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EPFO Auditing Edge

UPSC EPFO — APFC & EO/AO Examination

Assistant Provident Fund Commissioner • Enforcement / Accounts Officer

Concepts · Facts · Definitions + Solved PYQs (2023–2025)

8 solved PYQs • APFC 2023/2025 • EO/AO 2025 • Full-syllabus concept notes + options + answers + explanations

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Chapter-wise PYQ Frequency

#	Chapter	PYQs	Priority
1	Nature, Scope, Objectives & Types of Audit	1	HIGH
2	**Audit Planning**, Strategy, Programme & Documentation	3	VERY HIGH
3	**Audit Risk** & **Internal Control**	—	CORE (rising)
4	**Vouching** & **Audit Evidence**	2	VERY HIGH
5	**Verification** & **Management Assertions**	2	VERY HIGH
6	Company Audit, Reports, **CARO** & Special Audits	—	CORE (rising)
	TOTAL (mapped PYQs)	8	—

QUICK RECALL — How to use this document

- Read each chapter's **concept notes first** (definitions, tables and callout boxes) — they carry the facts EPFO tests; then work that chapter's **solved PYQs** at the end.
- Auditing is a **small but rising** area — all 8 verified PYQs come from **2023 and 2025**, clustered in **Planning/Documentation, Vouching and Verification**. Master these three first.
- **Chapters 3 and 6 (Risk/Internal Control and Company Audit/Reports/CARO) have no standalone PYQ yet** but are core syllabus and increasingly examinable — they are included for completeness.
- **Negative marking:** −⅓ per wrong answer — attempt only when you can eliminate at least two options.

PART I — FOUNDATIONS OF AUDITING

CHAPTER 1 · Nature, Scope, Objectives & Types of Audit

About this chapter

The foundation — what an audit is, what it does and does not cover, how it differs from accounting and investigation, and the full taxonomy of audit types by structure and practical need. The 2023 APFC 'scope of audit' trap comes from here.

1.1 What Auditing Is

Auditing = an **independent examination** of the financial information of an entity — irrespective of its profit motive, size or legal form — to **express an opinion** on the truth and fairness (**true and fair view**) of the financial statements.

The word derives from the Latin *audire* (to hear).

1.2 The Objective Ladder

FACT — Objectives of an audit

- Ultimate objective: obtain **reasonable assurance** that the financial statements are free from **material misstatement** and comply with the applicable reporting framework.
- Gather sufficient (quantity) and appropriate (quality) **audit evidence** — never absolute certainty.
- Form and communicate a professional opinion through the **audit report**, and communicate findings to those charged with governance per the **Standards on Auditing**.

1.3 Scope — What Audit Covers

Audit covers	Explanation
Accounting systems & internal controls	• Examines how transactions are recorded and controlled
Authenticity & validity of transactions	• Confirms transactions actually occurred and are genuine
Agreement of B/S & P&L with books	• Ties the statements back to the underlying records
Existence, title & value of assets; liabilities	• Verifies assets and liabilities on the Balance Sheet
Truth/fairness of results & disclosures	• Confirms the reported results and required disclosures
Statutory requirements & policies	• Checks compliance and disclosure of accounting policies

QUICK RECALL — What is NOT the auditor's role

- Preparation/maintenance of books of accounts is a management/accounting function, NOT the audit function — the core 2023 APFC trap.
- The auditor examines and reports; it does not prepare the accounts or guarantee the entity's future viability.

1.4 Audit vs Investigation vs Accounting

Audit	Investigation
• Routine; gives **reasonable assurance** on the financial statements	• Triggered by a suspicion or a specific concern
• Overall opinion on the financial statements	• Detailed examination of a defined issue
• No preconceived wrongdoing	• A prima-facie concern may drive the work

Audit	Investigation
• Broad, financial-statement scope	• Narrow, issue-focused scope

FACT — Distinctions

- Audit vs Accounting: accounting *prepares/records and presents* financial information; auditing *independently examines* it and expresses an opinion.
- **Reasonable assurance** ≠ absolute assurance — **audit risk**, judgement, concealed fraud, incomplete information and collusion prevent any guarantee of detecting every misstatement.

1.5 Why an Audit Is Commissioned — Advantages

VALUE ADDITION — Advantages of audit

- Safeguards the interests of **stakeholders outside management** — shareholders, lenders, members and donors.
- Acts as a **moral check** on employees against fraud and embezzlement.
- Accepted basis for settling **tax assessments, bank loans and purchase consideration**.
- Evidence in **trade disputes, wage negotiations and insurance/damage claims**.
- Detects **wastage and losses** through benchmarking and efficiency analysis; ensures **proper book-keeping** and rectifies deficiencies.
- Reviews **operational controls** and highlights weaknesses; aids **settlement of partners' accounts** on admission, retirement or death.
- Required by government for certain **licences and trade assistance**.

1.6 Inherent Limitations of Audit

QUICK RECALL — Why assurance can only be reasonable

- **Audit risk** — some misstatements may always escape detection; the opinion carries **reasonable, not absolute, assurance**.
- **Judgement in financial reporting** — management estimates (e.g. **provision for doubtful debts**) may legitimately differ from the auditor's view.
- **Limitations of audit procedures** — information withheld or incomplete, **concealed fraud**, and **collusion** among employees.
- MCQ line: the auditor reports on **truth and fairness**; it never certifies **absolute accuracy**, nor guarantees future solvency.

1.7 Auditing and Allied Disciplines

Discipline	How it feeds the audit
Accounting	• **Foundation of audit** — the auditor reviews and analyses accounting output
Law	• Company law, tax law and business regulation drive compliance testing
Economics	• Reasonableness of projections, peer and industry comparison
Behavioural science	• Assessing **integrity, motivation and ethics** of management and staff
Statistics & mathematics	• **Sampling**, **test checks**, computations and valuations
Data processing	• Analytical tools and data mining for large data sets (**EDP audit**)
Financial management	• Ratios, fund flow and capital budgeting support audit conclusions
Production	• Process knowledge aids inventory, **cost audit** and **verification**

1.8 Materiality — The Two Flavours

FACT — Materiality and the 'not misleading' test

- **Quantitative materiality**: revenue of ₹100 crore recorded twice in a ₹10,000 crore entity — the **amount itself** distorts the statements.
- **Qualitative materiality**: a ₹1,00,000 liability shown as an asset — small in size, but it **alters a user's judgement**, hence material.
- Six tests of a non-misleading statement: **relevance** of entries, **completeness**, **sufficient & appropriate evidence**, **unambiguous presentation**, proper **classification & disclosure**, and a **true & fair view** free of material error or fraud.
- Evidence example: a **GST invoice** for inventory is appropriate evidence; a **missing invoice** for machinery purchased is insufficient evidence.

1.9 Internal Audit & Types of Audit

Type	Purpose	By whom / when
Internal audit	• Risk, control & governance appraisal	• **Internal audit**ors • Periodic/ongoing
Statutory audit	• Opinion on fairness of financial statements	• External auditor • Generally annual
Concurrent audit	• Accuracy/authenticity of transactions	• External agency • Continuous

VALUE ADDITION — Audit-type one-liners

- Statutory (required by law) · Private/non-statutory (voluntary, scope by agreement) · Government (accountability & compliance, by the **CAG**).
- Continuous (throughout the year) · Annual/final (at year-close) · Balance-sheet (capital/reserves/assets/liabilities) · Interim (during the year, specific purpose).
- Concurrent = transaction-oriented and continuous; internal = broader risk/control/governance appraisal (don't confuse them).

1.10 Audit Types by Practical Need

Type	Focus	Watch-out
Continuous	• Checked **throughout the year** at regular intervals — large entities, banks, weak internal check	• Risk of **alteration of records already checked**; cost and disruption
Interim	• Conducted **mid-year** for a purpose, e.g. an **interim dividend**	• Speeds up the final audit, but needs extra effort
Annual / final	• Taken up **after the year closes**, once the accounts are finalised	• Time pressure at the year end
Balance sheet	• Works **backwards from the Balance Sheet** — capital, reserves, assets, liabilities	• Does **not** examine P&L items in detail
Cash	• Cash receipts, payments, vouchers and **bank statements**	• Narrow — covers only the cash cycle
Complete	• **Every** transaction, total and account examined	• Impractical for large entities — hence **sampling**
Partial	• A **single area** only, e.g. cash handling	• Scope must be fixed in writing with the client

Type	Focus	Watch-out
Detailed	• Deep review of one process, e.g. **sales and collections**	• Deeper than partial, narrower than complete
Operational	• Improving **future operations** and processes	• Internally an audit; externally it becomes consultancy
Propriety	• **Validity of expenditure** and contracts, no revenue leakage, assets safe	• Public-sector emphasis; judgement-based
Performance	• Relation between **production and sales**, profit maximisation, efficiency	• Overlaps with **operational audit**
Environmental	• Compliance with **environmental laws**, waste handling, eco-friendly operations	• Often driven by **Pollution Control Boards**

1.11 Required by Law vs Voluntary

QUICK RECALL — Two bases of classification

- **Basis 1 — organisational structure**: statutory · private (non-statutory) · government · **internal audit**.
- **Basis 2 — practical need**: continuous · annual · balance sheet · cash · cost · complete · partial · detailed · interim · management · propriety/performance · operational · environmental.
- **Audits required under law**: **statutory audit**, **tax audit**, **concurrent audit** — mandated by the Companies Act, Banking Regulation Act, Income-tax Act and similar statutes.
- **Voluntary audits**: no legal compulsion — undertaken for **grants and loans**, to strengthen **internal control**, or for transparency in non-profits (schools, clubs, hospitals).
- **Government audit** is overseen by the **CAG under the CAG (DPC) Act, 1971** — expenditure control, regulatory compliance, authorised payments, correct classification and valuation.

Solved PYQs — Nature, Scope & Objectives Of Audit

Q 1 · 2023 APFC · Q48 · Scope of audit

Which one of the following aspects is not covered in the audit?

(a) Examination of the system of accounting and internal control (b) Preparation of books of accounts (c) Reporting to the appropriate person/body (d) Verification of the authenticity and validity of transactions

Answer: (b) Preparation of books of accounts — Preparing/maintaining the books of accounts is a management/accounting function, not the auditor's role — the auditor only examines and reports.

Practice MCQs — Nature, Scope, Objectives & Types of Audit

MCQ 1 · Practice · Inherent limitations

Which of the following is an inherent limitation of auditing?

(a) Complete elimination of fraud (b) Absolute assurance on financial statements (c) Use of professional judgement (d) Full coverage of all transactions

Answer: (c) Use of professional judgement — An audit gives reasonable, not absolute, assurance — judgement, sampling and the persuasive nature of evidence are built-in limitations.

MCQ 2 · Practice · Types of audit

Which type of audit primarily focuses on compliance with regulatory requirements?

(a) Financial audit (b) Compliance audit (c) Internal audit (d) Operational audit

Answer: (b) Compliance audit — A compliance audit tests adherence to statutes, rules and internal policy, not the truth and fairness of the accounts.

MCQ 3 · Practice · Forensic audit

What is the primary objective of a **forensic audit**?

(a) To detect operational inefficiencies (b) To express an opinion on financial statements (c) To detect and investigate fraud and financial crimes (d) To ensure compliance with tax regulations

Answer: (c) To detect and investigate fraud and financial crimes — Forensic audit is investigative and evidence-gathering in nature, often for litigation support — opinion-giving is the statutory auditor's function.

MCQ 4 · Practice · Operational audit

Which of the following types of audit focuses on evaluating the efficiency and effectiveness of operations?

(a) Compliance audit (b) Operational audit (c) Financial audit (d) Tax audit

Answer: (b) Operational audit — Operational (management) audit appraises economy, efficiency and effectiveness and recommends improvements to future operations.

MCQ 5 · Practice · Statutory classification

Which of the following is not a type of audit recognised under the **Companies Act, 2013**?

(a) Statutory audit (b) Forensic audit (c) Cost audit (d) Internal audit

Answer: (b) Forensic audit — The Act provides for statutory audit (ss. 139–147), cost audit (s. 148) and internal audit (s. 138); forensic audit is not a category created by the Act.