

**Note: All questions are compulsory.**

**Question 1(5 marks)**

<u>Examination of Income and Collection of Fund by an NGO:</u>	
Five special points to be looked into are-	
(i) Grant donations and contributions received from various Government, other NGO, industry and public should be checked with reference to the grant letter, bank statements and ensured that they are properly accounted and banked.	1
(ii) Foreign contribution received should be checked with reference to the correspondence receipt issued, bank statement, conversion into local currency. It should be ensured that all such contributions are as per RBI guidelines and be kept in separate bank account.	1
(iii) In the case of any fund raising cultural or sports program, verify the internal control system, mode of receipt and the authority accountable. Ensure that all collections are duly receipted and deposited in the bank promptly.	1
(iv) Check the fee received from members with the register of members.	1
(v) Check interest and dividend received from investments with investment held.	1

**Question 2 (5 marks)**

<u>Focus Points for Doing Propriety Audits of Government Expenditure:</u>	
<u>The Propriety audit is to vet the expenditure in the annals of financial wisdom and uprightnes</u> . It is to check to bring out the improper, avoidable, or in fructuous expenditure even though such expenditure has been incurred in conformity with the existing rules and regulations.	0.5
A transaction may satisfy all the requirements of regularity audit in so far as the various formalities regarding rules and regulations are concerned but may still be highly wasteful. It is not audit of sanction or against norms. It is a qualitative, opinion-based expression of auditor's findings as regards the efficiency, effectiveness and economy dimensions of expenditure.	0.5
In this regards, the following main points should be kept for consideration:	
(1) The expenditure should not be prima facie more than what the occasion demands. Public money should be spent by the officers as of his own with utmost diligence and care.	0.5
(2) No order for sanction of expenditure should be made by an authority which results in pecuniary gains directly or indirectly.	0.5

(3) Public moneys should not be utilised for the benefit of a particular person or section of the community unless: (i) the amount of expenditure involved is insignificant; or (ii) a claim for the amount could be enforced in a Court of law; or (iii) the expenditure is in pursuance of a recognised policy or custom; and (iv) the amount of allowances, such as travelling allowances, granted to meet expenditure of a particular type should be so regulated that the allowances are not, on the whole, sources of profit to the recipients.	1
(4) There should not be profiteering by the authority or anybody where the expenditure is in the nature of compensating.	0.5
(5) Wastages are avoided in expenditure. The cost of administering should not eat off the benefits of the expenditure.	0.5
(6) The expenditure should percolate down the beneficiary without corruption.	0.5
(7) The expenditure should bring out optimum, enduring benefits instead of mere frittering away the public money on meeting day to day needs repeatedly.	0.5

**Question 3(5 marks)**

<u>Ceiling on Number of Audits:</u>	
i) <u>Before appointment is given to any auditor, the company must obtain a certificate from him to the effect that the appointment, if made, will not result in an excess holding of company audit by the auditor concerned over the limit laid down in section 141(3)(g) of the Act which prescribes that a person who is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such person or partner is at the date of such appointment or reappointment holding appointment as auditor of more than 20 companies.</u>	2
ii) In the case of a firm of auditors, it has been further provided that 'specified number of companies' shall be construed as the number of companies specified for every partner of the firm who is not in full time employment elsewhere.	1
iii) If Mr. P, B and S do not hold any audits in their personal capacity or as partners of other firms, the total number of company audits that can be accepted by M/s PBS & Associates is 60. But, the firm is already having audit of 45 companies.	1
iv) So the firm can accept the audit of 15 companies only, which is well within the limit, specified by Section 141(3)(g) of the Companies Act, 2013.	1

**Question 4 (5 marks)**

(i) <u>Incorrect</u> - As per the section 143(12) of the Companies Act, 2013, if an auditor of a company, in the course of the performance of his duties as auditor, has reason to believe that an offence involving fraud is being or has been committed against the company by officers or employees of the company, he shall immediately report the matter to the Central Government within 60 days of his knowledge and after the prescribed procedure.	2.5
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(ii) <u>Correct -</u> As per the section 141(4) of the Companies Act, 2013, where a person appointed as an auditor of a company incurs any of the disqualifications after his appointment, he shall vacate his office as such auditor and such vacation shall be deemed to be a casual vacancy in the office of the auditor.	2.5
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**Question 5 (6 marks)**

<u>Filing of Casual Vacancy :</u>	
i) As per <u>Section 139(8) of the Companies Act, 2013</u> , any casual vacancy in the office of an auditor shall- a) <u>In the case of a company other than a company whose accounts are subject to audit by an auditor appointed by the Comptroller and Auditor-General of India, be filled by the Board of Directors within 30 days.</u> If such casual vacancy is as a result of the resignation of an auditor, such appointment shall also be approved by the company at a general meeting convened within 3 months of the recommendation of the Board and he shall hold the office till the conclusion of the next annual general meeting; b) <u>In the case of a company whose accounts are subject to audit by an auditor appointed by the Comptroller and Auditor-General of India, be filled by the Comptroller and Auditor General of India within 30 days.</u> It may be noted that in case the Comptroller and Auditor-General of India does not fill the vacancy within the said period the Board of Directors shall fill the vacancy within next 30 days.	2
ii) In the given case, vacancy in the office of an auditor has arise because of death and not due to resignation, therefore applying the above provisions it would <u>be filled by the Board of Directors within 30 days.</u> Appointment made by the Managing Director of the Company is <u>Not Valid</u> .	2

**Question 6 (6 marks)**

<u>Verification of Re-issue of Forfeited Shares :</u>	
The auditor should -	
(i) ascertain that the Board of Directors has the authority under the Articles to re-issue forfeited shares;	1
(ii) refer to the resolution of the Board of Directors, re-allotting forfeited shares;	1
(iii) vouch the amounts collected from person to whom the shares have been allotted and verify the entries recorded from re-allotment and see that the total amount received on the share, including that received prior to forfeiture, is not less than the par value;	1
(iv) verify that computation of the amount of surplus resulting on the reissue of shares credited to the Capital Reserve Account; and	1.5
(v) Where partly paid shares are forfeited for non-payment of call, and re-issued as fully paid, the reissue is considered as an allotment at a discount and compliance of the provisions of Section 53 of the Companies Act, 2013 is essential as issuance of shares at discount other than sweat equity share are void.	1.5

**Question 7 (6 marks)**

<u>Authentication of Financial Statements:</u>	
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i) Section 134(1) provides that the financial statements, including consolidated financial statement, if any, shall be approved by the board of directors before they are signed on behalf of the board at least by the following- (a) The chairperson of the company where he is authorised by the Board; or (b) By two directors out of which one shall be managing director and (c) The Chief Executive Officer, if he is a director in the company, (d) The Chief Financial Officer, wherever he is appointed; and (e) The company secretary of the company, wherever he is appointed.	2
ii) However, in the case of a one person company, the financial statement shall be signed by only one director, for submission to the auditor for his report thereon.	0.5
iii) As per section 134(2), the auditors' report shall be attached to every financial statement.	0.5
iv) According to section 134(7), a signed copy of every financial statement, including consolidated financial statement, if any, shall be issued, circulated or published along with a copy each of— (a) Any notes annexed to or forming part of such financial statement; (b) The auditor's report; and (c) The Board's report.	1
v) In the instant case, For the year ending 31st March, Financial Statement of PQR Ltd was approved by Board of Directors and signed by two Boards of Directors Mr.P and Mr.Q (none of them being Managing Director) and by Company Secretary Mr.A.	1
vi) Hence, the authentication is not valid as per sec 134 of the Companies Act, 2013 since, none of the signing is the Managing Director	1

**Question 8 (6 marks)**

As per SA 501 "Audit Evidence – Additional Considerations for Specific Items", the auditor should perform audit procedures, designed to obtain sufficient appropriate audit evidence during his attendance at physical inventory counting. SA 501 is additional guidance to that contained in SA 500, "Audit Evidence", with respect to certain specific financial statement amounts and other disclosures.	2
If the auditor is unable to be present at the physical inventory count on the date planned due to unforeseen circumstances, the auditor should take or observe some physical counts on an alternative date and where necessary, perform alternative audit procedures to assess whether the changes in inventory between the date of physical count and the period end date are correctly recorded.	2
The auditor would also verify the procedure adopted, treatment given for the discrepancies noticed during the physical count. The auditor would also ensure that appropriate cut off procedures were followed by the management. He should also get management's written representation on (a) the completeness of information provided regarding the inventory, and (b) assurance with regard to adherence to laid down procedures for physical inventory count.	2
By following the above procedure it will be ensured that the physical verification conducted by the management was in order.	

**Question 9 (6 marks)**

As per SA 620 "Using the Work of an Auditor's Expert", when management has used a management's expert in preparing the financial statements, the auditor's decision on whether to use an auditor's expert may also be influenced by such factors as:	2
• The nature, scope and objectives of the management's expert's work.	
• Whether the management's expert is employed by the entity, or is a party engaged by it to provide relevant services.	
• The extent to which management can exercise control or influence over the work of the management's expert.	

• The management's expert's competence and capabilities.	
• Whether the management's expert is subject to technical performance standards or other professional or industry requirements.	
• Any controls within the entity over the management's expert's work.	
However, an evaluation of the work of an expert can be done considering the following facts:	2
When the auditor plans to use the expert's work as audit evidence, he should satisfy himself as to the expert's skills and competence by considering the expert's:	
• Professional qualifications, licence or membership in an appropriate professional body, and	
• Experience and reputation in the field in which the evidence is sought.	
The objectives and scope of the experts' work,	2
a. A general outline as to specific items in the expert's report.	
b. Confidentiality of the client's information used by the expert.	
c. The source data used.	
d. The assumptions and methods used and, inappropriate, their comparison with the prior period.	
e. The results of the expert's work in the light of auditor's overall knowledge of the business and of the results of his audit procedures.	
f. The auditor should also satisfy himself that the substance of the expert's findings is properly reflected in the financial statements. .	
g. Consider whether the expert has used the appropriate source data, by making inquiries of the expert.	
h. Conducting audit procedures on the data by the client to the expert to obtain reasonable assurance that that the data are appropriate.	

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