

Note: All questions are compulsory.

Q 1

(A)

Management (1 mark)	<p>a) It refers to the person(s) with executive responsibility for the conduct of the Entity's operations.</p> <p>b) For some entities, Management includes some or all of Those Charged with Governance, e.g. Executive Members of a Governance Board, or an Owner-Manager.</p>
Those Charged with Governance (1 mark)	<p>a) It refers to the Person(s) or Organization (s) (e.g. a Corporate Trustee) with responsibility for overseeing the strategic direction of the Entity and obligations related to the accountability of the Entity. This includes overseeing the Financial Reporting process.</p> <p>b) For some Entities, Those Charged with Governance may include Management Personnel, e.g. Executive Members of a Governance Board of a Private or Public Sector Undertakings, or an Owner-Manager.</p>
Forms of Governance Structures (3 marks)	<p>Governance structures may vary reflecting different size and ownership characteristics. For example:</p> <p>a) Based on Legal Structure: In most Entities, Those Charged with Governance hold positions that are an integral part of the Entity's legal structure (e.g. company directors). In others, (e.g. some government undertakings) a body that is not part of the Entity is charged with governance.</p> <p>b) Based on Management: In some cases, some or all of Those Charged with Governance are also involved in managing the Entity. In others, Those Charged with Governance and Management comprise different persons.</p> <p>c) Based on Approval Structure: In some cases, those Charged with Governance are responsible for approving the Entity's Financial Statements (in other cases Management has this responsibility)</p> <p>d) Based on Responsibility: In most entities, governance is the collective responsibility of a Governing Body (e.g. Board of Directors, a Supervisory Board, Partners, Proprietors, a Committee of Management, a Council of Governors, Trustees, or equivalent persons). In some smaller entities, however, one person may be charged with governance (for e.g. the Owner-Manager, or a Sole Trustee). When governance is a collective responsibility, a sub-group (e.g. an audit committee), may be charged with specific tasks to assist the Governing Body in meeting its responsibilities. Alternatively, a sub-group or individual may have specific, legally identified responsibilities that differ from those of the Governing Body.</p>

(B)

1. Communication: A Joint Auditor should communicate in writing the following to all other Joint Auditors -
 - (a) Matters which are relevant to the areas of responsibility of other Joint Auditors,
 - (b) Matters which deserve their attention, and
 - (c) Matters that require disclosure or require discussion with, or application of judgment: other Joint Auditors.
2. Pre-Audit Report: Such communication should be done by the submission of a report or note prior to the finalisation of the audit.
3. Post-Audit Communication: If any such matter is brought to the attention of the entity or other Joint Auditors by an Auditor after the audit report has been submitted, the other Joints Auditors would not be responsible for those matters.

Joint & Several Responsibility (2 ½ marks)	Several Responsibility (2 ½ marks)
Common Areas of Work: When the audit work is not divided among the Joint Auditors and is carried out by all of them.	Allocated Work Areas: In respect of audit work divided among the joint Auditors, each joint Auditor is responsible only for the work allocated to him, whether or not he has prepared a separate report on the work performed by him.
Common Decisions: When decisions are taken by all the Joint Auditors concerning the nature, timing or extent of the audit procedures to be performed by any of the Joint Auditors. All Joint Auditors are responsible only in respect of the appropriateness of the decisions concerning the nature, timing or extent of the audit procedures agreed upon among them.	<p>a. Proper execution of audit procedures is the separate and specific responsibility of the Joint Auditor concerned.</p> <p>b. Analysis of Internal Control: It is the responsibility of each Joint Auditor to –</p> <ul style="list-style-type: none"> • Study and evaluate the prevailing system of internal control, and • Determine the nature, timing and extent of audit procedures to be applied in relation to the area of work allocated to him. <p>c. Sampling: Each Joint Auditor should decide issues such as appropriateness of using test checks or sampling, in relation to his own area of work. This responsibility is not shared by the other Joint Auditors.</p>

- (C)
1. Principle: Mis - statements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements. (2 marks)
 2. Analysis: In the instant case, an error of ` 5 in the interest computation, even if small individually, will have a material effect due to the large number of transactions. (1 marks)
 3. Conclusion: Hence, X & Co, need not pay any attention to the advise given by the General Manager (Finance) of T Ltd. The necessary adjustment should be carried out in the accounts of the Company. (2 marks)

- (D)
- Analytical Procedures means evaluations of financial information through analysis of plausible relationships among both financial and non-financial data.
 - Analytical Procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount. Note: The Auditor's choice of procedures, methods and level of application of Analytical Procedures is a matter of professional judgment. (2 marks)

Analytical Procedures include consideration of comparisons of the Entity's financial information with -(1 ½ marks)

- (a) Comparable information for prior periods.
- (b) Anticipated results of the Entity, e.g. budgets or forecasts, or expectations of the Auditor, e.g. an estimation of depreciation.
- (c) Similar industry information, e.g. a comparison of the Entity's ratio of Sales to Accounts Receivable with industry averages or with other entities of comparable size in the same industry.

Analytical Procedures include consideration of relationships, e.g. -(1 ½ marks)

- (a) Among elements of financial information that would be expected to conform to a predictable pattern based on the Entity's experience, such as Gross Margin Percentages.
- (b) Between financial information and relevant non-financial information, e.g. Payroll Costs to Number of Employees.

Q2

(2 marks each)

- i) Correct. The scope of work of an internal auditor may extend even beyond the financial accounting and may include cost investigation, inquiries relating to losses and wastages, production audit, performance audit, etc.
- ii) Incorrect. Companies Act, 2013 requires the company auditor to go beyond the functions of reporting and express an opinion about the propriety or prudence of certain transactions. Also, the auditor shall remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Therefore it would not be correct to say that an auditor has nothing to do with prudence or profitability of a company because it may impact the going concern.
- iii) Correct. A Chartered Accountant appointed as an auditor of a company, should ensure the independence in respect of his appointment. In this case, Mr. Pawan is a "Tax Consultant" and not a "Statutory Auditor" or "Tax Auditor" of ABC Ltd., hence he is not subject to the above requirements.
- iv) Incorrect: Risk of material misstatement may be defined as the risk that the financial statements are materially misstated prior to audit.
- v) Incorrect. Substantive procedure is an audit procedure designed to detect material misstatements at the assertion level. It comprise (i) tests of details (of classes of transactions, account balances, and disclosures), and (ii) substantive analytical procedures.
- vi) Correct . In cluster sampling population is divided into group called cluster and a number of cluster is selected on random basis. In case of random sampling, each item is randomly chosen and so every item has an equal chance of being selected. Thus, cluster sampling is less effective.
- vii) Correct : Error of duplication is another type of error of commission which means recording the same transaction twice. Therefore, this error will not affect the trial balance.
- viii) Incorrect. As per the Standard on Auditing (SA) 520 "Analytical Procedure s" "the term "analytical procedures" means evaluations of financial information through analysis of plausible relationships among both financial and non -financial data.
- ix) Incorrect: As per section 141(3) of the Companies Act, 2013, a person shall not be eligible for appointment as an auditor of a company whose relative is a Director or is in the employment of the Company as a director or Key Managerial Personnel.
- x) 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.

Q 3
(A)

Particulars	Test Checking(2 marks)	Routine Checking (2 marks)
1. Meaning	Test Checking is an accepted auditing procedure wherein only a part of its transactions is checked to form an opinion instead of checking all the transactions.	Routine Checking is the detailed checking of all transactional aspects such as casts, sub-casts, carry-forwards, extensions and calculations, etc. in Subsidiary Books, checking of postings into the Ledgers, casting of Ledger Accounts and extraction of their balances, etc.
2. Purpose	To obtain a reasonable level of satisfaction about all transactions but verifying a few representative transactions called "Sample".	<ol style="list-style-type: none"> a. To verify the arithmetical accuracy of the entries, b. To verify the accuracy of postings to Ledgers, c. To check that the Ledger Accounts have been correctly balanced, and d. To ensure that no figures are altered after checking.
3. Advantages	<ol style="list-style-type: none"> a. Saving in time. b. Proper and careful test checking is helpful & serves the audit objective. c. Volume of work is reduced. d. Time available for other audits. 	<ol style="list-style-type: none"> a. Checking of postings and ledgers. b. Arithmetical accuracy can be checked. c. Trial Balance tallying is facilitated. d. Easy detection of errors and frauds. e. Delegation of audit work to junior staff.

4.Disadvantages	<ul style="list-style-type: none"> a. Client staff may become careless. b. Some errors and frauds may go undetected. c. All items & transactions are not checked. d. An element of doubt and risk is present in the Auditor's opinion. 	<ul style="list-style-type: none"> a. Is a highly mechanical process. b. Monotonous activity may lead to boredom. c. Major items of frauds and high level intricacies and complexities may not be revealed. d. Compensating Errors and Errors of Principle will not come to light.
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- (B)
1. Capital - Revenue Distinction: (2 marks)
 - (a) If any item of expenditure has the effect of enhancing the life of an asset or improving the earning capacity, the cost of the expenditure should be capitalized. Expense resulting in creation of an asset or adding to its value or achieving higher productivity, are regarded as expenditure of a capital nature.
 - (b) Expenses of revenue nature, which is not expected to have any change in future benefits of the Fixed Assets shall be charged to Profit and Loss Account. (3 marks)
 2. Analysis: In the given case, due to the modification expenditure of ₹ 1 Lakh, the design has changed and consequently, the production has increased substantially.
 3. Conclusion: Major repairs of ₹ 1 Lakh, which has the effect of adding to the life of the asset and increasing the earning capacity of the asset, should be capitalized. So, the entire expenditure should be capitalized and written off over a reasonable period. The Company is not justified in debiting the entire expenditure to P&L Account.

- (C)
- Some of the important internal controls with regard to recording collections from Debtors -(½ mark for each point)
1. Record of receipts shall be duly verified with the Bank Pay-in-Slip after deposit and also with the Cash Book.
 2. Duties of personnel responsible for accounting, receipt of cash and issue of receipts shall be segregated.
 3. Cash taking / collections have to be matched with invoices.
 4. Ageing analysis shall be prepared and checked. Old balances should be followed up.
 5. Statements shall be regularly sent, reconciliation with customers balances prepared at regular intervals and reconciling items shall be followed up.
 6. Items of "Other Income" should be reviewed and reconciled periodically.
 7. Insurance Claims from Insurance Company should be handled independently by another person.
- Since the above aspects are not available in the given case, there is scope for "teeming and lading fraud", on account of weaknesses in the Internal Control.

- (D)
- The Auditors' objective to obtain sufficient appropriate audit evidence in an Automated Environment, can be achieved through the following activities --(½ mark for each point)
1. Analysis: The Auditor should analyse various factors including Risk Assessment, Control Environment, desired level of evidence required, history of errors / misstatement, complexity of business, assertions being addressed, etc.
 2. Use of Experts / Others: The Auditor may consider whether any specialized IT skills are needed in the conduct of the audit, and if yes, the Auditor may seek the assistance of an Expert possessing such skills. However, Auditor is responsible for his opinion formation, irrespective of Expert's work.
 3. Inquiry: It is the most efficient Audit Test, but gives the least evidence. Hence, it has to used along with other Audit Testing Methods (like Observation, Inspection, Re-performance, etc.)
 4. Walk-Through: The Auditor may obtain an understanding of how an transaction is processed by the System, by doing an end-to-end walk-through of one transaction, using a combination of inquiry, observation and inspection.
 5. Observation: The Auditor may observe how a User processes transactions under different scenarios, what are the User's responses to System Prompts, and the what are the System's responses to the User actions.
 6. Inspection: The Auditor may inspect the System Logs to determine any changes made since last audit testing.
 7. Evaluation: The Auditor may inspect the Technical Manual / User Manual of systems and applications, and evaluate its implications on the actual processing, i.e. what is to be done vs what is being done.

8. Negative Testing: The Auditor may carry out a test-check (using wrong data, e.g. a date outside the Financial Period) and observe the error message displayed by the application. This is sometimes called Negative Testing.
9. Re-Performance: The Auditor may conduct re-performance using Raw Source Data and independently applying formulae, business rules or validations on such source data using CAATs. [Note: However, testing by re-performance is time-consuming and considered least efficient.

Q 4

(A)

Aspect	Matters to be verified / Auditor's Duties-(1 mark for each point)
Schedule of Bad Debts	Verify whether the amount of Bad Debts Recovered has been shown in the Bad Debts Schedule of the preceding years.
Proof of Collection	Verify the relevant proof of recovery submitted, e.g. Court Decree, Notice from Bankruptcy Trustee, Letters from Collecting Agency or Lawyer or Party, if any.
Credit Manager's File	<ul style="list-style-type: none"> • Verify whether amount received has been noted in the file. • Ascertain that any specific matter materially affecting accounts has been noted in the file.
Bank Statement	<ul style="list-style-type: none"> • Trace receipt of amount in the Bank Statement. • Confirm that the cheque received from party has not been dishonoured.
Receipt	Verify whether proper acknowledgements have been issued to parties.

(B)

Aspect	Matters to be verified / Auditor's Duties-(1 mark for each point)
Agreement with Dealers	<ul style="list-style-type: none"> • Examine the Agreement with the Dealers and note conditions applicable for quantitative discount in kind. • Ensure that all conditions applicable for supply of free goods have been satisfied.
Correspondences with Dealers	<ul style="list-style-type: none"> • Verify the computations in respect of Quantity Discounts. • See whether proper acknowledgements have been obtained from the dealers towards eligibility of discount and receipt of goods.
Despatch Registers	Examine Memoranda Records and Despatch Registers maintained by the Company.
Invoice & Credit Notes	Ascertain whether "No Charge" Invoices have been raised or whether invoices raised have been reversed immediately by way of Credit Notes.

(C)

Cash-in-Transit arises where there is a Head Office and Branch Office(s) / Division(s). At the end of the year, cash might have been sent by the Head Office but not received by the Branch Office before the end of the accounting period or vice-versa.

Aspect	Matters to be verified / Auditors' Duties -(1 mark for each point)
Statements from Divisions / HO	<ul style="list-style-type: none"> • Verify statements of Head Office and Branch Office accounts. • Any cash received by the Branch or Head Office in the first week of the next accounting year might have been in transit on the last day of the previous year.
Cash Book	<ul style="list-style-type: none"> • Trace the receipt of Cash into the Cash Book of the Head Office / Division, in the subsequent period book as to whether it is actually received or not. • Examine the period within which the remittance is received, and obtain explanations in respect of abnormal delays, if any.
Bank Records	<ul style="list-style-type: none"> • Verify pay in slip, if the amount is deposited into bank. • Confirm the same by verifying the Bank Pass Book / Statements.

(D)

Aspect	Matters to be verified / Auditors' Duties -(1 mark for each point)
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Schedule of Contingent Liabilities	<ul style="list-style-type: none"> • Obtain a Schedule showing the details, nature and amount of Contingent Liabilities. • Obtain a Certificate from the Management that all known Contingent Liabilities have been included in the accounts and they have been properly disclosed.
Various items as per the other column	<ul style="list-style-type: none"> • Discuss with various Functional Officers of the Company about the possibility of Contingent Liability existing in their respective fields. • Call for and inspect the following to ascertain all Contingent Liabilities - <ul style="list-style-type: none"> a) Minutes Book and Resolutions, b) Contracts entered into by the Company, c) Correspondences with and opinions obtained from Advocates and Legal Experts, d) Correspondences with Suppliers and Customers, e) Letters from/to Bank on -(i) Bills discounted and not matured, (ii) Guarantees given on behalf of others, (iii) any other item creating Contingent Liabilities.
Financial Statements	Examine compliance with disclosure requirements as per the Companies Act, and AS - 29 (See previous question).

Q 5 (A) -(½ mark for each point)

1. Meaning: Examination in Depth means examination of a few selected transactions from the beginning to the end through the entire flow of the transaction. It involves studying the recording of transactions at the various stages through which they have passed.
2. Aspects of Verification:
 - (a) At each stage, relevant records and authorities are examined, it is also judged whether the person who has exercised the authority in relation to the transactions is fit to do so in terms of the prescribed procedure.
 - (b) While auditing in depth, the Auditor reviews all the accounting and operational aspects of the transaction from the origin to the end. This enables him to have an overall view and evaluate the procedures through selectee transactions.
3. A Representative Sample must be chosen and each item selected must be traced meticulously.
4. A smaller number of transactions are checked at each successive stage with an in-depth test, on statistical grounds (based on probability theory) that the optimum sample size decreases as the Auditor's "level of confidence" concerning the functioning of the system increases.
5. Examination in depth reconstructs the audit trail and reveals more about the functioning (or malfunctioning) of the Client's system in practice than the haphazard and mechanical approach to testing.
6. Example: Auditing-in-depth of transactions relating to purchase of goods involves verification of the following aspects -
 - (a) Purchase Requisition - pre-printed, pre-numbered and authorized,
 - (b) Invitation of quotations and analysis of the same,
 - (c) Official Purchase Order, sequentially pre-numbered, authorized and placed with approved Suppliers only,
 - (d) Receipt of goods, together with Delivery Challan / Advice Note,
 - (e) Admission of goods to stores after verification of quality, quantity, etc.
 - (f) Entry in Stores Records,
 - (g) Receipt of Supplier's Invoice and Statement,
 - (h) Approval of Purchase Invoice regarding compliance for specification, quantity and quality,
 - (i) Entries in Purchases Day Book,
 - (j) Postings to Purchase Ledger and Purchase Ledger Control Account,
 - (k) Payment of Cheque in settlement of invoice after availing discounts, if any,
 - (l) Entry for payment in Cash / Bank Book,
 - (m) Posting from Cash Book to Ledger and Control Accounts.

(B) -(1 mark for each part)

1. Foreign Tour Expenses of Directors for purchasing assets:
 - (a) In case of a running concern, (i.e. one already in existence), this expenditure is revenue in nature and hence should be debited to P&L Account.

- (b) In case of new units, when such expenditure is incurred during construction period and since, during that period, the expenditure is indirectly related to construction and is incidental thereto, it may be capitalised as a part of pre- production cost. Hence, the Company may be justified in capitalising this expenditure, when the assets are acquired.
 - (c) In case, Directors have failed to purchase the assets, then such expenses have no connection with construction and cannot be capitalised as indirect cost of construction. It has to be recognized as an "Expense" in the Profit & Loss Account.
2. Salary of Technical Staff for erection:
 - (a) Technical Staff's Salary for erection of Plant and Machinery represents Direct Expenditure to bring the machinery to operational condition. The proper treatment is to capitalise such expenditure.
 - (b) Hence, the Company is justified in capitalising the aforesaid expenditure.
 3. Salary of Non-Technical Staff:
 - (a) Non-technical Staff's Salary during the period of installation of Plant and Machinery represents indirect expenditure related to construction and incidental thereto. Hence, it should be capitalised as part of the construction cost.
 - (b) Thus, the Company is justified in capitalising the expenditure.
 4. Sundry Administrative Expenses:
 - (a) Other Sundry Expenses, e.g. Stationery, Printing, Postage, Telegram & Telephone and Local Conveyance Charges constitute an expenditure which is indirectly related to construction and is incidental thereto.
 - (b) Such expenditure may be capitalised as part of construction cost. So the Company is justified in capitalising the above expenditure.

(C) -(1 mark for each point)

Auditors should understand the relevance of IT Systems to an audit of Financial Statements. The benefits to Auditors, arising from development and installation of IT Systems include -

1. Increase in the effectiveness and efficiency of auditing procedures - e.g. use of Computer Assisted Audit Techniques (CAAT's) in obtaining and evaluating audit evidence.
2. Scientific Random Sampling - Testing can be more effective and economical, by using computers to examine all or 3 greater number of transactions than would otherwise be selected.
3. Better application of Analytical Review Procedures - In applying analytical review procedures, transaction or balance details may be reviewed and reports printed on unusual items more efficiently by using the computer.
4. Speed in Processing: In an IT Environment, information processing is done very quickly. All types of reports (simple and complex, general & special report formats) can be generated for audit purposes in quick time. This time reduction enables Auditors to extend their analytical review with more coverage, and also expand their substantive procedures for collection of more evidence in support of their judgement.

(D)

1. Right of Access to Books and Vouchers [Sec.143 (I)]: (1/2 mark)
 - (a) The Company Auditor shall have a right of access at all times to the books of accounts and vouchers of the Company, whether kept at the Registered Office of the Company or elsewhere.
 - (b) The Auditor of a Holding Company shall also have the right of access to the records of all its Subsidiaries in so far as it relates to the consolidation of its Financial Statements.
2. Right to obtain information and Explanations [Sec.143 (I)]: The Company Auditor is entitled to require from the Officers of the Company, such information and explanations as the Auditor may think necessary for the performance of his duties. (1/2 mark)
3. Right to visit Branches, and access Branch Accounts [Sec. 143(8)]: (1/2 mark)
4. Right to Remuneration [Sec. 142]: (1/2 mark)
5. Right to have Qualifications, etc. read out at General Meeting [Sec.145]: Qualifications, Observations or Comments on the Financial Transactions or matters, which have any adverse effect on the functioning of the Company -mentioned in the Auditor's Report, shall be -
 - (a) Read before the Company in its General Meeting.
 - (b) Open for inspection by any Member of the Company. (1 mark)
6. Right to receive Notices and to attend General Meetings [Sec. 146] (1 mark)

- (a) All Notices of and other communications relating to, any General Meeting of a Company should be forwarded to the Auditors of a Company.
- (b) The Auditor shall be entitled to attend any General Meeting and to be heard at any General Meeting, which concerns him as Auditor.
- (c) Unless otherwise exempted by the Company, the Auditor shall attend the General Meeting -
 - Either by himself, or
 - Through his Authorised Representative, who shall also be qualified to be an Auditor.

Note: Thus, it is also the duty of the Auditor to attend the General Meeting.

Q 6

(A) (1 mark for each point)

The Internal Audit Programme in connection with Fixed Assets may be in the following lines -

1. Asset Register: To review the registers and records of Plant, Machinery, etc. showing clearly the date of purchase of assets, cost price, location, depreciation charged, etc.
2. Cost Report and Journal Register: To review the reporting costs relating to each Plant and Machinery, to verify items, which have been capitalised.
3. Code Register: To see that each item of Plant and Machinery has been given a distinct code number to facilitate identification and verify the maintenance of Code Register.
4. Movement Register: To verify whether - (a) Movement Register for movable equipments, and (b) Log Books in case of Vehicles etc, are being recorded properly.
5. Physical Verification: To see that physical verification has been conducted at frequent intervals.
6. Asset Disposal Register: To review whether assets have been disposed of after proper technical and financial advice and sales / disposal / retirement, etc. of these assets are governed by authorization, sales memos or other appropriate documents.
7. Spare Parts Register: To examine the maintenance of a separate register of Tools, Spare Parts for each Plant and Machinery.
8. Review of Maintenance: To scrutinize the programme for an actual periodical servicing and overhauling of machines, To examine the extent of utilization of maintenance department services.
9. Review of Obsolescence: To scrutinize whether expert's opinion have been obtained from time-to-time to ensure purchase of technically most useful, efficient and advanced machines after a thorough study.
10. Review of R & D: To review R & D activity and ascertain the extent of its relevance to - (a) the operations of the organisation, (b) maintenance of machinery efficiency, and (c) prevention of early obsolescence.

(B)

Procedure for Removal before expiry of term (2 marks)	<ol style="list-style-type: none"> 1. BOD should pass a Resolution for removal of Auditors. 2. Application should be made to Central Government in Form ADT-2, within 30 days of BOD Resolution. 3. Previous Approval of Central Government should be obtained, in response to Form ADT-2. 4. A General Meeting should be held within 60 days of receipt of approval from Central Government. 5. Special Resolution should be passed in the above General Meeting, for removal of Auditors. 6. Before taking any action u/s 140(1), the Auditor shall be given a reasonable opportunity of being heard.
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Note: Contents of Form ADT-2 include the following – (2 marks)

1. Grounds of seeking removal of Auditor,
2. Details of Qualifications in Accounts in past 3 years,
3. Details of Opportunity of being heard given to the Auditor,
4. Details of Civil / Criminal Proceedings pending between Company / Concerned Officers,
5. Special Notice received for Removal of Auditors, if any.
6. Percentage of Capital held by Members, who propose removal of Auditors,
7. Whether all due Audit Fees has been paid to the concerned Auditors,
8. Details of Other Services rendered by such Auditors to the Company,
9. Number of years for which audit is pending,
10. Stage of accounts for each financial year, e.g. yet to be approved by Board, or yet to be handed over to Auditors, etc.
11. Dispute with regard to Books of Accounts in the possession of Auditors but not delivered back to the Company.

(C)

Issue	Treatment
Providing for Past Losses must for Dividend Declaration (1 mark)	As per Companies Act, before declaration of Dividend, Past Losses or Depreciation, (not provided for) whichever is less, for any previous financial year(s) shall be provided for, either out of current profits, or out of past profits, or out of both.
Use of Revaluation Reserve (1 mark)	As per ICAI Guidance Note, Accumulated Losses should not be adjusted against Revaluation Reserve, since this would amount to setting off actual loss against unrealized gains.
Declaration of Dividend (2 marks)	<ul style="list-style-type: none">• If the debit balance in the P8d_ A/c is set off against Revaluation Reserve, and then dividend is declared from out of Revenue Profits, it would effectively amount to payment of dividend out of capital, without making good the amount of loss or depreciation whichever is less.• Such accounting treatment by the Company violates the provisions of Companies Act and generally accepted accounting principles.)

Q 7

(A) The following matters deserve the Auditors' attention in the audit of a Hotel – (1 mark for each point)

Aspect	Auditors' Duties
Internal Control - Room Sales	<ul style="list-style-type: none">• Verify the Room Sales Collections from the Guest Register.• Sometimes, daily occupancy reports and extra bed supply reports are prepared. In such cases, test-check a few reports with the Guest Register and with the individual guest's bill, to ensure proper billing.• See whether standard room rates have been charged in various guests' bills. In case of difference, obtain satisfactory explanation and sanction for the same.
Internal Control - Restaurant Billing and Sales	<p>All sales points in a hotel make both cash and credit sales. The Auditor should examine the internal control system as regards - (a) procedure for billing customers for room service and sundry services, (b) procedure for issue of provisions and commodities, and (c) safe custody of edibles, beverages, drinks, crockery, cutlery, linen, furniture, etc. The Auditor should -</p> <ul style="list-style-type: none">• Perform compliance tests to ensure that the internal control system operates effectively.• Reconcile the total sales reported with the total of the bills issued by the sale point, either in the form of a bill roll or a series of numerically controlled bills.• Check the numerical control system to ensure that all bills are included in the total.• Verify a few restaurant bills by reference to KOT's (Kitchen Order Tickets) or basic record.• Trace the cash element of sales into the Cash Scroll / Cash Book and the credit sales in total and detail to the guest's bills.
Internal Control - Stocks	<ul style="list-style-type: none">• Examine the documentation procedure in respect of stocks, since Hotel Stocks are readily - (a) movable /portable, and (b) saleable, e.g. Provisions, Food, Beverages, etc.• Perform compliance tests to ensure that all such documentation is accurately processed.• See whether stocks are kept under safe custody under the supervision of the Department Manager.• Ensure that movement of provisions and goods in or out of the stores takes place only after proper authorization and recording.• Supervise the physical stock-taking and test check pricing calculations.• Verify the basis of valuation adopted for stocks. In case of specialized professional valuation, examine: whether the valuation is done reasonably and consistently on a systematic basis.
Casual Labour	<p>Generally, hotels employ casual labour to a very large extent, in many of their departments. Hence, the Auditor should -</p> <ul style="list-style-type: none">• Examine the wage payment registers and attendance records to see whether any manipulation has been made.• Verify whether adequate records, as required by law, wherever applicable, have been maintained.

Commission Payments	<p>In case of bookings through travel agents, hospitality agents, corporates (for their guests) or other booking agencies, the Auditor should -</p> <ul style="list-style-type: none"> • Verify that the amounts due are recovered from agents as per the terms of credit allowed. • Check the commission, if any, paid to agents by reference to the agreement.
Fixed Assets	<ul style="list-style-type: none"> • Obtain a schedule of Fixed Assets and verify whether adequate depreciation has been provided at the prescribed rates. • Verify whether the capitalization and depreciation policies followed by the Institution have been consistently followed. • Conduct physical inspection of Fixed Assets and obtain management certificates for period: inspection thereof. • Examine the method of recording certain assets e.g. Silver Cutlery taken as stock items in certain hotels and as Fixed Assets in other hotels. It is important that comprehensive definition of stock items exists and the Auditor should consider that whether or not the same have been properly followed in reality.
Statutory Compliance	<ul style="list-style-type: none"> • Note the provisions, rules and regulation of various laws governing the operation of hotels, e.g. the Shops and Establishments Act, GST Acts, Regulations laid down by the Department of Tourism, RBI regulations in respect of foreign exchange transactions, etc. • Verify whether the conditions of licence for running the hotel have been complied with. • See whether all foreign exchange transactions have been properly entered into and appropriately reported in the accounts. • See whether all taxes collected on food and occupation have been remitted to the proper authorities.
Analytical Review	<ul style="list-style-type: none"> • Trace the consumption shown in various physical stock accounts, to customers' bills on a sampling basis wherever practicable or to appropriate consumption account to ensure that all issues have been billed and accounted for. • Work out the occupancy rate and compare the same with other similar hotels and with the previous year. Investigate material deviations. • Compare the expenses and receipts with the figures of the previous year having regard to the average occupancy of visitors and changes in the rates.
General	<ul style="list-style-type: none"> • Verify whether payments made to foreign collaborator, if any, are in accordance with the terms of agreement. • Vouch receipts on account of letting out of the Auditorium space and other spaces for shops and boutiques and for special shows etc. with reference to respective agreements. • Examine the Customers' Ledger on a sample basis but in depth to see that all charges that should be made to the customers are in fact made. • Check whether income receivable but not yet billed has been accounted for in respect of - (a) Room Charges, and (b) Value of services rendered to customers still in occupancy on the closing day. • Check whether costs of re-decoration and renovation of buildings and facilities have been properly accounted for. • See whether provision for replacement of Current Assets like carpets, linen, etc. is made. • Verify the Share Capital, Reserves and Surplus, Secured and Unsecured Loans. • Verify whether the form and manner of presentation of financial information conforms to Accounting Standards and applicable legal requirements. • Obtain appropriate Management Representations and Certificates, in respect of the various aspects covered during the course of audit.

- (B) (1 mark for each point)
1. Meaning: Cut-Off Procedure refers to the procedure adopted by the Management to ensure that transactions of one period are separated from those at the commencement of the following year.
 2. Applicability: These procedures are generally applied to trading transactions.
 3. Purpose: The main aim of cut-off procedures is to ensure that revenue and expenditure of one year do not get recorded in the following year or preceding year. This will ensure proper application of "Matching", "Accrual" and "Periodicity" Concepts.
 4. Coverage: Cut off Procedures will cover the following areas -
 - (a) Purchases: Goods purchased, property in which has passed to the Client, should be included in the Inventories. Liability for such goods should be recorded, in case of Credit purchases.
 - (b) Sales: Goods sold on Firm basis (as opposed to Sale on Approval) should be recorded by crediting Sales Account and debiting the Party's account. In case of Sale on Approval basis, revenue should be recognized, when approvals are received. Also such goods should be excluded from Inventories / Closing Stock.
 - (c) Inventories: Where stock-taking is made on a day other than the Balance Sheet date, appropriate adjustment should be made for movements during the intermediary period, like purchases, sales, issues, returns, etc.
- (C) (2 marks for each point)
1. Meaning: Flash Reports are specifically prepared for immediate attention of top management, e.g. Audit Committees of the Board of Directors and other top level managers who do not have sufficient time to go through the elaborate reports and matters which are required to be brought to their notice for immediate action.
 2. Content:
 - (a) Such reports may also summarise the various individual reports issued describing the range of their contents in a very brief but comprehensive manner, highlighting only the important points.
 - (b) Suspected frauds and defalcations are reported briefly to the appropriate management officials on 'Flash' (immediate) basis, resulting in further action like reference for criminal investigation and legal action.

OR

(2 marks for each point)

Situation	Auditor's Duties
Audit Terms not prescribed by Law or Regulation	The agreed terms of the Audit Engagement shall be recorded in an Audit Engagement Letter or other suitable form of Written Agreement, and shall include - <ol style="list-style-type: none"> a. Objective and Scope of the audit of the Financial Statements, b. Responsibilities of the Auditor, c. Responsibilities of Management, d. Identification of the applicable Financial Reporting Framework for the preparation of the Financial Statements, and e. Reference to the expected Form and Content of any Reports to be issued by the Auditor and a Statement that there may be circumstances in which a Report may differ from its expected form and content.
Audit Terms prescribed by Law or Regulation	If law or regulation prescribes in sufficient detail the terms of the Audit Engagement referred to in Para 10, the Auditor need not record them in a written agreement, except for the fact that such law or regulation applies and that Management acknowledges and understands its responsibilities as set out in Para 6(b).
