

Important IPCC QUESTIONS FOR FINAL CA STUDENTS.

1. Audit Note-book

Audit Note Book: An audit note book is usually a bound book in which a large variety of matters observed during the course of audit are recorded. Audit note books form part of audit working papers and for each year a fresh audit note book is maintained. In case an auditor classifies his working paper into permanent and current, then audit note book shall form part of the current file. It is in any case a part of the permanent record of the auditor available for reference later on, if required.

The audit note book also provides a valuable help to the auditor in picking up the links of work when the concerned assistant is away or the work is stopped temporarily. It is also used for recording the various queries raised in the course of the work and their state of disposal. In respect of disposed queries, explanation obtained and evidence seen would be recorded in the said book, while queries remaining undisposed of would be noted for follow up.

2. Medical Council of India organised a three-day International Conference of Doctors in Delhi. You are asked to audit the accounts of the conference. Draft the audit programme for audit of receipt of participation fees from delegates to the conference. Mention any six points, peculiar to the situation, which you will like to include in your audit programme.

Audit of Receipts of Participation Fees: The organization of three-day International Conference of Doctors in Delhi by Medical Council of India is a one-time event. Normally, in view of mega-size of the event, a special cell is made in the organization to handle the entire event. Since few people would be handling the event, the internal controls may not be that strong and, thus, more emphasis is required to be given on substantive procedure. Audit of receipt of participation fees should be under the following areas-

(I) Internal Control System

(i) Examine the organization structure of special cell created for the International Conference, if any, and division of responsibilities amongst persons and control/custody over receipt books.

(ii) Verify the internal control system for restricting the participation of unregistered delegates.

(II) Rate of Participation Fees

(i) Verify with reference to resolution passed by the Organizing Committee/Medical Council of India.

(ii) Also verify the rate from the literature/registration form circulated for promotion of conference.

(III) Receipts of Participation Fees

(i) Verify counter foil of the receipts issued for individual registration.

(ii) Ensure that receipts are issued for all the registration received in cash.

(iii) Trace the receipts in Bank Statement or Cash Book – as the case may be.

(iv) Verify Bank Reconciliation Statement and list out dishonoured cheques.

(v) Verify subsequent recovery in respect of dishonoured cheques.

(IV) Overall Checking

- (i) Verify the total receipts of participation fees shown in the financial statements with reference to total number of receipts issued to participants.
- (ii) Cross check the total number of delegates with reference to the following:
 - (a) Kits distributed to participants.
 - (b) Bill of caterer for providing meals during conference.
 - (c) Capacity of the Hall.
 - (d) Participation Certificate if any issued.
- (V) Foreign Delegates: In case of foreign delegates – if registration fees are higher – ensure that they are registered at higher fees.
- (VI) Special Issues
 - (i) Take out list of absentees and in case of nil absentees, probe the issue further.
 - (ii) If certain participants are exempted from payment of fees – obtain the list along with proper authorization in this regard.

3. Discuss various contents of Permanent Audit File and Current File.

In case of recurring audits, auditors generally prepare two types of audit files.

- (1) Permanent Audit file: It includes-(i) Information concerning the legal and organisational structure of the entity. In the case of a company, this includes the Memorandum and Articles of Association. In the case of a statutory corporation, this includes the Act and Regulations under which the corporation functions.
- (ii) Extracts or copies of important legal documents, agreements and minutes relevant to the audit.
- (iii) A record of the study and evaluation of the internal controls related to the accounting system. This might be in the form of narrative descriptions, questionnaires or flow charts, or some combination thereof.
- (iv) Copies of audited financial statements for previous years.
- (v) Analysis of significant ratios and trends.
- (vi) Copies of management letters issued by the auditor, if any.
- (vii) Record of communication with the retiring auditor, if any, before acceptance of the appointment as auditor.
- (viii) Notes regarding significant accounting policies.
- (ix) Significant audit observations of earlier years.
- (2) Current Audit file: The current file normally includes-
 - (i) Correspondence relating to acceptance of annual reappointment.
 - (ii) Extracts of important matters in the minutes of Board Meetings and General Meetings, as are relevant to the audit.
 - (iii) Evidence of the planning process of the audit and audit programme.
 - (iv) Analysis of transactions and balances.
 - (v) A record of the nature, timing and extent of auditing procedures performed and the results of such procedures.
 - (vi) Evidence that the work performed by assistants was supervised and reviewed.
 - (vii) Copies of communications with other auditors, experts and other third parties.
 - (viii) Copies of letters or notes concerning audit matters communicated to or discussed with the client, including the terms of the engagement and material weaknesses in relevant internal controls.

- (ix) Letters of representation or confirmation received from the client.
- (x) Conclusions reached by the auditor concerning significant aspects of the audit.
- (xi) Copies of the financial information being reported on and the related audit reports.

4. Write a short note on - Examination in Depth.

Examination in Depth: It implies examination of a few selected transactions from the beginning to the end through the entire flow of the transaction, i.e., from initiation to the completion of the transaction by receipt or payment of cash and delivery or receipt of the goods. This examination consists of studying the recording of transactions at the various stages through which they have passed. 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. For example, a purchase of goods may commence when a predetermined re-order level has been reached. The ensuing stages may be summarised thus-

- (i) Requisitions are pre-printed, pre-numbered and authorised;
- (ii) official company order, also sequentially pre-numbered, authorised and placed with approved suppliers only;
- (iii) receipt of supplier's invoice;
- (iv) receipt of supplier's statement;
- (v) entries in purchases day book;
- (vi) postings to purchase ledger and purchase ledger control account;
- (vii) cheque in settlement;
- (viii) entry on bank statement and returned "paid" cheque (if requested);
- (ix) cash book entry;
- (x) posting from cash book to ledger and control account, taking into account any discounts;
- (xi) receipt of goods, together with delivery/advice note;
- (xii) admission of goods to stores;
- (xiii) indication, by initials or rubber stamp on internal goods inwards note, of compliance with order regarding specification, quantity and quality;
- (xiv) entries in stores records.

It should be noted that the above list is not necessarily comprehensive, nor does its constituent stages inevitably take place in the sequence suggested.

5. GR & Co., a firm of Chartered Accountants has been called upon to audit the accounts of Dee Vee Philips Ltd. The auditors are told that Company is not performing well due to weak accounting and administration system in place. Mr. Preet handling the assignment noticed that there are gaps in internal check system of the company. You are required to explain the special steps involved in framing a system of Internal Check.

Answer

General Considerations in Framing a System of Internal Check: The term "internal check" is defined as the "checks on day to day transactions which operate continuously as part of the routine system whereby the work of one person is proved independently or is complementary to the work of another, the object being the prevention or early detection of errors or fraud".

The following aspects should be considered in framing a system of internal check-

- (i) No single person should have an independent control over any important aspect of the

business. The work done by one person should automatically be checked by another person in routine course.

- (ii) The duties/work of members of the staff should be changed from time to time without any previous notice so that the same officer or subordinate does not, without a break, perform the same function for a considerable length of time.
- (iii) Every member of the staff should be encouraged to go on leave at least once in a year so that frauds successfully concealed by such a person can be detected in his absence.
- (iv) Persons having physical custody of assets must not be permitted to have access to the books of accounts.
- (v) There should be an accounting control in respect of each important class of assets, in addition, these should be periodically inspected so as to establish their physical condition.
- (vi) The system of Budgetary Control should be introduced.
- (vii) For inventory-taking, at the close of the year, trading activities should, if possible, be suspended. The task of inventory-taking, and evaluation should be done by staff belonging to other than inventory section.
- (viii) The financial and administrative powers should be sub divided very judiciously and the effect of such division should be reviewed periodically.
- (ix) Finally, the system must be capable of being expanded or contracted to correspond to the size of the concern.

6. Distinguish between

Statutory Auditor versus Internal Auditor:

Statutory Auditor	Internal Auditor
1. The extent of the work undertaken by statutory auditor arises from the responsibility placed on him by the statutes.	It is statutory requirement too as per section 138 of the Companies Act, 2013 where the Audit Committee of the company or the Board shall, in consultation with the Internal Auditor, formulate the scope, functioning, periodicity and methodology for conducting the internal audit.
2. The approach of this auditor is governed by his statutory duty to satisfy himself that the accounts to be presented to the shareholder show a true and fair view of the financial position.	The approach of this auditor is with a view to satisfy that the accounting system is efficient, so that the accounting information presented to the management is accurate and discloses material facts.
3. This auditor is responsible directly to the shareholder.	This auditor is responsible to management.
4. External auditor is not the employee of the company so he has independent status.	If internal auditor is an employee of the company. He cannot enjoy independence that statutory auditor has.

7. **An audit of Expenditure is one of the major components of Government Audit. In the context of 'Government Expenditure Audit', write in brief**

- (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.

(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.

(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.

(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 infructuous 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.

(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-cum performance 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.

8. Draft an Audit Programme to audit the accounts of a Recreation Club with facilities for indoor games and in-house eating.

Audit Programme to Audit the Accounts of a Recreation Club:

(i) Examine the constitution, powers of governing body and relevant rules relating to preparation and finalisation of accounts. In case, it is constituted as a company limited by guarantee, application of provisions of the Companies Act, 2013 should also be seen.

(ii) Vouch the receipt on account of entrance fees with members' applications, counterfoils issued to them, and minutes of the Managing Committee.

(iii) Vouch Members' subscription with the counterfoils of receipts issued to them. Trace receipts for a selected period to the Register of Members; reconcile the amount of total subscription due with the amount collected and the outstanding. Check totals of various columns of the Register of Members and tally them across. See the Register of Members to ascertain the Member's dues which are in arrear and enquire whether necessary steps have been taken for their recovery. The amount considered irrecoverable, if any should be written off.

(iv) Ensure that arrears of subscriptions for the previous year have been correctly brought over and arrears for the year under audit and subscription received in advance have been correctly adjusted.

(v) Verify the internal check as regards members being charged with the price of foodstuffs and drinks provided to them and their guests as well as with the fees chargeable for the special service rendered such as billiards, tennis, etc. Trace debits for a selected period from subsidiary registers maintained in respect of supplies and services to members to confirm that the account of every member has been debited with amounts recoverable from him.

(vi) Vouch purchase of sports items, furniture, crockery, etc., and trace their entries into the respective inventory registers. Vouch purchases of food-stuffs, cigars, wines, etc. and test their sale price so as to confirm that the normal rates of profit have been earned on

their sales. The inventory of unsold provisions and stores, at the end of the year should be verified physically and its valuation checked.

(vii) Check the inventory of furniture, sports material and other assets physically with the respective inventory registers or inventories prepared at the end of the year.

(viii) Inspect the share scrips and bonds in respect of investments, check their current values for disclosure in final accounts, also ascertain that the arrangements for their safe custody are satisfactory, check the accrual of income therefrom and provision of income tax thereon.