PAPER – 3 : ADVANCED AUDITING AND PROFESSIONAL ETHICS

QUESTIONS

Standards on Auditing, Statements and Guidance Notes

1. You are an audit senior working for the firm Kala & Company. You are currently carrying out the audit of W Ltd., a manufacturer of waste paper bins. You are unhappy with W Ltd.'s inventory valuation policy and have raised the issue several times with the audit manager. He has dealt with the client for a number of years and does not see what you are making a fuss about. He has refused to meet you on site to discuss these issues.

   The former engagement partner to W Ltd. retired two months ago. As the audit manager had dealt with W Ltd. for so many years, the other partners have decided to leave the audit of W Ltd. in his capable hands. Comment on the situation outlines above.

2. As a Statutory Auditor, how would you deal with the following?

   (a) While commencing the statutory audit of B Company Limited, the auditor undertook the risk assessment and found that the detection risk relating to certain class of transactions cannot be reduced to acceptance level.

   (b) While auditing accounts of a public limited company for the year ended 31st March 2011, an auditor found out an error in the valuation of inventory, which affects the financial statement materially – Comment as per standards on auditing.

   (c) At the statutory audit of TOR Limited, the physical verification of fixed assets was conducted. However the auditor was not able to confirm the existence of valuables and important machinery. In this connection, the auditor obtained a certificate from the management to prove its existence and value and accepted the same blindly without any further procedures.

Audit Strategy Planning and Programming

3. You are the manager responsible for the audit of Value Ltd. which has a year end of 31 March. This is the first year that your firm has undertaken the audit of Value Ltd., having succeeded the previous auditors at the last annuals general meeting following a successful tender for the audit. Your firm has an office in Mumbai and in 25 other location throughout the India.

   You have had preliminary discussions with the management of Value Ltd. and obtained some background information about the company. The company produces fertilizer in a factory on the outskirts of Liverpool. The head office is situated in Mumbai. There are ten depots throughout the country which hold large stocks of fertilizer so that local demand for its products can be met quickly. Inventory records are not maintained and a full count is carried out at the year end.

   You have also read recent government press release that indicates that 'L', a product which forms a major part of the company's sales, contains a chemical that has been identified as being potentially dangerous to those who handle it. An official government working party has been set up to review the situation.

Requirement

(a) Identify the circumstances that should be taken into account when planning the audit of Value Ltd., and set out your outline audit approach in these areas.

(b) Explain the objectives of audit planning.

Risk Assessment and Internal Control

4. Bhawan Ltd. is a retailer of fashion accessories. It has a turnover of ₹ 54 million and 150 shops throughout the India. It also has six regional warehouses from which the shops are supplied with goods.

   The company has an internal audit department which is based at the company's head office in Delhi. Internal auditors make regular visits to the shops and warehouses.

   This is the first year that your firm has acted as auditor for Bhawan Ltd. The partner in charge of the audit has expressed his opinion that the internal audit department might be able to assist the external audit team in carrying out its work.

   Requirements

   (a) State, with reasons, the information that you would require to make an assessment of the likely effectiveness and the relevance of the internal audit function.

   (b) Describe four typical procedures that might be carried out by the internal auditors during their visits to the shops and warehouses and on which you might wish to rely.

   (c) Assuming that you intend to rely on the work of the internal audit department of Bhawan Ltd., describe briefly the effect this will have on your audit of company's financial statements.

Audit under CIS Environment

5. (a) Discuss some problems that will be encountered in a CIS in implementation of internal control.

   (b) "The method of collecting Audit evidence and evaluating the same changes drastically under CIS Environment". – Comment.

The Company Audit

6. As a statutory auditor of a Public Limited Company, how would you deal with the following situations?

   (a) The company has sold some old machinery for ₹ one crore. The details of the cost of such machinery are not available since the entire records relating to fixed assets have been destroyed in an earthquake.

(b) The company had subscribed to shares of associate companies amounting to ₹ 5 crores. These associate companies have incurred substantial losses and have been referred to BIFR for being declared as sick companies. The company does not want to make any provision for the fall in the value of the investments.

(c) As at the beginning of the year, the company has a capital of ₹ 5 crores, free reserves of ₹ 1 crore and Revaluation Reserve of ₹ 9 crores. In the relevant year under audit the company has incurred a loss of ₹ 8 crores. The company proposes to adjust the loss with the Revaluation Reserve.

Liabilities of Auditors

7. Indicate the precise nature of auditor's liability in the following situations and support your views *with authority, if any:*

   (a) A misstatement had occurred in the prospectus issued by the company.

   (b) Certain weaknesses in the internal control procedure in the payment of wages in a large construction company were noticed by the statutory auditor who in turn brought the same to the knowledge of the Managing Director of the company. In the subsequent year huge defalcation came to the notice of the management. The origin of the same was traced to the earlier year. The management wants to sue the auditor for negligence and also plans to file a complaint with the Institute.

   (c) Based upon the legal opinion of a leading advocate, Amrit Ltd. made a provision of ₹ 5 crores towards Income Tax liability. The assessing authority has worked out the liability at ₹ 5 crores. It is observed that the opinion of the advocate was inconsistent with legal position with regard to certain revenue items.

Audit Report

8. Bring out the significance of the following two illustrative paragraphs found in the statutory auditor's report in recent days.

   (a) Opening Paragraph:

   "*We have audited the attached Balance Sheet of …….. as at 31st March, 2xxx and also the Profit and Loss Account for the year ended on that date annexed thereto. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements".*

   (b) Scope Paragraph:

   "We conducted our audit in accordance with the auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material statement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as

well as evaluating the overall financial presentation. We believe that our audit provides a reasonable basis for our opinion."

9. As the auditor of PQRS Ltd what steps would you take to comply with the requirement of Companies (Auditors Report) Order, 2003 in respect of the following cases?

   (a) Is the company regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees State Insurance, Income Tax, Sales Tax, Wealth Tax, Customs duty, Excise duty, Cess and any other statutory dues with the appropriate authorities and if not, the extent of arrears of outstanding statutory dues as at the last day of the financial year concerned for a period of more than six months from the date they became payable shall be indicated by the auditor.

   (b) Whether in case of a company which has been registered for a period not less than five years, its accumulated losses at the end of the financial year are not less than fifty percent of its net worth and whether it has incurred cash losses in such financial year and in the immediately proceeding financial year.

Audit of Banking Company

10. Your firm has been appointed as Central Statutory Auditors of a Nationalised Bank. The Bank follows financial year as accounting year. State your views on the following issues which were brought to your notice by your Audit Manager:

    (a) The bank has recognised on accrual basis income from dividends on securities and Units of Mutual Funds held by it as at the end of financial year. The dividends on securities and Units of Mutual Funds were declared after the end of financial year.

    (b) The bank is a consortium member of Cash Credit Facilities of ₹ 50 crores to X Ltd Bank's own share is ₹ 10 crores only. During the last two quarters against a debit of ₹ 1.75 crores towards interest the credits in X Ltd's account are to the tune of ₹ 1.25 crores only. Based on the certificate of lead bank, the bank has classified the account of X Ltd as performing.

    (c) In case of all such advances which have been classified as non-performing for the first time during the current financial year, only the last date of the financial year has been reckoned as the date of account becoming non-performing.

Audit of General Insurance Company

11. As per the directions under Section 619(3)(A) of the Companies Act, 1956 applicable to Insurance Companies, which are the points on which the Statutory Auditor has to report on in respect of System of Accounts?

Cost Audit

12. "Like every other audit, a systematic planning for cost audit is also necessary". Indicate the matters to be included in a Cost Audit Programme.

Audit under Fiscal Laws

13. ABC Printing Press, a proprietary concern, made a turnover of above ₹ 63 lacs for the year ended 31.03.2011. The Management explained its auditor Mr. Z, that it undertakes different job work orders from customers. The raw materials required for every job are dissimilar. It purchases the raw materials as per specification/requirements of each customer, and there is hardly any balance of raw materials remaining in the stock, except pending work-in-progress at the year end. Because of variety and complexity of materials, it is rather impossible to maintain a stock-register. Give your comments.

14. A Co-operative Society having receipts above ₹ 60 lakhs gets its accounts audited by a person eligible to do audit under Co-operative Societies Act, 1912, who is not a Chartered Accountant. State with reasons whether such audit report can be furnished as tax audit report under Section 44 AB of the Income-tax Act, 1961?

Audit of Public Sector Undertakings

15. What is a comprehensive audit of public enterprises? Discuss some of the areas to be examined therein.

Special Audit

16. (a) What do you understand by the *Rolling Settlements? State briefly.*

    (b) Enumerate the main areas to be covered by the auditor in the case of environment audit of an industrial unit.

Internal Audit, Management and Operational Audit

17. Explain in brief the behavioural aspects encountered in the management audit and state the ways to solve them.

Investigation and Due Diligence

18. A company engaged in manufacturing of chemicals is consistently recording higher sales turnover,but declining net profits since the last 5 years. As an investigator appointed to find out the reasons for the same, what are the points you would verify?

Professional Ethics

19. (a) Comment on the following with reference to the Chartered Accountants Act, 1949 and schedules thereto:

    (i) CA Ravi was appointed as the Auditor of XYZ Ltd. for 2010-11. Since he declined to accept the appointment, the Board of Directors appointed CA Shree as the auditor in the place of CA Ravi, which was also accepted by CA Shree.

    (ii) CA Zeni who is a leading Income Tax Practitioner and consultant in Mumbai is also trading in derivatives.

(iii) CA Dev, a Chartered Accountant prepared a project report for one of his clients to obtain bank finance (long-term) of ₹ 50 lakhs from a Commercial Bank. Consequent to the sanction of the loan by the bank CA Dev raised a bill for his services @ 2% of the loan sanctioned.

(iv) CA Vijay who conducted ABC audit of a marathi daily 'New Era' certified the circulation figures based on Management Information System Report (M.I.S Report) without examining the books of Account.

(b) Discuss whether the following actions by a Chartered Accountant would amount to misconduct or not:

(i) A Chartered Accountant practising in India enters into partnership with

(1) A Certified Public Accountant in New York.

(2) A Chartered Accountant from the Institute of Chartered Accountants in England and Wales in London, and in each case, the members concerned take the profits earned in their own country.

Will it make any difference, if an Indian Chartered Accountant is practising outside India and becomes a partner with the aforesaid accountants?

(ii) A practising Chartered Accountant uses a visiting card in which he designates himself, besides as Chartered Accountant, as

(1) Tax Consultant

(2) Cost Accountant.

20. Write a short note on the following:

(a) Collection of evidences by Peer reviewer.

(b) Solvency margin in case of an insurer carrying on general insurance business.

(c) Vostro and Nostro Accounts.

(d) Corporate Governance.

SUGGESTED ANSWERS/HINTS

1. Quality Control Issues on an engagement: Several quality control issues are raised in the scenario:

Engagement Partner: An engagement partner is usually appointed to each audit engagement undertaken by the firm, to take responsibility for the engagement on behalf of the firm. Assigning the audit to an experienced audit manager is not sufficient.

The lack of an audit engagement partner also means that several of the requirements of SA 220 on "Quality Control for an Audit of Financial Statement", about ensuring that engagements in relation to independence and directing, supervising and reviewing the audit are not in place.

Conflicting Views: In this scenario the audit manager and senior have conflicting views about the valuation of inventory. This does not appear to have been handled well, with the manager refusing to discuss the issue with the senior.

SA 220 on "Quality Control for an Audit of Financial Statement", requires that the audit engagement partner takes responsibility for setting disputes in accordance with the firm's policy in respect of resolution of difference of opinion required by SQC 1" Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements". In this case, the lack of engagement partner may have contributed to this failure to resolve the disputes. In any event, at best, the failure to resolve the difference of opinion is a breach of the firm's policy under SQC 1. At worst, it indicates that the firm does not have a suitable policy concerning such disputes required by SQC.1 "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements".

2. (a) Assessment of Risk and Acceptable Level

SA 315 and SA 330 "Identifying and Assessing the Risk of Material Misstatement Through Understanding the Entity and its Environment" and "The Auditor's Responses to Assessed Risks" establishes standards on the procedures to be followed to obtain an understanding of the accounting and internal control systems and on audit risk and its components: inherent risk, control risk and detection risk. SA 315 and SA 330 require that the auditor should use professional judgement to assess audit risk and to design audit procedures to ensure that it is reduced to an acceptably low level. "Detection risk" is the risk that an auditor's substantive procedures will not detect a misstatement that exists in an account balance or class of transactions that could be material. The higher the assessment of inherent and control risks, the more audit evidence the auditor should obtain from the performance of substantive procedures. When both inherent and control risks are assessed as high, the auditor needs to consider whether substantive procedures can provide sufficient appropriate audit evidence to reduce detection risk, and therefore audit risk, to an acceptably low level. The auditor should use his professional judgement to assess audit risk and to design audit procedures to ensure that it is reduced to an acceptably low level. If it cannot be reduced to an acceptable level, the auditor should express a qualified opinion or a disclaimer of opinion as may be appropriate.

(b) Errors in Valuation of Inventories and Auditor's Responsibilities

SA 240, "The Auditor's Responsibilities Relating Fraud in an Audit of Financial Statements", requires that if circumstances indicate the possible existence of fraud or error, the auditor should consider the potential effect of the suspected fraud or error on the financial information. If the auditor believes the suspected fraud or error could have a material effect on the financial information, he should perform such modified or additional procedures as he determines to be appropriate. SA 240 also requires that when the auditor identifies a misstatement, the auditor shall evaluate whether such a misstatement is indicative of fraud. If there is such an indication, the auditor shall evaluate the implications of the misstatement in relation to other aspects of the audit, particularly the reliability of management representations, recognizing that an instance of fraud is unlikely to be an isolated occurrence. Further, SA 320 "Materiality in Planning and Performing an Audit", also requires that in such circumstances, the auditor should consider requesting the management to adjust the financial information or consider extending his audit procedures. If the management refuses to adjust the financial information and the results of extended audit procedures do not enable the auditor to conclude that the aggregate of uncorrected misstatements is not material, the auditor should express a qualified or adverse opinion, as appropriate. In the instant case, the auditor has detected the material errors affecting the financial statements; the auditor should communicate his findings to the management on a timely basis, consider the implications on true and fair view and also ensure that appropriate disclosures have been made.

(c) Management Representation

The physical verification of fixed assets is the primary responsibility of the management. The auditor, however, is required to examine the verification programme. Further, he must satisfy himself about the existence, ownership, procession and valuation of fixed assets. It appears from the facts of the case that the auditor has not been able to verify either existence or valuation of significant fixed assets despite conducting physical verification audit procedure himself. Ultimately, he accepted the certificate from the management without performing further procedures. As per SA 580 (Revised), "Written Representations", representation by management cannot be a substitute for other audit evidence that the auditor could reasonably expect to be available. Thus, a representation by management as to the existence of valuables and machinery is no substitute for adopting normal audit procedures regarding verification of valuable and important machinery. If the auditor is unable to obtain sufficient appropriate audit evidence that he believes will be available, this will constitute a limitation on the scope of his examination even if he has obtained a representation from management on the matter and the auditor may express a disclaimer of opinion.

3. Audit Planning

Circumstances	Outline audit approach
This is the first year that the firm has undertaken the audit of Value Ltd.	· In order to be satisfied about the previous financial statements the auditor should : 1. Hold consultations with management

	2. Review client's records, working papers and accounting and control procedures for the previous period 3. (Possibly) hold consultations with the previous auditor. 4. Be familiarizing with the nature of the business, market, accounting systems etc by discussions with management and by review of interim/management accounts.
Value Ltd.has - A head office in Mumbai - A factory in Liverpool - Ten depots throughout the country	· The staff must be planned to carry out the audit from the firm's offices throughout the country. · They must all be adequately briefed and provided with a copy of the audit plan detailing their specific tasks and deadlines.
No inventory records have been maintained but a full inventory count is to be carried out at the year end.	· It is very important that the auditors are satisfied with the inventory count · The written count instruction must be reviewed well in advance of the year end, so that improvement can be suggested by the auditors and incorporated into the client's instructions. · The auditors should ensure that sufficient staff with the necessary experienced is available to attend the count at all material locations.
'L', a major product of the company, has been identified as being potentially dangerous.	Ascertain - For how long Value Ltd. has been selling 'L'and in what quantity ? - How much 'L' the company now holds in inventory? Ensure that the firm keeps up-to-date with the findings of the government working party. Consider whether any of the employees of Value Ltd. may have been harmed and, if so, the consequential liability of the company to them

(b) Objectives of audit planning

(i) To ensure that appropriate attention is devoted to important areas of the audit:

This is done via a formal written audit plan, laying down the objectives and the procedures to be followed in order to meet those objectives.

(ii) To facilitate review : Work should be delegated to staff with the appropriate level of experience. All work should be properly supervised and reviewed by amore senior member of staff.

(iii) To ensure that potential problems are identified : The auditor must ensure that resources are directed towards material/high risk areas.

(iv) To assist in the proper assignment of work : This may be to members of the audit team or to experts or other auditors. It helps the audit to proceed in a timely and efficient manner.

4. (a)

Information	Reason
The organizational status and reporting responsibilities of the internal auditor and any constraints and restrictions thereon.	The degree of objectivity is increased when internal audit : - is free to plan and carry out its work and communicate fully with the external auditor - has access to the highest level of management.
Areas of responsibility assigned by management to internal audit, such as review of - Accounting systems and internal controls - Implementation of corporate plans	Not all areas in which internal audit may operate will be relevant to the external auditor. - (Relevant) - (Not relevant)
Routine tasks carried out by internal audit staff such as authorization of petty cash reimbursements.	In these respects staff are not functioning as internal audit, they are working simply as an internal control.
Internal auditors formal terms of reference	Internal auditor's role will be most relevant where it: - Has a bearing on the financial statements.

	- Involves a specialization
Internal audit documentation such as an audit manual and audit plans	It is more likely that due professional care is being exercised where the work of internal audit is properly planned, controlled, recorded and reviewed.
Professional membership and practical experience (including computer auditing skills) of internal audit staff.	Unless internal audit is technically competent it is inappropriate to place reliance on it.
Internal audit reports generated and feedback thereon.	How the company responds to internal audit findings may be regarded as a measure of the department's effectiveness.
Number of staff, computer facilities and any other resources available to internal audit.	The effectiveness of internal audit (and hence the reliance placed thereon) will be limited if the department is under-resourced.

(b) Typical procedures

(i) Inspection of tangible non-current assets : Assets seen at the warehouses (e.g. delivery vehicle fleet) should be noted and subsequently agreed to the fixed asset register maintained at head office (HO). Assets recorded in the register (e.g. shop fixtures and fittings) should be selected for inspection prior to visits to ensure their existence.

(ii) Attendance at inventory counts : Periodic counts (eg monthly) should be attended on a rotational basis at warehouses and larger shops to ensure adherence to the company's procedures. Test counts should be made to confirm the accuracy and completeness of the inventory counts

(iii) Cash : Cash counts should be carried out on each register takings (and petty cash floats) whenever shops (and warehouses) are visited on a 'surprise' basis.

(iv) Goods despatch : Internal control procedures should be observed to be in operation, for example to ensure that all dispatches are documented and destined for the company's retail outlets.

(v) Employee verification : Payroll procedures are likely to be carried out at HO, warehouses and shops informing HO on a weekly basis of hours worked by employees, illness and holiday etc. However, new employees, especially in the shops (and probably also in the warehouses) will be recruited locally and their details notified to HO.

Internal audit will be able to select a sample of employees from HO records and ensure on the visits to shops and warehouses' that these represent bona fide employees.

(c) Effect on audit

(i) Systems documentation : The accuracy of systems documentation which has been prepared by internal audit need only be confirmer using 'walk-through tests'. This saves time (if the systems documentation is correct) since only copies will be required for the audit file.

(ii) Tests of controls : The level of independent testing (i.e. by the external auditor) can be reduced where controls have been satisfactorily tested by internal audit, especially if error rates are found to be similar. In particular, attendance at stocktaking at the year end may be limited to those locations with the highest stockholdings.

(iii) Substantive procedures : Internal audit's evidence (e.g. concerning the existence of tangible non-concern assets), will reduce sample sizes for year end verification work. Substantive procedures may also be reduced where the internal audit checks reconciliations' (e.g. of supplier's statements to ledger balances, receivable and payables control accounts and bank reconciliations.)

5. (a) Internal control system include separation of duties, delegation of authority and responsibility, a system of authorisation, adequate documents and records, physical control over assets and records, management supervision, independent checks on performance and periodic reconciliation of assets with records. In CIS environment, all these components must exist but computers affects the implementation of these internal controls in many ways. Some of the effects are as under:

(i) Separation of Duties - In a manual system, different persons are responsible for carrying out function like initiating, recording of transaction, safeguarding of assets, does not always apply in a computer system. For example, in a computer system, a program may carryout reconciliation of vendor invoice against a receipt document and also prepares a cheque payable to creditors. Such operation through a program will be considered as incompatible functions in a manual system.

In minicomputer and microcomputer environments, separation of incompatible function could be even more difficult. Some such forms, allows, users to change programs and data entry without providing a record of these changes. Thus, it becomes difficult to determine whether incompatible function have been performed by system users.

(ii) Delegation of Authority and Responsibility - A structured authority and responsibility is an essential control within manual and computer environment. In a computer system however, a clean line of authority and responsibility might be difficult to establish because some resources are shared among multiple users. For instance, one objective of using a data base management system is to provide multiple users with access to the same data, thereby reducing the control problems that arise with maintaining redundant data, when multiple users have access to the same data and the integrity of the data is somehow violated, it is not always easy to trace who is responsible for corrupting the data and who is responsible for identifying and correcting the error. Some organisation identified a single user as the owner of the data.

(iii) Competent and Trustworthy Personnel - Skilled, competent, well-trained and experienced in formation system personnel have been in short supply. Since substantial power is often vested in the person responsible for the computer information system development, implementation, operation and maintenance within the organisation, competent and trustworthy personnel is very much in demand. Unfortunately, the non availability of competent personnel, forced many organisation to compromise on their choice of staff. Moreover, it is not always easy for organisation to assess the competence and integrity of their system staff. High turnover among those staff has been the norm. Some information systems personnel lack a well developed sense of ethics and some enjoy in subverting controls.

(iv) System of Authorisation - Management authorisation of transaction may be either:

(1) general authorisation to establish policies for the organisation,

(2) specific authorisation applying to individual transactions. In manual system, auditors evaluate the adequacy of procedures for authorisation by examining the work of employees. In a computer system, authorisation procedures often are embedded within a computer program. In a computer system, it is also more difficult to assess whether the authority assigned to individual persons is constant with managements policies. Thus, in evaluating the adequacy of authorisation procedures, auditors have to examine not only the work of employees but also the veracity of the programme processing.

(v) Adequate Documents and Records - In a manual system, adequate documents and records are required to provide an audit trail of activities within the system. In computer system, document support might not be necessary to initiate, execute and records some transaction. The task of a visible audit trail is not a problem for auditors, provided the systems have been designed to maintain a record of all events and that they are easily accessible. In well-designed computer systems, audit trails are more extensive than those maintained in manual systems unfortunately not all computer systems are well designed. This creates a serious control problem.

(vi) Physical Control over Assets And Records - Physical access to assets and records is critical in both manual systems and computer system. In a computer system the information system assets and records may be concentrated at a single site. The concentration of information systems assets and record also increases the losses that can arise from computer abuse or disaster. If the organisation does not have another suitable backup, it might be unable to continue operations.

(vii) Adequate Management Supervision - In a computer system, supervision of employee might have to be carried out remotely. Supervisory controls must be built into the computer system to compensate for the controls that usually can be exercised through observation and in inquiring computer system also make the activities of employees less visible to management. Because many activities are electronically controlled managers must periodically access the audit trial of employee activities and examine it for unauthorised actions.

(viii) Independent Checks On Performance - Checks by an independent person help to detect any errors or irregularities. In a computer system, if a program code is authorised accurate, and complete the system will always follow the laid down procedures in absence of other type of failures like hardware or systems software failure. Thus, independent checks on the performance of programs often have little value. Instead, the control emphasis shifts to ensuring the veracity of programme code. Auditors, must now evaluate the controls established for program development, modification operation and maintenance.

(ix) Comparing Recorded Accountability with Assets - In a manual system, independent staff prepares the basic data used for comparison purposes. In a computer system software is used to prepare this data. If unauthorised modifications occur to the program or the data files that the program uses, an irregularity might not be discovered, because traditional separation of duties no longer applies to the data being prepared for comparison purposes.

(b) Auditor must provide a competent, independent opinion as to whether the financial statements records and report a true and fair view of the state of affairs of an entity. However, computer systems have affected how auditors need to collect and evaluate evidence. These aspects are discussed below:

(i) Changes to Evidence Collection - Collecting evidence on the reliability of a computer system is often more complex than collecting evidence on the reliability of a manual system. Auditors have to face a diverse and complex range of internal control technology that did not exist in manual system, like:

(1) accurate and complete operations of a disk drive may require a set of hardware controls not required in manual system,

(2) system development control include procedures for testing programs that again are not necessary in manual control.

Since, Hardware and Software develop quite rapidly, understanding the control technology is not easy. With increasing use of data communication for data transfer, research is focussed an cryptographic controls to project the privacy of data. Unless auditor's keep up with these developments, it will become difficult to evaluate the reliability of communication network competently.

The continuing and rapid development of control technology also makes it more difficult for auditors to collect evidence on the reliability of controls. Even collection of audit evidence through manual means is not possible. Hence, auditors have to run through computer system themselves if they are to collect the necessary evidence. Though generalized audit softwares are available the development of these tools cannot be relied upon due to lack of information. Often auditors are forced to compromise in some way when performing the evidence collection

(ii) Changes to Evidence Evaluation - With increasing complexity of computer systems and control technology, it is becoming more and more difficult for the auditors to evaluate the consequences of strength and weaknesses of control mechanism for placing overall reliability on the system.

Auditors need to understand:

(1) whether a control is functioning reliably or multi functioning,

(2) traceability of control strength and weakness through the system. In a shared data environment a single input transaction may update multiple data item used by diverse, physically disparate user, which may be difficult to understand.

Consequences of errors in a computer system are a serious matter as errors in computer system tend to be deterministic, i.e., an erroneous program will always execute data incorrectly. Moreover, the errors are generated at high speed and the cost and effort to correct and rerun program may be high. Errors in computer program can involve extensive redesign and reprogramming. Thus, internal controls that ensure high quality computer systems should be designed implemented and operated upon. The auditors must ensure that these control are sufficient to maintain assets safeguarding, data integrity, system effectiveness and system efficiency and that they are in position and functioning.

6. (a) Sale of Machinery: AS 10 on "Accounting for Fixed Assets", gains or losses arising on disposal are generally recognised in the profit and loss statement. Therefore, when the company sells old machinery, profit/loss on sale thereof has to be determined. Such profit or loss can be determined provided the cost and written down value of the said machinery is available. In the instant case, since the entire records of fixed assets have been destroyed, the cost and the WDV of the

machinery sold could not be arrived at. The company may therefore, have to determine the same on some estimated basis provided all reasonable efforts to determine the cost/WDVs of the machinery do not yield any better result. An all out attempt should be made by the management to reconstruct the old records. Such records may be constructed by obtaining old copies of annual reports distributed amongst shareholders, annual accounts filed with Registrar of Company, IT Returns filed by the auditor may also be having record of physical verification of earlier years etc. In fact, through this process, the company shall be able to determine the WDV of the asset because the machinery sold seems to be quite big and must have been recorded on stand alone basis.

The auditor will have to see whether the estimate of cost and WDV arrived at in the above manner by the company is reasonable and whether the profit/loss is determined accordingly. A note to that effect would also have to be given by the management in the accounts. If the auditor is of the opinion that the said estimates are satisfactory based on available records and the note given by management explains the said fact, he may not qualify his report. If he is not so satisfied, he would have to give disclaimer in the audit report that in the absence of proper records, the said profit/loss has been arrived on an estimated basis and in that view he has been unable to form an opinion. As far as the report under the CARO, 2003 order is concerned, the auditor would have to point out that proper records of fixed assets showing full particulars as required by that clause are not available.

(b) Valuation of Investments: AS 13 on "Accounting for Investments" requires investments to be classified as long term and current investments distinctly in its financial statements. Since the investment in share of associate company is intended to be kept for a period more than one year, they would be classified as long term investment.

AS 13 states, "long-term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually". In the instant case, these associate companies have incurred substantial losses and have been referred to BIFR for being declared as sick companies. The net worth of these companies would have been wiped out resulting in a fall in the value of the investments. Therefore, such fall cannot be merely temporary as the companies could take a long time to turn around (if at all) and again have a positive net worth. The auditor would therefore have to qualify his report by saying that no provision for diminution for fall in the value of investments as required by AS 13 has been made and to that extent the profits and reserves have been overstated.

(c) Adjustment of Loss against Revaluation Reserve: AS 10 on "Accounting for Fixed Assets" states that an increase in net book value arising on revaluation of fixed assets is normally credited directly to owner's interests under the heading of revaluation reserves and is regarded as not available for distribution. A decrease in net book value arising on revaluation of fixed assets is charged to profit and loss statement except that, to the extent that such a decrease is considered to be related to a previous increase on revaluation that is included in revaluation reserve, it is sometimes charged against that earlier increase. It sometimes happens that an increase to be recorded is a reversal of a previous decrease arising on revaluation which has been charged to profit and loss statement in which case the increase is credited to profit and loss statement to the extent that it offsets the previously recorded decrease. The Guidance Note on Treatment of Reserve created on Revaluation of Fixed Assets states that where the value of fixed assets is written up in the books of account of a company, the corresponding credit appearing as revaluation reserve does not represent a realised gain and is, therefore, not available for distribution as dividend. Similarly, accumulated losses and the depreciation on the acquisition cost (including arrears of depreciation) should not be adjusted against revaluation reserve since this would amount to setting off actual losses against unrealised gains.

The auditor should explain to the management that accumulated losses cannot be adjusted against the revaluation reserve created on revaluation of the fixed assets. In case the company in question does so, the balance sheet of the company will not reflect a true and fair view of the state of affairs of the company keeping in view the magnitude of the amounts involved, i.e., accumulated losses amount to ₹ 8 crores and share capital and reserves amount to ₹ 6 crores (excluding revaluation reserve). If the management does not agree with the opinion of the auditor, the auditor may even issue an adverse report.

7. (a) Under Section 62 of the Companies Act, 1956, directors of a company and persons connected with the issue of the prospectus as experts (whose reports form part of the prospectus) are liable to pay compensation to aggrieved persons for any misstatement in the prospectus. A professional accountant makes certain reports in the prospectus of a company under the Companies Act, 1956 as an expert. Accordingly, if the misstatement could be attributed to the auditors' report in the prospectus, he would be liable to compensation to the persons who have financially suffered due to their having acted on the basis of the auditor's report in the prospectus. The civil liability under the Companies Act, 1956 is in addition to the liability under the general law enforceable by suit for recovery of damages on the ground of fraud, etc. The measure of damages under this section is the loss suffered by reason of the untrue statement. Under section 628, an auditor is liable for criminal prosecution, if he, in any return, certificate, balance sheet, prospectus, statement or other document required by or for the purpose of the Act, makes a statement (a) which is false in any material particular knowing it to be false; or (b) which omits any material fact knowing it to be material. If convicted, he can be punished with imprisonment for a term exceeding to two years and also with fine.

(b) In the given case, certain weaknesses in the internal control procedure in the payment of wages in a large construction company were noticed by the statutory auditor and brought the same to the knowledge of the Managing Director of the company. In the subsequent year, a huge defalcation took place, the ramification of which stretched to the earlier year. The management of the company desires to sue the statutory auditor for negligence. The precise nature of auditor's liability in the case can be ascertained on the basis of the under noted considerations:

(1) Whether the defalcation emanated from the weaknesses noticed by the statutory auditor, the information regarding which was passed on to the management; and

(2) Whether the statutory auditor properly and adequately extended the audit programme of the previous year having regard to the weaknesses noticed.

SA 265 on “Communicating Deficiencies in Internal Control to Those Charged with Governance and Management” clearly mentions that, “The auditor shall determine whether, on the basis of the audit work performed, the auditor has identified one or more deficiencies in internal control. If the auditor has identified one or more deficiencies in internal control, the auditor shall determine, on the basis of the audit work performed, whether, individually or in combination, they constitute significant deficiencies. The auditor shall communicate in writing significant deficiencies in internal control identified during the audit to those charged with governance on a timely basis. The auditor shall also communicate to management at an appropriate level of responsibility on a timely basis”. The fact, however, remains that, weaknesses in the design of the internal control system and non-compliance with identified control procedures increase the risk of fraud or error. If circumstances indicate the possible existence of fraud or error, the auditor should consider the potential effect of the suspected fraud or error on the financial information. If the auditor believes the suspected fraud or error could have a material effect on the financial information, he should perform such modified or additional procedures as he determines to be appropriate. Thus, normally speaking, as long as the auditor took due care in performing the audit work, he cannot be held liable.

The fact that the matter was brought to the notice of the managing director may be a good defence for the auditor as well. According to the judgement of the classic case In *re Kingston Cotton Mills Ltd.,* (1896) it is the duty of the auditor to probe into the depth only when his suspicion is aroused. The statutory auditor, by bringing the weakness to the notice of the managing director had alerted the management which is judicially held to be primarily responsible for protection of the assets of the company and can put forth this as defence against any claim arising subsequent to passing of the information to the management. In a similar case S.*P. Catterson & Sons Ltd.* (81 *Acct. L. R.68),* the auditor was acquitted of the charge.

(c) SA 620 on "Using the Work of an Auditor's Expert" discusses the auditor's responsibility in relation to and the procedures the auditor should consider in, using the work of an expert as audit evidence. During the audit, the auditor may seek to obtain, in conjunction with the client or independently, audit evidence in the form of reports, opinions, valuations and statements of an expert, e.g., legal opinions concerning interpretations of agreements, statutes, regulations, notifications, circulars, etc. Before relying on advocate's opinion, the auditor should have seen that opinion given by the expert is *prima facie* dependable. The question states very clearly that the opinion of the advocate was inconsistent with legal position with regard to certain items. It is, perhaps, quite possible that auditor did not seek reasonable assurance as to the appropriateness of the source data, assumptions and methods used by the expert properly.

In fact, SA 620 makes it incumbent upon the part of the auditor to resolve the inconsistency by discussion with the management and the expert .In case, the expert's' work does not support the related representation in the financial information the inconsistency in legal opinions could have been detected by the auditor if he had gone through the same. This seems apparent having regard to wide difference in the liability worked out by the assessing authority. Under the circumstance, the auditor should have rejected the opinion and insisted upon making proper provision.

8. (a) Opening Paragraph: As per SA 700 "Forming an Opinion and Reporting on Financial Statements" the introductory paragraph states, for example, that the auditor has audited the accompanying financial statements of the entity, which comprise [*state the title of each financial statement comprising the complete set of financial statements required by the applicable financial reporting framework, specifying the date or period covered by each financial statement*] and referring to the summary of significant accounting policies and other explanatory information.

Further, the significance of 'opening paragraph' is to bring to the notice of the users of financial statements that preparation of the accounts is the responsibility of the management of the enterprise, whereas the responsibility of the auditor is to express an opinion on the said accounts based on audit carried out by him. The preparation of such statements requires management to make significant accounting estimates and judgements, as well as to determine the appropriate accounting principles and methods used in preparation of the said statements.

As per SA 700 "Forming an Opinion and Reporting on Financial Statements" the introductory paragraph in the auditor's report shall:

(i) Identify the entity whose financial statements have been audited;

(ii) State that the financial statements have been audited;

(iii) Identify the title of each statement that comprises the financial statements;

(iv) Refer to the summary of significant accounting policies and other explanatory information; and

(v) Specify the date or period covered by each financial statement comprising the financial statements.

(b) Scope Paragraph: The significance of 'scope paragraph' is to inform the users about the practices and procedures followed in conduct of audit by the auditor. The auditor states in this paragraph that the audit was planned and performed in accordance with generally auditing standards generally accepted in India. The auditor also states that the audit provides a reasonable basis for his opinion. The significance of this paragraph lies in the fact that auditor wishes to convey to readers about the scope of audit by highlighting the nature and process of audit. The test check approach of audit, adopted by the auditor in performing his work as significant aspect of evaluation of accounting principles and accounting estimates is also clarified. The basic objective of auditing that the auditor provides only "reasonable assurance" is emphasised in this paragraph. In a way, such a statement signifies inherent limitations of audit.

A description of the auditor's responsibility to express an opinion on the financial statements and the scope of the audit, that includes:

- A reference to Standards on Auditing and the law or regulation; and
- A description of an audit in accordance with those Standards;

9. (a) As per CARO, 2003

(i) The auditor has to report upon regularity of the company in depositing undisputed statutory dues.

(ii) If the company is not regular in depositing the undisputed statutory dues the auditor has to state the extent of arrears of statutory dues which have remained outstanding as at the last day of the financial year.

(iii) The payment includes all other statutory dues payable by the company.

(iv) The amount payable will include the interest/penalty payable under the respective laws.

(v) The auditor has to get a written representation from the management indicating the details of disputed claims, undisputed but have remained outstanding for more than six months and a statement as to the completeness of the information provided by the management.

(b) As per CARO, 2003

(i) This clause is applicable to all the companies which are in existence for more than five years.

(ii) The auditor has to report (i) whether the accumulated losses at the end of the financial year are more than 50% of its net worth and (ii) whether the company has incurred cash losses during the period covered by the report and in the immediate previous year.

(iii) The term loss should be construed to mean the net profit/loss shown by the P & L a/c of the company as adjusted after taking into account qualifications in the audit report to the extent qualifications are quantified.

(iv) Net worth is defined as sum of total paid up capital and free reserves after deducting the provisions or expenses as may be prescribed.

(v) Free reserve means all reserves created out of profits and share premium but does not include reserves created out of revaluation of assets, write back of depreciation provisions and amalgamation.

(vi) The auditor has to indicate his opinion on the above and the effect of qualifications.

10. (a) It is not a prudent practice to treat dividend on shares of corporate bodies and units of mutual funds as income unless these are actually received. Accordingly, income from dividend on shares of corporate bodies and units of mutual funds should be booked on cash basis. In respect of income from government securities and bonds and debentures of corporate bodies, where interest rates on these instruments are pre-determined, income could be booked on accrual basis, provided interest is serviced regularly and as such is not in arrears. It was further, however, clarified that banks may book income on accrual basis on securities of corporate bodies/public sector undertakings in respect of which the payment of interest and repayment of principal have been guaranteed by the central government or a State government. Banks may book income from dividend on shares of corporate bodies on accrual basis, provided dividend on the shares has been declared by the corporate body in its annual general meeting and the owner's right to receive payment is established. This is also in accordance with AS 9 as well. In the instant case, the recognition of income by the bank on accrual basis is not in order

(b) The bank is a consortium member of cash credit facilities of ₹ 50 crores to X Ltd. Bank's own share is ₹ 10 crores only. During the last two quarters against a debit of ₹ l.75 crores towards interest, the credits in X Ltd's account are to the tune of ₹ 1.25 crores only. Sometimes, several banks form a group (the 'consortium') under the leadership of a 'lead bank' to make advance to a large customer on same conditions and security with proportionate rights. In such cases, each bank may classify the advance given by it according to its own experience of recovery and other factors. Since in the last two quarters, the amount remains outstanding and, thus, interest amount should be reversed. This is despite the certificate of lead bank to classify that the account as performing. Accordingly, the amount should be shown as non-performing asset.

(c) It is wrong to take the Balance Sheet date for purposes of classification. In this context, it is important to note the concept of past due. An amount should be considered as past due when it remains outstanding for 30 days beyond due date. For example, if any SSI loan amount, the repayment of term loan installment falls due for payment on December 31 and is not paid; the amount would become past due if it remains unpaid for 30 days beyond that date. In case of terms loans, if interest or installment of principal is in arrears for any two quarters out of four quarters although default may not be continuously for two quarters during the year by applying past due test, it should be classified as non-performing asset and from that date provision should be made. In the case of other advances, outstanding in the last two quarters would be enough to classify the amount as such non-performing asset if no transaction appears in the last two quarters.

As per RBI Circular dated January 29, 1997, if the account of the borrowers have been regularised before the balance sheet date by repayment of overdue amounts through genuine sources and not by sanction of additional facilities, the account need not be treated as NPA in spite of payment of interest and installment were in arrear for two quarters. Bank should, however, ensure that the account remains in order subsequently and a solitary credit entry made in the account on or before the balance sheet date which extinguished the overdue amount of interest or instalment of principal is not reckoned as the sole criterion for treating the account as a standard asset.

It has been further clarified that in respect of accounts where there are potential threats of recovery on account of erosion in the value of security or non-availability of security and existence of other factors such as frauds committed by borrowers, it will not be prudent for banks to classify them first as sub-standard and then as doubtful after expiry of two years from the date of account has became NPA. It should be straight way classified as doubtful asset or loss asset, as appropriate, irrespective of the period for which it has remained as NPA.

11. Directions under Section 619 (3) (a) of the Companies Act, 1956, applicable to Insurance Companies in respect of System of Accounts

(i) Examine the following systems and give your views as regards their deficiencies alongwith suggestions for remedial measures:-

(1) Recording of receipts and expenditure.

(2) Drawing periodical trial balance.

(3) Compilation of accounts.

(4) Reconciliation of inter-office accounts.

(5) Reconciliation of registers/records relating to property, assets. Investments, premiums, claims, loans, etc., with financial books.

(6) Maintenance of up-to-date records in respect of assets, which are pledged, encumbered or blocked in any way.

(ii) Are the bank accounts of the company reconciled with the bank statements regularly? If not, describe the failures.

(iii) Are control accounts and subsidiary accounts up-to-date and reconciled regularly? If not, describe the failures.

(iv) Examine the accounting policies of the company. Are these in conformity with the Accounting Standards (National and in the absence of National Standards, the corresponding International Standard)? Give particulars of material departures from these standards, if any, alongwith their effect on the financial statements; quantify the impact wherever possible.

12. Matters to be included in Cost Audit Programme: It is a true statement that like any other audit a systematic planning for cost audit is also necessary. Therefore, the cost audit programme should include all the usual broad steps that a financial auditor includes in his audit programme. This would require that the various aspects like what to be done, when to be done and by whom to be done are adequately takes care of. However, looking to the basic difference in cost audit and financial audit as allocation and apportionment of expenses, statutory requirement etc. should require special consideration. Cost audit, in order to be effective, should be completed at one time as far as practicable. Based on above factors a set of procedures and instructions are evolved which may be termed the cost audit programme. Matters to be included in the Cost Audit Programme may be divided into following two stages:

(i) Review of Cost accounting record: This will include:

(1) Method of costing in use - batch, process or unit.

(2) Method of accounting for raw materials; stores and spares, wastages, spoilage defectives, etc.

(3) System of recording wages, salaries, overtime and spares, wastages, etc.

(4) Basis of allocation of overheads to cost centres and of absorption by products and apportionment of service department's expenses.

(5) Treatment of interest, recording of royalties, research and development expenses, etc.

(6) Method of accounting of depreciation.

(7) Method of stock-taking and its valuation including inventory policies.

(8) System of budgetary control.

(9) System of internal auditing.

(ii) Verification of cost statement and other data: This will mainly cover:

(1) Licensed, installed and utilised capacities.

(2) Financial ratios.

(3) Production data.

(4) Cost of raw material consumed, wages and salaries, stores, power and fuel, overheads provision for depreciation etc.

(5) Sales realisation.

(6) Abnormal non-recurring and special costs.

(7) Cost statements.

(8) Reconciliation with financial books.

Some other factors which need to be brought into cost audit programme includes system of cost accounting, range of products, areas to be covered etc. indicating allocation of manpower and the time to be taken for computing the audit.

13. The explanation of the entity for the use of varieties of raw materials for different jobs undertaken may be valid. But the auditor needs to verify the specified job-orders received and the different raw materials purchased for each job separately. The use of different papers (quality, quantity and size) ink, colour etc. may be examined. If possible, the auditor may also enquire with the other similar printers in the locality to ensure the prevailing custom. At the same time, he has to report and certify under the Para 28(b) and Para 9(b) of Form 3CD read with the Rule 6G(2) of the *Income-tax Act, 1961*, about the details of stock and account books (including stock register) maintained. He (or his deputy) must verify the closing stock of raw materials, work-in-progress and finished goods of the concern, at least on the date of its balance sheet. In case the said details are not properly maintained, he has to specifically mention the same with reasons for non-maintenance of stock register by the entity.

14. Proviso to Section 44AB lays down that where the accounts of an assessees are required to be audited by or under any other law, it shall be sufficient compliance with the provisions of this section, if such person get the accounts of such organisation audited under such other law before the specified date and furnishes by that date the report of the audit as required under such other law and a further report by an accountant in the form prescribed under this section.

In the case of any assessee like co-operative society where the accounts under the relevant law are allowed to be audited by a person other than a Chartered Accountant, the statutory auditor need not be a Chartered Accountant.

Thus, it shall be sufficient compliance with the provisions of this section and can be considered under section 44AB.

15. Comprehensive Audit of Public Enterprises: Areas to be examined

The scope and extent of audit of public sector enterprises is determined by the Comptroller and Auditor General of India. Audit of public enterprises in India is not restricted to financial and compliance audit; it extends also to efficiency, economy and effectiveness with which these operate and fulfil their objectives and goals. Another aspect of such audit relates to questions of propriety; this audit is directed towards an examination of management decisions in sales, purchases, contracts, etc. to see whether these have been taken in the best interests of the undertaking and conform to accepted principles of financial propriety. Comprehensive audit involves assessing efficiency and effectiveness of public enterprises in its entirety to be conducted on the basis of certain standards and criterion. Public enterprises have been set-up with socio-objectives. An objective assessment with reference to such objectives' fulfillment would require comprehensive audit.

The starting point of a comprehensive audit of a public enterprise, which covers aspects of economy, efficiency and effectiveness, is the preparation of an audit programme based on the study of decisions relating to the setting up of the enterprise, its objectives, the areas of operation, organisation, financial and operational details available in the annual reports and accounts, capital and operational budgets, deliberations of the board of directors, material in the earlier audit inspection reports on the enterprise and other relevant available papers. These audit programmes (or guidelines) identify the areas/aspects which require further detailed audit analysis and criteria, the data required for such analysis and the sources of such data, the extent of the audit analysis including the test checks to be applied and the instructions to the audit parties assigned to the work.

The areas covered by comprehensive audit are those of investment decisions, project formulation and management, organisation, delegation of powers and management information systems, organisational effectiveness, capacity utilisation, management of equipment, plant and machinery, production performance, use of materials, productivity of labour, idle capacity, costs and prices, development of complementary ancillary small scale industries, materials management, sales and credit control, budgetary and internal control systems, etc. The areas covered in comprehensive audit will naturally vary from enterprise to enterprise depending on the nature of the enterprise, its objectives and operations. Some of the broad areas are listed below:

- Comparison of overall capital cost of the project with the approved planned costs.
- Production or operational outputs vis-a-vis under-utilisation of the installed capacity.
- Systems of project formulation and implementation.
- Planned rate of return
- Cost control measures.

- Research and development programmes.
- System of repairs and maintenance.
- adequate purchase policies
- Effective and economical procedures
- Project planning
- Undue waste, unproductive time for men and machines, wasteful utilisation or even non-utilisation of resources

16. (a) Rolling Settlements: A rolling settlement is one in which trades outstanding at the end of the day have to be settled (payments made for purchases or deliveries in the case of sale of securities) within "X" business days from the transaction date. Thus, in a T+2 rolling settlement, a transaction entered into on Monday for instance, will be settled on Wednesday when the pay-in or pay-out takes place.

In the rolling settlement, trades on each single day are settled separately from the trades done earlier or subsequent trade days. The netting of trades is done only for the day and not for multiple days.

SEBI has gradually mandated most of the scrips to be settled exclusively on Rolling Settlement basis (T+2). The transactions in the Compulsory Rolling Settlement (CRS) are settled on T+2 basis, i.e., both pay- in and pay- out of monies and securities for transactions in scrips on transaction day (T day) would take place on the day after immediately following day.

However, transactions in 'Z' group securities are settled only on trade to trade basis on T+2, i.e., the facility of netting up of buy and sell transactions of the same day, as available in other securities, is not available with securities falling under 'Z' group. In other words, if an investor buys and sells X no. of shares on the same day then he shall first have to actually deliver and then receive the securities on the settlement day.

Value at Risk (VaR) based margining approach has been adopted for transactions done in CRS scrips with effect from July 2, 2001. In the VaR system of margining, historical volatilities of scrips and overall market volatility is considered to arrive at a VaR margin percentage for scrip. Further, the mark-to-market differences are collected on a daily basis and the broker members are required to maintain a capital level, as prescribed by the Exchange, adequate to support their exposure at all times.

In case, a member fails to deliver the shares sold in rolling settlement, the Exchange conducts an auction session on T+2, to meet the shortfall created by non-delivery of shares. In this auction session, offers are invited from the other members to deliver the shares sold by originally selling member, since delivery has to be made to the buying member. In case no shares are received in auction, the sale transaction is closed-out at a close-out price, determined by higher of the following:

- Highest price recorded in the scrip from the settlement in which the transaction took place upto a day prior to the auction.

  OR

- 20% above the closing price on a day prior to the auction.

In this case, the auction price/close-out and difference between sale price, if positive is payable by the seller who failed to deliver the scrips. In case, auction /close out price is less than sale price, the difference is not given to the seller but is credited to Investor Protection Fund.

(b) Main areas to be covered in the case of environment audit of an industrial unit

(i) Layout and Design – The layout to be sketched in the style which will allow adequate provisions for installing pollution control devices, as well as provision for up gradation of pollution control measures and the meeting of the requirements of the regulations framed by the Government. In the course of the audit, the area which requires attention but not attended to by the industry to be pinpointed as well as the future requirements of the environmental measures required in commensuration with the proposed future course of working plan are to be identified.

(ii) Management of Resources – Management resources includes air, water, land, energy, raw materials and human resources besides others. The use of all resources is interlinked and the best uses in a synchronised manner results the best output and minimum waste. The waste of resources to the minimum possible extent is good for the health of the industry as well as the environment.

(iii) Pollution Control System – An effective system of pollution control should be in existence. One aspect should be whether all required pollution control measures are in vogue or not next aspect should be whether the same is effective or not, further it is to investigate, whether more measures are required, keeping ill view the type of industry and it's nature of working with respect to it's grade of polluting the environment.

(iv) Emergent Safety Arrangement – The chemical, gas, etc., industries which are prone to sudden requirement of safety arrangements, must remain alert all the while. The emergency plans are to be reviewed periodically; sufficient staff along with other required safety amenities should be kept ready. The staff, remained so engaged, must possess the required awareness and alertness to meet the contingency. The degree of awareness, however, can be upgraded with proper training provisions.

(v) Medical & Healthcare Facilities – The medical services should be maintained. The health of the workers should be a big consideration for the management.

(vi) Industrial Hygiene – Proper system should be in vogue to eliminate industrial unhygienic state.

(vii) Occupational Health – The requirement for safeguarding against occupational health hazards should be available for all the workers. As the occupational health hazards varies from industry to industry due to the difference in the nature of working atmosphere and the pollutants present in it, the concerned industry must pay proper weightage to those diseases which are prone to that particular type of industry.

(viii) Information Assimilation and Reporting System – The information system should be strengthened to generate and its reporting system should be proper, keeping in view, the authorities, responsibilities and subsequent delegations. A report of compliance of all statutory environmental laws along with other preventive and precautionary measures should be put to Board at regular intervals.

(ix) EIA Methodology – The Environmental Impact Assessment (EIA) is usually are pre-requisites to start an industry. This is done considering the known spheres of activities on the existing environmental conditions. But the predictions necessarily deviate from the actual happenings when the industry starts working. To accommodate the deviation in the system is also to be incorporated in the EIA report, if it is noticed that the degradation to the environment caused on the establishment and running of the industry is much higher than what was predicted, the mitigatory measures suggested must also be furthered.

(x) Compliance to the Regulatory Mechanism – As the persons who are directly working with the system, may be unaware of the latest developments and requirements for the compliance of stipulations and standards prescribed by the various regulatory authorities, they should be trained and instructed on regular basis, to avoid making the Board/owner vulnerable to prosecution and penalty.

(xi) Concern for the Society – The industry very often transforms the agrarian environment into an industrial environment. The people so displaced by industrialisation feel alienated and develop a feeling of facing the gaseous, dustful, clumsy state of surroundings. The audit should look into this aspect how the industry is making a balance between its own development and the society's concern

17. Behavioural aspects encountered in Management Audit

Financial auditors deal mainly with figures. Management auditors deal mainly with people. There are many causes for behavioural problems arising in the review function of management audit. Particularly, when management auditors performs comprehensive audit of operations, they cannot be as well informed about such operations as a financial auditor in a financial department. Operating processes may be unfamiliar and complex. The operating people may be speaking a language and using terms that are foreign to the auditor's experience. The nature and causes of behavioural problems that the management auditor is likely to face in the discharge of the review function that is expected of him and possible solutions to overcome these problems are discussed below:

(i) Staff / Line conflict: Management auditors are staff people while the members of other departments are line people. Management auditors tend to discount the difficulties the line staff may face, if called on to act on the ideas of management auditors. Management auditors are specialists in their field and they may think their approach and solutions are the only answers.

(ii) Control: The management auditor is expected to evaluate the effectiveness of controls, there is an instinctive reaction from the auditee that the report of the auditor may affect them. There is a fear that the action taken based on the management audit report will affect the line people. It breeds antagonism. The causes are as under:

(1) Fear of criticism stemming from adverse audit findings.

(2) Fear of change in day to day working habits because of changes resulting from audit recommendations.

(3) Punitive action by superior prompted by reported deficiencies.

(4) Insensitive audit practices.

(5) Hostile audit style.

Solution to behavioural problems: The following steps may be taken to overcome the aforesaid problems:

(1) To demonstrate that audit is part of an overall programme of review for protective and constructive benefit.

(2) To demonstrate the objective of review is to provide maximum service in all feasible managerial dimensions.

(3) To demonstrate the review will be with minimum interference with regular operation.

(4) The responsible officers will be involved in the process of review of the findings and recommendations before the audit report is formally released.

It is essential to create an atmosphere of trust and friendliness so that audit reports will be understood in their proper perspective.

Finally, it needs hardly any emphasis that there should be right management culture, enlightened auditees and auditors of the right calibre. May be to expect a combination at all times of all the three is asking for the impossible. But, a concerted effort by the management, auditors and auditees to achieve a more acceptable climate would go a long way to achieve the goal.

18. Decline in Net Profits despite Increasing Sales

As per the facts that there has been consistently high turnover but declining net profits is an anomalous situation. It may be attributed to one or more following reasons requiring further investigation:

(i) Unfavourable Sales mix: Where the company sells different chemical products with different product margins, the product with the maximum PV ratio/margin should have a higher share in the total sales. If due to revision of sales mix, more quantities of unprofitable products are sold, profits will be reduced in spite of an increase in sales.

(ii) Negative Impact of Financial Leverage: Where the company does not have sufficient own funds (equity) but has a higher debt-equity ratio, the interest commitments will be higher. As the volume of its operation increases, higher debt and interest charges would result in lower profits.

(iii) Other Items Included in Sales: The figure of sales as per Profit and Loss Account may include incidental revenues, e.g., freight, excise duty, sales-tax, etc. where the amount of excise duty goes up considerably the total sales may show an increase which is not represented by a real increase in sales quantity/value.

(iv) High Administrative and Selling Expenses: Administrative and selling costs are generally period costs which are fixed in nature. Their increase is generally not proportional to sale increase. However, a reduction in profit could also be due to increase in administrative overheads and sales overheads at a rate higher than the rate of increase in sales.

(v) Cost-Price Relationship: If the increases in cost of raw materials and labour has not been compensated by a corresponding increase in the sales price this would also result in higher sales and declining profits. In spite of same sales quantity, for the increasing cost of raw materials and other services, per unit values of the product has been increased which is however unmatched by the increase in cost.

(vi) Competitive Price: Where sales have been made at cut-throat prices in order to eliminate competition from the market, the profits would be in the declining trend in the short-run.

(vii) Additions to Fixed Assets: Where there are heavy additions to fixed assets and consequent depreciation charges in the initial years of additions, there may be reduction in profits in spite of increased sales.

19. (a) (i) Board can appoint the auditor in the case of casual vacancy under Sections 224 (5) & 6(a) of the Companies Act, 1956.The non-acceptance of appointment by CA. Ravi does not constitute a casual vacancy to be filled by the Board.

In this case, it will be deemed that no auditor was appointed in the AGM. Hence the appointment of auditor can be made only by the Central Government and the Board appointment is defective in law.

Clause 9 of Part-I of First Schedule states that a chartered accountant is deemed to be guilty of professional misconduct if he "Accepts an appointment as auditor of a company without first ascertaining from it whether the requirements of section 225 of the Companies Act, 1956 in respect of such appointment have been fully complied with".

Hence CA. Shree is guilty of professional misconduct since he accepted the appointment without verification.

(ii) As per clause 11 of Part-I of First Schedule of CA Act, 1949, a Chartered Accountant is deemed to be guilty of professional misconduct if he "engages in any business or occupation other than the profession of Chartered Accountant unless permitted by the Council so to engage".

However, the Council has granted general permission to the members to engage in certain specific occupation. In respect of all other occupations specific permission of the Institute is necessary.

In this case CA Zeni is engaged in the occupation of trading in derivatives which is not covered under the general permission.

Hence specific permission of the Institute has to be obtained otherwise he will be deemed to be guilty of professional misconduct under clause 11 of Part-I of First Schedule of CA Act, 1949.

(iii) Clause 10 of part I to First Schedule to the Chartered Accountants Act prohibits a Chartered Accountant in practice to charge, to offer, to accept or accept fees which are based on a percentage of profits or which are contingent upon the findings or results of such work done by him.

However, this restriction is not applicable where such payment is permitted by the Chartered Accountants Act, 1949, the Council of the Institute has framed regulation 192 which exempts certain professional services from the operation of clause 10.

The services rendered by CA. Dev are not covered under the said exemption and hence CA. Dev is liable for professional misconduct.

(iv) According to clause 7 of Part-I of Second Schedule of Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he "does not exercise due diligence or is grossly negligent in the conduct of his professional duties".

In the instant case CA Vijay did not exercise due diligence and is grossly negligent in the conduct of his professional duties since he certified the circulation figures without examining the books of accounts.

To ascertain the number of paid copies verification of remittances from the agents, credit allowed to the agents for unsold copies returned, examination of books of account is essential. Further certification of circulation figures based on statistical information without cross verification with financial records amounts to gross negligence and failure to exercise due diligence.

Hence CA Vijay is guilty of professional misconduct as per clause 7 of part I of Second Schedule of Chartered Accountants Act, 1949.

(b) (i) (1) **Partnership with a CPA in New York**: Clause (4) of Part I to the First Schedule to the Chartered Accountants Act, 1949 specifies that a chartered accountant in practice shall be deemed to be guilty of professional misconduct if he enters into partnership, in or outside India, with any person other than a chartered accountant in practice or such other person who is a member of any other professional body having such qualifications as may be prescribed, including a resident who but for his residence abroad would be entitled to be registered as a member or whose qualifications are recognised by the Central Government or the Council for the purpose of permitting such partnerships;

Thus, chartered accountant would be guilty of professional misconduct since certified public accountants (CPA) are not eligible to become members of the Institute.

(2) **Partnership with a chartered accountant from ICAEW:** As stated above, it is important that partnership with a member of the foreign professional body is permissible provided *inter alia* such bodies are eligible for the membership of the Institute. Earlier, the Council had passed a resolution permitting chartered accountants from ICAEW to become members of the Institute (Appendix 6) as also fulfilment of certain conditions in respect of persons not permanently residing in India. However, the Council of the Institute at its meeting held in December, 1995 decided to withdraw the resolution w.e.f. December 8, 1995. In view of this, persons qualified from any of the four Institutes in the United Kingdom including England and Wales are not entitled to have their

names entered in the Register of Members maintained by the Institute effective from December 8, 1995. Based on this development, partnership between members of the Institute and members of above foreign professional bodies will not be permissible from the above date. Even a chartered accountant from ICAEW who was eligible to become member of the Institute, the profit sharing arrangement stated in the question goes against the provisions of Clause 4. Hence, it would constitute professional misconduct.

Chartered Accountants practising outside India: A member of the Institute of Chartered Accountants of India practising outside India is not governed by the provisions of the Chartered Accountants Act, 1949 since the provisions of the said Act are not applicable outside India. Accordingly, the question of professional misconduct would not arise if an Indian chartered accountant practising outside India becomes a partner with aforesaid accountants and enters into partnership in that country with a member of the Institute of that country. There would be no professional misconduct within the provisions of the Institute of Chartered Accountants Act, 1949 as the applicability of such provisions does not extend to outside India.

(ii) (1) Tax Consultant: Section 7 of the Chartered Accountants Act, 1949 read with Clause 7 of Part I of the First Schedule to the said Act prohibits advertising of professional attainments or services of a member. It also restrains a member from using any designation or expression other than that of a chartered accountant in documents through which the professional attainments of the member would come to the notice of the public. Under the clause, use of any designation or expression other than chartered accountant for a chartered accountant in practice, on professional documents, visiting cards, etc. amounts to a misconduct unless it be a degree of a university or a title indicating membership of any other professional body recognised by the Central Government or the Council. Thus, it is improper to use designation "Tax Consultant" since neither it is a degree of a University established by law in India or recognised by the Central Government nor it is a recognised professional membership by the Central Government or the Council.

(2) Cost Accountant: As stated in the preceding paragraph, this would also constitute misconduct under section 7 of the Act read with Clause (7) of Part I of the First Schedule to the Chartered Accountants Act, 1949. A chartered accountant in practice cannot use any other designation than that of a chartered accountant. Nevertheless, a member in practice may use any other letters or descriptions indicating membership of accountancy bodies which have been approved by the Council. Thus, it is

improper for a chartered accountant to state in his documents that he is a "Cost Accountant". However as per Appendix 8 to the Chartered Accountants Act, 1949 the Council has resolved that the members are permitted to use letters indicating membership of the Institute of Cost and Works Accountants but not the designation "Cost Accountant".

20. (a) Collection of Evidence by Peer Reviewer

A Peer Reviewer collects evidence by applying the following methods:

(i) *Inspection*: It includes scrutiny of documentation (working papers) and other records maintained by the practice unit.

(ii) *Observation*: Observation consists of witnessing a procedure or process being performed by others. For example, while conducting on-site review, the reviewer may review the performance of internal control.

(iii) *Inquiry*: Inquiry consists of seeking appropriate information from the partner (designated by the practice unit for the purpose)/sole proprietor or other knowledgeable persons within the practice unit. The inquiries may originate from the responses to the questions given in the questionnaire. The inquiries may also arise from the inspection of documentation maintained by the practice unit.

While observation and inquiry may be considered as external independent sources of review evidence, inspection remains the most significant method for confirming the effective observance of control procedures in the practice unit. Observation and inquiry may also corroborate the evidence provided by inspection. The reviewer, in order to carry out the review effectively, should have an understanding of the documentation maintained by the practice unit.

(b) Solvency margin in case of an insurer carrying on general insurance business

Section 64VA of the Insurance Act, 1938, inter alia, requires every insurer to maintain an excess of the value of its assets over the amount of its liabilities at all times. The excess is known as 'Solvency Margin'. In the case of an insurer carrying on general insurance business, the solvency margin should be the highest of the following amounts:

(i) fifty crore rupees (one hundred crores of rupees in case of a reinsurer); or

(ii) a sum equivalent to twenty percent of net premium income; or

(iii) a sum equivalent to thirty percent of net incurred claims,

subject to credit for reinsurance in computing net premiums and net incurred claims being actual but a percentage, determined by the regulation but not exceeding fifty percent. It may be noted that conditions regarding maintenance of the above mentioned solvency margin may be relaxed by the Authority in certain special circumstances.

If, at any time, an insurer does not maintain the required solvency margin, the insurer is required to submit a financial plan to the Authority indicating the plan of action to correct the deficiency in the solvency margin. If, on consideration of the plan, the Authority finds it inadequate, the insurer has to modify the financial plan.

Maintenance of solvency margin has a great importance for an insurance company considering their size and nature of business and also involvement of public money. Sub-section (2C) of Section 64A states that if an insurer fails to comply with the requirements of the Insurance Act, 1938, it shall deemed to be insolvent and may be wound up by the Court.

(c) Vostro and Nostro Accounts

Bank's maintain stocks of foreign currencies in the form of Bank Accounts with their overseas branches/correspondents. Such foreign currency accounts maintained by Indian banks at other overseas centres are designated by it as "Nostro Account". For example, all banks in India would be maintaining a US Dollar Account with their New York office/branch/correspondents, such account would be designated by the Indian office as Nostro Account. "Vostro Account" is the opposite of Nostro accounts. Here a foreign bank in another country maintains stocks of Indian rupees with their Indian branch/correspondent/local bank. Such Indian Rupee Accounts are designated as a Vostro Account. For example, a German Bank might maintain a Vostro Account in rupees in terms with Indian Bank. While examining the transaction in foreign exchange, the auditor should also pay attention to reconciliation of Nostro Accounts with the respective minor account. The amount in the Nostro account is stock of foreign currency in the form of bank accounts with the overseas branches and correspondents. Unreconciled Nostro Accounts, on an examination, may reveal unauthorized payments from the foreign currency account, unauthorized withdrawals, and unauthorized debit to minor account. The auditor should also evaluate the internal control with regard to inward/ outward messages. The inward/ outward messages should be properly authenticated and discrepancies noticed, should be properly dealt with, in the books of accounts.

The auditor should also verify whether prescribed procedure in relation to inter bank confirmation in the Vostro account is followed or not. In case balance confirmation certificate have been received but the same have not been reconciled, or where confirmation has not been received the same should be reported, in respect of each Vostro Account.

(d) Corporate Governance: The word 'Corporate' is associated by legal enactment for the transaction of a business. Similarly, the word 'Governance' means exercise of authority, direction or control. Thus, the concept of 'Corporate Governance' is the system by which the management of a business entity directs and controls the activities in the best interest of the stakeholder.

As per N. R Narayana Murthy, Chairman, Committee on Corporate Governance, SEBI, Mumbai, February 8, 2003

"Corporate governance is the acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal and corporate funds in the management of a company."

Clause 49 of the listing agreement covers SEBI guidelines regarding Corporate Governance. Issues addresses in Clause 49 regarding Corporate Governance are:

- Board's Director including its composition and compensation;
- Provisions regarding Board's Committee including composition and functioning of Audit Committee which is an important pillar of the Corporate Governance;
- Management of subsidiary companies;
- Disclosures of important issues regarding related party transactions accounting policies, principle of risk management, accounting for proceeds from public issues, right issues, preferential issues, etc;
- Content of management discussion and analysis;
- Information to shareholders;
- CEO/ CFO certification;
- Report of Corporate Governance and compliance certificate.

ANNEXURE

LIST OF INSTITUTE'S PUBLICATIONS RELEVANT FOR NOVEMBER, 2011 EXAMINATION

The following List of Institute's Publications is relevant for the forthcoming examination i.e. November, 2011. Students may kindly take it into consideration while preparing for the examination.

Final Examination
Paper 3 : Advanced Auditing and Professional Ethics

I. Statements

1. Statement on Reporting under Section 227 (1A) of the Companies Act, 1956

   http://220.227.161.86/18799announ10264b.pdf

2. Statement on the Companies (Auditor's Report) Order, 2003 (2005 Edition)

   http://220.227.161.86/18798announ10264a.pdf

II. Standards on Auditing (SQC/SA/SRS/SRE/SAE)

S.No	SA	Title of Standard on Auditing	Effective Date
1	SQC 1	Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements http://220.227.161.86/15366Link1.pdf	April 1, 2009
2	SA 200	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing http://220.227.161.86/18132sa200_rev.pdf	April 1, 2010
3	SA 210	Agreeing the Terms of Audit Engagements http://220.227.161.86/16837sa210revised.pdf	April 1, 2010
4	SA 220	Quality Control for an Audit of Financial Statements http://220.227.161.86/18133sa220_rev.pdf	April 1, 2010
5	SA 230	Audit Documentation http://220.227.161.86/15372Link7_SA230-standard.pdf	April 1, 2009
6	SA 240	The Auditor's responsibilities Relating to Fraud in an Audit of Financial Statements http://220.227.161.86/15374Link9_240SA_REVISED.pdf	April 1, 2009
7	SA 250	Consideration of Laws and Regulations in An Audit of Financial Statements http://220.227.161.86/15376Link11_SA250-text.pdf	April 1, 2009
8	SA 260	Communication with Those Charged with Governance http://220.227.161.86/15378Link13_SA%20260-text.pdf	April 1, 2009
9	SA 265	Communicating Deficiencies in Internal Control to Those Charged with Governance and Management http://220.227.161.86/16838sa265.pdf	April 1, 2010
10	SA 299	Responsibility of Joint Auditors http://220.227.161.86/15379Link14_299SA-AAS12.pdf	April 1, 1996
11	SA 300	Planning an Audit of Financial Statements http://220.227.161.86/15381Link16_300SA_REVISED.pdf	April 1, 2008
12	SA 315	Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment http://220.227.161.86/15382Link17_315SA.pdf	April 1, 2008
13	SA 320	Materiality in Planning and Performing an Audit http://220.227.161.86/16839sa320revised.pdf	April 1, 2010
14	SA 330	The Auditor's Responses to Assessed Risks http://220.227.161.86/15384Link19_330SA.pdf	April 1, 2008

15	SA 402	Audit Considerations Relating to an Entity Using a Service Organization http://220.227.161.86/16840sa402revised.pdf	April 1, 2010
16	SA 450	Evaluation of Misstatements Identified during the Audits http://220.227.161.86/16841sa450revised.pdf	April 1, 2010
17	SA 500	Audit Evidence http://icai.org/resource_file/15576sa500revised.pdf	April 1, 2009
18	SA 501	Audit Evidence - Specific Considerations for Selected Items http://220.227.161.86/18134sa501_rev.pdf	April 1, 2010
19	SA 505	External Confirmations http://220.227.161.86/18135sa505_rev.pdf	April 1, 2010
20	SA 510	Initial Audit Engagements-Opening Balances http://220.227.161.86/15390Link25_510text.pdf	April 1, 2010
21	SA 520	Analytical Procedures http://220.227.161.86/18136sa520_rev.pdf	April 1, 2010
22	SA 530	Audit Sampling http://220.227.161.86/15393Link28_530text.pdf	April 1, 2009
23	SA 540	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures http://220.227.161.86/15395Link30_540text.pdf	April 1, 2009
24	SA 550	Related Parties http://220.227.161.86/15397Link32_550text.pdf	April 1, 2010
25	SA 560	Subsequent Events http://220.227.161.86/15399Link34_SA%20560_Standard_OKOK.pdf	April 1, 2009
26	SA 570	Going Concern http://220.227.161.86/15401Link36_SA570-final_standard.pdf	April 1, 2009
27	SA 580	Written Representations http://220.227.161.86/15403Link38_sa580.pdf	April 1, 2009
28	SA 600	Using the Work of Another Auditor http://220.227.161.86/18836sa600_aas.pdf	April 1, 2002
29	SA 610	Using the Work of Internal Auditors http://220.227.161.86/16842sa610revised.pdf	April 1, 2010
30	SA 620	Using the Work of an Auditor's Expert http://220.227.161.86/18137sa620_rev.pdf	April1, 2010
31	SA 700	Forming an Opinion and Reporting on Financial Statements http://220.227.161.86/17874sa700annx1.pdf	April 1, 2011

32	SA 705	Modifications to the Opinion in the Independent Auditor's Report http://220.227.161.86/17875sa705annex2.pdf	April 1, 2011
33	SA 706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report http://220.227.161.86/17876sa706annex3.pdf	April 1, 2011
34	SA 710	Comparative Information – Corresponding Figures and Comparative Financial Statements http://220.227.161.86/18793annex1SA710.pdf	April 1, 2011
35	SA 720	The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements http://220.227.161.86/15578sa720ann.pdf	April 1, 2010
36	SA 800	Special Considerations-Audits of Financial Statements Prepared in Accordance with Special Purpose Framework http://220.227.161.86/18794annex2SA800.pdf	April 1, 2011
37	SA 805	Special Considerations-Audits of Single Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement http://220.227.161.86/18795annexure3SA805.pdf	April 1, 2011
38	SA 810	Engagements to Report on Summary Financial Statements http://220.227.161.86/18796annexure4SA810.pdf	April 1, 2011
39	SRE 2400	Engagements to Review Financial Statements http://220.227.161.86/18727annex1200410.pdf	April 1, 2010
40	SRE 2410	Review of Interim Financial Information Performed by the Independent Auditor of the Entity http://220.227.161.86/18728annex2200410.pdf	April 1, 2010
41	SAE 3400	The Examination of Prospective Financial Information http://220.227.161.86/15410Link45_3400SAE-AAS35.pdf	April 1, 2007
42	SRS 4400	Engagements to Perform Agreed Upon Procedures Regarding Financial Information http://220.227.161.86/15411Link46_4400SRS-AAS32.pdf	April 1, 2004
43	SRS 4410	Engagements to Compile Financial Information http://220.227.161.86/15412Link47_4410SRS-AAS31.pdf	April 1, 2004

*Effective date means that the SA is effective for audits of the financial statements for periods beginning on or after the specified date.

III. Guidance Notes/Study Guide/Monograph

1. Guidance Note on Independence of Auditors.
2. Guidance Note on Audit Reports and Certificates for Special Purposes.
3. Guidance Note on Audit under Section 44AB of the Income-tax Act (2005 Edition).*
4. Guidance Note on Audit of Abridged Financial Statements.

5. Guidance Note on Audit of Inventories.
6. Guidance note on Audit of Debtors, Loans and Advances.
7. Guidance note on Audit of Investments.
8. Guidance note on Audit of Miscellaneous Expenditure.
9. Guidance Note on Audit of Cash and Bank Balances.
10. Guidance Note on Audit of Liabilities.
11. Guidance Note on Audit of Revenue.
12. Guidance Note on Audit of Expenses.
13. Guidance Note on Sections 227(3)(e) and (f) of the Companies Act, 1956.
14. Guidance Note on Certificate of Corporate Governance (2006 Edition)
15. Guidance Note on Computer Assisted Audit Techniques (CAATs).
16. Guidance Note on Audit of Payment of Dividend.
17. Guidance Note on Audit of Capital and Reserves.
18. Guidance Note on Provision for Proposed Dividend.
19. Guidance Note on Auditing of Accounts of Liquidators.
20. Guidance Note on Section 293A of the Companies Act and the Auditor.
21. Guidance Note on Audit of Consolidated Financial Statements.

* Guidance Note on Audit under section 44 AB of the Income-tax Act, 1961 (2005 edition) along with the supplementary guidance note (excluding the portion relating to Fringe Benefit Tax Provisions) published in September, 2006.

* Text of applicable Guidance Notes is available in the Appendices of Volume II of Paper 3 - Advanced Auditing and Professional Ethics (CA Final -New). These can be accessed at http://www.icai.org/post.html?post_id=5778.

** Note : Notifications (in relation to syllabus) issued till 30th April, 2010 will be applicable for November, 2011 Examination.