

Paper 12- Company Accounts & Audit

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Full Marks: 100

Time allowed: 3 hours

Section – A (Company Accounts)

Answer Question No. 1 and any three from Question Nos. 2,3,4 and 5.

1. (a) Choose the correct answer from the given four alternatives:

[6×1=6]

- (i) Related party Disclosure is covered under
(A) AS 16
(B) AS 17
(C) **AS 18**
(D) AS 19
- (ii) Which of the following items is not a part of cash flow from operating activities?
(A) Payments to Creditors
(B) Purchase of furniture for office use
(C) **Payment of rent of factory premises**
(D) None of the above
- (iii) Transfer to capital redemption reserve account is allowed from which of these profits?
(A) Workmen's compensation fund
(B) Dividend equalisation fund
(C) Insurance fund
(D) **All of the above**
- (iv) A _____ holder cannot have voting rights.
(A) Debenture
(B) Preference Share
(C) Equity Share
(D) **Both (A) and (B)**
- (v) Which of the following is/are the main feature/s of Electricity Act 2003
(A) Ombudsman scheme for consumers' grievance redressal;
(B) Metering of all electricity supplied is obligatory;
(C) There is stricter provisions relating to theft of electricity made;
(D) **All of the above**
- (vi) When the same risk and the same subject matter is insured with more than one insurer that insurance is called _____.
(A) **Double Insurance**
(B) Re-insurance
(C) Insured
(D) None of the above

(b) Match the following items in Column 'A' with items shown in Column 'B':

[1×4=4]

	Column 'A'		Column 'B'
1.	Geographical Segment	A.	Insurance Company
2.	Bonus	B.	AS 16
3.	Government Grants	C.	AS 17
4.	Interest on Borrowings	D.	AS 12

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Answer:

	Column 'A'		Column 'B'
1.	Geographical Segment	C.	AS 17
2.	Bonus	A.	Insurance Company
3.	Government Grants	D.	AS 12
4.	Interest on Borrowings	B.	AS 16

(c) State whether the following statements are True or False: [1x4=4]

- (i) 'Un-Marked' applications are those applications which bear the stamp of an underwriter.
- (ii) Interest received by a finance company is a part of cash flow from operating activities.
- (iii) Schedule III Part II deals with Balance Sheet of a Company.
- (iv) IPO is made when company seeks to raise capital via public investment but FPO is a subsequent public contribution.

Answer:

- (i) False;
- (ii) True;
- (iii) False;
- (iv) True.

Answer any three questions out of the following four questions [3×12=36]

2. (a) Prithvi Ltd. issued 20,000 Shares which are underwritten as follows:

- Mr. A — 12,000; Mr. B — 5,000 and Mr. C — 3,000 Shares.
 - The Underwriters made applications for firm underwriting as under:
Mr. A — 1,600 Shares; Mr. B — 600 Shares; and Mr. C — 2,000 Shares.
 - The total subscriptions excluding Firm Underwriting but including marked applications were for 10,000 Shares.
 - The marked applications were: Mr. A — 2,000 Shares; Mr. B — 4,000 Shares and Mr. C — 1,000 Shares.
- Show the allocation of liability of the underwriter. [4]

Answer:

Particulars	Mr. A	Mr. B	Mr. C	Total
Gross Liability	12,000	5,000	3,000	20,000
(-) Firm Application	(1,600)	(600)	(2,000)	(4,200)
(-) Marked Application	(2,000)	(4,000)	(1,000)	(7,000)
(-) Unmarked Application	(1,800)	(750)	(450)	(3,000)
Net liability under the Contract	6,600	(350)	(450)	5,800
(+)/(-) Surplus in Gross Liability Ratio	(800)	350	450	—
Liability of the Underwriter	5,800	—	—	5,800
(+) Firm Application	1,600	600	2,000	4,200
Total Liability of the Underwriter	7,400	600	2,000	10,000

Unmarked Applications = 3,000 i.e. Total Applications 10,000 — Marked Applications (2,000 + 4,000 + 1,000 = 7,000). These are distributed in the ratio of Gross Liability i.e. 12:5:3.

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(b) Following details are given for Sumangal Ltd. for the year ended 31st March, 2017:

(₹ in lakhs)

Sales:		
Food Products	22,600	
Plastic and Packing	2,500	
Health and Scientific	1,380	
Others	648	27,128
Expenses:		
Food Products	13,340	
Plastic and Packing	1,700	
Health and Scientific	888	
Others	800	16,728
Other Items:		
General corporate Expenses		2,248
Income from investments		728
Interest expenses		260
Identifiable assets:		
Food Products	29,280	
Plastic and Packing	5,280	
Health and Scientific	4,200	
Others	2,660	41,420
General Corporate Assets		2,888

Other Information:

- Inter-segment sales are as below:

(₹ in lakhs)

Food Products	220
Plastic and Packing	288
Health and Scientific	84
Others	28

- Operating profit includes ₹132 lakhs on inter-segment sales.
- Information about inter-segment expenses are not available.

You are required to prepare a statement showing financial information about Sumangal Ltd.'s operations in different industry segments. [8]

Answer:

Information about Sumangal Ltd.'s operations in different Industry segments is furnished in the following table :

	Food Products	Plastic & Packaging	Health & Scientific	Others	Inter-segment Elimination	Consolidated
External Sales	22,380	2,212	1,296	620	—	26,508
Inter-segment	220	288	84	28	620	-
Total	22,600	2,500	1,380	648	620	26,508
Segment Expenses	13,340	1,700	888	800	488	16,240
Operating Profit	9,260	800	492	(152)	132	10,268
General Corporate Expenses						(2,248)
Income from Invest.						728
Interest						(260)

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Income from continuing operations						8,488
Identifiable assets	29,280	5,280	4,200	2,660		41,420
Corporate assets	—	—	—	—	—	2,888
Total assets						44,308

3. (a) From the following Summary Cash Account of Bhakti Ltd. prepare Cash Flow Statement for the year ended 31st March, 2017 in accordance with AS 3 (Revised) using the direct method. The company does not have any cash equivalents.

Summary Cash Account for the year ended 31.03.2017

Particulars	₹ '000	Particulars	₹ '000
Balance on 1.4.2015	125	Payment to Suppliers	5,000
Issue of Equity Shares	750	Purchase of Fixed Assets	525
Receipts from Customers	7,025	Overhead expense	500
Sale of Fixed Assets	275	Wages and Salaries	250
Dividend Received	12.5	Taxation	625
		Interest paid on Debentures	12.5
		Dividend	125
		Repayment of Bank Loan	750
		Balance on 31.3.2015	400
	8,187.5		8,187.5

[7]

Answer:

Bhakti Ltd. Cash Flow Statement for the year ended 31st March, 2017 (Using the direct method)

	₹ '000	₹ '000
Cash flows from operating activities		
Cash receipts from customers	7,025	
Cash payment to suppliers	(5,000)	
Cash paid to employees	(250)	
Cash payments for overheads	(500)	
Cash generated from operations	1,275	
Income tax paid	(625)	
Net cash from operating activities		650
Cash flows from investing activities		

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	₹ '000	₹ '000
Payment for purchase of fixed assets	(525)	
Proceeds from sale of fixed assets	275	
Net cash used in investing activities		(250)
Cash flows from financing activities		
Proceeds from issuance of equity shares	750	
Dividend received	12.5	
Bank loan repaid	(750)	
Interest paid on Debentures	(12.5)	
Dividend paid	(125)	
Net cash used in financing activities		(125)
Net increase in cash		275
Cash at beginning of the period		125
Cash at end of the period		400

- (b) The books of a bank include a loan of ₹5,00,000 advanced on 30.09.2016, interest changeable @ 16% p.a. compounded quarterly. The security for the loan being 7,000 shares of ₹100 each in a public limited company valued @ ₹90 each. There is no repayment till 31.12.2017. On 31.12.2017, the value of shares declined to ₹ 85 per share. How would you classify the loan as secured or unsecured in the Balance Sheet? [5]

Answer:

Date	Particulars	Amount (₹)
31.12.2017	Balance of Loan (Principal)	5,00,000
	Add: Outstanding Interest	1,08,326 ¹
	Total claim	6,08,326
	Less: Value of security at that date 7,000 shares × ₹ 80	5,95,000
		13,326

- Classification:
- | | |
|-----------|-----------|
| Secured | ₹5,95,000 |
| Unsecured | ₹13,326 |

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Workings

Calculation of Outstanding Interest

Quarters ending	Interest (₹)		Closing balance with principal (₹)
31.12.2016	20,000	$(₹5,00,000 \times \frac{16}{100} \times \frac{3}{12})$	5,20,000
31.03.2017	20,800	$(₹5,20,000 \times \frac{16}{100} \times \frac{3}{12})$	5,40,800
30.06.2017	21,632	Do	5,62,432
30.09.2017	22,497		5,84,929
31.12.2017	23,397		6,08,326
	1,08,326		

4. (a) From the following information, prepare the relevant Notes to Accounts:

	₹ lakhs
Sundry Creditors	40.00
Bills Payables	20.00
Bank Overdraft	12.00
Unpaid Dividend	5.00
Outstanding Expenses	5.00
Calls-in-Advance	3.00
Provision for Tax	160.00

[6]

Answer:

4. Trade Payables

Sundry Creditors	40.00
Bills Payables	20.00
	60.00

5. Other Current Liabilities

Bank Overdraft	12.00
Unpaid Dividend	5.00
Outstanding Expenses	5.00
Calls-in-Advance	3.00
	25.00

6. Short – term Provision

Provision for Tax	160.00
	160.00

(b) From the following information, prepare the relevant Notes to Accounts:

	₹ lakhs
Trade Investments	
300 lakhs Shares of Y Ltd. of ₹10 each, ₹8 paid up	2400.00

Answer to MTP_ Intermediate_ Syllabus2016_ Dec2018_Set2

6 Lakhs, 14% Debentures of ₹100 each, ₹80 paid up	480.00
Other Investments	40.00
Discount/Loss on Issue of Debentures	2.00
Amalgamation Adjustments A/c	4.00

[6]

Answer:

8. Non- current Investments

Particulars	(₹ in lacs)	(₹ in lacs)
Trade Investments		
200 Lakhs Shares of Y Ltd. of ₹10 each, ₹8 paid up	2400.00	
4 Lakhs, 14% Debentures of ₹100 each, ₹80 paid up	480.00	2,880.00
Other Investments		40.00
		1920.00

9. Other Non-current Assets

Particulars	(₹ in lacs)
Discount/Loss on Issue of Debentures	2.00
Amalgamation Adjustments A/c	4.00
	6.00

5. Write short note (any three):

[3×4=12]

- (a) Main Characteristics of a Bank's Book-Keeping System;
- (b) Borrowing Cost as per 16;
- (c) Issue of Sweat Equity Shares (Section 54);
- (d) Reasons for preparation of Cash Flows.

Answer:

(a) Main Characteristics of a Bank's Book-Keeping System:

The main characteristics of a bank's system of book-keeping are as follows:

Voucher Posting	Entries in the personal ledger are made directly from vouchers instead of being posted from the books of prime entry.
Voucher Summary Sheets	The vouchers entered into different personal ledgers each day are summarised on summary sheets, totals of which are posted to the control accounts in the general ledger.
Daily Trial Balance	The general ledger trial balance is extracted and agreed every day.
Continuous Checks	All entries in the detailed personal ledgers and summary sheets are checked by persons other than those who have made the entries. A considerable force of such check is employed, with the general result that most clerical mistakes are detected before another day begins.

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Control Accounts	A trial balance of the detailed personal ledgers is prepared periodically, usually every two weeks, agreed with general ledger control accounts.
Double Voucher System	Two vouchers are prepared for every transaction not involving cash-one debit voucher and another credit voucher.

(b) Borrowing Cost as per 16:

Borrowing costs are interests and other costs incurred by an enterprise in connection with the borrowing of funds.

The standard is applied in accounting for borrowing costs which include:

1. Interest and commitment charges on bank borrowing and other short term borrowings;
2. Amortization of discounts/premium relating to borrowings;
3. Amortization of ancillary cost incurred in connection with arrangement of borrowings;
4. Finance charges for assets acquired under finance lease or other similar arrangement.
5. Exchange difference in foreign currency borrowing to the extent it relates to interest element;

(c) Issue of Sweat Equity Shares [Section 54]

Notwithstanding anything contained in section 53, a company may issue sweat equity shares of a class of shares already issued, if the following conditions are fulfilled, namely:—

- (1) the issue is authorised by a special resolution passed by the company;
- (2) the resolution specifies the number of shares, the current market price, consideration, if any, and the class or classes of directors or employees to whom such equity shares are to be issued;
- (3) not less than one year has, at the date of such issue, elapsed since the date on which the company had commenced business; and
- (4) where the equity shares of the company are listed on a recognised stock exchange, the sweat equity shares are issued in accordance with the regulations made by the Securities and Exchange Board in this behalf and if they are not so listed, the sweat equity shares are issued in accordance with such rules as may be prescribed. The rights, limitations, restrictions and provisions as are for the time being applicable to equity shares shall be applicable to the sweat equity shares issued under this section and the holders of such shares shall rank *pari passu* with other equity shareholders.

(d) Cash Flow Statement is considered to be a summarized statement showing sources of Cash Inflows and application of cash outflows of an enterprise during a particular period of time. It is prepared on the basis of the published data as disclosed by the Financial Statement of two different financial periods. It is an essential tool for managerial decisionmaking. Cash Flow reports the management Net Cash Flow (i.e. cash inflow less cash outflow or vice versa) from each activity of the enterprise as well as of the overall business of the enterprise. The management of the enterprise gets a picture of movement of cash resources from the Cash Flow Statement and can assess the stronger

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and weaker area of movement of cash for different activities of the business for drawing up the future planning.

Section – B (Auditing)

Answer Question No. 6 and any three from Question Nos. 7,8,9 and 10.

6. (a) Choose the correct answer from the given four alternatives:

[6x1=6]

- (i) Proving the truth means vouching of _____.
- (A) Payment
 - (B) **Expenses**
 - (C) Assets
 - (D) Liabilities
- (ii) In case there is an Audit Committee the Cost Auditor is appointed by the
- (A) Audit Committee
 - (B) BOD
 - (C) **BOD on recommendation of Audit Committee**
 - (D) None of the above
- (iii) Internal Check is a valuable part of the _____ control.
- (A) **Internal**
 - (B) External
 - (C) Bothe (a) and (b)
 - (D) None of the above
- (iv) CAATS stands for
- (A) Cornwall Air Ambulance Trust
 - (B) Children Air Ambulance Trust
 - (C) Center for alternatives to Animal Testing
 - (D) **Computer Assisted Auditing Techniques**
- (v) The most comprehensive type of audit is the _____system audit, which examines suitability and effectiveness of the system as a whole.
- (A) Quantity
 - (B) **Quality**
 - (C) Preliminary
 - (D) Sequential
- (vi) Cost Audit is covered under
- (A) Section 204
 - (B) **Section 148**
 - (C) Section 139
 - (D) None of the above

(b) Match the following:

[4x1=4]

	Column 'A'		Column 'B'
1.	Government Company	A.	Unqualified Opinion.

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2.	Detailed of audit work to be performed	B.	Audit Programme
3.	Maximum term of Individual Auditor	C.	A company which is a subsidiary of Government Company
4.	True and Fair Audit Report	D.	1 term of 5 years

Answer:

	Column 'A'		Column 'B'
1.	Government Company	C.	A company which is a subsidiary of Government Company
2.	Detailed of audit work to be performed	B.	Audit Programme
3.	Maximum term of Individual Auditor	D.	1 term of 5 years
4.	True and Fair Audit Report	A.	Unqualified Opinion

(c) State whether the following statements are True (or) False.

[4×1=4]

- (i) An audit report should have a proper title.
- (ii) Auditor has right to disclose the client information to a third party.
- (iii) An in depth examination to detect a suspected fraud is termed as Investigation.
- (iv) Before submission of the report to the Board the Audit Committee has the power to review the Financial Statement.

Answer:

- (i) True;
- (ii) False;
- (iii) True;
- (iv) True.

Answer any three questions out of the following four questions

[3×12=36]

7. (a) Discuss – Surprise Checks.

Answer:

Auditor and his staff have to visit the client's place for carrying out the audit. Normally, the visit is given to understand the accounting system, to evaluate the system of internal controls, stock taking etc. It is well accepted that the audit constitutes a moral check on the employees of the client and thus have a deterrent effect. But at the same time, if the auditor or his staff visits at regular intervals, the client or his staff may get time to be well prepared in advance for the audit queries. This may impair the deterrent effect. Thus, there is a need of element of surprise.

An element of surprise can significantly improve the effectiveness of an audit and therefore, wherever practicable, an element of surprise should be incorporated into the audit programme. The Council of ICAI has made the following recommendations in this regard:

- i. Surprise checks should be considered as a desirable part of each audit.
- ii. The areas over which surprise checks should be employed would depend upon the circumstances of each audit but should normally include:

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- Verification of cash and investments.
 - Test verification of stores and stocks and the records relating thereto.
 - Verification of books of prime entry and statutory registers normally required to be examined for the purposes of audit.
- iii. The frequency of surprise checks may be determined by the auditor in the circumstances of each audit but should normally be at least once in the course of an audit.
- iv. The results of the surprise checks should be communicated to the management if they reveal weakness in the internal control system or the existence of fraud or error.
- v. The auditor should satisfy himself that adequate action is taken by the management on the matters communicated by him.
- vi. The results of surprise checks should be included in the audit report if they are material and affect the true and fair view of the accounts on which the reporting is done.

(b) List the essentials of Internal Control.

[7+5=12]

Answer:

An efficient internal control system should provide the followings;

- i. Proper division of functional responsibilities;
- ii. Proper authorization and assignment of duties to perform and record the transactions;
- iii. Adoption of proper practices for adherence with management policies;
- iv. Proper review and authorization of all transactions before they are recorded in the books of accounts and safeguard all business assets;
- v. Proper internal checks;
- vi. Proper internal audit system.

8. (a) Discuss the qualifications and disqualifications of auditors under section 141 of the Companies Act 2013?

[8]

Answer:

(1) A person shall be eligible for appointment as an auditor of a company only if he is a chartered accountant: Provided that a firm whereof majority of partners practicing in India are qualified for appointment as aforesaid may be appointed by its firm name to be auditor of a company.

(2) Where a firm including a limited liability partnership is appointed as an auditor of a company, only the partners who are chartered accountants shall be authorised to act and sign on behalf of the firm.

(3) The following persons shall not be eligible for appointment as an auditor of a company, namely:—

- (a) a body corporate other than a limited liability partnership registered under the Limited Liability Partnership Act, 2008;
- (b) an officer or employee of the company;
- (c) a person who is a partner, or who is in the employment, of an officer or employee of the company;
- (d) a person who, or his relative or partner—
 - (i) is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company;

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Provided that the relative may hold security or interest in the company of face value not exceeding one thousand rupees or such sum as may be prescribed;

- (ii) is indebted to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of such amount as may be prescribed; or
 - (iii) has given a guarantee or provided any security in connection with the indebtedness of any third person to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, for such amount as may be prescribed;
- (e) a person or a firm who, whether directly or indirectly, has business relationship with the company, or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company of such nature as may be prescribed;
 - (f) a person whose relative is a director or is in the employment of the company as a director or key managerial personnel;
 - (g) a person who is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such persons or partner is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies;
 - (h) a person who has been convicted by a court of an offence involving fraud and a period of ten years has not elapsed from the date of such conviction;
 - (i) a person whose relative is a director or is in the employment of the company as a director or key managerial personnel of the company. [Section 141(3)(f)].
 - (j) A person who is in the full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor if such person or persons is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies. [Section 141(3)(g)].
 - (k) A person who has been convicted by a court for an offence involving fraud and a period of ten years has not elapsed from the date of such conviction. [Section 141(3)(h)].
 - (l) a person who, directly or indirectly, renders any service referred to in section 144 to the company or its holding company or its subsidiary company. Such services are —
 - (i) accounting and book keeping services
 - (ii) internal audit
 - (iii) design and implementation of any financial information system
 - (iv) actuarial services
 - (v) investment advisory services
 - (vi) investment banking services
 - (vii) rendering of outsourced financial services
 - (viii) management services.

(b) List the functions of Audit Committee.

[4]

Answer:

The various Functions of the Audit Committee is enumerated below;

- (i) For the appointment and fixation of the remuneration of Auditor.
- (ii) Examination of the Financial Statement.
- (iii) Scrutiny of Inter Corporate Loans and Investment,

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- (iv) Valuation of the Assets of the Company,
- (v) Evaluation of the internal financial control and risk management system of the entity.
- (vi) Evaluation of the use of the funds rose through public offers.
- (vii) Evaluation of any related party transaction.

9. (a) Discuss the procedure of Appointment of a Cost Auditor? [4]

Answer:

The cost auditor is to be appointed by the Board of Directors (BOD) on the recommendation of the Audit Committee, where the company is required to have an Audit Committee. The cost auditor proposed to be appointed is required to give a letter of consent to the Board of Directors. The company shall inform the cost auditor concerned of his or its appointment as such and file a notice of such appointment with the Central Government within a period of thirty days of the Board meeting in which such appointment is made or within a period of one hundred and eighty days of the commencement of the financial year, whichever is earlier, through electronic mode, in form CRA-2 along with the fee as specified in Companies (Registration Offices and Fees) Rules, 2014 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 (BOD) within thirty days of occurrence of such vacancy and the company shall inform the Central Government in Form CRA-2 within thirty days of such appointment of cost auditor.

(b) Discuss the features of a qualified report. [8]

Answer:

The features of a Qualified Report are –

- i. Clarity: The Auditor must express the nature of qualification, in a clear and unambiguous manner.
- ii. Explanation: Where the Auditor answers any of the statutory affirmations in the negative or with a qualification, his Report shall state the reasons for such answer.
- iii. Placement: All qualifications should be contained in the Auditor's Report. When there are Notes, which are subject matter of a qualification, the same should preferably be annexed to the Auditors' Report. However a reference to the Notes to Accounts in the Auditors' Report does not automatically become a qualification.
- iv. Subject to: The words "subject to" are essential to state any qualification. The qualification should be preceded by words such as "Subject to" or "Except that" to make it clear that he is making an exception.
- v. Nature of Qualification: Vague statements, the effect of which on accounts cannot be ascertained, like, the debtors balances are subject to confirmation, 'No provision for taxation has been made in view of the loss during the year', etc. should be avoided.
- vi. Violation of Law: Where the Company has committed an irregularity resulting in a breach of law, the Auditor should bring the same to the notice of the shareholders by properly qualifying his report.
- vii. Quantification: The Auditors should quantify, wherever possible, the effect of these qualifications on the Financial Statements if the same is material. Where the effect of qualification cannot be accurately quantified, the Auditor may reflect the effect on the basis of Management estimates, after carrying out necessary audit tests on such estimates.
- viii. Notes-Report Relationship: Where notes of a qualificatory nature appear in the accounts, the Auditors should state all qualifications independently in their report so that the user can assess the significance of these qualifications.

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- ix. Draft Report: The Auditor may discuss matters of qualification with the Management of the Company to acquire their views. It is not necessary that the Auditor should accept the Management's view and modify his opinion. But it would enable the Auditor to accurately draft the qualifications in his Final Report.

10. Write short note (any three):

[3×4 = 12]

- (a) Branch Audit;**
- (b) Information Systems Audit;**
- (c) Audit of Bills payable for banks;**
- (d) Differences between Qualified report and Adverse report.**

Answer:

- (a)** "Branch office", in relation to a company, means any establishment described as such by the company - section 2(14) of the 2013 Act.

Where a company has a branch office, the accounts of that office shall be audited either by the auditor appointed for the company (herein referred to as the company's auditor) under this Act or by any other person qualified for appointment as an auditor of the company under this Act and appointed as such under section 139, or where the branch office is situated in a country outside India, the accounts of the branch office shall be audited either by the company's auditor or by an accountant or by any other person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of that country and the duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor, if any, shall be such as may be prescribed.

Provided that the branch auditor shall prepare a report on the accounts of the branch examined by him and send it to the auditor of the company who shall deal with it in his report in such manner as he considers necessary.

- (b)** According to Ron Weber, "Information systems auditing is an organizational function that evaluates asset safeguarding, data integrity, system effectiveness, and system efficiency in computer based information systems. It has arisen for seven major reasons:
- i. The consequences of losing the data resource;
 - ii. The possibility of misallocating resources because of decision based on incorrect data or decision rules;
 - iii. The possibility of computer abuse if computer systems are not controlled;
 - iv. The high value of computer hardware, software, and personnel;
 - v. The high costs of computer error;
 - vi. The need to maintain the privacy of individual persons; and
 - vii. The need to control the evolutionary use of computers."

- (c)** The auditor should evaluate the existence, effectiveness and continuity of internal controls over bills payable. Such controls should usually include the following:

- (i) Drafts, mail transfers, traveller's cheques, etc., should be made out in standard printed forms.
- (ii) Unused forms relating to drafts, traveller's cheques, etc., should be kept under the custody of a responsible officer.
- (iii) The bank should have a reliable private code known only to the responsible officers of its branches coding and decoding of the telegrams should be done only by such officers.

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- (iv) The signatures on a demand draft should be checked by an officer with the specimen signature book.
- (v) All the telegraphic transfers and demand drafts issued by a branch should be immediately confirmed by advices to the branches concerned. On payment of these instruments, the paying branch should send a debit advice to the originating branch.
- (vi) If the paying branch does not receive proper confirmation of any telegraphic transfers or demand draft from the issuing branch, it should take immediate steps to ascertain the reasons.
- (vii) In case an instrument prepared on a security paper, e.g., draft, has to be cancelled (say, due to error in preparation), it should be examined whether the manner of cancellation is such that the instrument cannot be misused.

(d) Differences between Qualified report and Adverse report:

Qualified Report	Adverse Report
i. A Qualified Audit Report is one where an Auditor gives an opinion subject to certain reservations.	An Adverse Report is given when the Auditor concludes that based on his examination, he does not agree with the affirmations made in the Financial Statements/ Financial Report.
ii. The Auditor's reservation is generally Stated as: "Subject to the above, we report that the Balance Sheet shows a true and fair view."	The Auditor states that the Financial Statements do not present a true and fair view of the state of affairs and working results of the organization
iii. The accounts present a true and fair view subject to certain reservations.	The accounts do not present a true and fair view on the whole.
iv. A Qualification is made in the Audit Report when the Auditor has reservation on specific item(s) of material nature.	An Adverse Report is given when the Auditor has his reservations on the true and fair view presented by the Financial Statements.