have complied with the provisions of Section 128(1), if proper books of account relating to the transactions effected at the branch office are kept at that office and proper summarised returns periodically are sent by the branch office to the company at its registered office or the other place as decided.

Hence, given the provisions of Section 128(1) and 128(2), there arises the scope of auditing the records of transactions effected at branch office(s) in India or outside India, whether such records are kept at the registered office, branch office or any other place. Accordingly, Section 143(8) of the Companies Act, 2013, read with Rule 12 of CAAR 2014, states the following provisions relating to the accounts of a branch office of a company:

Where a company has a branch office, the accounts of that office shall be audited either by the auditor appointed for the company (herein referred to as the company's auditor) under this Act or by any other person qualified for appointment as an auditor of the company under this Act and appointed as such under Section 139.

Where the branch office is situated in a country outside India, the accounts of the branch office

shall be audited either by the company's auditor or by an accountant or by any other person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of that country.

The duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor, if any, shall be as contained in sub-sections (1) to (4) of Section 143.

Similarly, if the branch auditor is appointed separately, the duties and powers of the branch auditor shall be as same as applicable to the company auditor under sub-sections (1) to (4) of Section 143.

The branch auditor shall submit his report to the company's auditor.

Provisions of sub-section (12) of Section 143 regarding reporting of fraud by the auditor shall also extend to the branch auditor to the extent it relates to the concerned branch.

Question 18

Explain the audit trail and the statutory provisions relating to audit trail.

Answer:

Audit trail may be defined as the documents, records relating to transactions that enables an auditor to trace the transactions from the source documents to the summarized total in accounting reports. It is an orderly, step-by-step record of transactions that serves as a proof of a transaction's history, right from recording to tracking all changes that may take place. For example, a sequentially numbered sales invoice copies would normally be listed in a Register and subsequently filed either in numerical or chronological order. Thus, it would be possible to trace a particular invoice from the daybook to the original file by reference to the number or date of the invoice.

In an automated environment accounting software provides the ideal example of audit trails. For example, when a transaction is entered in the software, the software will maintain a record of it. Any further edits made to the details, such as a change in the name or amount will also be tracked by the software along with the user who made the changes and the time of change. Even if some transactions were to be deleted, the software will track that as well and keep the record of everything since the original entry was made.

The Statutory Requirement for Audit Trail: According to Rule 3(1) of Companies (Accounts) Rules, 2014, as amended by Companies (Accounts) Amendment Rules, 2021, for the financial year commencing on or after the 1st day of April, 2022, every company which uses accounting software for maintaining its books of account, shall use only such accounting software which has a feature of recording audit trail of each and every transaction, creating an edit log of each change made in books of account along with the date when such changes were made and ensuring that the audit trail cannot be disabled.

In simple words, the expectation is to maintain the edit log of every transition right from recording to tracking the changes that may take place.

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