Paper 12- Company Accounts & Audit

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Full Marks: 100 **Time allowed: 3 hours**

Section – A

Question no. 1 is compulsory

1. (a) Choose the correct answer from the given four alternatives: [6x1=6]

(i) Which of the following is an intangible asset?
- **(a) Trade Marks**
- **(b)** Franchises
- **(c)** Accounts Receivables
- **(d)** Secret Profit

(ii) IASB stands for
- **(a) International Accounting Standard Board**
- **(b)** Indian Accounting Standard Board
- **(c)** Institution of Accounting School Board
- **(d)** None of the above

(iii) Inventory is
- **(a)** Included in Fixed Assets
- **(b)** An investment
- **(c) A part of Current Assets**
- **(d)** An intangible

(iv) Which of the following is/are the source/s of bonus issue of shares?
- (a) Free Reserves;
- (b) Securities Premium Account;
- (c) Capital Redemption Reserve Account;
- (d) **All of the above.**

(v) When a shareholder fails to pay calls, the company, if empowered by its articles, may________________
- (a) Surrender the shares
- (b) **forfeit the shares**
- (c) Reissue the shares
- (d) All of the above

(vi) Which of the following is/are the advantage/s of buy-back:
- (a) Free reserves which are utilized for buy-back instead of dividend enhance the value of the company's shares and improve earnings per share;
- (b) Surplus cash may be utilized by the company for buy-back and avoid the payment of dividend tax;
- (c) Buy-back may be used as a weapon to frustrate any hostile take-over of the company by undesirable persons;
- (d) **All of the above.**

(b) Match the following: **[4×1=4]**

	Column 'A'		Column 'B'
1.	**AS 16**	**A.**	**Employee Benefits**
2.	**AS 19**	**B.**	**Borrowing Costs**
3.	**AS 12**	**C.**	**Accounting for Government Grants**
4.	**AS 15**	**D.**	**Accounting for Leases**

Answer:

	Column 'A'		Column 'B'
1.	AS 16	**B.**	Borrowing Costs
2.	AS 19	**D.**	Accounting for Leases
3.	AS 12	**C.**	Accounting for Government Grants
4.	AS 15	**A.**	Employee Benefits

(c) State whether the following statements are True (or) False. **[4×1=4]**

(i) When the same risk and the same subject matter is insured with more than one insurer the same is called reinsurance.

(ii) Part I of Schedule III is related to preparation of Profit and Loss Statement.

(iii) A company cannot buy-back its shares from any person through a negotiated deal whether on or off the stock.

(iv) ODRC represents Optimised Depreciated Replaced Cost.

Answer:

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

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

2. (a) Kumbh Ltd. issued 40,000 Shares which are underwritten as follows:

Mr. A — 24,000; Mr. B — 10,000 and Mr. C — 6,000 Shares.

- **The Underwriters made applications for firm underwriting as under:**
  Mr. A — 3,200 Shares; Mr. B — 1,200 Shares; and Mr. C — 4,000 Shares.
- **The total subscriptions excluding Firm Underwriting but including marked applications were for 20,000 Shares.**
- **The marked applications were: Mr. A — 4,000 Shares; Mr. B — 8,000 Shares and Mr. C — 2,000 Shares.**
- **Show the allocation of liability of the underwriters.**

[7]

Answer:

Particulars	Mr. A	Mr. B	Mr. C	Total
Gross Liability	24,000	10,000	6,000	40,000

(-) Firm Application	(3,200)	(1,200)	(4,000)	(8,400)
(-) Marked Application	(4,000)	(8,000)	(2,000)	(14,000)
(-) Unmarked Application	(3,600)	(1,500)	(900)	(6,000)
Net liability under the Contract	13,200	(700)	(900)	11,600
(+)/(-) Surplus in Gross Liability Ratio	(1,600)	700	900	—
Liability of the Underwriter	11,600	—	—	11,600
(+) Firm Application	3,200	1,200	4,000	8,400
Total Liability of the Underwriter	14,800	1,200	4,000	20,000

Unmarked Applications = 6,000 i.e. Total Applications 20,000 — Marked Applications (4,000 + 8,000 + 2,000 = 14,000). These are distributed in the ratio of Gross Liability i.e. 12:5:3.

(b) Given below is the information regarding five different segments of M/s. Varun Ltd.

(₹ in lakhs)

Segments	**P**	**Q**	**R**	**S**	**T**	**Total**
Segmental Revenue	**100**	**300**	**200**	**100**	**300**	**1,000**
Segment Result	**40**	**(60)**	**90**	**10**	**(30)**	**50**
Segment Assets	**45**	**55**	**140**	**20**	**40**	**300**

As a Cost Accountant of the concerned company, the company management wants to know from you which company needs to be reported. [5]

Answer:

Determination of Segments to be treated as reportable:

₹ in Lakhs

Particulars	**P**	**Q**	**R**	**S**	**T**	**TOTAL**
Segment Revenue	100	300	200	100	300	1,000
% of Segment Rev.	10%	30%	20%	10%	30%	
Segment Result: Profit/Loss	40	(60)	90	10	(30)	140/90
% of segment result, absolute amount of profit/loss whichever is higher, here, as a % of 140	28.57%	42.86%	64.29%	7.14%	21.43%	
Segment Assets	45	55	140	20	40	300
% of Segment Assets	15%	18.33%	46.67%	6.66%	13.33%	
Reportable Segment	Yes	Yes	Yes	Yes	Yes	
Criteria Satisfied	Revenue, Result & Assets	Revenue, Result & Assets	Revenue, Result & Assets	Revenue	Revenue, Result & Assets	

[All more than 10%.]

3. (a) Khush Raho Life Insurance Co. Ltd. provides you the following information:

Particulars	Direct Business ₹	Re-Insurance ₹
Commission Paid	**1,11,000**	**10,000**
Commission Payable on 1.4.2015	**2,000**	**1,000**
Commission Payable on 31.3.2016	**1,000**	**3,000**
Commission Received		**14,000**
Commission Receivable on 1.4.2015		**2,000**
Commission Receivable on 31.03.2015		**3,000**

How will you show the various figures in respect of Commission on Re-Insurance ceded in the Revenue Account for the year ended 31st March, 2016.

[6]

Answer:

Revenue Account for the year ended 31st March, 2015

Particulars	Schedule	Current Year (₹ '000)	Previous Year (₹ '000)
Commission	2	107	

Schedule-2 Commission Expenses

Particulars	Current Year (₹ 000)	Previous Year (₹ 000)
Commission paid		
Direct	110	
Add: Commission on Re-insurance accepted	12	
Less: Commission on Re-insurance Ceded	(15)	
Net Commission	107	

Notes: (i) Commission incurred on Insurance Accepted.

Particulars	Direct Business ₹	Re-Insurance ₹
A. Paid	111	10
B. Add: Payable at the end	1	3
C. Less: Payable in the beginning	(2)	(1)
	110	12

(ii) Commission earned on Insurance Ceded

Particulars	₹
A. Received during the year	14
B. Add: Receivable at the end	3
C. Less: Receivable in the beginning	(2)
D. Total (A + B - C)	15

(b) From the following information Calculate Return on Equity as per Regulation 21 of the Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2004:

A. Date of Commercial Operation of COD = 1st April 2010

B. Approved Opening Capital Cost as on 1st April 2010 = ₹ 15,00,000

C. Details of allowed Additional Capital Expenditure. Repayment of Loan and Weighted Average Rate of Interest on Loan is as Follows

	1st Year	2nd Year	3rd Year	4th Year
Additional Capital Expenditure (Allowed)	**1,00,000**	**30,000**	**20,000**	**10,000**

[6]

Answer:

Computation of Return on Equity

Particulars	1st Year	2nd Year	3rd Year	4th Year
A. Opening Equity (30%)	4,50,000	4,80,000	4,89,000	4,95,000
B. Additional Equity (30%)	30,000	9,000	6,000	3,000
C. Closing Equity (A + B)	4,80,000	4,89,000	4,95,000	4,98,000
D. Average Equity [(A + C)/2]	4,65,000	4,84,500	4,92,000	4,96,500
E. Return on Equity (D × 14%)	65,100	67,830	68,880	69,510

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

	₹ lakhs
Closing Stock of Materials	**40.00**
Closing Stock of WIP	**200.00**
Closing Stock of Finished Goods	**400.00**
Loose Tools	**12.00**
Stores & Spares	**8.00**
Sundry Debtors	**80.00**
Provision for Doubtful Debts	**7.00**
Bills Receivables	**20.00**
Cash Balance	**4.00**
Bank Balance	**16.00**
Cheques/Drafts on hand	**4.00**
Prepaid Expenses	**2.00**
Interest accrued on Investments	**2.00**

[6]

Answer:

10. INVENTORIES

Closing Stock of Materials	40.00
Closing Stock of WIP	200.00
Closing Stock of Finished Goods	400.00
Loose Tools	12.00
Stores & Spares	8.00
	660.00

11. TRADE RECEIVABLES

Sundry Debtors	80
Less: Provision for Doubtful Debts	(7)
Bills Receivables	20
	93

12. CASH AND CASH EQUIVALENTS

Cash Balance	4
Bank Balance	16
Cheques/Drafts on hand	4
	24

13. OTHER CURRENT ASSETS

Prepaid Expenses	2
Interest accrued on Investments	2
	4

(ii) The following items appear in the Trial Balance of Nupur Ltd. as at 31st March, 2015:

Particulars	₹
1. Revenue from Operations	**24,00,000**
2. Other Income	**1,00,000**
3. Expenses other than Interest	**3,80,000**
4. General Reserve (as on 1st April, 2014)	**1,30,000**

5. **Profit and Loss Account (as on 1.4.2014) ₹3,28,000. The recommendation of the company's Board of Directors include equity dividend of 15% (Including Interim Dividend of ₹ 80,000). Transfer to Debenture Redemption Reserve @ 50% of Debentures and Transfer to General Reserve @ 5%. (Assume Corporate Tax 30% and Dividend Distribution Tax @ 20%).**
6. **12%, 10,000 Debentures of ₹ 100 each fully paid up**
7. **14%, 5,000 Preference Shares of ₹ 100 each fully paid up**
8. **6,000 Equity Shares of ₹ 100 each**
9. **8,000 Equity Shares ₹ 100 each, ₹ 25 paid up**

Required: Show the Profit and Loss. **[6]**

Answer:

Nupur Ltd. Statement of Profit and Loss for the year ended 31st March, 2015

Particulars	Note No.	(₹ in lacs)
I. Revenue from Operations		24
II. Other Income		1
III. Total Revenue [I + II]		25
IV. Expenses:		
Finance Costs		1.2
Other Expenses		3.8
Total Expenses		5.0
V. Profit before Tax(III - IV)		20
VI. Tax Expense [30% of ₹ 20 lacs]		(6)
VII. Profit for the period		14
Basic Earnings per Equity Share:		
= [Profit for the period - Pref. Dividend] /No. of Equity Shares		

= (14 - 0.70)/8000 = ₹ 166.25		

5. Write short note (any three): [3×4=12]

(a) Finance lease;

(b) Follow on public offer (FPO);

(c) A Ltd. purchased fixed assets costing ₹ 7,500 lakhs on 1.1.15 and the same was fully financed by foreign currency loan (U.S. Dollars) payable in three annual equal installments. Exchange rates were 1 Dollar = ₹ 62.50 and ₹ 65.00 as on 1.1.15 and 31.12.15 respectively. First installment was paid on 31.12.15. The entire difference in foreign exchange has been capitalized.
You are required to state, how these transactions would be accounted for.

(d) Reasons for preparation of Cash Flow Statement.

Answer:

(a) Finance Lease:

Finance Lease is a lease, which transfers substantially all the risks and rewards incidental to ownership of an asset to the Lessee by the Lessor but not the legal ownership.

In following situations, the lease transactions are called Finance Lease:

- The lessee will get the ownership of leased asset at the end of the lease term.
- The lessee has an option to buy the leased asset at the end of term at price, which is lower than its expected fair value at the date on which option will be exercised.
- The lease term covers the major part of the life of asset.
- At the beginning of lease term, present value of minimum lease rental covers substantially the initial fair value of the leased asset.
- The asset given on lease to lessee is of specialized nature and can only be used by the lessee without major modification.

(b) Follow on public offer (FPO):

An issuance of stock following a company's Initial Public Offer (IPO) is called a Follow on Public Offer.

A company opts for the FPO route when it wishes to raise additional capital from the shareholders and new investors. An FPO is essentially a stock issue of supplementary shares made by a company that is already publicly listed and has gone through the IPO process. Public companies can also take advantage of an FPO issuing an offer for sale to investors, which is made through an offer document. FPOs should not be confused with IPOs, as IPOs are the initial public offering of equity to the public while FPOs are supplementary issues made after a company has been established on an exchange. A follow-on offering can be either of two types (or a mixture of both): dilutive and non-dilutive. A follow on offering is preceded by release of prospectus similar to IPO: a Follow-on Public Offer (FPO).

(c) As AS 11 'The Effects of Changes in Foreign Exchange Rates', exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognized as income or expenses in the period in which they arise. Thus exchange differences arising on repayment of liabilities incurred for the purpose of acquiring fixed assets are recognized as income or expense.

Calculation of Exchange Difference:

$$\text{Foreign currency loan} = \frac{₹\ 7,500\ \text{lakhs}}{₹\ 62.50} = 120\ \text{lakhs US Dollars}$$

Exchange difference = ₹120 lakhs US Dollars × (65.00 – 62.50)

= ₹ 300 lakhs (including exchange loss on payment of first installment)

Therefore, entire loss due to exchange differences amounting ₹ 300 lakhs should be charged to profit and loss account for the year.

(d) Reasons for preparation of Cash Flow Statement:

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

Section – B

Question no. 6 is compulsory

6. (a) Choose the correct answer from the given four alternatives: [6x1=6]

(ii) The ________________ is also expected to provide the resources needed and select staff members to accompany the auditors.

(a) Auditor
(b) Client
(c) Internal auditor
(d) **Auditee**

(iii) Each of the three parties involved in an audit ____________ plays a role that contributes to its success.

(a) the client, the auditor, and the auditeer
(b) the client, the auditor, and the audite
(c) the client, the moderator, and the auditee

(d) **the client, the auditor, and the auditee**

(iv) SA 230 stands for ___________________.

(a) Quality control for an audit of financial Statements

(b) Agreeing the terms of Audit engagements.

(c) **Audit Documentation**

(d) Responsibility of Joint Auditor

(v) Permanent Audit file contains _________________.

(a) Copies of management letters

(b) Audit Programme

(c) Analysis of transaction and balances

(d) **Analysis of significant ratios and trends**

(vi) Internal Control Questionnaire contains the questions need to be followed by the _____________

(a) Employer of the organisation

(b) **Employee of the organsation**

(c) Auditor of the entity

(d) Banker to the organsation

(vii) Secretarial Audit is covered under Section ____________ of Companies Act, 2013.

(a) **Section 204**

(b) Section 148

(c) Section 139

(d) None of the above

(b) Match the following: **[4×1=4]**

	Column 'A'		Column 'B'
1.	**Independent Directors**	**A.**	**Unqualified Opinion.**
2.	**Maximum term of Firm as Auditor**	**B.**	**2 Consecutive terms of 5 years**
3.	**Maximum term of Individual Auditor**	**C.**	**Audit Committee**
4.	**True and Fair Audit Report**	**D.**	**1 term of 5 years**

Answer:

	Column 'A'		Column 'B'
1.	Independent Directors	**C**	Audit Committee
2.	Maximum term of Firm as Auditor	**B**	2 Consecutive terms of 5 years
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) "Branch office", in relation to a company, means any establishment described as such by the company.

(ii) Internal Auditor can be removed by the Board.

(iii) Final dividend is declared in the general meeting.
(iv) "Debenture" includes debenture stock, bonds or any other instrument of a company evidencing a debt, whether constituting a charge on the assets of the company or not.

Answer:

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

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

7. (a) State the advantages of continuous audit
(b) How would you determine the materiality of an item, while conducting audit.
[5+7 = 12]

Answer:

(a) Advantages of continuous audit:

Continuous audit may be defined as the examination and verification of a firm's financial transactions and their supporting documents, continuously throughout the year, at regular or irregular intervals. Its main advantages are as follows:

(i) Early location of errors and frauds: It helps in detecting errors and frauds immediately on their occurrence, and not at the year end when it would become difficult to install corrective control mechanisms.
(ii) Quick rectification: Rectification of errors at an early stage is possible.
(iii) Guidance: Continuous guidance to client.
(iv) Finalizations of accounts completion in time: Just at the end of the accounting period.
(v) Moral check: Make employees of the client alert and more efficient in conducting their work.
(vi) Improves statutory auditor's focus: It relieves statutory auditors of routine testing and allows them to focus efforts on more valuable activities.

(b) Concept of "Materiality" in planning and performing the audit

Materiality is one of the basic fundamental concepts in the process of Accounting and Auditing. It is a continuous process and covers in its ambit all the stages from recording to classification and presentation. An auditor has to constantly judge whether a particular item or transaction is material or not.

The main factors to be considered for determining materiality of an item are:

(i) Individually: It may be determined individually. E.g., a payment of ₹1000 may be material in a small business, but even ₹1 lac could be immaterial for a big business entity.

(ii) Aggregate: It may be determined in aggregate. E.g., total income from investment in mutual funds could be more material than looking into each individual investment.
(iii) Legal Considerations: It depends on the statutory or legal considerations. E.g., where the terms of appointment of a whole time director are not according to law, the remuneration paid to him is a material item even if the financial implication is not much.
(iv) Legal Definition: It may be defined or described in law itself. E.g., Schedule III requires separate disclosure of items of all expenses exceeding 1% of turnover or to write off capital assets purchased for less than ₹5000.
(v) Relative overall impact: It may depend on the relative degree of relevance to the overall accounts or the group, or class of transactions to which it pertains. E.g., short recoveries from debtors.
(vi) Qualitative: It may be qualitative and not often reckoned with respect to quantitative details alone.E.g, improper disclosure of an accounting policy in the Notes to the Annual Financial Statements may affect economic decisions.
(vii) Insignificant quantity but special context: It maybe of an insignificant quantity otherwise, but material in special circumstances. E.g., rounding off to the nearest rupee the fraction of 0.666 as 0.67 in computer software. It may be material in future due to cumulative effect even if insignificant now.

8. (a) Mr. Raghav, who is a chartered accountant, wants to conduct the audit of Ram-Shyam Limited. State the disqualifications that would make him ineligible for the post.
(b) Should an auditor sign his audit report? [9+3 = 12]

Answer:

(a) Appointment of Mr. Raghav as an Auditor.

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.
    (ii) 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;
    (iii) 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
    (iv) 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) any person whose subsidiary or associate company or any other form of entity, is engaged as on the date f appointment in consulting and specialised services as provided in section 144.

If Mr. Raghav possess any of the above disqualifications he would not be eligible for the post of an auditor in Ram-Shyam Ltd.

(b) Auditor to sign audit reports [Section 145]

The person appointed as an auditor of the company shall sign the auditor's report or sign or certify any other document of the company in accordance with the provisions of sub-section (2) of section 141, and the qualifications, observations or comments on financial transactions or matters, which have any adverse effect on the functioning of the company mentioned in the auditor's report shall be read before the company in general meeting and shall be open to inspection by any member of the company.

9. (a) Is rotation applicable to a Cost Auditor?
(b) Discuss how you would conduct audit of Inventories. [5+7 = 12]

Answer:

(a) Rotation of a Cost Auditor

The provisions for maintenance of cost accounting records and cost audit are governed by Section 148 of the Companies Act, 2013. The provisions of Section 148 clearly states that no person appointed under Section 139 as an auditor of the company shall be appointed for conducting audit of cost records of the company. Section 148 also provides that qualifications, disqualifications, rights, duties and obligations applicable to auditors (financial) shall apply to a cost auditor appointed under this section. The eligibility, qualifications and disqualifications are provided in Section 141 of the Act and powers and duties are provided in Section 143. Section 143(14) specifically states that the provisions of Section 143 shall mutatis mutandis apply to a cost auditor appointed under Section 148. There are no other provisions governing the appointment of a cost auditor.

Section 139(3) of the Act, applicable to appointment of auditors (financial), and Rule 6 of Companies (Audit and Auditors) Rules, 2014 deals with the provision of rotation of auditors and these provisions are applicable only to appointment of auditors (financial). The Act does not provide for rotation in case of appointment of cost auditors and the same is not applicable to a cost auditor. It may, however, be noted that though there is no statutory provision for rotation of cost auditors, individual companies may do so as a part of their policy, as is the practice with Public Sector Undertakings.

(b) Audit of Inventories:

Inventories are tangible property held for sale in the ordinary course of business, or in the process of production for such sale, or for consumption in the production of goods or services for sale, including maintenance supplies and consumable stores and spare parts meant for replacement in the normal course. Inventories normally comprise raw materials including components, work-in-process, finished goods including by-products, maintenance supplies, stores and spare parts, and loose tools. Inventories normally constitute a significant portion of the total assets, particularly in the case of manufacturing and trading entities as well as some service rendering entities. Audit of inventories, therefore, assumes special importance.

The following features of inventories have an impact on the related audit procedures:

(i) By their very nature, inventories normally turn over rapidly.

(ii) Inventories are susceptible to obsolescence and spoilage. Further, some of the items of inventory may be slow-moving while others may follow a seasonal pattern of movement.

(iii) Inventories are normally movable in nature, although there may be some instances of immovable inventories also, e.g., in the case of an entity dealing in real-estate.

(iv) All the items of inventory may not be located at one place but may be held at different locations such as factories and warehouses, or with third parties such as selling agents.

(v) The individual items of inventory may not be significant in value, but taken together, they normally constitute a significant proportion of total assets and current assets of manufacturing, trading and certain service entities.

(vi) Physical condition (e.g., stage of completion of work-in-process in certain industries) and existence of certain items of inventories may be difficult to determine.

(vii) Valuation of inventories may involve varying degrees of estimation, including expert opinions, e.g., in the case of jewellery.

10. Write short note (any three): [3×4 = 12]

(a) Information Systems Audit

(b) Utilisation of Investor Education and Protection Fund

(c) Internal Audit as a management tool

(d) Surprise Check

Answer:

(a) Information Systems Audit

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.

(b) Utilisation of Investor Education and Protection Fund

The Fund shall be utilised for—

(a) education, awareness and protection;
(b) the refund in respect of unclaimed dividends, matured deposits, matured debentures, the application money due for refund and interest thereon; promotion of investors'
(c) distribution of any disgorged amount among eligible and identifiable applicants for shares or debentures, shareholders, debenture-holders or depositors who have suffered losses due to wrong actions by any person, in accordance with the orders made by the Court which had ordered disgorgement;
(d) reimbursement of legal expenses incurred in pursuing class action suits under sections 37 and 245 by members, debenture-holders or depositors as may be sanctioned by the Tribunal; and
(e) any other purpose incidental thereto, in accordance with such rules as may be prescribed:

Provided that the person whose amounts referred to in clauses (a) to (d) of sub – section (2) of section 205C transferred to Investor Education and Protection Fund, after the expiry of the period of seven years as per provisions of the Companies Act, shall be entitled to get refund out of the Fund in respect of such claims in accordance with rules made under this section.

(c) Internal audit is an important management tool for the following reasons:

(i) Internal audit ensures compliance of Companies (Auditors Report) Order, 2016.
(ii) It ensures compliance of accounting standards and policies.
(iii) It ensures reliability of MIS through internal audit's independent appraisal and review.
(iv) It looks into the standard of efficiency of business operation.

(v) It can evaluate various problems independently and suggest improvement.
(vi) This system makes the internal control system effective.
(vii) It ensures the adequacy, reliability, accuracy and understandability of financial and operational data.
(viii) It performs as an integral part of 'Management by system'.
(ix) It can add valuable assistance to management in acquiring new business, promoting new products and expansion or diversification of business etc.

(d) Surprise Check

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.

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 following recommendations may be referred to 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:
- 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.