

**Notes BY: AKHILESH KUMAR(Guest Teacher)**

**DEPARTMENT OF COMMERCE**

**JANTA KOSHI COLLEGE BIRAUL, DARBHANGA**

**FOR-LNMU -B.com part - 3Rd Paper-viii – Principles of Auditing Lecture no-18 Unit- 4 Audit and investigation**

**Preparation/Matters to be included in the Audit Report**

**1. Fixed Assets:**

**The auditor's report shall include statements on the following matters:**

- a. Whether the company is maintaining the proper records showing particulars, including Quantitative details and situations of fixed assets.**
  
- b. Whether these assets have been physically verified by the management at reasonable Intervals, whether any material discrepancies were noticed on such verification, and if So whether the same have been properly dealt within the books of accounts.**

**c. If a substantial part of fixed assets has been disposed off during the year, Whether it Has affected the going concern.**

## **2. Inventories:**

**The auditor has to make the following three specific statements on verification and Valuation of inventories:**

**a. Whether the physical verification of inventory has been conducted at reasonable Intervals by the management.**

**b. Are the procedures of physical verification of inventories followed by management Reasonable and adequate in relation to the size of the company and the nature of its Business? If not the inadequacies in such procedures should be reported.**

**c. Whether the company is maintaining proper records of inventory and whether any Material discrepancies have been noticed on physical verification and if so, whether the Same have been properly dealt in within the books of account.**

**3. Loans taken from/granted to parties covered under section 189: The auditor ha to made four specific statements as under Has the company either granted or**

***taken any loan, secured or unsecured to/from Companies, firms or other parties covered in the register maintained under section 189 of the Act. If so give the number of parties and amount involved in the transactions.***

***a. Whether rate of interest and other terms and conditions of loans given or taken by***

***The company, secured or unsecured are prima facie prejudicial to the interest of the Company***

***b. Whether the payment of principal amount and interest are also irregular***

***c. If overdue amount is more than 1 lakh, whether reasonable steps has been taken by***

***The company for recovery/payment of principal and interest.***

***4. Internal control on purchase of assets and sale of goods:***

***The auditor has to commit on the following:***

***Is there an adequate internal control procedure commensurate with the size of the***

***Company and the nature of its business for the purchase of inventory and fixed assets and for***

***The sale of goods?***

***Whether there is continuing failure to correct major weaknesses in internal control.***

### ***5. Maintenance of Cost Record***

***Whether the maintenance of cost records has been prescribed by the central***

***Government u/s 128 of the Act, Whether such accounts and records have been made and***

***Maintained.***

### ***6. Indication of sickness:***

***Whether in case of a company which has been register for a period not less than five***

***Years, its accumulated losses at the end of the financial year for not less than 50% of its net***

***Worth and whether it has incurred cash losses in such financial year immediately preceding in***

***Such financial year also.***

### ***7. Documents and records for Secured loans:***

***Whether adequate documents and records are maintained in case where the company***

***Has granted loans and advances on the basis of security by way of pledge of shares, debentures***

***And other securities? If not, the deficiency to be pointed out.***

### ***8. Guarantees for loans taken by other:***

***Whether the company has given any guarantee for loans taken by others from bank or***

**Financial institutions, the Terms and conditions whereof are prejudicial to the interest of the**

**Company.**

### **9. Disclosure of end use of money raised from public issue:**

**Whether the management has disclosed on the end use of money raised by public issue And the same has been verified.**

### **10. Fraud:**

**Whether the fraud on or by the company has been noticed or reported during the year**

**If yes the nature and the amount involved to be indicated.**

### **Unqualified/ Clean/ Fair report:**

**When an auditor is satisfied with the fairness of the balance sheet and profit and loss account He will give a clean report. The auditor makes various statutory affirmations without reservations He is Said to have the given an unqualified report on financial statements of the company.**

***Even when an auditor has given a clean report, it does not mean that it is absolutely accurate in Other words the auditor is not guarantor of insurer as is observed by***

***Lord Justice Lopes in re. Kingston cotton mills co. Ltd. Case, "auditor must not be held liable for Not tracing out ingenious and carefully laid schemes or fraud, when there is nothing to arose their Suspicion."***

### ***Qualified Report:***

***If the auditor is of the opinion that the balance sheet does not give the true and the fair view of The state of company's affairs or, that profit and loss account does not give true and fair view of the Profit or loss for the year he must qualify his report accordingly. When an auditor concludes on the basis Of sufficient appropriate audit evidence that mis-statements are material but not pervasive to the Financial statements or he is unable to obtain sufficient or appropriate evidence to conclude that Financial statements are free from material mis statements, such mis-statements remaining undetected May be material but not pervasive.***