PAPER – 6: AUDITING AND ASSURANCE

PART – I : ACADEMIC UPDATE

Chapter 9 (Printed Copy)

At Page 10- Topic "Shares issued at a discount" is revised and being given hereunder. Students are advised to study this topic from here and not from printed copy of the study material.

Shares issued at a discount

According to Section 53 of the Companies Act, 2013,

(1) a company shall not issue shares at a discount, except in the case of an issue of sweat equity shares given under Section 54 of the Companies Act, 2013.

(2) any share issued by a company at a discounted price shall be void.

(2A) Notwithstanding anything contained in sub-sections (1) and (2), a company may issue shares at a discount to its creditors when its debt is converted into shares in pursuance of any statutory resolution plan or debt restructuring scheme in accordance with any guidelines or directions or regulations specified by the Reserve Bank of India under the Reserve Bank of India Act, 1934 or the Banking (Regulation) Act, 1949.

(3) Where any company fails to comply with the provisions of this section, such company and every officer who is in default shall be liable to a penalty which may extend to an amount equal to the amount raised through the issue of shares at a discount or five lakh rupees, whichever is less, and the company shall also be liable to refund all monies received with interest at the rate of twelve per cent. per annum from the date of issue of such shares to the persons to whom such shares have been issued.

The auditor needs to check

(i) the movement in share capital during the year and wherever there is any issue,

(ii) he should verify that the Company has not issued any of its shares at a discount by reading the minutes of meeting of its directors and shareholders authorizing issue of share capital and the issue price.

(iii) Further, auditor should also verify that whether the company has issued shares at a discount to its creditors when its debt is converted into shares in pursuance of any statutory resolution plan or debt restructuring scheme in accordance with any guidelines or directions or regulations specified by the Reserve Bank of India under the Reserve Bank of India Act, 1934 or the Banking (Regulation) Act, 1949.

This topic has also been revised at page no. 10 of chapter 9 and students can refer at the link given below:

https://resource.cdn.icai.org/66605bos53774-cp9.pdf

Chapter 10 – COMPANY AUDIT

Chapter 10 (Printed Copy) At Page 10.61- Topic "Punishment for non-compliance" is revised and being given hereunder. Students are advised to study this topic from here and not from printed copy of the study material.

Punishment for non-compliance - Section 147 of the Companies Act, 2013 prescribes following punishments for contravention:

(1) If any of the provisions of sections 139 to 146 (both inclusive) is contravened, the company shall be punishable with fine which shall not be less than twenty-five thousand rupees, but which may extend to five lakh rupees and every officer of the company who is in default shall be punishable with fine which shall not be less than ten thousand rupees, but which may extend to one lakh rupees.

(2) If an auditor of a company contravenes any of the provisions of section 139, section 144 or section 145, the auditor shall be punishable with fine which shall not be less than twenty-five thousand rupees, but which may extend to five lakh rupees or four times the remuneration of the auditor, whichever is less.

It may be noted that if an auditor has contravened such provisions knowingly or willfully with the intention to deceive the company or its shareholders or creditors or tax authorities, he shall be punishable with imprisonment for a term which may extend to one year and with fine which shall not be less than fifty thousand rupees but which may extend to twenty-five lakh rupees or eight times the remuneration of the auditor, whichever is less.

(3) Where an auditor has been convicted under sub-section (2), he shall be liable to: -

(i) refund the remuneration received by him to the company.

(ii) and pay for damages to the company statutory bodies or authorities or to members or the creditors of the Company for loss arising out of incorrect or misleading statements of particulars made in his audit report.

(4) The Central Government shall, by notification, specify any statutory body or authority of an officer for ensuring prompt payment of damages to the company or the persons under clause (ii) of sub-section (3) and such body, authority or officer shall after payment of damages such company or persons file a report with the Central Government in respect of making such damages in such manner as may be specified in the said notification.

(5) Where, in case of audit of a company being conducted by an audit firm, it is proved that the partner or partners of the audit firm has or have acted in a fraudulent manner or abetted or colluded in an fraud by, or in relation to or by, the company or its directors or officers, the liability, whether civil criminal as provided in this Act or in any other law for the time being in force, for such act shall be the partner or partners concerned of the audit firm and

of the firm jointly and severally. However, in case of criminal liability of an audit firm, in respect of liability other than fine, the concerned partner or partners, who acted in a fraudulent manner or abetted or, as the case may be, colluded in any fraud shall only be liable.

This topic has also been revised at page no. 10.61 of chapter 10 and students can refer at the link given below:

https://resource.cdn.icai.org/66606bos53774-cp10.pdf

PART – II: QUESTIONS AND ANSWERS

PART – II A: Multiple Choice Questions based on Case Scenarios

Case Scenario - 1

Kaur & Associates, a sole proprietor firm of Simran Kaur, is offered appointment as auditor of a company engaged in manufacturing of automobile components for the first time. She is fact checking about the integrity of promoters of the company and key managerial persons. Matters such as competence of staff to perform the engagement are also considered by her. The appointment is subsequently accepted by her.

She is also taking into account number and location of branches of the company, requirements of Schedule III of Companies Act, 2013 and expected time by which audit has to be completed keeping in view statutory requirements. Initially, she has thought it proper to inquire key employees of the company in procurement and marketing departments and planned for the same. She has also planned to visit three plants of the company. The purpose of planned inquiry and visit is to identify and assess risk of material misstatements.

A detailed set of instructions has been prepared by her office and it has been handed over to assistants in engagement team. These set of instructions include details of extent of checking and nature of audit procedures to be performed regarding purchases, sales, items of income, items of expenditure etc. During the course of execution of above set of instructions, it has been brought to her notice that company is also producing substantial quantities of scrap generated during manufacturing process. However, no instructions have been given to engagement team in this regard.

Based on above, answer the following questions:

(1.1) Auditor is fact checking about promoters and key managerial persons. She is also considering competence of staff to perform engagement. What is she trying to do?

(a) She is establishing audit strategy.

(b) She is conducting preliminary engagement activities.

(c) She is designing audit plan.

(d) She is checking her compliance of ethical requirements.

(1.2) Consideration of number and location of branches, requirements of financial reporting framework and expected time of completion are relevant factors primarily for which of the following -

(a) Developing audit plan

(b) Establishing overall audit strategy

(c) Designing audit programme

(d) Designing risk assessment procedures

(1.3) Taking into account description of planned inquiry and visit, which of the following statements is TRUE?

(a) Planned inquiry and visit fall in area of audit strategy.

(b) Planned inquiry and visit are planned risk assessment procedures and fall in field of audit plan.

(c) The said description is not related to audit planning.

(d) Planned inquiry and visit fall in scope of audit programme.

(1.4) What is detailed set of instructions given to assistants in engagement team known as?

(a) Audit guidelines

(b) Audit plan

(c) Audit Programme

(d) Audit Procedures

(1.5) The issue of generation of scrap has been overlooked in detailed set of instructions given to engagement team. What should be proper course of action by CA Simran Kaur?

(a) She should ignore this information as audit has already begun.

(b) She should modify earlier set of instructions.

(c) She should leave the matter to wisdom of engagement team.

(d) She should put the ball in court of management as she was not provided with complete information earlier.

Case Scenario - 2

CA Rajan Pillai is heading the engagement team conducting audit of a company. While audit is in progress, consider following issues regarding audit documentation: -

(A) Audit programme was prepared assigning responsibilities for different types of works to be performed by team members. The engagement team consists of 4 members Mohit (CA

final student), Rohit (CA final student), Shobhit (Paid CA) and CA Rajan Pillai (partner of audit firm).

(B) The team has determined materiality for financial statements as a whole.

(C) The team has assessed risks of material misstatements to be low.

(D) CA Shobhit is responsible for attending inventory count process and putting down its documentation part.

(E) During the course of audit, many related party transactions have come to notice.

On the basis of above, answer the following questions: -

(2.1) Work relating to verification of revenue was assigned to Mohit in audit programme. However, it is being performed by Rohit actually. Verification of trade receivables was planned to be carried out by Rohit in audit programme. However, it being performed by CA Rajan Pillai due to last minute practical issues. Which of the following statements is most appropriate in this regard relating to audit documentation?

(a) Audit programme contains names of persons and work to be performed. It is immaterial whether work assigned to one person is performed by another person.

(b) Audit programme was already prepared. Only persons assigned specific responsibilities can perform those duties.

(c) It is necessary that audit programme be suitably updated or notes are given in working papers to this effect so that planned duties are in accordance with actual work performance.

(d) Changes in audit programme or notes clarifying the matter are required only when a person not forming part of engagement team is deputed to perform a duty. Otherwise, this issue of inter-shuffling of team members is frivolous.

(2.2) As regards materiality, which of the following statements is most appropriate in context of audit documentation?

(a) Materiality has already been determined. There is no need to put it into working papers.

(b) Materiality depends upon professional judgment of auditor. Whatever amount has been determined can be documented in working papers.

(c) Materiality arrived on basis of professional judgment along with factors considered in the determination has to be documented.

(d) Materiality has been arrived upon professional judgment. It also depends upon professional judgment of auditor whether he wants to document it or not.

(2.3) As regards team's assessment that risk of material misstatements is low, which of the following statements is odd one relating to documentation of risk?

(a) Discussion amongst engagement team members and detail of significant decisions reached has to be documented.

(b) Details of risk assessment procedures have to be documented.

(c) Details about how understanding of each component of internal control was obtained has to be documented.

(d) Precise calculation of risk of material misstatements has to be documented.

(2.4) CA Shobhit is responsible for attending physical inventory count of the company. Which of the following is usually not true in this regard relating to audit documentation?

(a) Dates on which physical inventory count process was attended by him should be documented. It may also include photographs of that date showing his attendance of inventory counting process at a particular location.

(b) Detail of test counting undertaken should form part of audit documentation.

(c) Detail of obsolete goods found should form part of audit documentation.

(d) Reports showing that stocks conform to quality control standards in accordance with law are essential part of audit documentation.

(2.5) As regards related party transactions, which of the following should not be part of audit documentation?

(a) Management representation letter in this regard

(b) Related party transaction policy of the company

(c) Documentation to show that such transactions are at arm's length basis

(d) Documentation to show that such transactions are at close length basis.

General MCQs

1. The term "Drawing Power" is associated with which of the following facilities as sanctioned by any Bank:

(a) Letter of Credit

(b) Term Loan

(c) Staff Advances

(d) Cash Credit Limit

2. _____aims at ascertaining that the expenditure incurred has been on the purpose for which the grant and appropriation had been provided and that the amount of such expenditure does not exceed the appropriation made.

(a) Audit against provision of funds

(b) Propriety audit

(c) Audit of sanctions

(d) Audit against rules and orders

3. Which of the following is not correct:-

(a) AS 18 – Related Party Disclosures

(b) AS 10 – Property, Plant & Equipment

(c) AS 28 – Impairment of Assets

(d) AS 16 – Intangible Assets

4. Tools and techniques that auditors use in applying the principles of data analytics are known as-

(a) Computer Aided Audit Technique

(b) Computer Aided Audit Tools

(c) Computer Accounting and Auditing Technique

(d) Computer Assisted Audit Technique

5. _____refers to events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud:-

(a) Fraud Risk Factors

(b) Misappropriation of assets

(c) Incentives/ Pressures

(d) Fraud

PART II B – DESCRIPTIVE QUESTIONS

1. State with reason (in short) whether the following statements are true or false:

(i) According to SA 315, the objective of the auditor is to identify and assess the risk of material misstatement, whether due to fraud or error, only at assertion level.

(ii) Control environment can prevent, detect and correct a material misstatement.

(iii) While auditing the books of accounts of XYZ Ltd., the auditor of the company looked at the inventory counting process to obtain audit evidence. In the present case, audit procedure used by the auditor is known as “Inspection”.

(iv) When inventory under the custody and control of a third party is material to the financial statements, the auditor can obtain sufficient appropriate audit evidence regarding the existence and condition of that inventory by taking written representation from management.

(v) Assertions refer to the representations by the auditor to consider the different types of the potential misstatements that may occur.

(vi) As per SA 200 "Overall Objectives of the Auditor", in conducting an audit of financial statements, the overall objectives of the auditor is to obtain absolute assurance about whether the financial statements as a whole are free from material misstatement due to fraud.

(vii) Once the overall audit has been established, an audit plan can be developed to address the various matters identified in the overall audit strategy. The establishment of the overall audit strategy and the detailed audit plan are closely inter-related.

(viii) Teeming and lading is one of the techniques of inflating cash payments.

Chapter 1 - Nature, Objective and Scope of Audit

2. (a) Professional integrity and independence are considered essential characteristics of all the professions. There are two interlinked perspectives of independence of auditors, one, independence of mind and two, independence in appearance. Explain.

   (b) The Chartered Accountant has a responsibility to remain independent by taking into account the context in which they practice, the threats to independence and the safeguards available to eliminate the threats. Explain the guiding principles in the above context.

3. (a) The actions of the engagement partner and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on each audit engagement, emphasise the importance to audit quality. Explain w.r.t SA 220

   (b) An audit is distinct from investigation. However, it is quite possible that sometimes investigation results from the *prima facie* findings of the auditor. Discuss.

Chapter 2 - Audit Strategy, Audit Planning and Audit Programme

4. (a) SA 300 states that auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner. What matters should be covered in such Plan by the auditor?

   (b) Adequate planning benefits the audit of financial statements in several ways. Explain

5. In establishing the overall audit strategy, the auditor shall identify the characteristics of the engagement that define its scope. Explain with example.

Chapter 3 - Audit Documentation and Audit Evidence

6. (a) M/s Samar Amar & Associates are the statutory auditors of Ganga Ltd. for FY 2020-21. CA Samar is the engagement partner for such assignment. While discussing with the engagement team, CA Samar briefed his team that "the auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report. SQC 1 requires firms to establish policies and procedures for the retention of engagement documentation." Explain.

(b) SA 230, "Audit Documentation" deals with the auditor's responsibility to prepare audit documentation for an audit of financial statements. Such audit documentation serves various purposes. Explain.

7. (a) M/s Suraj & Associates are the statutory auditors of Yuvraj Ltd. for the FY 2020-21. During the course of audit, CA Suraj, the engagement partner requested the management of the company to provide written representation with respect to valuation of a transaction. The management, however, did not provide the same to CA Suraj. What course of action should CA Suraj follow in such a situation?

   (b) Explain the various factors affecting the auditor's judgments as to the sufficiency of the audit evidence.

8. What is the objective of the auditor with respect to the opening balances when conducting an initial audit engagement as per the relevant SA?

Chapter 4 - Risk Assessment and Internal Control

9. (a) It has been suggested that actual operation of the internal control should be tested by the application of procedural tests and examination in depth. Explain with the help of example in respect of the procedure for sales.

   (b) Briefly discuss the limitations of Internal Control.

10. The division of internal control into five components provides a useful framework for auditors to consider how different aspects of an entity's internal control may affect the audit. Mention those components of internal control.

Chapter 5 - Fraud and Responsibilities of the Auditor in this Regard.

11. Detection of manipulation of accounts with a view to presenting a false state of affairs is a task requiring great tact and intelligence. Explain stating clearly the objective behind committing this type of fraud.

12. In an audit of Financial statements of PQR Ltd., CA Vikas Khemka finds that the Cash receipts have been suppressed. Give examples of such techniques which may have led him suspect this.

Chapter 6 - Audit in an Automated Environment

13. With respect to audit in an automated environment, explain the following:

    (i) CAATs

    (ii) Data Analytics

    (iii) Database

    (iv) Information Systems

    (v) Privileged access

14. The auditor's responsibility includes reporting on Internal Financial Controls over Financial Reporting which includes an understanding IT environment of the company and relevant risks and controls. Mention the situations where IT will be relevant to an audit.

Chapter 7- Audit Sampling

15. Random selection ensures that all items in the population or within each stratum have a known chance of selection. Random sampling includes two very popular methods. Explain.

16. While planning the audit of S Ltd. you want to apply sampling techniques. What are the risk factors you should keep in mind?

Chapter 8 - Analytical Procedures

17. If analytical procedures performed in accordance with SA 520 identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount, the auditor shall investigate such differences. Explain

18. While applying the Substantive Analytical Procedures, what techniques can be used by the statutory auditor of a company to obtain sufficient and appropriate audit evidence?

Chapter 9 - Audit of Items of Financial Statements

19. While verifying the PPE of the client entity, the auditor also needs to consider whether the PPE has been valued appropriately and as per the generally accepted accounting principles and practices. Explain.

20. (a) What are the required disclosures for cash & Cash equivalents to be made by the company as per Schedule III (Part I) to Companies Act, 2013?

    (b) CA Saurabh is the statutory auditor of UVW Ltd. for the FY 20-21. While verifying the purchases made by UVW Ltd., CA Saurabh decided to perform analytical procedures to obtain audit evidence regarding the overall reasonableness of purchase quantity and price of purchases. What analysis should CA Saurabh perform?

Chapter 10 - The Company Audit

21. XYZ Ltd. removed its statutory auditor by passing a resolution in the meeting of Board of Directors for his removal without obtaining prior approval of the Central Government. Such removal of the auditor was made before the expiry of term of the auditors. Give your comments in this regard.

22. S Private Limited has a paid-up share capital of ₹ 49 Crores and borrowings from bank of ₹ 99 Crores. The audit firm P & Company was appointed as statutory auditors of the Company for one term of six consecutive years. Is the provision of rotation of auditors applicable to the company? Comment.

23. The recommendation for appointment of auditors is one of the several functions performed by the Audit Committee. Discuss other key responsibilities of the Audit Committee in accordance with section 177 of the Companies Act, 2013.

Chapter 11 - Audit Report

24. The description of management's responsibilities in the auditor's report includes reference to management's responsibilities as it helps to explain to users the premise on which an audit is conducted. Explain

25. In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgements. The auditor may conclude that lack of neutrality together with uncorrected misstatements causes the financial statements to be materially misstated. Explain and analyse the indicators of lack of neutrality with examples, wherever required.

Chapter 12 - Bank Audit

26. Explain the audit approach you would follow to check the Operating Expenses of a Bank.

27. Mr Rishikesh, the Bank Manager develops controls to assist in managing key business and financial risks. Discuss the various requirements for an effective risk management system in a bank.

Chapter 13 - Audit of Different Types of Entities

28. (a) The audit of Government expenditure is one of the major components of Government audit. Briefly explain the basic standards set in relation to audit of Government expenditure.

    (b) State the important objectives of Local bodies Audit.

SUGGESTED ANSWERS

Case Scenario – 1

1.1 (b) She is conducting preliminary engagement activities.

1.2 (b) Establishing overall audit strategy

1.3 (b) Planned inquiry and visit are planned risk assessment procedures and fall in field of audit plan.

1.4 (c) Audit Programme

1.5 (b) She should modify earlier set of instructions.

Case Scenario - 2

2.1 (c) It is necessary that audit programme be suitably updated or notes are given in working papers to this effect so that planned duties are in accordance with actual work

performance.

2.2 (c) Materiality arrived on basis of professional judgment along with factors considered in the determination has to be documented.

2.3 (d) Precise calculation of risk of material misstatements has to be documented

2.4 (d) Reports showing that stocks conform to quality control standards in accordance with law are essential part of audit documentation.

2.5 (d) Documentation to show that such transactions are at close length basis.

General MCQ's

1. (d) Cash Credit Limit

2. (a) Audit against provision of funds

3. (d) AS 16 – Intangible Assets

4. (d) Computer Assisted Audit Technique

5. (a) Fraud Risk Factors

Descriptive Answers

1. (i) **Incorrect:** According to SA 315, the objective of the auditor is to identify and assess the risk of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, through understanding the entity and its environment, including the entity's internal control.

(ii) **Incorrect:** The control environment in itself does not prevent, or detect and correct, a material misstatement. It may, however, influence the auditor's evaluation of the effectiveness of other controls (for example, the monitoring of controls and the operation of specific control activities) and thereby, the auditor's assessment of the risks of material misstatement.

(iii) **Incorrect:** The audit procedure used by the auditor of XYZ Ltd. is known as "observation". Whereas inspection involves examining records or documents, whether internal or external, in paper form, electronic form, or other media, or a physical examination of an asset.

(iv) **Incorrect:** When inventory under the custody and control of a third party is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of that inventory by performing one or both of the following:

(a) Request confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity.

(b) Perform inspection or other audit procedures appropriate in the circumstances.

(v) **Incorrect:** Assertions refer to representations by management, explicit or otherwise, that are embodied in the financial statements, as used by the auditor to consider the different types of potential misstatements that may occur.

(vi) **Incorrect:** As per SA-200 "Overall Objectives of the Independent Auditor", in conducting an audit of financial statements, the overall objectives of the auditor are:

(a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and

(b) To report on the financial statements, and communicate as required by the SAs, in accordance with the auditor's findings.

(vii) **Correct:** Once the overall audit strategy has been established, an audit plan can be developed to address the various matters identified in the overall audit strategy, taking into account the need to achieve the audit objectives through the efficient use of the auditor's resources. The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential processes, but are closely inter-related since changes in one may result in consequential changes to the other.

(viii) **Incorrect:** Teeming and Lading is one of the techniques of suppressing cash receipts and not of inflating cash payments. Money received from one customer is misappropriated and the account is adjusted with the subsequent receipt from another customer and so on.

2. **(a)** Professional integrity and independence are considered essential characteristics of all the professions but are more so in the case of accountancy profession. Independence implies that the judgement of a person is not subordinate to the wishes or direction of another person who might have engaged him.

It is not possible to define "independence" precisely. Rules of professional conduct dealing with independence are framed primarily with a certain objective. The rules themselves cannot create or ensure the existence of independence. Independence is a condition of mind as well as personal character. It should not be confused with the superficial and visible standards of independence which are sometimes imposed by law.

There are two interlinked perspectives of independence of auditors, one, independence of mind; and two, independence in appearance. The Code of Ethics for Professional Accountants issued by International Federation of Accountants (IFAC) defines the term 'Independence' as follows:

"Independence is:

(i) Independence of mind – the state of mind that permits the provision of an opinion without being affected by influences allowing an individual to act with integrity, and exercise objectivity and professional skepticism; and

(ii) Independence in appearance – the avoidance of facts and circumstances that are so significant that a third party would reasonably conclude an auditor's integrity, objectivity or professional skepticism had been compromised."

Independence of the auditor has not only to exist in fact, but also appear to so exist to all reasonable persons.

(b) The Chartered Accountant has a responsibility to remain independent by taking into account the context in which they practice, the threats to independence and the safeguards available to eliminate the threats.

The following are the guiding principles in this regard: -

1. For the public to have confidence in the quality of audit, it is essential that auditors should always be and appears to be independent of the entities that they are auditing.
2. In the case of audit, the key fundamental principles are integrity, objectivity and professional skepticism, which necessarily require the auditor to be independent.
3. Before taking on any work, an auditor must conscientiously consider whether it involves threats to his independence.
4. When such threats exist, the auditor should either desist from the task or put in place safeguards that eliminate them.
5. If the auditor is unable to fully implement credible and adequate safeguards, then he must not accept the work.

3. (a) As per SA 220 "Quality Control for an Audit of Financial Statements", the engagement partner shall take responsibility for the overall quality on each audit engagement to which that partner is assigned.

The actions of the engagement partner and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on each audit engagement, emphasise:

(1) The importance to audit quality of:

(i) Performing work that complies with professional standards and regulatory and legal requirements;

(ii) Complying with the firm's quality control policies and procedures as applicable;

(iii) Issuing auditor's reports that are appropriate in the circumstances; and

(iv) The engagement team's ability to raise concerns without fear of reprisals;

and

(2) The fact that quality is essential in performing audit engagements.

(b) Audit is distinct from investigation. Investigation is a critical examination of the accounts with a special purpose. For example, if fraud is suspected and it is specifically called upon to check the accounts whether fraud really exists, it takes character of investigation.

The objective of audit, on the other hand as we have already discussed, is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion.

Therefore, audit is never started with a pre-conceived notion about state of affairs; about wrong-doing; about some wrong having been committed. The auditor seeks to report what he finds in normal course of examination of accounts.

However, it is quite possible that sometimes investigation results from the *prima facie* findings of the auditor. It may happen that auditor has given some findings of serious concern. Such findings may prompt for calling an investigation.

4. (a) The auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner. Plans should be based on knowledge of the client's business.

Plans should be made to cover, among other things:

(i) acquiring knowledge of the client's accounting systems, policies and internal control procedures;

(ii) establishing the expected degree of reliance to be placed on internal control;

(iii) determining and programming the nature, timing, and extent of the audit procedures to be performed; and

(iv) coordinating the work to be performed.

(b) Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Adequate planning benefits the audit of financial statements in several ways, including the following:

(a) Helping the auditor to devote appropriate attention to important areas of the audit.

(b) Helping the auditor identify and resolve potential problems on a timely basis.

(c) Helping the auditor properly organize and manage the audit engagement so that it is performed in an effective and efficient manner.

(d) Assisting in the selection of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks, and the proper assignment of work to them.

(e) Facilitating the direction and supervision of engagement team members and the review of their work.

(f) Assisting, where applicable, in coordination of work done by auditors of components and experts.

5. **In establishing the overall audit strategy, the auditor shall** Identify the characteristics of the engagement that define its scope.

For Example :

- The expected audit coverage, including the number and locations of components to be included.
- The nature of the business segments to be audited, including the need for specialized knowledge.
- The expected use of audit evidence obtained in previous audits, for example, audit evidence related to risk assessment procedures and tests of controls.

6. **(a)** The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report.

- SQC 1 "Quality Control for Firms that perform Audits and Review of Historical Financial Information, and other Assurance and related services", requires firms to establish policies and procedures for the timely completion of the assembly of audit files.
- An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report. The completion of the assembly of the final audit file after the date of the auditor's report is an administrative process that does not involve the performance of new audit procedures or the drawing of new conclusions.
- Changes may, however, be made to the audit documentation during the final assembly process, if they are administrative in nature.

  Examples of such changes include:

  - Deleting or discarding superseded documentation.
  - Sorting, collating and cross-referencing working papers.
  - Signing off on completion checklists relating to the file assembly process.

- Documenting audit evidence that the auditor has obtained, discussed and agreed with the relevant members of the engagement team before the date of the auditor's report.

♦ After the assembly of the final audit file has been completed, the auditor shall not delete or discard audit documentation of any nature before the end of its retention period.

♦ SQC 1 requires firms to establish policies and procedures for the retention of engagement documentation. The retention period for audit engagements ordinarily is no shorter than seven years from the date of the auditor's report, or, if later, the date of the group auditor's report.

(b) The following are the purposes of Audit documentation:

1. Assisting the engagement team to plan and perform the audit.
2. Assisting members of the engagement team to direct and supervise the audit work, and to discharge their review responsibilities.
3. Enabling the engagement team to be accountable for its work.
4. Retaining a record of matters of continuing significance to future audits.
5. Enabling the conduct of quality control reviews and inspections in accordance with SQC 1.
6. Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.

7. (a) If management does not provide one or more of the requested written representations, the auditor shall:

(a) Discuss the matter with management;

(b) Re-evaluate the integrity of management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general; and

(c) Take appropriate actions, including determining the possible effect on the opinion in the auditor's report in accordance with SA 705.

(b) Auditor's judgement as to sufficiency of audit evidence may be affected by the factors such as:

(i) Materiality: It may be defined as the significance of classes of transactions, account balances and presentation and disclosures to the users of the financial statements. Less evidence would be required in case assertions are less material to users of the financial statements. But on the other hand if assertions are more material to the users of the financial statements, more evidence would be required.

(ii) **Risk of material misstatement:** It may be defined as the risk that the financial statements are materially misstated prior to audit. This consists of two components described as follows at the assertion level:

- Inherent risk—The susceptibility of an assertion to a misstatement that could be material before consideration of any related controls.
- Control risk—The risk that a misstatement that could occur in an assertion that could be material will not be prevented or detected and corrected on a timely basis by the entity's internal control.

Less evidence would be required in case assertions that have a lower risk of material misstatement. But on the other hand, if assertions have a higher risk of material misstatement, more evidence would be required.

(iii) **Size of a population:** It refers to the number of items included in the population. Less evidence would be required in case of smaller, more homogeneous population but on the other hand in case of larger, more heterogeneous populations, more evidence would be required.

8. In conducting an initial audit engagement, the objective of the auditor with respect to opening balances is to obtain sufficient appropriate audit evidence about whether:

(a) Opening balances contain misstatements that materially affect the current period's financial statements; and

(b) Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are properly accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.

9. **(a)** It has been suggested that actual operation of the internal control should be tested by the application of procedural tests and examination in depth. Procedural tests simply mean testing of the compliance with the procedures laid down by the management in respect of initiation, authorisation, recording and documentation of transaction at each stage through which it flows.

For example, the procedure for sales requires the following:

1. Before acceptance of any order the position of inventory of the relevant article should be known to ascertain whether the order can be executed in time.
2. An advice under the authorisation of the sales manager should be sent to the party placing the order, internal reference number, and the acceptance of the order. This advice should be prepared on a standardised form and copy thereof should be forwarded to inventory section to enable it to prepare for the execution of the order in time.
3. The credit period allowed to the party should be the normal credit period. For

any special credit period a special authorisation of the sales manager would be necessary.

4. The rate at which the order has been accepted and other terms about transport, insurance, etc., should be clearly specified.

5. Before deciding upon the credit period, a reference should be made to the credit section to know the creditworthiness of the party and particularly whether the party has honoured its commitments in the past.

(b) Limitations of Internal Control:

(i) Internal control can provide only reasonable assurance: Internal control, no matter how effective, can provide an entity with only reasonable assurance about achieving the entity's financial reporting objectives. The likelihood of their achievement is affected by inherent limitations of internal control.

(ii) Human judgment in decision-making: Realities that human judgment in decision-making can be faulty and that breakdowns in internal control can occur because of human error.

(iii) Lack of understanding the purpose: Equally, the operation of a control may not be effective, such as where information produced for the purposes of internal control (for example, an exception report) is not effectively used because the individual responsible for reviewing the information does not understand its purpose or fails to take appropriate action.

(iv) Collusion among People: Additionally, controls can be circumvented by the collusion of two or more people or inappropriate management override of internal control. **For example**, management may enter into side agreements with customers that alter the terms and conditions of the entity's standard sales contracts, which may result in improper revenue recognition. Also, edit checks in a software program that are designed to identify and report transactions that exceed specified credit limits may be overridden or disabled.

(v) Judgements by Management: Further, in designing and implementing controls, management may make judgments on the nature and extent of the controls it chooses to implement, and the nature and extent of the risks it chooses to assume.

(vi) Limitations in case of Small Entities: Smaller entities often have fewer employees due to which segregation of duties is not practicable. However, in a small owner-managed entity, the owner-manager may be able to exercise more effective oversight than in a larger entity. This oversight may compensate for the generally more limited opportunities for segregation of duties.

On the other hand, the owner-manager may be more able to override controls because the system of internal control is less structured. This is taken into account by the auditor when identifying the risks of material misstatement due to fraud.

10. **Division of Internal Control into Components:** The division of internal control into the following five components provides a useful framework for auditors to consider how different aspects of an entity's internal control may affect the audit:

    (i) The control environment;

    (ii) The entity's risk assessment process;

    (iii) Monitoring of controls.

    (iv) Control activities; and

    (v) The information system, including the related business processes, relevant to financial reporting, and communication;

11. **Manipulation of Accounts:** Detection of manipulation of accounts with a view to presenting a false state of affairs is a task requiring great tact and intelligence because generally management personnel in higher management cadre are associated with this type of fraud and this is perpetrated in methodical way. This type of fraud is generally committed:

    (a) to avoid incidence of income-tax or other taxes;

    (b) for declaring a dividend when there are insufficient profits;

    (c) to withhold declaration of dividend even when there is adequate profit (this is often done to manipulate the value of shares in stock market to make it possible for selected persons to acquire shares at a lower cost); and

    (d) for receiving higher remuneration where managerial remuneration is payable by reference to profits.

12. (1) ***Teeming and Lading:*** Amount received from a customer being misappropriated; also to prevent its detection the money received from another customer subsequently being credited to the account of the customer who has paid earlier. Similarly, moneys received from the customer who has paid thereafter being credited to the account of the second customer and such a practice is continued so that no one account is outstanding for payment for any length of time, which may lead the management to either send out a statement of account to him or communicate with him.

    (2) Adjusting unauthorised or fictitious rebates, allowances, discounts, etc. to customer' accounts and misappropriating amount paid by them.

    (3) Writing off as debts in respect of such balances against which cash has already been received but has been misappropriated.

    (4) Not accounting for cash sales fully.

(5) Not accounting for miscellaneous receipts, *e.g.,* sale of scrap, quarters allotted to the employees, etc.

(6) Writing down asset values in entirety, selling them subsequently and misappropriating the proceeds.

13. **(i)** **CAATs**: Computer Assisted Audit Techniques (**CAATs**), are a collection of computer-based tools and techniques that are used in an audit for analysing data in electronic form to obtain audit evidence.

(ii) **Data Analytics:** A combination of processes, tools and techniques that are used to tap vast amounts of electronic data to obtain meaningful information.

(iii) **Database:** A logical subsystem within a larger information system where electronic data is stored in a predefined form and retrieved for use.

(iv) **Information Systems:** Refers to a collection of electronic hardware, software, networks and processes that are used in a business to carry out operations and transactions.

(v) **Privileged access:** A type of super user access to information systems that enforces less or no limits on using that system.

14. With the introduction of the Companies Act 2013, there is greater emphasis given to internal financial controls (IFC) from a regulatory point of view. Directors and those charged with governance (including Board of directors, Audit committee) are responsible for the implementation of internal controls framework within the company. The auditors' responsibilities now include reporting on Internal Financial Controls over Financial Reporting which include and understanding IT environment of the company and relevant risks & controls.

Following are some situations in which IT will be relevant to an audit:

(i) Increased use of Systems and Application software in Business (for example, use of ERPs)

(ii) Complexity of transactions has increased (multiple systems, network of systems)

(iii) Hi-tech nature of business (Telecom, e-Commerce).

(iv) Volume of transactions are high (Insurance, Banking, Railways ticketing).

(v) Company Policy (Compliance).

(vi) Regulatory requirements - Companies Act 2013 IFC, IT Act 2008.

(vii) Required by Indian and International Standards - ISO, PCI-DSS, SA 315, SOC, ISAE

(viii) Increases efficiency and effectiveness of audit.

15. Random selection ensures that all items in the population or within each stratum have a known chance of selection. It may involve use of *random number tables.* Random sampling includes two very popular methods which are discussed below–

(i) ***Simple Random Sampling*****:** Under this method each unit of the whole population *e.g.* purchase or sales invoice has an equal chance of being selected. It is considered that random number tables are simple and easy to use and also provide assurance that the auditors' bias does not affect the selection. ***Each item in a population is selected by use of random number table either with a help of computer or picking up a number in a random way (may be randomly from a drum)***. Today random numbers are also generated using various applications on the cell phones like the random number generator.

This method is considered appropriate provided the population to be sampled consists of reasonably similar units and fall within a reasonable range i.e it is suitable for a homogeneous population having a similar range.

(ii) ***Stratified Sampling*****:** This method involves dividing the whole population to be tested in a few separate groups called strata and taking a sample from each of them. Each stratum is treated as if it was a separate population and if proportionate of items are selected from each of these stratums. The number of groups into which the whole population has to be divided is determined on the basis of auditor judgment.

16. **Risk Factors while applying Sampling Techniques:** As per SA 530 "Audit Sampling", sampling risk is the risk that the auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure. Sampling risk can lead to two types of erroneous conclusions-

(i) In the case of a test of controls, that controls are more effective than they actually are, or in the case of tests of details, that a material misstatement does not exists when in fact it does. The auditor is primarily concerned with this type of erroneous conclusion because it affects audit effectiveness and is more likely to lead to an inappropriate audit opinion.

(ii) In the case of test of controls, the controls are less effective than they actually are, or in the case of tests of details, that a material misstatements exists when in fact it does not. This type of erroneous conclusion affects audit efficiency as it would usually lead to additional work to establish that initial conclusions were incorrect.

17. If analytical procedures performed in accordance with SA 520 identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount, the auditor shall investigate such differences by:

(i) **Inquiring of management and obtaining appropriate audit evidence relevant to management's responses:** Audit evidence relevant to management's responses may be obtained by evaluating those responses taking into account the auditor's

understanding of the entity and its environment, and with other audit evidence obtained during the course of the audit.

(ii) **Performing other audit procedures as necessary in the circumstances:** The need to perform other audit procedures may arise when, for example, management is unable to provide an explanation, or the explanation, together with the audit evidence obtained relevant to management's response, is not considered adequate.

18. While applying the Substantive Analytical Procedures, the statutory auditor of a company may use the following techniques to obtain sufficient and appropriate audit evidence

Trend analysis – Trend analysis is a commonly used technique. It is the comparison of current data with the prior period balance or with a trend in two or more prior period balances. We evaluate whether the current balance of an account moves in line with the trend established with previous balances for that account, or based on an understanding of factors that may cause the account to change.

Ratio analysis – Ratio analysis is useful for analysing asset and liability accounts as well as revenue and expense accounts. An individual balance sheet account is difficult to predict on its own, but its relationship to another account is often more predictable (e.g., the trade receivables balance related to sales). Ratios can also be compared over time or to the ratios of separate entities within the group, or with the ratios of other companies in the same industry.

Reasonableness tests – Unlike trend analysis, this analytical procedure does not rely on events of prior periods, but upon non-financial data for the audit period under consideration (e.g., occupancy rates to estimate rental income or interest rates to estimate interest income or expense). These tests are generally more applicable to income statement accounts and certain accrual or prepayment accounts. In other words these tests are made by reviewing the relationship of certain account balances to other balances for reasonableness of amounts.

Structural modelling – A modelling tool constructs a statistical model from financial and/or non-financial data of prior accounting periods to predict current account balances (e.g., linear regression).

The statutory auditor may use any of the above mentioned techniques while applying substantive analytical procedures depending upon the availability of data and requirements of the case.

19. While verifying the PPE of the client entity, the auditor also needs to consider whether the PPE has been valued appropriately and as per the generally accepted accounting principles and practices. The auditor should:

- Verify that the entity has charged depreciation on all items of PPE unless any item of PPE is non- depreciable like freehold land;

- Assess that the depreciation method used reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity. It could be Straight line method, diminishing value method, unit of production method, as applicable.
- The auditor should also verify whether the management has done an impairment assessment to determine whether an item of property, plant and equipment is impaired as per the requirements of AS 28 - Impairment of Assets.

20. (a) The following are the required disclosures for cash & Cash equivalents to be made by the company as per Schedule III (Part I) to Companies Act, 2013:

Cash and cash equivalents

(i) Cash and cash equivalents shall be classified as:

(a) Balances with banks;

(b) Cheques, drafts on hand;

(c) Cash on hand;

(d) Others (specify nature)

(ii) Earmarked balances with banks (for example, for unpaid dividend) shall be separately stated.

(iii) Balances with banks to the extent held as margin money or security against the borrowings, guarantees, other commitments shall be disclosed separately.

(iv) Repatriation restrictions, if any, in respect of cash and bank balances shall be separately stated.

(v) Bank deposits with more than 12 months' maturity shall be disclosed separately.

(b) CA Saurabh should perform following analytical procedures to obtain audit evidence as to overall reasonableness of purchase quantity and price:

(i) Consumption Analysis: He should scrutinize raw material consumed as per manufacturing account and compare the same with previous years with closing stock and ask for the reasons from the management if any significant variations are found.

(ii) Stock Composition Analysis: He should collect the reports from management for composition of stock i.e. raw materials as a percentage of total stock and compare the same with previous year and ask for reasons from management in case of significant variations.

(iii) Ratios: He should compare the creditors' turnover ratios and stock turnover ratios of the current year with previous years.

He should review quantitative reconciliation of closing stocks with opening stock, purchases and consumption.

21. According to **Section 140(1),** the auditor appointed under section 139 may be removed from his office before the expiry of his term only by a special resolution of the company, after obtaining the previous approval of the Central Government in that behalf as per **Rule 7 of CAAR, 2014**-

(1) The application to the Central Government for removal of auditor shall be made in **Form ADT-2** and shall be accompanied with fees as provided for this purpose under the Companies (Registration Offices and Fees) Rules, 2014.

(2) The application shall be made to the Central Government within 30 days of the resolution passed by the Board.

(3) The company shall hold the general meeting within 60 days of receipt of approval of the Central Government for passing the special resolution.

It is important to note that before taking any action for removal before expiry of terms, the auditor concerned shall be given a reasonable opportunity of being heard.

In view of above, the procedure followed by the company for removal of its auditors is not correct.

22. As per rules prescribed in Companies (Audit and Auditors) Rules, 2014, for applicability of section 139(2) the **class of companies** shall mean the following classes of companies excluding one person companies and small companies-

(i) all unlisted public companies having paid up share capital of rupees ten crore or more;

(ii) all private limited companies having paid up share capital of rupees fifty crore or more;

(iii) all companies having paid up share capital of below threshold limit mentioned above, but having public borrowings from financial institutions, banks or public deposits of rupees fifty crores or more.

In the given case, S Private Limited is a private limited Company, having paid up share capital of ₹ 49 crore but having borrowing from banks of ₹ 99 crore, provision of rotation of auditor will be applicable on S Private Limited as borrowings from bank are exceeding the prescribed limit of 50 crore rupees.

Further, as per **section 139(2),** appointment of audit firm can be made only for one term of five consecutive years and then another one more term of five consecutive years. It can't be appointed for two terms in one AGM only.

S Private Limited, appointed M/s P & Company, a Chartered Accountant firm, as the statutory auditor in its AGM for one term of six years. Here, the appointment of M/s P & Company is not valid in accordance with section 139 (2) of the Companies Act, 2013.

23. Audit committee performs wide functions. The recommendation for appointment of auditors is only one of the several functions performed by audit committee. Under section 177 of companies Act, 2013, audit committee is responsible for following actions :-

(i) the recommendation for appointment, remuneration and terms of appointment of auditors of the company;]

(ii) review and monitor the auditor's independence and performance, and effectiveness of audit process;

(iii) examination of the financial statement and the auditors' report thereon;

(iv) approval or any subsequent modification of transactions of the company with related parties;

(v) scrutiny of inter-corporate loans and investments;

(vi) valuation of undertakings or assets of the company, wherever it is necessary;

(vii) evaluation of internal financial controls and risk management systems;

(viii) monitoring the end use of funds raised through public offers and related matters.

Hence, audit committee oversees range of matters including those related to making recommendation for appointment of auditors etc.

24. **Responsibilities of Management for the Financial Statements:** The auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Statements."

SA 200 explains the premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit in accordance with SAs is conducted. Management and, where appropriate, those charged with governance accept responsibility for the preparation of the financial statements. Management also accepts responsibility for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The description of management's responsibilities in the auditor's report includes reference to both responsibilities as it helps to explain to users the premise on which an audit is conducted.

This section of the auditor's report shall describe management's responsibility for:

(a) **Preparing the financial statements** in accordance with the applicable financial reporting framework, **and for such internal control** as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;[because of the possible effects of fraud on other aspects of the audit, materiality does not apply to management's acknowledgement regarding its responsibility for the design, implementation, and maintenance of internal control (or for establishing and maintaining effective internal control over financial reporting) to prevent and detect fraud.] and

(b) **Assessing the entity's ability to continue as a going concern** and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern. The explanation of management's responsibility for this assessment shall include a description of when the use of the going concern basis of accounting is appropriate.

25. In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgements. The auditor may conclude that lack of neutrality together with uncorrected misstatements causes the financial statements to be materially misstated. Indicators of a lack of neutrality include the following:

(i) The selective correction of misstatements brought to management's attention during the audit.

Example

- Correcting misstatements with the effect of increasing reported earnings, but not correcting misstatements that have the effect of decreasing reported earnings.
- The combination of several deficiencies affecting the same significant account or disclosure (or the same internal control component) could amount to a significant deficiency (or material weakness if required to be communicated in the jurisdiction). This evaluation requires judgement and involvement of audit executives.

(ii) Possible management bias in the making of accounting estimates.

26. Auditing the Operating Expenses of a Bank:-

(a) Internal Controls: The auditor should study and evaluate the system of internal control relating to expenses, including authorization procedures in order to determine the nature, timing and extent of his other audit procedures.

(b) Divergent Trends: The auditor should examine whether there are any divergent trends in respect of major items of expenses.

(c) Substantive analytical Procedures: The auditor should perform substantive analytical procedures in respect of these expenses. eg. assess the reasonableness of expenses by working out their ratio to total operating expenses and comparing it with the corresponding figures for previous years.

(d) Vouching & Verification: The auditor should also verify expenses with reference to supporting documents and check the calculations wherever required.

27. An effective risk management system in a bank generally requires the following:

(i) **Oversight and involvement in the control process by those charged with governance:** Those charged with governance (BOD/Chief Executive Officer) should approve written risk management policies. The policies should be consistent with the bank's business objectives and strategies, capital strength, management expertise, regulatory requirements and the types and amounts of risk it regards as acceptable.

(ii) **Identification, measurement and monitoring of risks:** Risks that could significantly impact the achievement of bank's goals should be identified, measured and monitored against pre-approved limits and criteria.

(iii) **Control activities:** A bank should have appropriate controls to manage its risks, including effective segregation of duties (particularly, between front and back offices), accurate measurement and reporting of positions, verification and approval of transactions, reconciliation of positions and results, setting of limits, reporting and approval of exceptions, physical security and contingency planning.

(iv) **Monitoring activities:** Risk management models, methodologies and assumptions used to measure and manage risk should be regularly assessed and updated. This function may be conducted by the independent risk management unit.

(v) **Reliable information systems:** Banks require reliable information systems that provide adequate financial, operational and compliance information on a timely and consistent basis. Those charged with governance and management require risk management information that is easily understood and that enables them to assess the changing nature of the bank's risk profile.

28. (a) **Expenditure Audit:** The audit of government expenditure is one of the major components of government audit. The basic standards set for audit of expenditure are to ensure that there is provision of funds authorized by competent authority fixing the limits within which expenditure can be incurred. These standards are—

(i) that the expenditure incurred conforms to the relevant provisions of the statutory enactment and in accordance with the Financial Rules and Regulations framed by the competent authority. Such an audit is called as the audit against 'rules and orders'.

(ii) that there is sanction, either special or general, accorded by competent authority authorising the expenditure. Such an audit is called as the audit of sanctions.

(iii) that there is a provision of funds out of which expenditure can be incurred and the same has been authorised by competent authority. Such an audit is called as audit against provision of funds.

(iv) that the expenditure is incurred with due regard to broad and general principles of financial propriety. Such an audit is also called as propriety audit.

(v) that the various programmes, schemes and projects where large financial expenditure has been incurred are being run economically and are yielding results expected of them. Such an audit is termed as the performance audit.

(b) Objective of Audit of Local Bodies: The important objectives of audit of local bodies are:

(a) reporting on the fairness of the content and presentation of financial statements;

(b) reporting upon the strengths and weaknesses of systems of financial control;

(c) reporting on the adherence to legal and/or administrative requirements;

(d) reporting upon whether value is being fully received on money spent; and

(e) detection and prevention of error, fraud and misuse of resources.