***Note: Question 1 is compulsory. Attempt any five from the rest.**

Question 1 (5 marks each)

A) Circumstances That May Result in Other Than an Unqualified Opinion

Limitation on Scope: If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope of the audit that the auditor considers likely to result in the need to express a qualified opinion or to dis claim an opinion on the financial statements, the auditor shall request that management to remove the limitation

If management refuses to remove the limitation, the auditor shall communicate the matter to those charged with governance and determine whether it is possible to perform alternative procedure to obtain sufficient appropriate audit evidence.

If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows:

1. If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or
2. If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of opinion would be inadequate to communicate the gravity of the situation, the auditor shall:

   Resign from the audit, where practicable and not prohibited by law or regulation; or

   (ii) If resignation from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial statements

If the auditor resigns as contemplated by the above paragraph, before resigning, the auditor shall communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion **(3 marks)**

Disagreement with Management: The auditor may disagree with management about matters such as the acceptability of the accounting policies selected the method of their application, or the adequacy of disclosures in the financial statements. If such disagreements are material to the financial statements, the auditor shall express a qualified or an adverse opinion **(1 mark)**

Other considerations relating to an Adverse Opinion or Disclaimer of Opinion

When the auditor considers it necessary to express an adverse opinion or disclaim an opinion on the financial statements, the auditor's report shall not also include an unmodified opinion with respect to the same financial reporting framework on a single financial statement or one or more specific elements, accounts or items of a financial statement. To include such an unmodified opinion in the same report in these circumstances would contradict the auditor's adverse opinion or disclaimer of opinion on the financial statements as a whole. **(2 marks)**

B) Clarification on the Auditors' Rights where Clients and Other Auditors seek access to their Audit Working Papers:

The auditor should respect the confidentiality of information acquired in the course of his work and should not disclose any such information to a third party without specific authority or unless there is a legal or professional duty to disclose. SA 230 on "Audit Documentation" provides that, unless otherwise specified by law or regulation, audit documentation is the property of the auditor. He may at his discretion, make portions of, or extracts from, audit documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the auditor or of his personnel.**(1 mark)**

Clause 1 Part I of the Second Schedule to the Chartered Accountants Act , 1949, provides that a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he discloses information acquired in the course of his professional engagement to any person other than his client, without the consent of his client or otherwise than as required by any law for the time being in force. **(1 mark)**

Requests are sometime received by the members of the Institute, who have/had been performing the duties as the auditors of an enterprise, to provide access to their audit working papers. The requests may be made by the clients or other auditors of the enterprise or its related enterprise such as a parent enterprise. **(1 mark)**

It is hereby clarified that except to the extent stated in para 5 below, an auditor is not required to provide the client or the other auditors of the same enterprise or its related enterprise such as a parent or a subsidiary, access to his audit working papers. The main auditors of an enterprise do not have right of access to the audit working papers of the branch auditors. In the case of a company, the statutory auditor has to consider the report of the branch auditor and has a right to seek clarifications and/or to visit the branch if he deems it necessary to do so for the performance of the duties as auditor. An auditor can rely on the work of another auditor, without having any right of access to the audit working papers of the other auditor. For this purpose, the term 'auditor' includes 'internal auditor'. **(1 mark)**

As stated in Para 4 above, the client does not have a right to access the working papers of the auditor. However, the auditor may, at his discretion, in cases considered appropriate by him, make portions of or extracts from his working papers available to the client. **(1 mark)**

C) **(a) Identification of Significant Risks:** SA 315 "Identifying and Assessing the Risk of Material Misstatement through understanding the Entity and its Environment" de fines 'significant risk' as an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration.

As part of the risk assessment, the auditor shall determine whether any of the risks identified are, in the auditor's judgment, a significant risk. In exercising this judgment, the auditor shall exclude the effects of identified controls related to the risk. **(1 mark)**

In exercising judgment as to which risks are significant risks, the auditor shall consider at least the following-**(4 marks)**

(i) Whether the risk is a risk of fraud;

(ii) Whether the risk is related to recent significant economic, accounting or other developments like changes in regulatory environment etc. and therefore requires specific attention;

(iii) The complexity of transactions;

(iv) Whether the risk involves significant transactions with related parties;

(v) The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty; and

(vi) Whether the risk involves significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.

D) The Standard on Auditing (SA) 240 "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements" defines the term 'fraud' as -

"an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of d eception to obtain an unjust or illegal advantage".

Although fraud is a broad legal concept, for the purposes of the SAs, the auditor is concerned with fraud that causes a material misstatement in the financial statements. **(2 marks)**

Two types of intentional misstatements are relevant to the auditor–

misstatements resulting from fraudulent financial reporting and misstatements

resulting from misappropriation of assets.

Although the auditor may suspect or, in rare cases, identify the occurrence of fraud, the auditor does not make legal determinations of whether fraud has actually occurred.**(3 marks)**

Question 2 (2 marks each)

(a) Correct: An audit is an independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon. It is clear that the basic objective of auditing, i.e., expression of opinion on financial statemen ts does not change with reference to nature, size or form of an entity.

(b) Correct: As per AS 10 (Revised) property, plant and equipment, depreciation of an asset begins when it is available for use i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Therefore, depreciation charged by the company on purchase of stand -by assets which are ready to use is correct.

(c) Incorrect: Any casual vacancy in the office of a Cost Auditor, whether due to resignation, death or removal, shall be filled by the Board of Directors within 30 days of occurrence of such vacancy and the company shall inform the central government in Form CRA -2 within 30 days of such appointment of cost auditor.

(d) **Incorrect:** Inherent risk is the susceptibility of an account balance or class of transactions to misstatement that could be material either individually or, when aggregated with misstatements in other balances or classes, assuming that there were no related internal controls.

(e) **Incorrect:** Section 138 of the Companies Act, 2013 requires every private company to appoint an internal auditor having turnover of ` 200 crore or more during the preceding financial year; or outstanding loans or borrowings from banks or public financial institutions exceeding ` 100 crore or more at any point of time during the preceding financial year.

(f) **Incorrect:** As defined in scope of Standards on Internal Audit, "Internal Audit means an independent management function, which involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvements thereto and add value to and strengthen the overall governance mec hanism of the entity, including the entity's strategic risk management and internal control system ".

(g) **Incorrect:** As per the provisions of the Companies Act, 2013, a person is disqualified to be appointed as an auditor of a company if he is holding any security of or interest in the company.

(h) **Incorrect.** As per AS -26, the depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life. The useful life of an intangible asset may be very long but it is always finite.

(i) **Incorrect.** In terms of the general principles of law, any person having the lawful possession of somebody else's property, on which he has worked, may retain the property for non-payment of his dues on account of the work done on the property.
On this premise, auditor can exercise lien on books and documents placed at his possession by the client for non-payment of fees for work done on the books and documents.

(j) **Incorrect:** According to section 139(7) of the Companies Act, 2013, in the case of a Government company, the first auditor shall be appointed by the Comptroller and Auditor-General of India within 60 days from the date of registration of the company. If C&AG fails to make the appointment within 60 days, the Board shall appoint in next 30 days.

Question 3 (4 marks each)

A)

Errors of Commission: When a transaction has been mis-recorded either wholly or partially it is called as a error of commission. Error of commission can happen in the following ways: Errors in posting, Errors in Casting, Errors in carrying forward, Errors occurring during extraction of balances etc.	1
Posting errors may be of a wrong account, wrong amount or wrong file. For example, amount received from Mr X and credited to Mr Y, purchase of Rs. 360 from Mr A posted in his account at Rs. 630 or sales returns from Mr X posted as the debit of his account, etc. The first type of errors will not affect the trial balance, however, the other two will affect the agreement of trial balance.	1
Casting errors are the errors committed while making the totals. This error affects the trial balance.	1
Error of carry forward and errors of extraction of balances also affect the trial balance.	0.5
Error of duplication is another type of error of commission which means recording the same transaction twice. Such errors however, do not affect the trial balance but they will affect the Profit and Loss A/c (over statement of expenditure).	0.5

B)

As per AS 1 on "Disclosure of Accounting Policies" accounting policies refer to the specific accounting principles and the methods of applying those principles adopted by the enterprise in the preparation and presentation of financial statements.	0.5
There is no single list of accounting policies which are applicable to all circumstances. The choice of the appropriate accounting principles and the methods of applying those principles in specific circumstances call for judgement by the management.	0.5
The profit or loss can be significantly affected by the accounting policies followed. Therefore disclosure of significant accounting policies followed is necessary if the view presented is to be properly appreciated.	0.5
In this context, AS 1 states that certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed.	0.5
Disclosure is necessary if they are not followed. The following have been generally accepted as fundamental accounting assumptions:	
(1) **Going Concern:** The enterprise is normally viewed as a going concern, that is, as continuing in operation for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.	0.5
(2) **Consistency:** It is assumed that accounting policies are consistent from one period to another.	0.5
(3) **Accrual:** Revenues and costs are accrued, that is, recognised as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate.	0.5
Thus, if the fundamental accounting assumptions, viz., Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.	0.5

C)

Continuous Audit: A continuous audit is one in which the auditor's staff is engaged continuously in checking the accounts of the client, during the whole year round or when for the purpose, the staff attends at quite frequent intervals say weekly basis during the financial period.	1
A continuous audit is preferred for the following reasons:	
(i) It makes it possible for the management to exercise a stricter control over the accounts in as much as one is able to check sooner the causes of any errors of frauds uncovered by such an audit.	0.5
(ii) The frequent attendance by the staff deters persons so inclined, from committing a fraud.	0.5
(iii) The accounting staff of the client is motivated to keep the books of account up-to-date.	0.5
(iv) The constant association of the auditor with the accounts and the affairs of the client provides him(auditor) with an opportunity to obtain a more detailed knowledge of the client's affairs, one of the effects thereof is that he is able to discharge his duties more efficiently.	0.5
There are certain drawbacks also, in the continuous audit, as under:	
(i) Due to the audit being carried out in several instalments, the audit staff may fail to keep track of things which they had not checked on their last or an earlier visit as a result whereof some of the transactions may escape audit scrutiny. The safeguard against such a position can be that on each visit, elaborate notes and check-lists should be prepared and audit should be completed up to a definite stage each time so as not to leave any loose ends.	1
(ii) The books of account, after these have been checked, may be tampered by the client's staff. This is a more serious matter requiring appropriate safeguards and action on the part of the management.	0.5
(iii) The audit may be uneconomic if the size of the concern is small since a great deal of time and effort would be wasted each time in preparing for the audit and in attending to the requirements of the audit party.	0.5

D)

Objective and Scope of an Audit in Computerised Information System (CIS) Environment:	
i) The principal objective of an audit of financial statements, prepared within a framework of recognised accounting policies and practices and relevant statutory requirements, if any, is to ensure that the financial statements reflect a true and fair view.	0.5
ii) The scope of an audit of financial statements is determined by the auditor having regard to the terms of the engagement, the requirements of relevant legislation and the pronouncements of the Institute	0.5
iii) This would involve assessment of reliability and sufficiency of the information contained in the accounting records and other source data by study and evaluation of accounting system and internal controls in operation.	0.5
iv) The overall objective and scope of an audit does not change in Computerised Information System (CIS) environment but the use of a computer changes the processing and storage of financial information and may affect the organisation and procedures employed by the entity to achieve adequate internal control.	0.5
v) Accordingly, the procedures followed by the auditor in his study and evaluation of the accounting system and related internal controls and nature, timing and extent of his other audit procedures may be affected by CIS environment.	0.5
vi) The computerisation of accounts would also have an impact on the increase in fraud and errors.	0.5
vii) Thus, when auditing in CIS environment, the auditor should have sufficient understanding of computer hardware, software and processing systems to plan the engagement and to understand how CIS affects the study and evaluation of internal control and application of auditing procedures including computer-assisted audit techniques.	0.5
viii) The auditor should also have sufficient knowledge of CIS to implement the auditing procedures, depending on the particular audit approach adopted. Thus, it is clear from the above that overall objective and scope of audit does not change irrespective of fact that whether the accounting information is generated manually or through CIS.	0.5

Question 4 (4 marks each)

A)

(a) Ensure that goodwill has been recorded in the books only when some consideration in money or money's worth has been paid for. Goodwill arises from business connections, trade name or reputation of an enterprise or from other intangible benefits enjoyed by an enterprise.	1
(b) Check the vendor's agreement on the basis of which assets of the running business have been acquired by the company at a price existing in the book value of the assets or where a specific sum has been paid for the goodwill.	1
(c) See that only the amount paid to the vendors not represented by tangible assets has been debited to the goodwill account. Therefore, it is not prudent that goodwill should be shown in the company's accounts by way of writing up the value of its assets on revaluation or writing back the amount of goodwill earlier written off by the company.	1
(d) See whether goodwill has been written off as a matter of financial prudence as per the principles enunciated under AS 26 on Intangible Assets.	1

B)

Sale of Empties:	
When the empties or containers in which goods necessarily have to be supplied are costly, the manufacturer normally agrees to purchase them back at a reduced price as compared to the one charged for them.	0.5
Therefore check whether	
(i) Separate account of issue and receipt of empties has been prepared.	0.5
(ii) In separate maintained a/c check how many empties lies in warehouse and how many are with customers.	0.5
(iii) Check how many empties customers may return after the close of the year.	0.5
(iv) Check whether proper provision has been made against the contingency of the containers being returned by customers and that for the wear and tear.	0.5
(v) Check the amount of sale with entry in cash book.	0.5
(vi) See the sold empties are reduced from the inventory.	0.5
(vii) If the empties are sold on credit, ask for direct confirmation from purchasing party and confirm the sale.	0.5

C)

The act of examining vouchers is referred to as vouching. It is the practice followed in an audit, with the objective of establishing the authenticity of the transaction recorded in the primary books of account.	0.5
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 transaction on its inclusion in the final statements of account.	0.5
After examination, each voucher is marked in a manner to ensure that it may not be presented again in support of another entry.	0.5
The following points need careful consideration while examining a voucher:	
(i) that the date of the voucher falls within the accounting period;	0.5
(ii) that the voucher is made out in the client's name;	0.5
(iii) that the voucher is duly authorised;	0.5
(iv) that the voucher comprised all the relevant documents which could be expected to have been received or brought into existence on the transactions having been entered into, i.e., the voucher is complete in all respects; and	0.5

(v) that the account in which the amount of the voucher is adjusted is the one that would clearly disclose the character of the receipts or payments posted thereto on its inclusion in the final accounts.	0.5

D)

Provisions Versus Specific Reserves	
i) Provisions are amounts charged against revenue to provide for depreciation, renewal or diminution in the value of assets or a known liability the amount of which cannot be determined with substantial accuracy or a claim which is disputed.	1
ii) Amounts contributed or transferred from profits to make good the diminution in assets values due to the fact that some of them have been lost or destroyed, as a result of some natural calamity or debts have proved to be irrecoverable are also described as provisions. Provisions are normally charged to the Statement of Profit and Loss before arriving at the amount of profit.	1
iii) On the other hand, a specific reserve is created for some definite purpose out of the profits of the company. The purpose may be anything connected with the business which the Article of Association or, the directors want to be provided for, such as dividend equalization, replacement of fixed assets, expansion of the organization, Income-tax liability for future foreign exchange fluctuation etc.	1
iv) Though the concerned amounts are carried under the earmarked heads, these are available for distribution as dividend on the recommendation of directors but subject to the approval of shareholders, since these are created by appropriation of profits. To create any specific reserve, existence of profit is essential. Some of the specific reserves may be required under the contractual obligations or legal compulsion, for example: (i) funds for redemption of debentures and (ii) development rebate reserve.	0.5
v) Thus provisions are amounts set apart to meet specific liabilities. These must be provided for regardless of the fact whether or not any profit has been earned by the concern. While to create any specific reserve, existence of profit is essential	0.5

Question 5 (4 marks each)

A)

Donation to Charitable Institutions:	
i) Section 181 of the Companies Act, 2013 provides that the Board of Directors of a company may contribute to bona fide charitable and other funds with prior permission of the company in general meeting for such contribution in case any amount the aggregate of which, in any financial year, exceed five per cent. of its average net profits for the three immediately preceding financial years.	1
ii) In the instant case, the company has given donation of Rs. 50,000/- each to the two charitable organisations which amounts to Rs. 1,00,000. Assuming that the charitable organisations are not related to the business of the company, the average profits of the last 3 years is Rs. 15 lakhs and the 5% of this works out to Rs. 75,000. Hence the maximum of donation could be Rs. 75,000 only. For excess of Rs. 25,000 the company is required to take prior permission in general meeting which is not been taken.	2
iii) Conclusion: By paying donations of Rs. 1,00,000 which is more than Rs. 75,000, the Board has contravened the provisions of Section 181 of the Companies Act, 2013. Hence the auditor should qualify his audit report accordingly.	1

B)

Auditor's Duties in case of Alteration of Share Capital :	
(i) to verify that the alteration of capital is authorised by the Articles;	0.5
(ii) to inspect the minutes of the shareholders authorising the alteration;	0.5
(iii) to obtain Allotment Lists containing details of the new holdings of share or stock by each member and to verify the same with the entries;	0.5
(iv) to inspect the directors' resolution in regard to allotment, consolidation, conversion or sub-division passed pursuant to the resolution of the members;	0.5
(v) to examine the cancelled share certificates, if any, and agree the same with the counterfoils of new certificates issued;	0.5
(vi) to see that the procedure, prescribed by the Articles in this regard, has been complied with;	0.5
(vii) to verify that the share capital account is correctly shown in the Balance Sheet; and	0.5
(viii) to see that the necessary intimation to the Registrar contemplated by Section 64 has been sent.	0.5

C) (1 mark each)

The objective of audit, naturally, should be to see that what the statements of account convey is true and fair, not misleading and that such errors and frauds do not exist as to distort what the accounts really should convey.
However, it should not be inferred that the detection of errors and frauds is no longer an audit objective; it is indeed an audit objective because statements of account drawn up from books containing serious mistakes and fraudulent entries cannot be considered as true and fair statement.
To establish whether the financial statements show a true and fair state of affairs, the auditors must carry out a process of examination and verification and, if errors and frauds exist they would come to his notice in the ordinary course of checking. But detection of errors and frauds is not the primary aim of audit; the primary aim is the establishment of a degree of reliability of the annual statements of account.
If there remains a deep laid fraud in the accounts, which in the normal course of examination of accounts may not come to light, it will not be construed as failure of audit, provided the auditor was not negligent in the carrying out his normal work. This principle was established as early as in 1896 in the leading case in Re-Kingston Cotton Mills Co.
The nature of audit objectives was also highlighted in the leading case Re The London and General Bank Ltd. [1895]. It was held that an auditor must ascertain that the books of account show the true financial position of the company. For the first time, the duties of the company auditor were spelled out in specific terms. Lord Justice Lindley observed, "It is no part of an auditor's duty to give advice either to directors or shareholders as to what they ought to do. An auditor has nothing to do with the prudence or imprudence of making loans without security. It is nothing to him whether the business of company is being conducted prudently or imprudently, profitably or unprofitably; it is nothing to him whether dividends are properly or improperly declared, provided he discharges his own duty to the shareholders. His business is to ascertain and state the true financial position of the company at the time of the audit and his duty is confined to that."

D)

Test Checking in System Based Audit: System-based audit is done by evaluating the accounting system and internal control and ascertaining their reliability through audit tests. Depending upon the size and nature of the business concerned, an accounting system will incorporate necessary internal control to provide assurance that:	0.5
(i) All the transactions and information have been recorded, (ii) Fraud and errors, if any, in preparing the accounts will be identified, (iii) All the assets and liabilities recorded in the books of account do exist and are shown at correct amounts, (iv) There is compliance with statutory regulations.	1
After the auditor has ascertained the client's accounting system, he should assess it to satisfy the above-mentioned requirements. The auditor, therefore, after evaluating internal control system, tests the same to ascertain whether it is actually in operation. For this purpose, he assorts to actual testing of the system in operation. This he does on a selective basis, i.e., he adopts test checking technique.	0.5
He plans this testing in such a manner that all the important areas stated above are covered. The test checking is done by application of procedural test and/or by auditing in depth. This approach is adopted in system based audit which is the modern audit approach.	0.5
The system-based audit approach begins by evaluating the accounting system and internal control and then by testing them to ascertain their reliability. By this, the auditor first establishes how reliable the system is and then decides how much detailed checking of the transactions and verification of assets and liabilities he must undertake.	0.5
If the system is found to be good, the detailed checking could be curtailed, but if system is week, more detailed checking would be necessary. However, checking cannot be completely eliminated; it can only be scaled down if state of the system is satisfactory. In case the initial evaluation itself shows weaknesses, extensive checking should invariably be undertaken.	1

Question 6

A)

Government Expenditure Audit:	
Audit of government expenditure is one of the major components of government audit conducted by the	0.5

office of C&AG. The basic standards set for audit of expenditure are to ensure that there is provision of funds authorised by competent authority fixing the limits within which expenditure can be incurred. Briefly, these standards are explained below:	
(i) Audit against Rules & Orders: The auditor has to see that the expenditure incurred conforms to the relevant provisions of the statutory enactment and is in accordance with the financial rules and regulations framed by the competent authority.	0.5
(ii) Audit of Sanctions: The auditor has to ensure that each item of expenditure is covered by a sanction, either general or special, accorded by the competent authority, authorising such expenditure.	0.5
(iii) Audit against Provision of Funds: It contemplates that there is a provision of funds out of which expenditure can be incurred and the amount of such expenditure does not exceed the appropriations made.	0.5
(iv) Propriety Audit: It is required to be seen that the expenditure is incurred with due regard to broad and general principles of financial propriety. The auditor aims to bring out cases of improper, avoidable, or in fructuous expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations. Audit aims to secure a reasonably high standard of public financial morality by looking into the wisdom, faithfulness and economy of transactions.	1
(v) Performance Audit: This involves that the various programmes, schemes and projects where large financial expenditure has been incurred are being run economically and are yielding results expected of them. Efficiency-cumperformance audit, wherever used, is an objective examination of the financial and operational performance of an organisation, programme, authority or function and is oriented towards identifying opportunities for greater economy, and effectiveness.	1

B) **Understanding and Documenting Automated Environment:** Understanding the entity and its automated environment involves understanding how IT department is organised, IT activities, the IT dependencies, relevant risks and controls.**(1 mark)**

Given below are some of the points that an auditor should consider to obtain an understanding of the company's automated environment **(3 marks)**

- Information systems being used (one or more application systems and what they are) their purpose (financial and non-financial)
- Location of IT systems - local vs global
- Architecture (desktop based, client-server, web application, cloud based)
- Version (functions and risks could vary in different versions of same application) Interfaces within systems (in case multiple systems exist)
- In-house vs Packaged
- Outsourced activities (IT maintenance and support) Key persons (CIO, CISO, Administrators)

C) Section 141(3)(i) of the Companies Act, 2013 disqualifies a person for appointment as an auditor of a company who is engaged as on the date of appointment in consulting and specialized services as provided in section 144. Section 144 of the Companies Act, 2013 prescribes certain services not to be rendered by the auditor which includes investment banking services.**(2 marks)**

Therefore, CA. Poshin is advised not to accept the assignment of auditing as the investment banking service is specifically notified in the list of services not to be rendered by him as per section 141(3)(i) read with section 144 of the Companies Act, 2013.**(2 marks)**

Question 7 (4 *4 = 16 marks)

Write short notes on **any four** of the following:

(a) Propriety Audit:
It is required to be seen that the expenditure is incurred with due regard to broad and general principles of financial propriety. The auditor aims to bring out cases of improper, avoidable, or in fructuous expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations. Audit aims to secure a reasonably high standard of public financial morality by looking into the wisdom, faithfulness and economy of transactions.

(b)

Narrative Record is a complete and exhaustive description of the system as found in operation by the audit.	1
Actual testing and observation are necessary before such a record can develop. It may be recommended in cases where no formal control system is in operation and would be more suited to small business.	0.5
The basic advantages of narrative records are :	
(i) To comprehend the system in operation is quite difficult.	1
(ii) To identify weaknesses or gaps in the system.	1
(iii) To incorporate changes arising on account of reshuffling of manpower, etc.	0.5

(c)

As defined in SA 700-"Forming an Opinion and Reporting on Financial Statements", General purpose financial statements are Financial statements prepared in accordance with a general purpose framework.	
A financial reporting framework designed to meet the common financial information needs of a wide range of users is called General purpose framework.	1
The term "General Purpose Financial Statements" normally includes a balance sheet, a statement of profit and loss (also known as 'income statement'), a cash flow statement and those notes and other statements and explanatory material that are an integral part of the financial statements. They may also include supplementary schedules and information based on or derived from, and expected to be read with, such statements. Such schedules and supplementary information may deal, for example, with financial information about business and geographical segments, and disclosures about the effects of changing prices.	1
Financial statements do not, however, include such items as reports by directors, statements by the chairman, discussion and analysis by management and similar items that may be included in a financial or annual report. Such financial statements are prepared and presented at least annually and are directed toward the common information needs of a wide range of users. Some of these users may require, and have the power to obtain, information in addition to that contained in the financial statements.	1
Many users, however, have to rely on the financial statements as their major source of financial information and such financial statements should, therefore, be prepared and presented with their needs in view. Accounting Standards are applicable to all General Purpose Financial Statements.	1

(d) **Provisions regarding re-appointment of a Retiring Auditor at the AGM for a Company not covered under Auditor Rotation Provisions:** A retiring auditor may be re-appointed at an annual general meeting, if-

- he is not disqualified for re-appointment;
- he has not given the company a notice in writing of his unwillingness to be re - appointed; and
- a special resolution has not been passed at that meeting appointing some other auditor or providing expressly that he shall not be re -appointed.
  - Where at any annual general meeting, no auditor is appointed or re -appointed, the existing auditor shall continue to be the auditor of the company. **(3 marks)**

(e) **Written Communication in respect of deficiencies of internal control :** If the auditor has identified one or more deficiencies in internal control, the auditor shall determine, on the basis of the audit work performed, whether, individually or in combination, they constitute significant deficiencies. **(0.5 mark)**

The auditor shall communicate in writing significant deficiencies in internal control identified during the audit to those charged with governance on a timely basis.**(0.5 mark)**

The auditor shall also communicate to management at an appropriate level of responsibility on a timely basis: In writing, significant deficiencies in internal control that the auditor has communicated or intends to communicate to those charg ed with governance, unless it would be inappropriate to communicate directly to management in the circumstances.**(1 mark)**

The auditor shall include in the written communication of significant deficiencies in internal control: **(2 marks)**

(i) A description of the deficiencies and an explanation of their potential effects; and

(ii) Sufficient information to enable those charged with governance and management to understand the context of the communication. In particular, the auditor shall explain that:

  (1) The purpose of the audit was for the auditor to express an opinion on the financial statements;

  (2) The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control; and

  (3) The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance.

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