Paper – 6 : Auditing and Assurance

*Question No.**1** is compulsory.*

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

Question 1

Examine with reasons whether the following statements are correct or incorrect. (Answer any seven out of eight)

(a) The auditor's reporting on internal financial control will be applicable with respect to interim financial statements.

(b) Under a properly framed audit programme by the auditor, the danger is significantly less and audit can proceed systematically.

(c) All entities that are under common control by a state (i.e., national, regional or local government) are considered related party.

(d) Provision of CARO, 2016 is not applicable to ABC Pvt. Ltd., a subsidiary of XYZ Ltd. (a public company) having fully paid up Capital and Reserves & Surplus of ₹ 50 lakhs, Secured loan from bank of ₹ 90 Lakhs and Turnover of ₹ 5 Crore, for the financial year 2018-19.

(e) CA K has resigned as an auditor after 2 months of his appointment in NML Ltd. *He needs to file ADT-3 with the Registrar within 60 days from the date of resignation.*

(f) The non-statistical sampling is criticized on the grounds that it is neither objective nor scientific.

(g) The auditor's substantive procedure at the assertion level means substantive analytical procedures only.

(h) For an auditor, the Risk assessment procedure provides sufficient appropriate audit evidence to base the audit opinion. ***(2 x 7 = 14 Marks)***

Answer

(a) Incorrect: Clause (i) of Sub-section 3 of Section 143 of the Act requires the auditors' report to state whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls.

It may be noted that auditor's reporting on internal financial controls is a requirement specified in the Act and, therefore, will apply only in case of reporting on financial statements prepared under the Act and reported under Section 143.

Accordingly, reporting on internal financial controls will not be applicable with respect to interim financial statements, such as quarterly or half-yearly financial statements, unless such reporting is required under any other law or regulation.

(b) Correct: Without a written and pre-determined programme, work is necessarily to be carried out on the basis of some 'mental' plan. In such a situation there is always a danger of ignoring or overlooking certain books and records.

Thus under a properly framed programme, the danger is significantly less and the audit can proceed systematically.

(c) Incorrect: Entities that are under common control by a state (i.e., a national, regional or local government) are not considered related unless they engage in significant transactions or share resources to a significant extent with one another.

(d) Incorrect: The CARO specifically **exempts** a private limited company, not being a subsidiary or holding company of a public company, having a paid up capital and reserves and surplus not more than rupees 1 crore as on the balance sheet date and which does not have total borrowings exceeding rupees 1 crore from any bank or financial institution at any point of time during the financial year and which does not have a total revenue as disclosed in Scheduled III to the Companies Act, 2013 (including revenue from discontinuing operations) exceeding rupees 10 crore during the financial year as per the financial statements.

From the above, it is clear that ABC Pvt. Ltd. is a subsidiary of XYZ Ltd. and hence not exempt from CARO, 2016 although it is satisfying the conditions that allow exemption to private limited company which is not a subsidiary or holding company of a public company

(e) Incorrect: As per section140(2) of the Companies Act, 2013, the auditor who has resigned from the company shall file within a period of 30 days from the date of resignation, a statement in the prescribed Form ADT–3(as per Rule 8 of CAAR) with the company and the Registrar.

(f) Correct: The non-statistical sampling is criticized on the grounds that it is neither objective nor scientific. The expected degree of objectivity cannot be assured in non-statistical sampling because the risk of personal bias in selection of sample items cannot be eliminated. The closeness of the qualities projected by the sample results with that of the whole population cannot be measured because the sample has not been selected in accordance with the mathematically based statistical techniques.

(g) Incorrect: The auditor's substantive procedures at the assertion level may be tests of details, substantive analytical procedures, or a combination of both. The decision about which audit procedures to perform, including whether to use substantive analytical procedure, is based on the audtior's judgment about the expected effectiveness and efficiency of the available audit procedures to reduce audit risk at the assertion level to an acceptably low level.

(h) Incorrect: The auditor shall perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels. Risk assessment procedures by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit opinion.

Question 2

(a) The auditor shall plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated. Discuss any four examples of professional skepticism. ***(4 Marks)***

(b) In establishing overall audit strategy, the auditor shall ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required. Elucidate those cases by which auditor can ascertain the reporting objectives of the engagement. ***(4 Marks)***

(c) The engagement partner shall take the responsibility for the overall 'quality on each audit engagement to which that partner is assigned. Discuss with reference to SA 220 "Quality Control for an audit of financial statements".

(3 Marks)

(d) 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 any three situations where IT will be relevant to an audit.

(3 Marks)

Answer

(a) Professional skepticism includes being alert to, for example:

(i) Audit evidence that contradicts other audit evidence obtained.

(ii) Information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence.

(iii) Conditions that may indicate possible fraud.

(iv) Circumstances that suggest the need for audit procedures in addition to those required by the SAs.

(v) Maintaining professional skepticism throughout the audit is necessary if the auditor is to reduce the risks of:

(a) Overlooking unusual circumstances.

(b) Over generalising when drawing conclusions from audit observations.

(c) Using inappropriate assumptions in determining the nature, timing, and extent of the audit procedures and evaluating the results thereof.

(b) In establishing the overall audit strategy, auditor shall ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required. The cases by which auditor can ascertain the reporting objectives of the engagement are:

(i) The entity's timetable for reporting, such as at interim and final stages.

(ii) The organization of meetings with management and those charged with governance to discuss the nature, timing and extent of the audit work.

(iii) The discussion with management and those charged with governance regarding the expected type and timing of reports to be issued and other communications, both written and oral, including the auditor's report, management letters and communications to those charged with governance.

(iv) The discussion with management regarding the expected communications on the status of audit work throughout the engagement.

(c) 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:

(a) 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

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

(d) 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.

Question 3

(a) Discuss the various points which auditor needs to consider in determining whether it is appropriate to use audit evidence about operating effectiveness of controls obtained in previous audit, and if so, the length of the time period that may elapse before retesting. ***(4 Marks)***

(b) Validity and consequence of issue of shares at discount, check with respect to the provisions of the Companies Act, 2013. ***(4 Marks)***

(c) Explain the disclosure requirements of IND AS compliant Schedule III to Companies Act, 2013 for each component of "Other Equity." ***(3 Marks)***

(d) Discuss the audit procedure to be considered by an auditor while performing analytical procedure to obtain audit evidence as to overall reasonableness of purchase quantity and price. ***(3 Marks)***

Answer

(a) In determining whether it is appropriate to use audit evidence about the operating effectiveness of controls obtained in previous audits, and, if so, the length of the time period that may elapse before retesting a control, the auditor shall consider the following:

i. The effectiveness of other elements of internal control, including the control environment, the entity's monitoring of controls, and the entity's risk assessment process;

ii. The risks arising from the characteristics of the control, including whether it is manual or automated;

iii. The effectiveness of general IT-controls;

iv. The effectiveness of the control and its application by the entity, including the nature and extent of deviations in the application of the control noted in previous audits, and whether there have been personnel changes that significantly affects the application of the control;

v. Whether the lack of a change in a particular control poses a risk due to changing circumstances; and

vi. The risks of material misstatement and the extent of reliance on the control.

(b) Shares issued at discount:

(i) As per section 53 of the Companies Act, 2013, a company shall not issue share at a discount, except in the case of an issue of sweat equity shares given under section 54 of the Companies Act, 2013. Any share issued by a company at a discounted price shall be void.

(ii) The auditor needs to 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 authorising issue of share capital and the issue price.

(iii) Where a company contravenes the provisions of this section, the company shall be punishable with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees: and

(iv) every officer who is in default shall be punishable with imprisonment for a term which may extend to six months or with fine which shall not be less than one lakh rupees, or with both.

(c) For each component of other equity, whether the company has disclosed the following (to the extent applicable):

(i) Balance at the beginning of the reporting period

(ii) Changes in accounting policy or prior period error

(iii) Restated balance at the beginning of the reporting period

(iv) Total comprehensive income for the year end

(v) Dividends

(vi) Transfer to retained earnings

(vii) Any other change (to be specified)

(viii) Balance at the end of reporting period

(d) Auditor needs to perform analytical procedures to obtain audit evidence as to overall reasonableness of purchase quantity and price which may include:

(i) **Consumption Analysis:** Auditor 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 management if any significant variations found.

(ii) **Stock Composition Analysis:** Auditor to collect the reports from management for composition of stock i.e. raw materials as a percentage of total stock and compare the same with compare the same with previous years and ask for the reasons from management if any significant variations found.

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

(iv) Auditor should review **quantitative reconciliation** of closing stocks with opening stock, purchases and consumption.

Question 4

(a) Discuss the points to be considered by auditor for the purpose of constructing an audit programme. ***(4 Marks)***

(b) "Before the commencement of audit, the joint auditors should discuss and develop a joint audit plan." Discuss the points to be considered in developing the joint audit plan by the joint auditors. ***(4 Marks)***

(c) Board of Directors of MN Ltd. wants to appoint CA B*, a practicing Chartered Accountant, as an internal auditor of the company as they believe that they could not appoint any other person as an internal auditor other than practicing chartered accountant.* ***(3 Marks)***

Examine the correctness of the statement of Board of Directors of MN Ltd. with respect to provisions of Companies Act, 2013.

(d) CA A, auditor of ABC Ltd. wants to design substantive analytical procedure and for that he wants to check whether the data is reliable or not. Mention the relevant points which he has to consider whether data is reliable for purpose of designing the substantive analytical procedures. ***(3 Marks)***

Answer

(a) For the purpose of programme construction, the following points should be kept in mind:

(i) Stay within the scope and limitation of the assignment.

(ii) Determine the evidence reasonably available and identify the best evidence for deriving the necessary satisfaction.

(iii) Apply only those steps and procedures which are useful in accomplishing the verification purpose in the specific situation.

(iv) Consider all possibilities of error.

(v) Co-ordinate the procedures to be applied to related items.

(b) Before the commencement of the audit, the joint auditors should discuss and develop a joint audit plan. In developing the joint audit plan, the joint auditors should:

(i) Identify division of audit areas and common audit areas;

(ii) Ascertain the reporting objectives of the engagement;

(iii) Consider and communicate among all joint auditors the factors that are significant in directing the engagement team's efforts;

(iv) Consider the results of preliminary engagement activities, or similar engagements performed earlier.

(v) Ascertain the nature, timing and extent of resources necessary to accomplish the engagement.

(c) 1. As per section 138, the internal auditor shall either be a chartered accountant or a cost accountant (whether engaged in practice or not).

2. Or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the companies.

3. The internal auditor may or may not be an employee of the company.

Hence, the belief of Company is not correct.

(d) The following are the relevant points while determining whether data is reliable for purposes of designing substantive analytical procedures:

i. **Source of the information available**. For example, information may be more reliable when it is obtained from independent sources outside the entity.

ii. **Comparability o**f the information available. For example, broad industry data may need to be supplemented to be comparable to that of an entity that produces and sells specialized products.

iii. **Nature and relevance** of the information available. For example, whether budgets have been established as results to be expected rather than as goals to be achieved.

iv. **Controls** over the preparation of the information that are designed to ensure its completeness, accuracy and validity. For example, controls over the preparation, review and maintenance of budgets.

Question 5

(a) When corresponding figures are presented, the auditor's opinion shall not refer to the corresponding figures. Discuss the exceptions of the above statement when the prior period financial statements are audited. ***(4 Marks)***

(b) M Ltd. has given certain loans to related parties and also has accepted certain deposits. As an auditor, how will you include the above items in paragraph 3 of CARO, 2016?

(4 Marks)

(c) Briefly explain the policies and procedures of assembling the final audit file on a timely basis after the date of auditor's report under SQC-1. ***(3 Marks)***

(d) "Inadequate internal control over assets may increase the susceptibility of misappropriation of those assets." State any three examples of such occurrence of misappropriation of such assets. ***(4 Marks)***

Answer

(a) When corresponding figures are presented, the auditor's opinion shall not refer to the corresponding figures except in the following circumstance.

1. If the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modification is unresolved, the auditor shall modify auditor's report opinion on the current period's financial statements. In the basis for modification paragraph in the auditor's report the auditor shall either:

   (i) Refer to both the current period's figures and the corresponding figures in the description of the matter giving rise to the modification when the effects or possible effects of the matter on the current period's figure are material; or

   (ii) In other cases, explain that the audit opinion has been modified because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures.

2. If the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements on which an unmodified opinion has been previously issued, the auditor shall verify whether the misstatement has been dealt with as required under the applicable financial reporting framework and, if that is not the case, the auditor shall express a qualified opinion or an adverse opinion in the auditor's report on the current period financial statements, modified.

(b) 1. Clause (iii) of paragraph 3 of CARO, 2016 states

Whether the company has granted any loans, secured or unsecured to companies, firms, Limited Liability Partnerships or other parties covered in the register maintained under section 189 of the Companies Act, 2013. If so,

(i) Whether the terms and conditions of the grant of such loans are not prejudicial to the company's interest;

(ii) Whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;

(iii) if the amount is overdue, state the total amount overdue for more than ninety days, and whether reasonable steps have been taken by the company for recovery of the principal and interest;

2. Further, Clause (v) of paragraph 3 of CARO, 2016 states in case the company has accepted deposits,

(i) whether the directives issued by the Reserve Bank of India and the provisions of sections 73 to 76 or any: ether relevant provisions of the Companies Act, 2013 and the rules framed there under, where applicable, have been complied with? If not, the nature of such contraventions be stated;

(ii) If an order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal, whether the same has been complied with or not?

In the given situation, M Ltd. has given certain loans to related parties and also has accepted certain deposits. Thus, the auditor is required to report the same as per clause (iii) and (v) of Paragraph 3 of CARO, 2016.

(c) 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.

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.

(d) Inadequate internal control over assets may increase the susceptibility of misappropriation of those assets. For example, misappropriation of assets may occur because there is the following:

(i) Inadequate segregation of duties or independent checks.

(ii) Inadequate oversight of senior management expenditures, such as travel and other reimbursements

(iii) Inadequate record keeping with respect to assets.

(iv) Inadequate system of authorization and approval of transactions (for example, in purchasing).

(v) Inadequate physical safeguards over cash, investments, inventory, or fixed assets.

(vi) Lack of complete and timely reconciliations of assets.

(vii) Lack of timely and appropriate documentation of transactions, for example, credits for merchandise returns.

(viii) Lack of mandatory vacations for employees performing key control functions.

(ix) Inadequate management understanding of information technology, which enables information technology employees to perpetrate a misappropriation.

(x) Inadequate access controls over automated records, including controls over and review of computer systems event logs.

Question 6

(a) "There is no difference in provisioning of NPA as regards to categories of NPA, whether the debt is secured or unsecured." Critically evaluate the statement on the basis of provisioning norms of NPA of nationalised bank. ***(4 Marks)***

(b) In the case of audit of a charitable institution, what attentions should be paid by the auditor regarding audit of expenditure items? ***(4 Marks)***

OR

You have been appointed auditor of M/s. Divine Children Hospital. Discuss any four important points that would attract your attention while audit. ***(4 Marks)***

(c) The discussion between members of the engagement team members and the audit engagement partner should be done on the susceptibility of the bank's financial statements to material misstatements. Briefly discuss the points ordinarily included in discussion of the engagement team. ***(3 Marks)***

(d) There are certain points which are required to be considered specially in the audit of accounts of a partnership. Discuss any three points briefly. ***(3 Marks)***

Answer

(a) Classification as NPA should be based on the record of recovery. Availability of security or net worth of borrower/guarantor is not to be taken into account for purpose of treating an advance as NPA or otherwise. Further, asset classification would be borrower-wise and not facility-wise. All facilities including investments in securities would be termed as NPA.

There are different provisioning requirements as regards to categories of NPA such as Sub-standards assets, Doubtful assets and loss assets which are given below:

Categories of Non-Performing Assets:	**Provision required**
♦ **Substandard Assets:** Would be one, which has remained NPA for a period less than or equal to 12 months.	15%
♦ **Doubtful Assets:** Would be one, which has remained in the substandard category for a period of 12 months.	Secured+ Unsecured

♦ **Sub-categories**: Doubtful up to 1 Year (D1) Doubtful 1 to 3 Years (D2) Doubtful more than 3 Years (D3)	 25% + 100% 40% + 100% 100% + 100%
♦ **Loss Assets:** Would be one, where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly.	100%

(b) Audit of Expenditure of Charitable Institution:

(i) Vouching payment of grants also verifying that the grants have been paid only for a charitable purpose or purposes falling within the purview of the objects for which the charitable institution has been set up and that no trustee, director or member of the management committee has benefited there from either directly or indirectly.

(ii) Verifying the schedules of securities held, as well as inventories of properties both movable and immovable by inspecting the securities and title deeds of property and by physical verification of the movable properties on a test basis.

(iii) Check payment along with supporting documents in regard to salary and other expenses. Verify that all payments are made after proper sanction by appropriate authority.

(iv) Ascertaining that any funds contributed for a special purpose have been utilised for the purpose.

(v) Verifying the cash and bank balances/payments.

OR

(b) AUDIT OF HOSPITAL

The important points involved in such an audit are stated below-

(i) **Register of patients**: Vouch the Register of patients with copies of bills issued to them. Verify bills for a selected period with the patients' attendance record to see that the bills have been correctly prepared. Also see that bills have been issued to all patients from whom an amount was recoverable according to the rules of the hospital.

(ii) **Collection of Cash**: Check cash collections as entered in the Cash Book with the receipts, counterfoils and other evidence. For eg. copies of patients bills, counterfoils of dividend and other interest warrants, copies of rent bills etc.

(iii) **Income from Investments, Rent etc.**: See by reference to the property and Investment Register that all income that should have been received by way of rent on properties, dividends and interest on securities have been collected.

(iv) **Legacies and Donations**: Ascertain that legacies and donations received for a specific purpose have been applied in the manner agreed upon.

(v) **Reconciliation of Subscriptions**: Trace all collections of subscription and donations from the Cash Book to the respective Registers. Reconcile the total subscriptions due (as shown by the Subscription Register and the amount collected and that still outstanding).

(vi) **Authorisation and sanctions**: Vouch all purchases and expenses and verify that the capital expenditure incurred only with the prior sanction of the trustees of the Managing Committee and that appointments and increments to staff have been duly authorised.

(vii) **Grants and TDS**: Verify that grants, if any, received from Government or local authority has been duly accounted for. Also, that refund in respect of taxes deducted at source has been claimed.

(viii) **Budgets**: Compare the totals of various items of expenditure and income with the amount budgeted for them and report to the Trustees or the Managing Committee, significant variations which have taken place.

(ix) **Internal Check**: Examine the internal check as regards the receipt and issue of stores, medicines, linen, apparatus, clothing, instruments, etc. so as to ensure that purchases have been properly recorded in the Inventory Register and that issues have been made only against proper authorisation.

(x) **Depreciation**: See that depreciation has been written off against all the assets at the appropriate rates.

(xi) **Registers**: Inspect the bonds, share scrips, title deeds of properties and compare their particulars with those entered in the property and Investment Registers.

(xii) **Inventories**: Obtain inventories, especially of stocks and stores as at the end of the year and check the percentage of the items physically, also compare their total values with respective ledger balances.

(xiii) **Management Representation and Certificate**: Get proper Management Representation and Certificate with respect to various aspects covered during the course of audit.

(c) The engagement team discussion ordinarily includes a discussion of the following matters:

(i) Errors that may be more likely to occur;

(ii) Errors which have been identified in prior years;

(iii) Method by which fraud might be perpetrated by bank personnel or others within particular account balances and / or disclosure;

(iv) Audit responses to engagement risk, pervasive risks and specific risks;

(v) Need to maintain professional skepticism throughout the audit engagement,

(vi) Need to alert for information or other conditions that indicates that a material misstatement may have occurred (e.g. the bank's application of accounting policies in the given facts and circumstances).

(d) Matters which should be specially considered in the audit of accounts of a partnership:

(i) Confirming that the letters of appointment, signed by a partner, duly authorized, clearly states the nature and scope of audit contemplated by the partners, specially the limitation, if any, under which the auditor shall have to function.

(ii) Studying the minute book, if any, maintained to record the policy decision taken by partners specially the minutes relating to authorisation of extraordinary and capital expenditure, raising of loans, purchase of assets, extraordinary contracts entered into and other such matters as are not of a routine nature.

(iii) Verifying that the business in which the partnership is engaged is authorised by the partnership agreement or by any extension or modification thereof agreed to subsequently.

(iv) Examining whether books of account appear to be reasonable and are considered adequate in relation to the nature of the business of the partnership.

(v) Verifying generally that the interest of no partner has suffered prejudicially by an activity engaged in by the partnership which, it was not authorised to do under the partnership deed or by any violation of a provision in the partnership agreements.

(vi) Confirming that a provision for the firm's tax payable by the partnership has been made in the accounts before arriving at the amount of profit divisible among the partners.

(vii) Verifying that the profits and losses have been divided among the partners in their agreed profit sharing ratio.