

PAPER – 6 : AUDITING AND ASSURANCE

Question No.1 is compulsory.

Attempt any **four** questions from the remaining **five** questions.

Question 1

State with reasons (in short) whether the following statements are correct or incorrect: (Answer any seven)

- (i) CA X is the auditor of Parth Ltd. He recovers his fees from the company on progressive basis, as and when the work is done without waiting for the completion of the whole job. Thus, he is said to be indebted to the company.
- (ii) R Ltd. has asked for email responses for the purpose of external confirmation. The auditor, however, feels that external confirmation received electronically involves the risk of its reliability.
- (iii) Reliability of manual elements in internal control may be less reliable than automated elements.
- (iv) Electronic payment of Income Tax cannot be made by an assessee from the account of any other person.
- (v) The engagement quality review should be completed on or before the date of auditor's report.
- (vi) Every buyback of shares requires a special resolution passed in general meeting of the Company authorising the buyback.
- (vii) Money transferred to the unpaid dividend account of a Company is not available for payment as and when claimed.
- (viii) It is advisable that the position of all amounts deposited in the bank, which were outstanding for realisation at the close of the year, should be ascertained.

(2 x 7 = 14 Marks)

Answer

- (i) **Incorrect:** The Research Committee of the ICAI has expressed the opinion that where in accordance with the terms of his engagement by a client the auditor recovers his fees on a progressive basis as and when a part of the work is done without waiting for the completion of the whole job, he cannot be said to be indebted to the company at any stage.
- (ii) **Correct:** SA 505, "External Confirmations", responses received electronically, for example by facsimile or electronic mail, involve risks as to reliability because proof of origin and authority of the respondent may be difficult to establish, and alterations may be difficult to detect. Hence R Ltd. Should avoid using email responses as evidence for external confirmation.

- (iii) **Correct:** Manual elements in internal control may be less reliable than automated elements because they can be more easily bypassed, ignored, or overridden and they are also more prone to simple errors and mistakes. Consistency of application of a manual control element cannot therefore be assumed.
- (iv) **Incorrect:** Electronic payment of taxes means payment of taxes by way of internet banking facility or credit or debit cards. The assessee can make electronic payment of taxes also from the account of any other person. However, the challan for making such payment must clearly indicate the Permanent Account Number (PAN) of the assessee on whose behalf the payment is made. It is not necessary for the assessee to make payment of taxes from his own account in an authorized bank.
- (v) **Correct:** As per SA 220, "Quality Control for an Audit of Financial Statements" the engagement partner shall take responsibility for reviews being performed in accordance with the firm's review policies and procedures. On or before the date of the auditor's report, the engagement partner shall, through a review of the audit documentation and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued.
- (vi) **Incorrect:** In case the buy back is up to 10% of paid-up equity + free reserves, the same may be done with the authorization of the Board Resolution without the necessity of a special resolution of its members being passed at a general meeting of the company.
- (vii) **Correct:** In case any money transferred to the unpaid dividend account of a company remain unpaid or unclaimed for a period of 7 years from the date of such transfer shall be transferred to Investor Education and Protection Fund established. Hence amount lying in Investor Education and Protection Fund can't be utilised for payment of dividend.
- (viii) **Correct:** The position of cheques and other remittances shown in the statement as outstanding should be ascertained on a reference to the Bank Pass Book. Where it is found that a number of cheques have been deposited in the bank immediately before the close of the year, which subsequently were dishonoured, it should be investigated whether these were fictitious which had been deposited merely to inflate the bank balance or to show parties' balances outstanding against whom balances were in fact irrecoverable. Generally, it is advisable that the position of all amounts deposited in the bank, which were outstanding for realisation at the close of the year, should be ascertained.

Question 2

- (a) *The auditor has to form an opinion on the financial statements within a reasonable period of time and at a reasonable cost. Explain the above statement with reference to "Timeliness of Financial Reporting and the Balance between Benefit and Cost".*

(3 Marks)

- (b) CA X is not sure about the kind of Sampling method to be used for audit of a company. Advise him the method of Sampling to be used. Also explain briefly the advantages of the Sampling to be used by him in auditing. **(3 Marks)**
- (c) Management of Z Ltd. wants to include all the cost incurred by the Company in valuing the cost of its inventories. The Accountant is, however, of the view that certain costs should be excluded from the cost of inventories and should be recognised as expenses for the period in which they are incurred. What are such costs that should be excluded while determining the cost of inventories? **(4 Marks)**
- (d) Define the term "Pervasive" in the context of misstatements. What are the effects of pervasive misstatements on the financial statements of an enterprise? **(4 Marks)**

Answer

- (a) **Timeliness of Financial Reporting and the Balance between Benefit and Cost:** The matter of difficulty, time, or cost involved is not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than persuasive. Appropriate planning assists in making sufficient time and resources available for the conduct of the audit. Notwithstanding this, the relevance of information, and thereby its value, tends to diminish over time, and there is a balance to be struck between the reliability of information and its cost. There is an expectation by users of financial statements that the auditor will form an opinion on the financial statements within a reasonable period of time and at a reasonable cost, recognizing that it is impracticable to address all information that may exist or to pursue every matter exhaustively on the assumption that information is in error or fraudulent until proved otherwise.

(b) **Sample Selection:**

CA. X should obtain the knowledge before using the sampling methods. The principal methods are as follows:

- (1) Random selection.
- (2) Systematic selection.
- (3) Monetary Unit sampling.
- (4) Haphazard selection.
- (5) Block selection.

Advantages of Statistical Sampling in Auditing:

- (i) The amount of testing (sample size) does not increase in proportion to the increase in the size of the area (universe) tested.
- (ii) The sample selection is more objective and thereby more defensible.

- (iii) The method provides a means of estimating the minimum sample size associated with a specified risk and precision.
- (iv) It provides a means for deriving a "calculated risk" and corresponding precision (sampling error) i.e. the probable difference in result due to the use of a sample in lieu of examining all the records in the group (universe), using the same audit procedures.
- (v) It may provide a better description of a large mass of data than a complete examination of all the data, since non-sampling errors such as processing and clerical mistakes are not as large.

(c) Examples of costs to be excluded in determining cost of Inventory:

In determining the cost of inventories, it is appropriate to exclude certain costs and recognise them as expenses in the period in which they are incurred. Examples of such costs are:

- (i) abnormal amounts of wasted materials, labour, or other production costs;
- (ii) storage costs, unless those costs are necessary in the production process prior to a further production stage;
- (iii) administrative overheads that do not contribute to bringing the inventories to their present location and condition; and
- (iv) selling and distribution costs.

In the given situation, contention of Z Ltd. is not correct to include all the cost of its inventories while determining the cost of inventory. However, contention of accountant is correct that certain cost should be excluded from the cost of inventories and to be recognised as expenses in period in which they are incurred.

(d) Pervasive Misstatement:

Definition of Pervasive: A term used, in the context of misstatements, to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence.

Pervasive effects on the financial statements are those that, in the auditor's judgment:

- (i) Are not confined to specific elements, accounts or items of the financial statements;
- (ii) If so confined, represent or could represent a substantial proportion of the financial statements; or
- (iii) In relation to disclosures, are fundamental to users' understanding of the financial statements.

Question 3

- (a) *IAASB facilitates the convergence of international and national standards. Comment. Also state, how it achieves its objectives?* **(3 Marks)**
- (b) *Discuss in brief the factors that may affect auditor's judgement as to the sufficiency of audit evidence.* **(4 Marks)**
- (c) *"An enterprise should disclose its current investments and long term investments distinctly in its financial statements". Explain. How the current investments and long term investments should be valued with reference to AS - 13 "Accounting for Investments"?* **(4 Marks)**
- (d) *Harry Limited appointed a CA Lakshman as an auditor of the company for a term of 5 years. Further, the company offered him the services of actuarial which were also approved by the board of directors. As an auditor, how would you deal with such situation?* **(3 Marks)**

Answer

- (a) **International Auditing and Assurance Standards Board:** The IAASB functions as an independent standard-setting body under the auspices of IFAC. The objective of the IAASB is to serve the public interest by setting high quality auditing standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The IAASB achieves this objective by:

- (i) Establishing high quality auditing standards and guidance for financial statement audits that are generally accepted and recognized by investors, auditors, governments, banking regulators, securities regulators and other key stakeholders across the world.
- (ii) Establishing high quality standards and guidance for other types of assurance services on both financial and non-financial matters.
- (iii) Establishing high quality standards and guidance for other related services.
- (iv) Establishing high quality standards for quality control covering the scope of services addressed by the IAASB.
- (v) Publishing other pronouncements on auditing and assurance matters, thereby advancing public understanding of the roles and responsibility of professional auditors and assurance service providers.

(b) Factors affecting auditor's judgement as to sufficiency of audit evidence:

According to SA 500 "Audit Evidence" the factors that may affect auditor's judgement as to the sufficiency of audit evidence are as follows:

- (i) Materiality 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 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
 - (a) Inherent risk—The susceptibility of an assertion to a misstatement that could be material before consideration of any related controls.
 - (b) 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 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.

(c) Valuation of Current Investment and Long-term Investment:

Classification of Investments: As per AS-13 "Accounting for Investments", an enterprise should disclose current investments and long-term investments distinctly in its financial statements. Further classification of current and long-term investments should be as specified in the statute governing the enterprise. Part I of Schedule III to the Companies Act, 2013 requires that company shall disclose "Current Investments" and "Non-Current Investments" in notes to accounts.

Valuation of Long-Term Investment: As per AS-13 "Accounting for Investments", long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of a long-term investment, the carrying amount is reduced to recognize the decline. Long-term investments are usually of individual importance to the investing enterprise. The carrying amount of long-term investments is therefore determined on an individual investment basis.

Valuation of Current Investment: The carrying amount for current investments is the lower of cost and fair value. Valuation of current investments on overall (or global) basis is

not considered appropriate. Sometimes, the concern of an enterprise may be with the value of a category of related current investments and not with each individual investment, and accordingly the investments may be carried at the lower of cost and fair value computed category wise (i.e., equity shares, preference shares, convertible debentures, etc.). However, the more prudent and appropriate method is to carry investments individually at the lower of cost and fair value.

(d) Services not to be rendered by the Auditors:

Section 141(3)(i) of the Companies Act, 2013 disqualifies a person for appointment as an auditor of a company who is engaged as on the date of appointment in consulting and specialized services as provided in section 144. Section 144 of the Companies Act, 2013 prescribes certain services not to be rendered by the auditor which includes actuarial services.

In the given situation, CA. Lakshman was appointed as an auditor of Harry Ltd for a term of 5 years. He was offered additional services of actuarial which was also approved by the Board of Directors. CA. Lakshman is advised not to accept the services as these services are specifically notified in the services not to be rendered by him as an auditor as per section 144 of the Act.

Question 4

(a) Write a short note on revolving fund. **(3 Marks)**

(b) Comment on the following in relation to SA:

Information regarding the competence, capability and objectivity of the management's expert may come from a variety of sources. **(3 Marks)**

(c) Newton Ltd. wants to fully convert their books of accounts from manual to IT. Give four examples of specific risks that IT poses to an entity's internal control. **(4 Marks)**

(d) (i) List out the types of Revenue Grants received by local bodies from the State administration. **(2 Marks)**

(ii) PQR Ltd., a government company, constructed a building in conformity with rules and regulations for installing a telephone exchange but not used for the same purpose resulting in the infructuous expenditure.

Considering the above case, explain the type of expenditure audit to be performed to curb the situation. **(2 Marks)**

Answer

(a) Revolving fund:

Donations and grants received in the nature of promoter's contribution are in the nature of capital receipts and shown as liabilities in the Balance Sheet of NGO. These may either be in the form of corpus contribution or a contribution towards revolving funds. A

contribution made towards the capital or corpus of an NGO is known as corpus contribution. The donors are generally required to specify whether the donation/grant given by him shall form part of the corpus of the NGO. Such contributions are generally given with reference to the total funds required by NGO.

The objective of a contribution or grant towards a Revolving Fund is to rotate the amount by giving temporary loans from the fund to other NGO or beneficiaries for their projects and then recover the loan so as to give temporary loans again and so on. However, any interest earned from the beneficiary on such temporary loans from the revolving fund could be either added back to the fund or credited to the Income and Expenditure Account depending on restrictions laid down by the authority providing the contribution (for the revolving fund) or by the rules and regulations laid down by the concerned NGO in this regard.

(b) The Competence, Capabilities and Objectivity of a Management's Expert:

As per SA 500 Audit Evidence, information regarding the competence, capabilities and objectivity of a management's expert may come from a variety of sources, such as:

- (i) Personal experience with previous work of that expert.
- (ii) Discussions with that expert.
- (iii) Discussions with others who are familiar with that expert's work.
- (iv) Knowledge of that expert's qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition.
- (v) Published papers or books written by that expert.
- (vi) An auditor's expert, if any, who assists the auditor in obtaining sufficient appropriate audit evidence with respect to information produced by the management's expert.

(c) Examples of Risks to an entity's internal control from Information Technology:

Newton Ltd while converting their books of accounts from manual of IT is required to consider the specific risk as IT poses specific risks to an entity's internal control, including, for example:

- ◆ Reliance on systems or programs that are inaccurately processing data, processing inaccurate data, or both.
- ◆ Unauthorised access to data that may result in destruction of data or improper changes to data, including the recording of unauthorised or non-existent transactions, or inaccurate recording of transactions. Particular risks may arise where multiple users access a common database.
- ◆ The possibility of IT personnel gaining access privileges beyond those necessary to perform their assigned duties thereby breaking down segregation of duties.

- ◆ Unauthorised changes to data in master files.
- ◆ Unauthorised changes to systems or programs.
- ◆ Failure to make necessary changes to systems or programs.
- ◆ Inappropriate manual intervention.
- ◆ Potential loss of data or inability to access data as required.

(d) (i) Revenue grants received by Local Bodies:

Local bodies may receive different types of grants from the state administration. Broadly the revenue grants are of three types:

- (1) *General purpose grants*: These are primarily intended to substantially bridge the gap between the needs and resources of the local bodies.
- (2) *Specific purpose grants*: These grants which are tied to the provision of certain services or performance of certain tasks.
- (3) *Statutory and compensatory grants*: These grants, under various enactments, are given to local bodies as compensation on account of loss of any revenue on taking over a tax by state government from local government.

- (ii) Propriety audit:** According to 'propriety audit', the auditors try to bring out cases of improper, avoidable, or infructuous expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations. Further, it may so happen that a transaction may satisfy all the requirements of regularity audit insofar as the various formalities regarding rules and regulations are concerned but may still be highly wasteful.

In the given situation, PQR Ltd. being a government company, constructed a building in conformity with rules and regulations for installing a telephone exchange but not used for the same purpose resulting in an infructuous expenditure.

Thus, propriety audit should be done for PQR Ltd. to bring out improper, avoidable, or infructuous expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations to the notice of the proper authorities of wastefulness in public administration.

Question 5

- (a) *Procedural test 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. Explain with an example for sales procedure.* **(4 Marks)**
- (b) *Section 71 of the Companies Act, 2013 lays down the requirement of appointment of debenture trustee by the company to protect the interest of debenture holders. Mention the duties of debenture trustee in this regard.* **(3 Marks)**

- (c) *Discuss the problems mostly faced by an auditor of a small company in the application of auditing principles and procedures. Also discuss the major difference between the small and large company from the audit point of view.* **(4 Marks)**
- (d) *What is the meaning of 'The scheme of auditing process'? What does the scheme of auditing process envisage?* **(3 Marks)**

Answer**(a) Procedural Test for Sales:**

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:

- (i) 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.
- (ii) 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.
- (iii) 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.
- (iv) The rate at which the order has been accepted and other terms about transport, insurance, etc., should be clearly specified.
- (v) 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) Duties of Debenture Trustee:

As per section 71 of the Companies Act, 2013 duties of debenture trustees are as follows:

- (i) inform the debenture holders immediately of any breach of the terms of issue of debentures or covenants of the trust deed;
- (ii) ensure that the debentures have been converted or redeemed in accordance with the terms of the issue of debentures;
- (iii) call for periodical status or performance reports from the company;
- (iv) ensure that the assets of the company issuing debentures and of the guarantors, if any, are sufficient to discharge the interest and principal amount at all times and that

such assets are free from any other encumbrances except those which are specifically agreed to by the debenture holders;

- (v) perform such acts as are necessary for the protection of the interest of the debenture holders and do all other acts as are necessary in order to resolve the grievances of the debenture holders.

(c) Problem faced by the auditor in application of auditing principles and procedures in audit of small companies:

Problems in small companies arise in the application of auditing principles and procedures. Due to inadequate staff, they are unable to apply principles in totality. These problems mainly arise from:

- (i) substantial domination of the accounting and financial functions by one person; and
- (ii) limitations in the effectiveness from the audit point of view of the system of internal control rendered inevitable by the small number of employees.

Either or both of the above points can be present to a significant extent in most of the small companies.

Difference between small company and large company from audit point of view:

The major difference from the audit point of view between the small company and the large company will be to the extent to which the system of internal control and staff organisation provide a check on the work of one person so that it is proved independently by or is complementary to the work of another. While internal control and internal check in a small company may be effective for its primary purpose as a check for management use, they would be defective as a check on management itself. These limitations in the effectiveness of the internal control from the audit point of view may so reduce its value that the auditors will need to consider extending their audit procedures. This will require them to increase the amount of testing of transactions and to intensify the procedures for the verification of liabilities and assets.

(d) Scheme of auditing process:

For effective work one has to frame a proper scheme of work and determine the techniques that are needed for collection of purposeful evidence.

The scheme of auditing process envisages the following:

- (1) Formulating audit programme on the basis of knowledge of client's business.
- (2) Determination of the extent of checking on the basis of compliance procedures.
- (3) Carrying out the steps in the procedure on the basis of programme and the extent of substantive checking that may be required.
- (4) Keeping a record of notes and inquiries and maintenance of working papers.

- (5) Formulation of opinion about financial statements and review with reference to accounting standards.
- (6) Issuance of the audit report.

Question 6

- (a) *Discuss in brief the design and procedural characteristics of CIS systems that are different from those found in manual systems.* **(4 Marks)**

OR

CA David was the auditor of Wood-pack Ltd. for the year 2018-19. The company has failed to pay the dues of CA David; hence he is contemplating on retaining the books & documents of the company that are in his possession. Is the action of CA David valid? If yes, what are the conditions that should be looked into before retaining the books and documents of the client?

- (b) *While auditing the books of M/s. PQR Ltd., the auditor notices certain deviations from the controls. What are the specific inquiries that should be done by the auditor when deviations from controls are detected?* **(3 Marks)**

- (c) *In terms of the revised Preface, rename the Auditing and Assurance Standards based on the type of assurance, provide also list of Standards with their numerical series.*

(4 Marks)

- (d) *PQR Ltd. wants to buy-back its own securities in the following manner:*

- (i) *Buy-back equal to 8% of the paid-up share capital + free reserves in the current year.*
- (ii) *Buy-back equal to 20% of the paid-up 'share capital + free reserves in the next year.*
- (iii) *Buy-back equal to 30% of the total paid-up share capital + free reserves in the 3rd year.*

They want your advice as to the kind of resolution to be passed and by whom in all the cases. **(3 Marks)**

Answer

- (a) **Design and Procedural Characteristics of CIS System:** The development of CIS system will generally result in design and procedural characteristics that are different from those found in manual systems. These different design and procedural aspects of CIS systems include:

- (i) Consistency of performance—CIS systems performed functions exactly as programmed and are potentially more reliable than manual systems, provided that all transaction types and conditions that could occur are anticipated and incorporated into the system. On the other hand, a computer program that is not correctly programmed and tested may consistently process transactions or other data erroneously.

- (ii) Programmed control procedures—the nature of computer processing allows the design of internal control procedures in computer programs. These procedures can be designed to provide controls with limited visibility (e.g. protection of data against unauthorized access may be provided by passwords). Other procedures can be designed for use with manual intervention, such as review of reports printed for exception and error reporting, and reasonableness and limit checks of data.
- (iii) Single transaction update of multiple or data base computer files—a single input to the accounting system may automatically update all records associated with the transaction (e.g. shipment of goods documents may update the sales and customers' accounts receivable files as well as the inventory file). Thus, an erroneous entry in such a system may create errors in various financial accounts.
- (iv) Systems generated transactions—certain transactions may be initiated by the CIS system itself without the need for an input document. The authorization of such transactions may not be evidenced by visible input documentation nor documented in the same way as transactions which are initiated outside the CIS (e.g., interest may be calculated and charged automatically to customers' account balances on the basis of pre-authorized terms contained in a computer program).
- (v) Vulnerability of data and program storage media—large volumes of data and the computer programs used to process such data may be stored on portable or fixed storage media, such as magnetic disks and tapes. These media are vulnerable to theft, or intentional or accidental destruction.

OR

(a) Right of lien on books of accounts by auditor:

An auditor can exercise lien on books and documents placed at his possession by the client for non-payment of fees, for work done on the books of documents subject to the following conditions:

- (i) Documents retained must belong to the client who owes the money.
- (ii) Documents must have come into possession of the auditor on the authority of the client. They must not have been received through irregular or illegal means. In case of a company client, they must be received on the authority of the Board of Directors.
- (iii) The auditor can retain the documents only if he has done work on the documents assigned to him.
- (iv) Such of the documents can be retained which are connected with the work on which fees have not been paid.

In the given situation, Wood- pack Ltd. Company has failed to pay the dues of CA David. If CA David fulfil above conditions then action taken by him is valid and he can retain the books and documents of the client.

(b) **Deviations from Internal Control:** When deviations from controls upon which the auditor intends to rely are detected, the auditor shall make specific inquiries to understand these matters and their potential consequences, and shall determine whether:

- (i) The tests of controls that have been performed provide an appropriate basis for reliance on the controls;
- (ii) Additional tests of controls are necessary; or
- (iii) The potential risks of misstatement need to be addressed using substantive procedures.

In the given situation the auditor of PQR Ltd should make abovementioned specific inquiries after noticing deviation from the controls.

(c) **Renaming, Re-numbering and Categorisation of Auditing and Assurance Standards:**

In terms of the Revised Preface, the Auditing and Assurance Standards are now renamed based on the type of assurance provided by the engagement undertaken by a member, viz.,

- **Standards on Auditing (SAs)**- These applies in the audit of historical financial information.
- **Standards on Review Engagements (SREs)**- These applies in the review of historical financial information.
- **Standards on Assurance Engagements (SAEs)**- These applies in assurance engagements, dealing with subject matters other than historical financial information.
- **Standards on Related Services (SRSs)**- These applies to engagements to apply agreed upon procedures to information and other related services engagements such as compilation engagements.

The type of standards and the numerical series are as follows:

| Type of Standard | Numerical Series |
|---|------------------|
| Standards on Quality Control (SQC) | 01-99 |
| Standards on Auditing (SAs) | 100-999 |
| Standards on Review Engagements (SREs) | 2000-2699 |
| Standards on Assurance Engagements (SAEs) | 3000-3699 |
| Standards on Related Services (SRSs) | 4000-4699 |

(d) The Companies Act, 2013 under Section 68 no company shall purchase its own shares or other specified securities unless (a) the buy-back is authorised by its articles and a special resolution has been passed in general meeting of the company authorising the

buy-back However, the above provisions do not apply where the buy back is 10% or less of the paid-up equity capital free reserves and is authorized by a board resolution passed at a duly convened meeting of the directors.

In the given situation PQR Ltd. wants to buy back its own securities. PQR Ltd. is required to comply with the criteria's to be fulfilled such as:

- (i) buy back is equal to 8% of paid up equity + free reserves in the current year, the same may be done with the **authorization of the Board Resolution** passed by **Board of Directors**.
- (ii) buy back is equal to 20% of paid up equity + free reserves in the next year, the same may be done with **special resolution** of its **members being passed at a general meeting** of the company.
- (iii) buy-back is 30% of the total paid-up capital and free reserves in the 3rd year **is not valid** as no company shall purchase its own shares or other specified securities unless buy-back is equal or less than 25% of the total paid-up capital and free reserves of the company.