

② - ⑥ - ⑦ - ⑩

# dronacharya

FOR  
**CA INTERMEDIATE**

2024

**Audit Strategy, Audit  
Planning & Audit Programme**

**Auditing & Ethics**

**ONE SHOT**



**Ankit Mundra Sir**





## Topic: Auditor's Responsibility to Plan an Audit of FS



SA 300 "Planning an Audit of FS"

Objective of the Auditor to plan an Audit



So that it can be performed Effectively



Timely Manner



## Topic: Benefits

- (1) Auditor Devotes → Appropriate Attention → Imp. Areas
- (2) Auditor  Potential Problems → Timely Basis
- (3) Auditor  Audit Engagement  

  - Effective
  - Efficient
- (4) Assisting in Selecting → Engagement Team Members
- (5) Facilitating 
  - Direction (D)
  - Supervision (S)
  - Review (R)

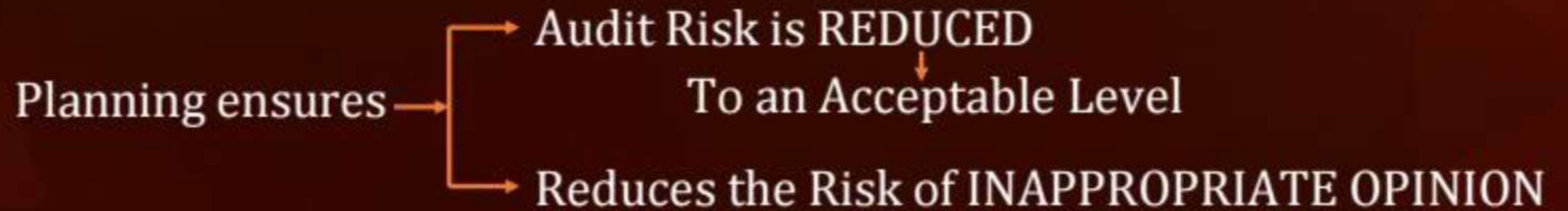




## Topic: Benefits



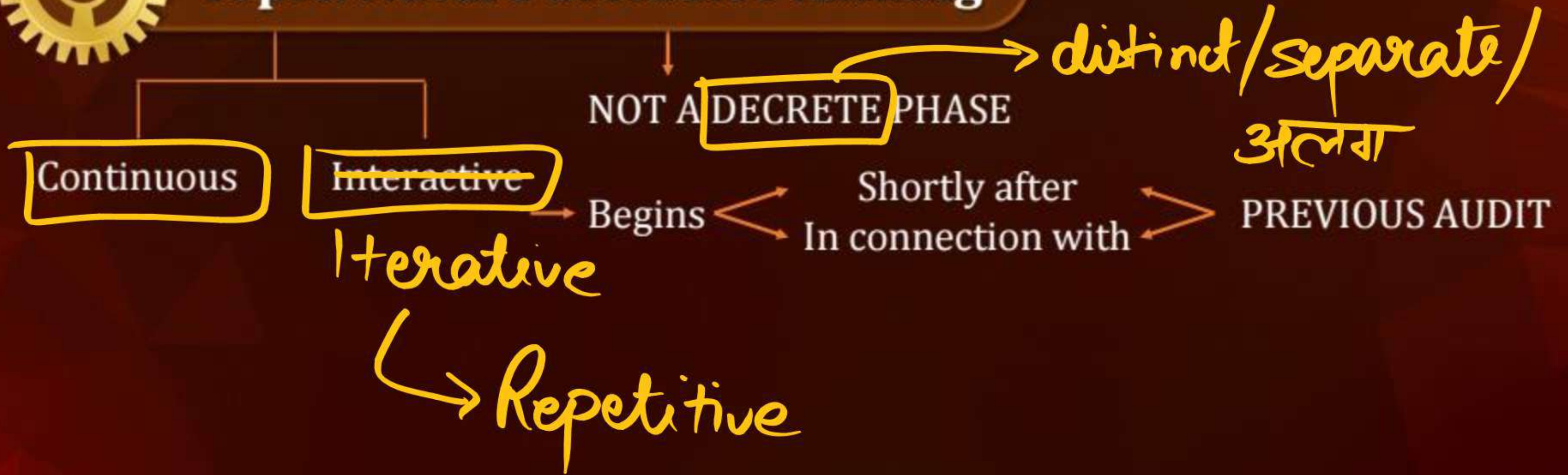
(6) Assisting → Coordination of work (Eg. Experts)







## Topic: Nature of Audit Planning







## Topic: Nature of Audit Planning

→ Continues → Until Completion → Current Audit  
→ EXTRA GYAAN → Audit Procedures

+  
Stages of Audit

Risk Assessment Procedures

(R.A.P)



SA 315

“Identification & Assessment of  
RoMM through understanding the  
Entity & its Environment”

Further Audit Procedures

(F.A.P)



SA 330

“Auditor’s Response to  
Assessed Risk”

└ Things to be done before R.A.P. → Consider

→ Inquiry  
→ Inspection  
→ Observation  
→ Recalculation  
→ Reproduction  
→ External Confirmation  
→ Analytical Procedure

Inquiry  
Inspection  
Observation  
Analytical  
Procedures





## Topic: Nature of Audit Planning

- (1) Analytical Procedures → to be applied as → RAP
- (2) General Understanding  
Entity Complying > LEGAL + REGULATORY Framework
- (3) Determination of Materiality
- (4) Involvement of Experts → Taking A/c. of Complexity of Business
- (5) Performance of other RAP

Planning Involves

- Engagement Partner
- Other key Members

- Experience
- Insight
- Enhance Eff. & EFF.

DISCUSSION OF ELEMENTS OF PLANNING → with Mgt

Auditor May Discuss → To Facilitate Conduct of Audit Engagement

NOT TO COMPROMISE THE EFFECTIVENESS OF AUDIT





# Topic: Planning Process - Elements of Planning

## Preliminary Engagement Activities

## Planning Activities

Procedure regarding continuance of Relationship



3<sup>rd</sup> Element of Sys. Of Q.C. + Communication with predecessor Auditor

Compliance with Ethical Requirements + Independence

(1) Consider → Threat to Independence

(2) Evaluate → Identified Breaches

(3) Take → Appropriate Action OR Withdraw

Understanding Terms of Engagement



Send Audit Engagement Letter

Establishing O.A.S



S T D  
[ of Audit ]

+

Guides Development of Audit Plan

Developing Audit Plan



- 1) Client → approach → Auditor → Request to audit
- 2) Preliminary Engagement Activities  $\begin{cases} \rightarrow 3^{rd} \\ \rightarrow 2^{nd} \end{cases}$  ] Element of O.C.  
 $\rightarrow$  SA 210
- 3) After signing of  $\begin{cases} \rightarrow$  Engagement letter \\  $\rightarrow$  Written Agreement \end{cases}
- Start Planning an Audit.
- 4) Determine  $\begin{cases} \rightarrow S \\ \rightarrow T \\ \rightarrow D \end{cases}$  of Audit  $\Rightarrow$  O.A.S  $\xrightarrow{\text{Guides}}$  Development of Audit Plan
- 5) Develop Audit Plan

6) Audit Programme  $\rightarrow$  Audit Procedures  $\begin{matrix} \leftarrow N \\ \leftarrow E \\ \leftarrow T \end{matrix}$

Suff + Appro. A.E.

$\hookrightarrow$  Conclusions

$\downarrow$   
Evaluation

$\downarrow$   
form opinion

$\downarrow$   
Express





## Topic: Planning Process -Elements of Planning

OAS → Assist Auditor → To Determine → AFTER R.A.P

Resources  
to DEPLOY  
(TYPE)

Amount of  
Resources  
(QTY.)

When to Deploy  
(TIME)

How to DEPLOY  
(HOW)

D

S

R

\* Factors to be considered → for establishing Audit Strategy

(A) Identify → Characteristic → of Engagement

App. F.R.F.

Nature of Business

Reporting  
Requirement

A.E. of L.Y.





## Topic: Planning Process - Elements of Planning

(B) Ascertain → Reporting Objectives → To Plan ↙ Nature (N)  
↘ Timing (T)

2

Entity's  
Timetable for  
Reporting

Meetings to  
Discuss

N E T  
[ of work ]

Mgt's Expectation

Type Timing Communication  
[ of Report ] of Status of  
Audit

Expected

N T  
[ of ]  
communication  
among Audit  
team member





## Topic: Planning Process -Elements of Planning


(C) Consider → Significant Factors → in directing → Team's Efforts

Volume of  
Transactions

Industry  
Judgements

$\Delta$  in FRF

$\Delta$  in Environment

(D) Consider → Result  Preliminary Engagement Activities  
Relevant Knowledge of Engagement Partner

(E) Ascertain → N.E.T. → of Resources Necessary

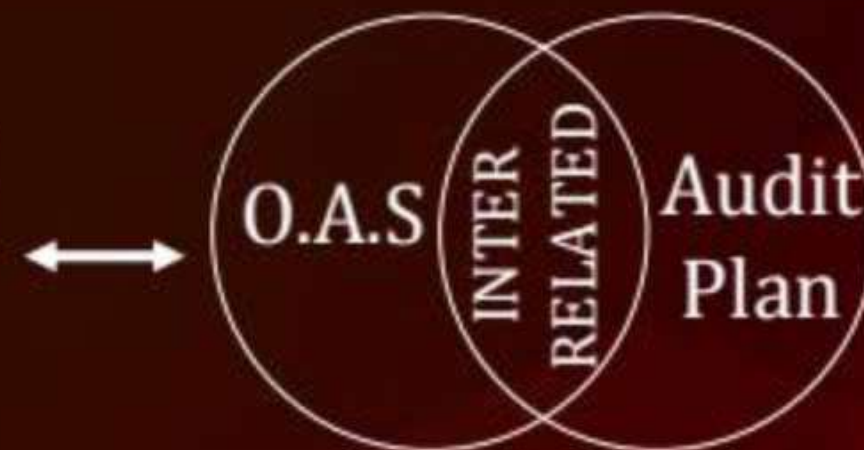
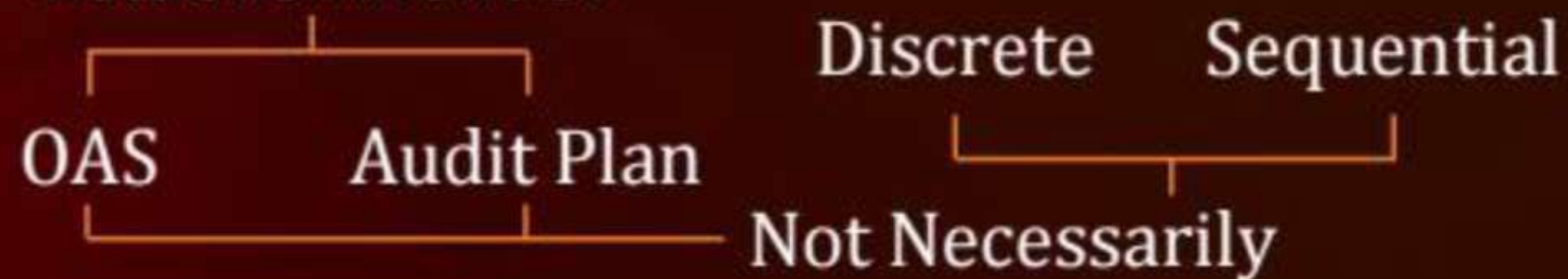




## Topic: Relation between Audit Strategy & Audit Plan

Audit Strategy	Audit Plan
Sets Broad Overall Approach	• Addresses Various Matters Identified in OAS
Determines $\left\{ \begin{array}{l} S \\ T \\ D \end{array} \right.$ of Audit	• Describes How Strategy is going to be implemented
Less Detailed than Audit plan	• More Detailed than OA's • Includes <del>Net</del> of Audit Procedures
OAS is established First	• Audit plan can be developed After OAS

\* Establishment of







## Topic: OAS & Audit Plan - Responsibility of Auditor



Responsibility → Remains with Auditor



May Discuss



Elements of Planning

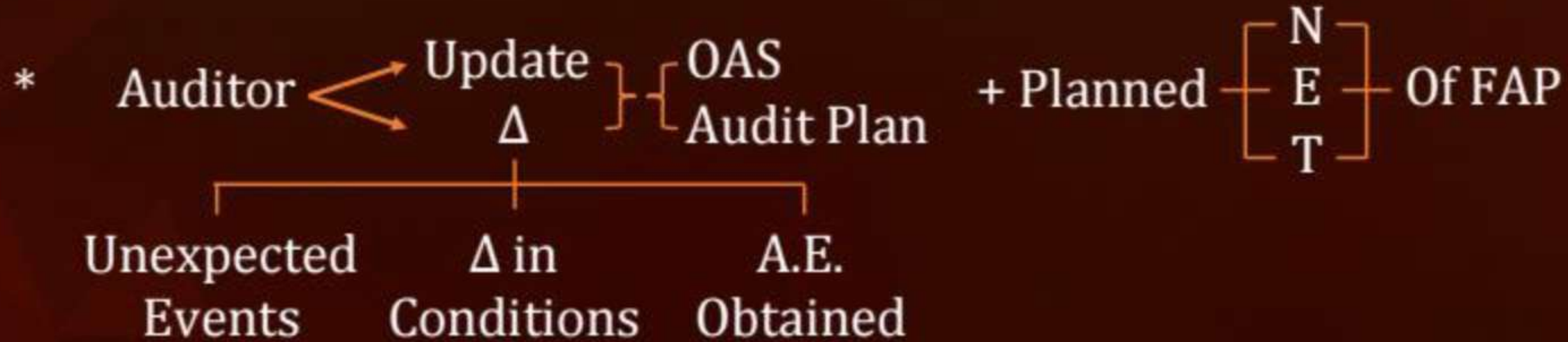


Without Compromising Effectiveness of Audit





## Topic: Changes to Planning Decision During the Course of Audit



- \* This happens when  $\rightarrow$  INFO  $\begin{cases} \text{at the time of Planning} \\ \text{In Auditor's attention} \end{cases}$  DIFFERS





## Topic: Planning Supervision & Review of Work of Engagement Team Members

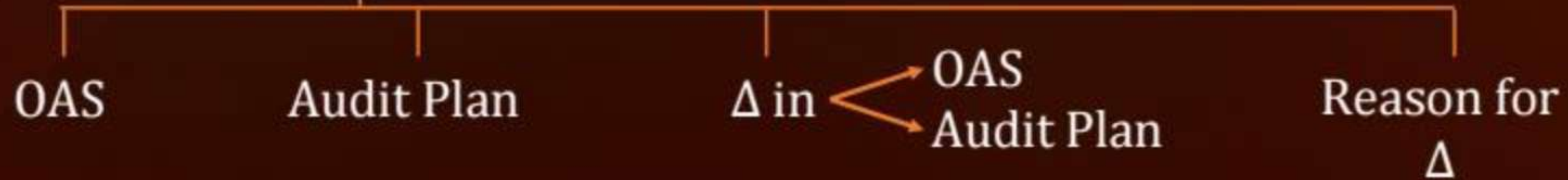
\* Auditor shall Plan  $\begin{bmatrix} N \\ E \\ T \end{bmatrix}$  of  $\begin{matrix} D \\ S \\ R \end{matrix}$   
↓  
Factors

- (1) Size Complexity of Entity
- (2) Area of Audit
- (3) Assessed RoMM
- (4) Capabilities Competence of the Engagement Team Members





## Topic: Documentation



- \* Documentation = Record of :-
  - (i) RAP & FAP
  - (ii) Proper Planning of Audit Procedures

Reviewed

Approved

- \* Auditor May Use → STANDARD
  - Audit Program
  - Audit Completion Check List

→ Tailored → as needed





# Topic: Audit Programme

Desirable → Particularly → Bigger ~~Auditors~~ <sup>Audits</sup>

List of Examination Verification Steps → to be Applied Set out In Away

OR

Detailed Plan of applying → Audit procedures ✓

Instructions → Appropriate Techniques

for accomplishing Audit Objectives

Interrelationship

of one step to another

Clearly Shown

Designed

Keeping in view the Assertions





## Topic: Evolving ONE audit Programme

↓  
NOT PRACTICABLE → or All Businesses

↓  
Vary in

├── Nature    ├── Size    ├── Composition    ├── I.C.    └── Work





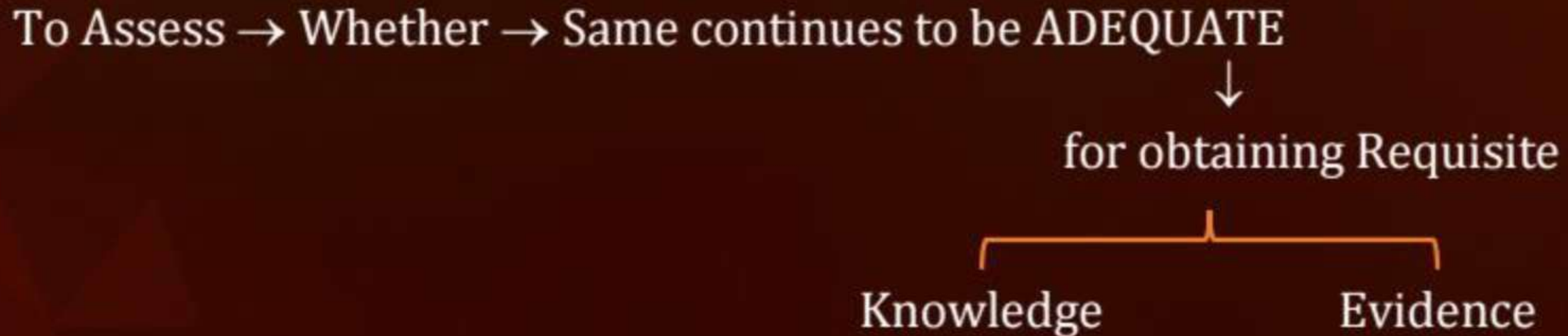
## Topic: Assistants to keep an Open Mind

- \* Auditor should frame → Audit Programme  
↓  
Aim → Providing for → MINIMUM Essential Work  
└──────────────────────────────────┘  
Standard Audit Programme
- \* Δs in Programme → up on Gaining Experience  
↓  
By actually carrying the work
- \* Assistants  
↓  
Open Mind  
↗ Note  
↘ Report  
↔ Significant Matters

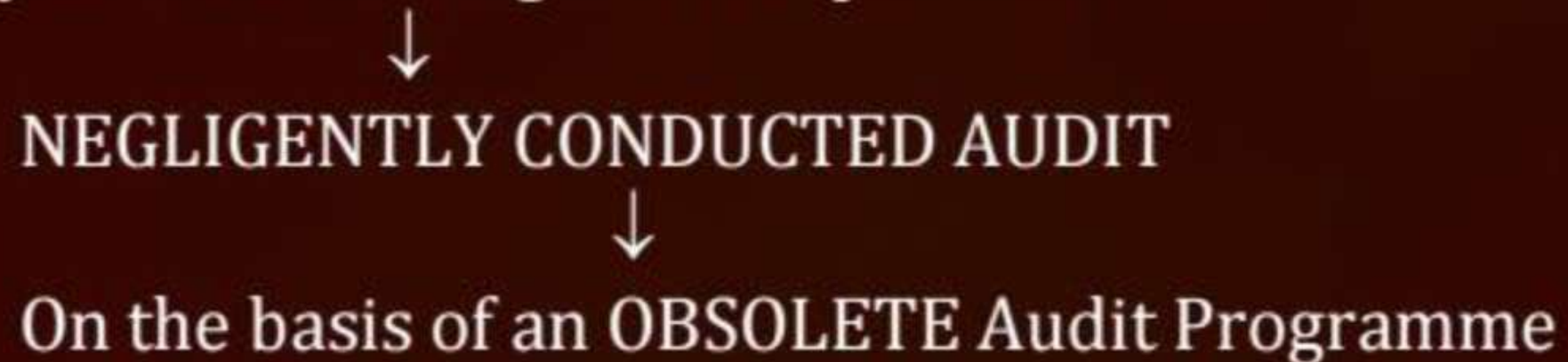




## Topic: Periodic Review of Audit Programme



\* Auditor → may have to face legal consequences







## Topic: Periodic Review of Audit Programme

\* Audit Assistants → Unfailingly → Follow Instructions of Audit Programme



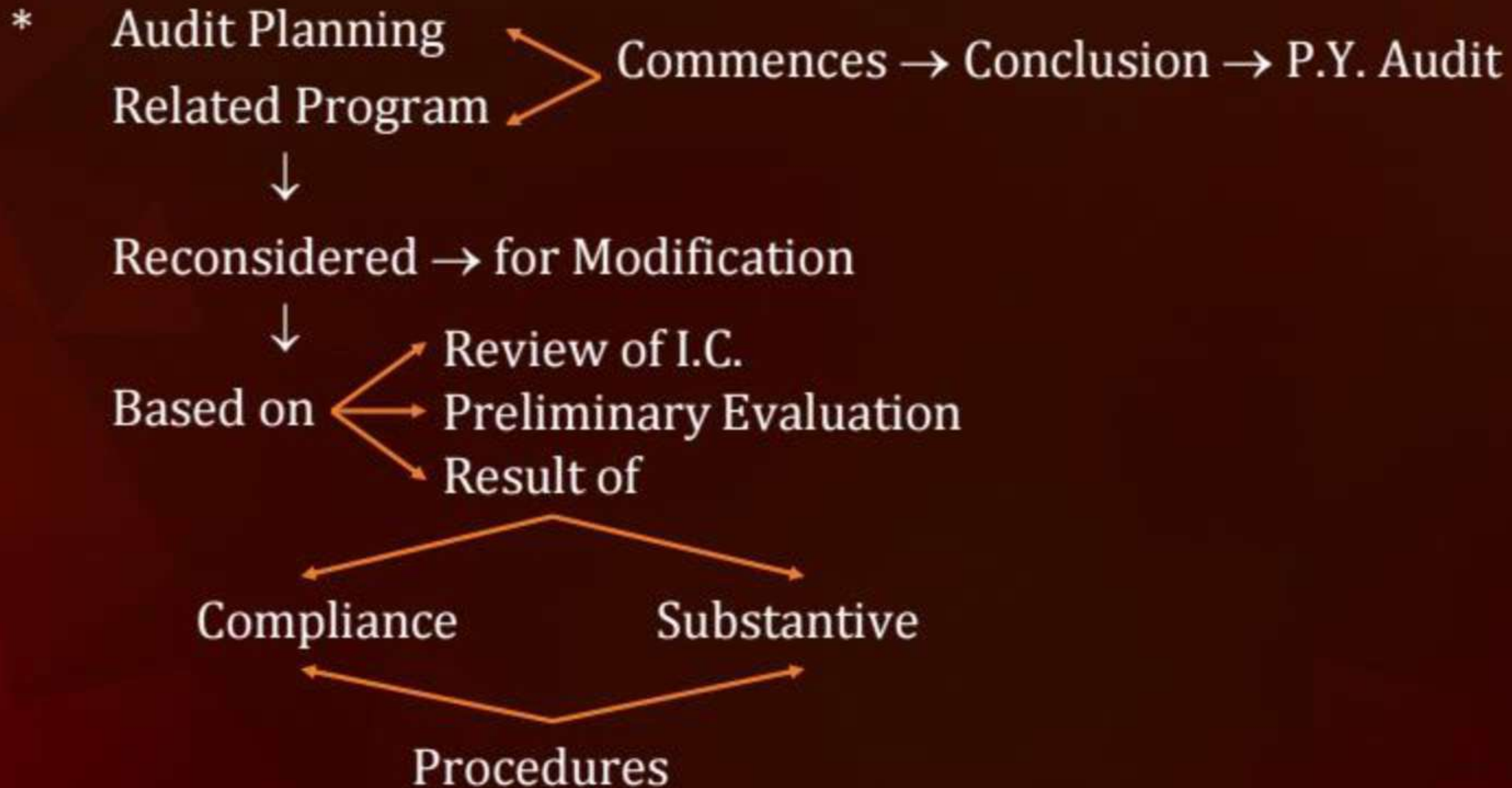
Until Changed by Principal

If periodic review is conducted → it removes RIGIDITY





## Topic: Constructing an audit programme







## Topic: Constructing an audit programme

\* While developing Audit Program →

(1) Auditor MAY

Rely on I.C.



Eff. & Eff. Way to  
conduct on Audit

Not to Rely on I.C.



Other more efficient way to  
obtain Suff. + Appro. A.E.





## Topic: Constructing an audit programme

- (2) Consider
- Timing of Procedure
  - Coordination with client
  - Availability of Assistants
  - Involvement of other
    - Auditor
    - Expert





## Topic: Constructing an audit programme

### (3) When to Perform Audit Procedure



#### \* Construction of Audit Programme:

(1) Stay within { Scope  
Limitation } of the assignment

(2) Prepare → Written Audit Programme

(3) Identify → Best Evidence



## Topic: Constructing an audit programme

- (4) Apply → Only useful steps
- (5) Include → Audit Objectives → of each area
- (6) Consider → Possibilities of Errors
- (7) Co-Ordinate → Procedures



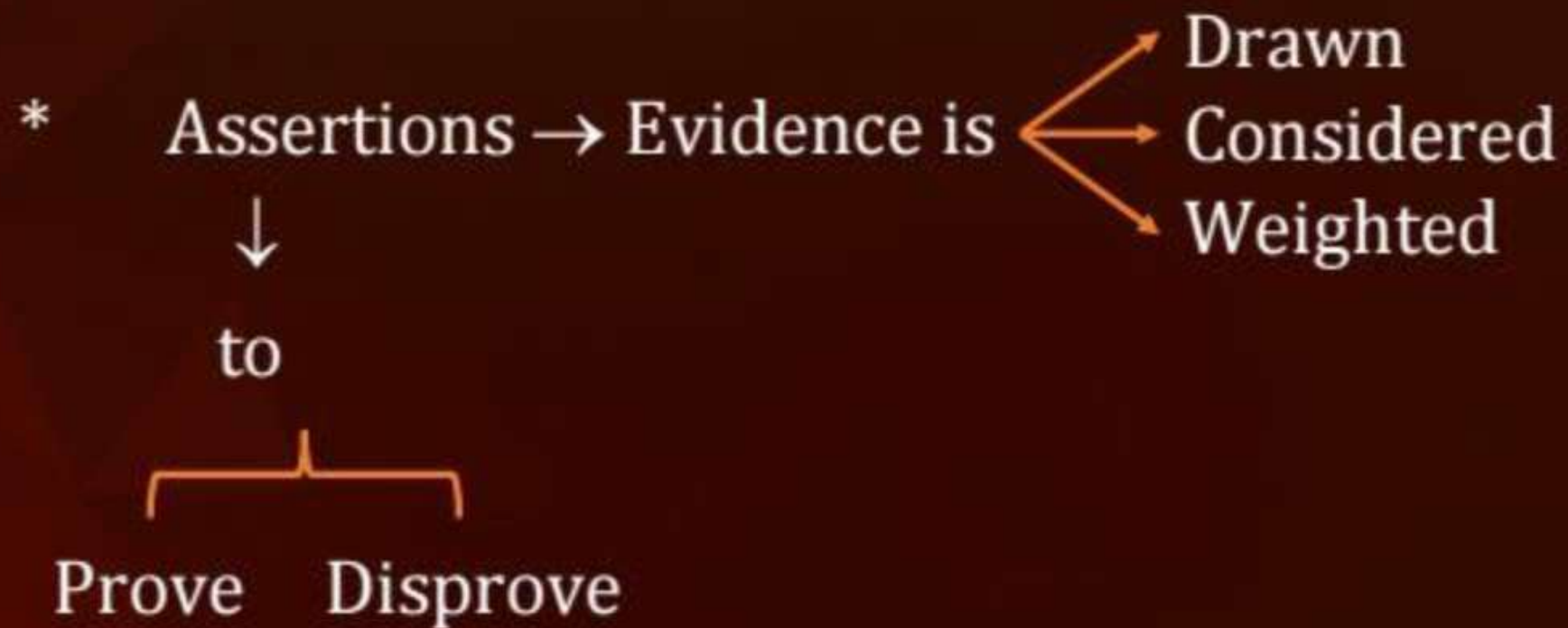


## Topic: Audit Programme - Designed to provide AE

- \* A.E. = INFO → used by Auditor → in Arriving @ Conclusion
    - ↓
    - Includes
    - ↓
    - Info. In
      - ┌ A/c. Records
      - └ Other Info.
  - \* A.E. → basis for formulation → of opinion
    - ↓
    - Audit Programme
      - ┌ Procedures
      - └ Techniques
- On which Auditor's Opinion is based



## Topic: Audit Programme - Designed to provide AE







## Topic: Advantages & Disadvantages of Audit programme



### Advantages

- (1) Total + Clear → Set of Instructions
- (2) Provide → Perspective → of work to be performed
- (3) Selection of capable assistants
- (4) Audit can proceed systematically
- (5) Work may be tracked back to the assistant
- (6) Principal can track progress
- (7) Serves as a guide for future Auditors
- (8) Serves as evidences





## Topic: Advantages & Disadvantages of Audit programme



### Disadvantages

- (1) Work → may become → mechanical
  - (2) Programme → trends to become
  - (3) Inefficient assistants → may take shelter
  - (4) Hard & Fast Audit Programme → may kill initiative
- Rigid
- Inflexible

### Disadvantages may be overcome by

Imaginative  
Supervision

Receptive  
Attitude

Observe Matters  
Objectively





## Topic: Audit Documentation



SA-230 → Auditor's Responsibility → Audit of

F.S



To Prepare

Other Historical Fin. Info.



To be adapted → As Necessary

→ Documentation Requirement

Other SAs



Do Not Limit the Application



of SA 230

Laws / Regulation



May establish



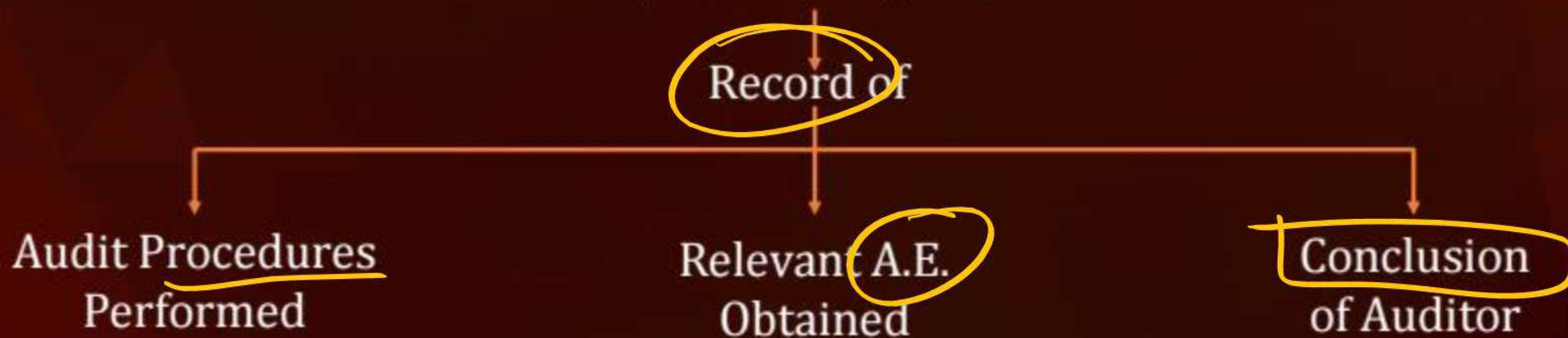
Additional Req.



## Topic: Definition of Audit Documentation



### Audit Documentation – SA 230 (Working Papers)







## Topic: Objective of the Auditor



Prepare Documentation → That provides

Suff. + Appro.



RECORD



Of the basis for → Audit Report

Evidence



Audit

Planned

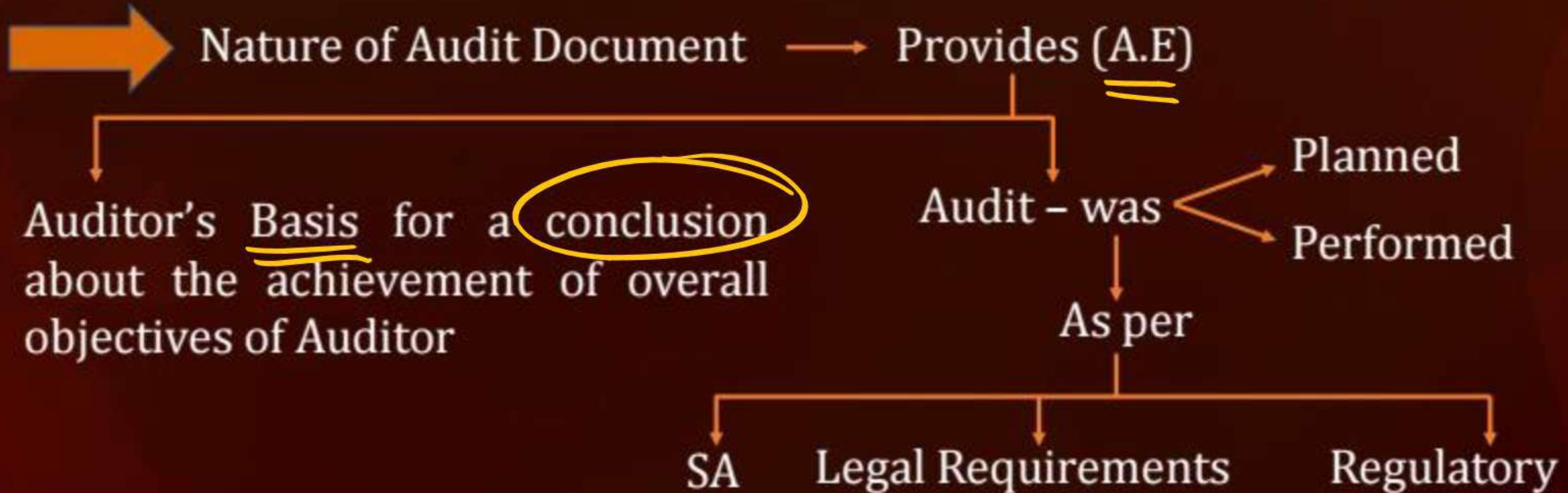
Performed

Acc. With

SAs



## Topic: Nature of Audit Documentation







## Topic: Purpose of Audit Documentation

- (i) Assisting → Engagement Team to 
{

Plan  
Perform

 An audit-
- (ii) Assisting → Member of Audit Team to 
{

D  
R  
S
- (iii) Making Engagement Team → Accountable for their work
- (iv) Retaining a Record → Of continuing Significance
- (v) Enable to Conduct of → Q.C 
{

Reviews  
Inspections
- (vi) Enabling the conduct of → External Inspection → In accordance with applicable
 

Legal  
↓  
Requirements

Regulatory  
↓  
Requirements

Other  
↓  
Requirements



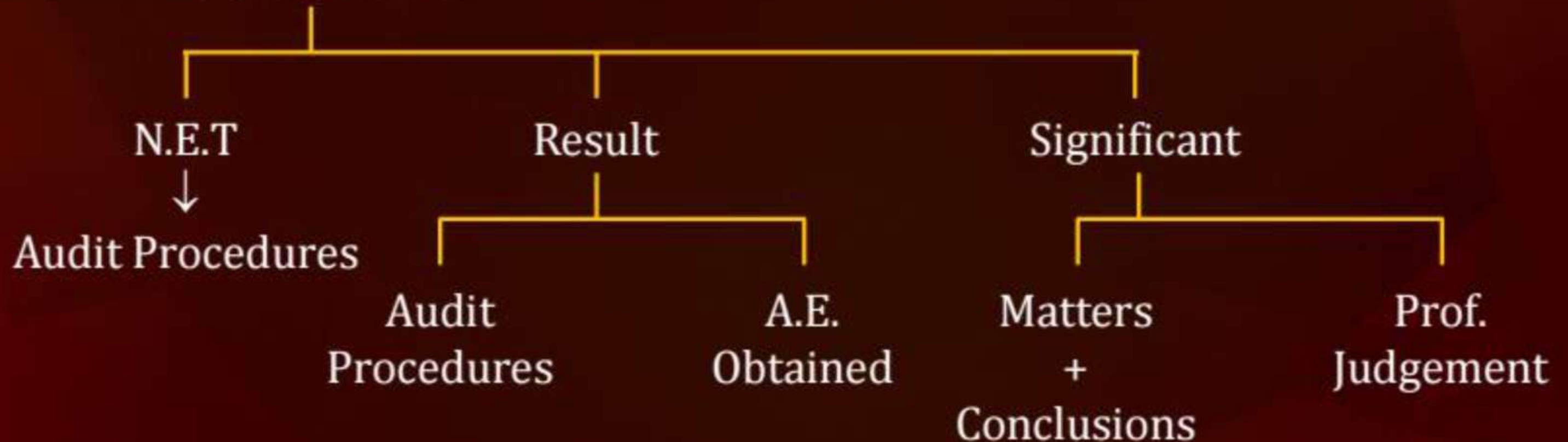
## Topic: Form, Content and Extent of Audit Documentation



→ Auditor → Prepares → Audit Documentation

↓  
Reasons

↓  
To Understand







## Topic: Form, Content and Extent of Audit Documentation



**Form, Extent & Content of Audit Document → Depends on:**

- (i) Size & Complexity of Entity.
- (ii) Nature of Audit Procedure to be performed
- (iii) Identified R<sub>o</sub>MM
- (iv) Significance of A.E. Obtained
- (v) The N.E of identified Exception
- (vi) Need / Basis for conclusion → not readily determinable from

Document

Work Performed

A.E  
Obtained

- (vii) The Audit Methodology & Tools Used





## Topic: Examples of Audit Documentation



### Audit Document includes

- (i) Audit Programs. ✓
  - (ii) Analysis ✓
  - (iii) Issued Memoranda (Plural of Memorandum) ✓
  - (iv) Summaries of Significant matters ✓
  - (v) Letter of Confirmation & Representation
  - (vi) Correspondence Concerning significant matters ✓
- Can make copies of entity's records (like contracts, etc.)
- Not a substitute for entity's A/c Records





## Topic: Timely Preparation of Audit Documentation



Enhances



Quality of Audit

Facilitates

Effective



Review

Evaluation

A.E.

Conclusions

Documentation Prepared → AFTER → Audit work is performed



Less ACCURATE



## Topic: Audit File

- Storage Media
- Physical or electronic form
- Containing records of Audit Document → Specific Engagement





## Topic: Assembly of the Final Audit File



### **Assembly of Final Audit file**

- Is an administrative process
- to be completed on Timely Manner
- After the date of Auditor's Report

SQC 1 "Quality control for firms that perform Audit & Reviews of Historical Financial Info and other Assurance & Related Services"



Requires Firms to Establish → P & P  
For Timely completion of Assembly of Audit File  
(Generally 60 days within & after the Audit Report)

- Assembly of Audit file ≠ New Audit Procedure
- ≠ Drawing New conclusion

Δ May be made → At final stage of Assembly → If they are → Administrative in Nature





## Topic: Assembly of the Final Audit File

### Example of $\Delta$ s

- (1) Deleting / Discarding → Superseded Document
  - (2) Sorting / Collating & Cross Referencing → Working Papers
  - (3) Signing off on → Completion check - list
  - (4) Documenting A.E. → That auditor has obtained, discussed & Agreed with Relevant members of Engagement Team Before the date of Auditor's Report.
- Auditor shall Not → Delete/Discard → any Nature of Audit Document Till Its Retention Period → As per SQC 1 → Generally 7 Years / Group Auditor's Report





## Topic: Documentation of Significant Matters & Related Significant Professional Judgements



Eg. of Significant Matters

→ SA 701

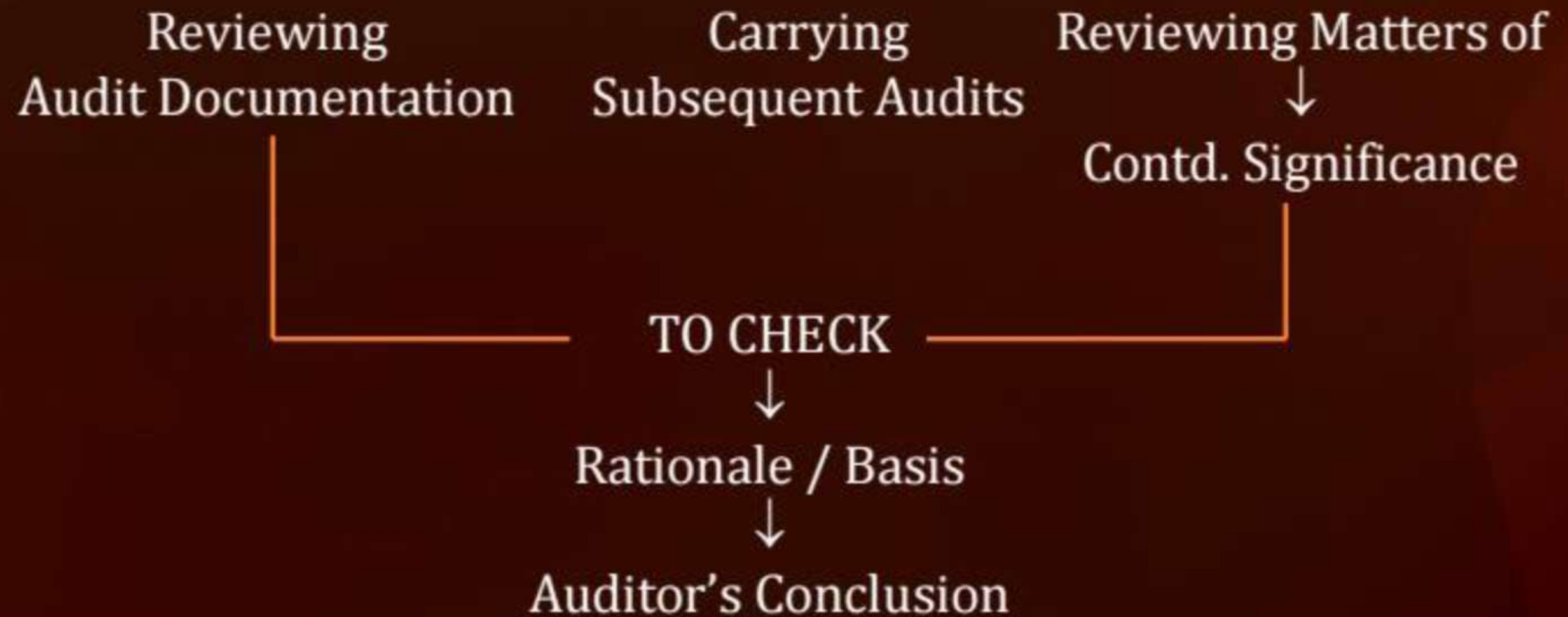
- (1) Matters that give rise to significant Risk
- (2) Result of Audit procedures indicating
  - F.S. could be MM
  - Need to Revise previous RoMM & Auditor's Response to those Risk
  - Circumstances that cause the Auditor Significant Difficulty in Applying necessary procedures.
  - Finding that could result in a modification of Audit Report

# Factors determining N.E.T of Audit Document of Significant Matters





\* Interest to those → who are





## Topic: Completion Memorandum or Audit Documentation Summary



Completion Memorandum (CM) / Audit Document Summary

It is helpful to → Consider → Retain → CM → That Describes

Significant Matters  
Identified during the Audit  
(SA 315)

How they were  
Addressed?  
(SA 330)

### Benefits of CM

- (i) Eff. & Eff. → Review → Inspection → of Audit Document
- (ii) Assist Auditors consideration of Significant Matters
- (iii) Any Deviance from SA





## Topic: Ownership of Audit Documentation



### Ownership of Audit Documentation

→ As per SQC 1 : Unless otherwise Prescribed → the property of Auditor

Law

Regulation

He May Provide → Portions → Extracts → of Audit Document → To Clients

Provided → Does not undermine the

Validity of work performed

Independence of Auditor / Audit Team

Incase of Audit Engagement

Incase of Assurance Engagement

thank you





## Topic: Subsequent Events

SA 560

Events Occurring b/w → The date of F.S. → The date of Auditor's Report  
+ 31/3 26/8

Facts that became known to Auditor → After the date of Auditor's Report  
27/8 to 25/9

FS → May be affected → Certain Events → Occur After → Date of FS



Those Provide Evidence



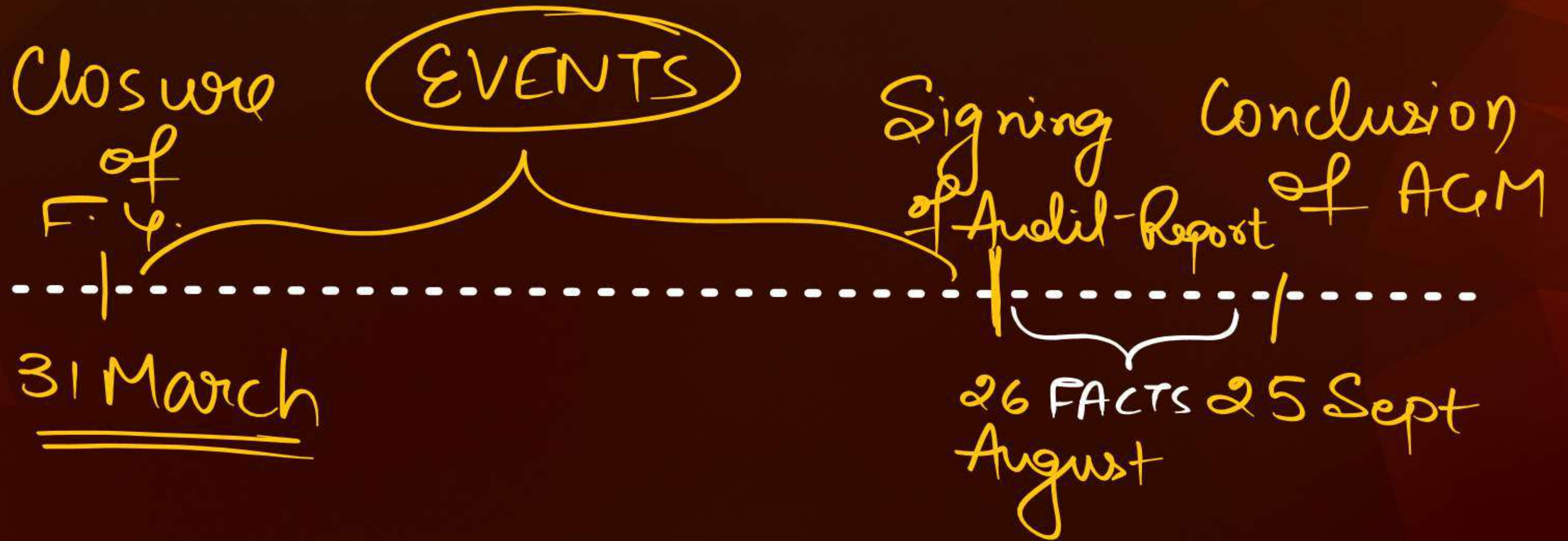
of Conditions



Existed @

Arose After

└── The date of FS ──





@ the date

N  
EXAMPLES

Arose after

(1) Declaration of Insolvency  
↓  
of a Major Debtor

↓  
Evidence of Recoverability on Date of F.S.

(2) Settling Legal Claim  
↓  
Reduced Amount  
↓

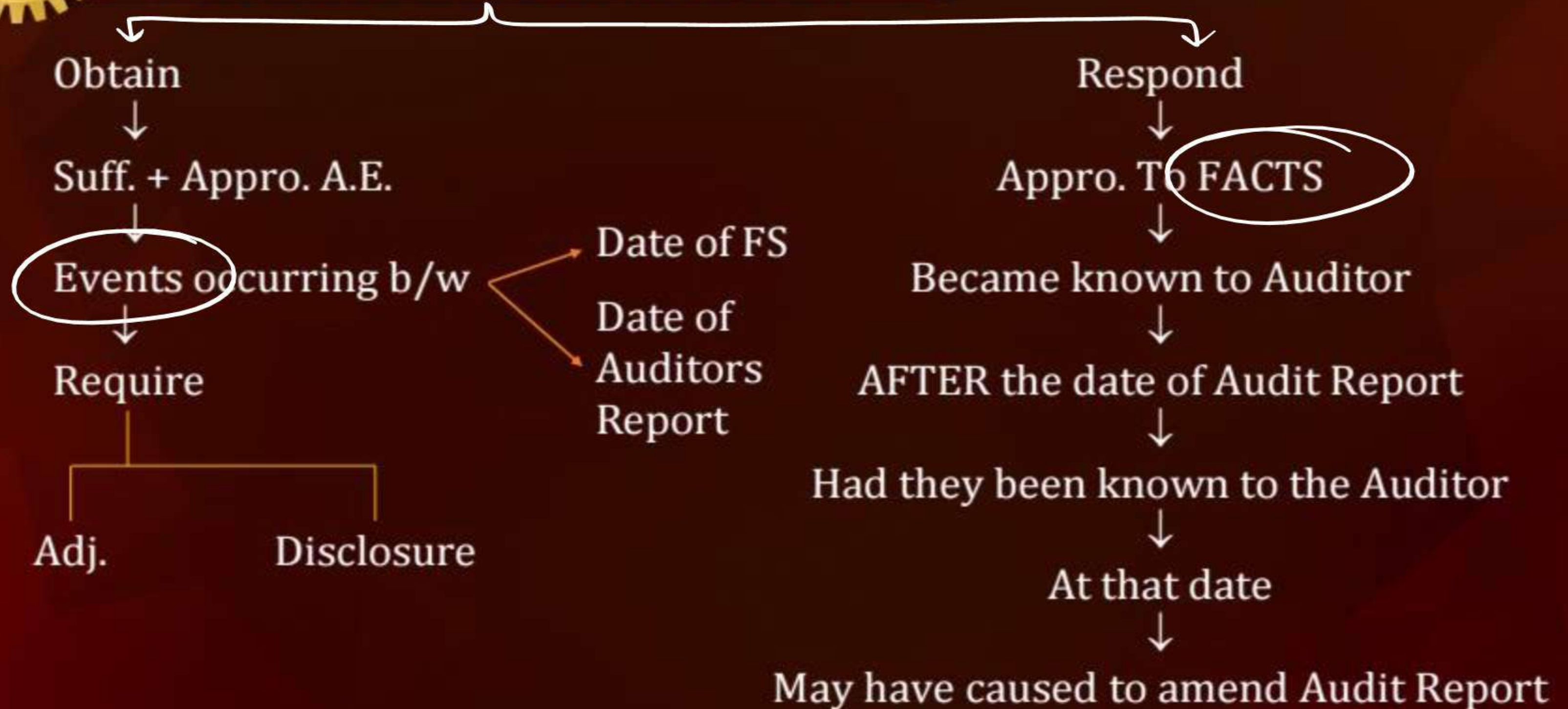
Provision already made on FS

(1) Issue of NEW Share Capital  
(2) Planned Merger  
(3) Destruction of Significant Inventory





## Topic: Objectives of auditor in accordance with SA 560





Audit procedures relating to events occurring between the date of the financial statements and the date of the auditor's report

→ Audit previously → No Additional Audit Procedures

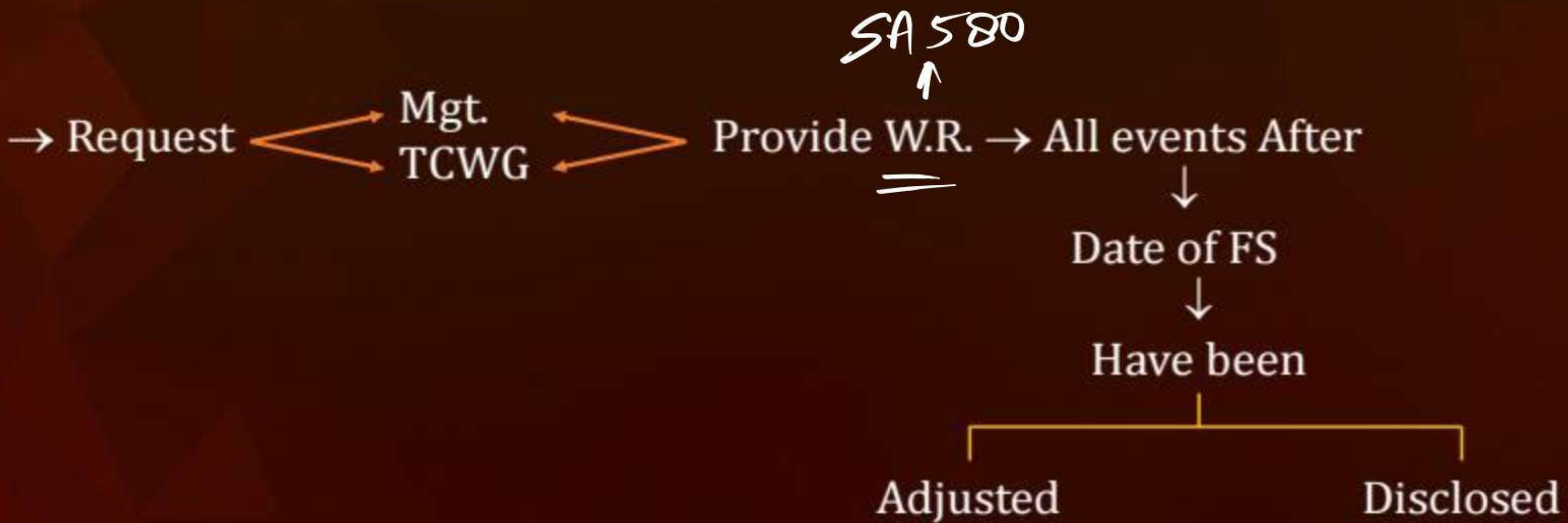


If previously applied Audit procedure provided satisfactory conclusion

→ Audit Procedure

Imp.







Facts which become known to the auditor after the date of the auditor's report but before the date the financial statements are issued

Facts Became Known to Auditor

After the date of Auditor Report  
But Before FS are issued

After F.S. has been issued

No obligation To Perform any audit Procedure



But



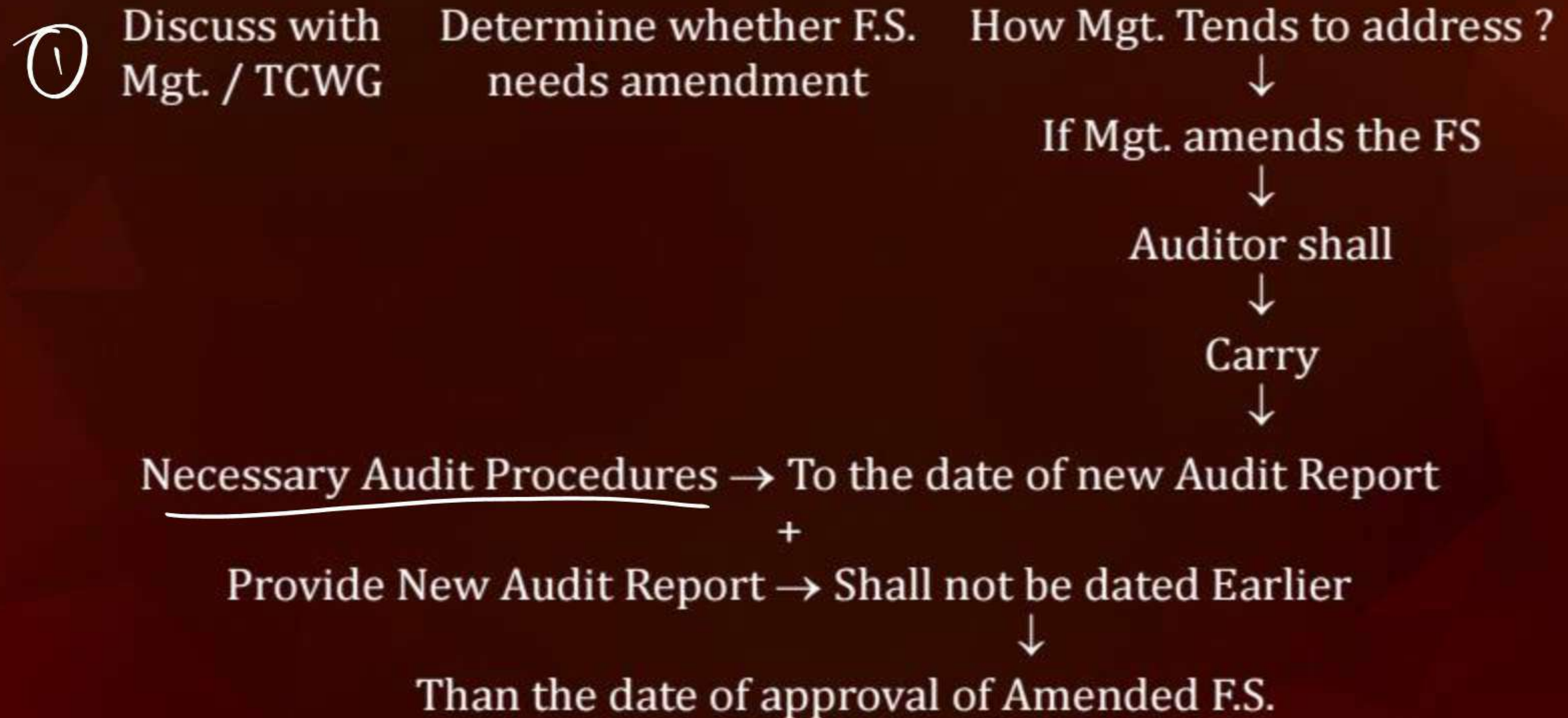
A fact becomes known to Auditor that \_\_\_\_\_

Had it been known @  
Auditor's Report Date

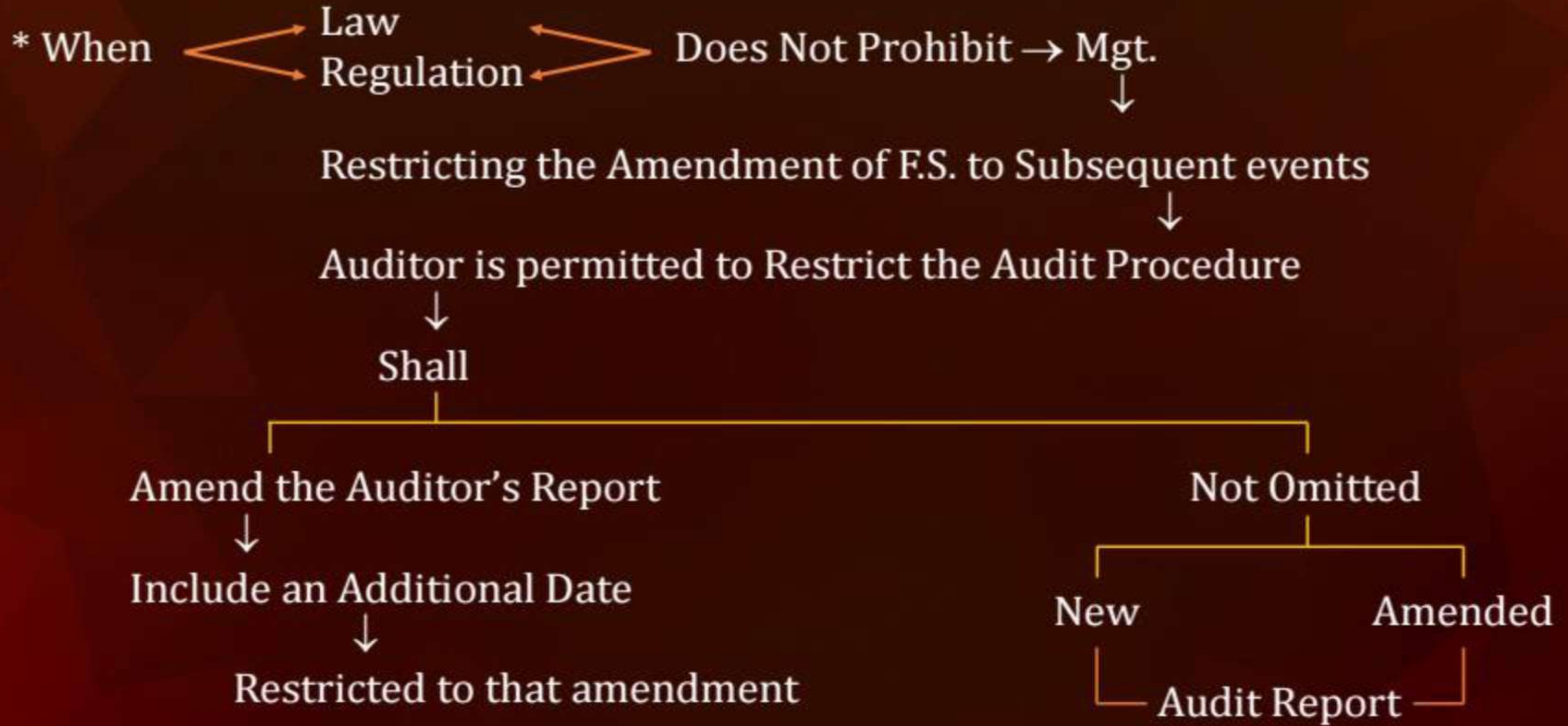


May have caused to amend the Auditor's Report

## Auditor Shall







Amend the Auditor's Report



Include an Additional Date



Restricted to that amendment

Indicates → Audit Procedures are Restricted



To that Event

Audit Report



Include a st.

EoM

OM

Para



Conveys



Audit Procedures are Restricted



To that Event

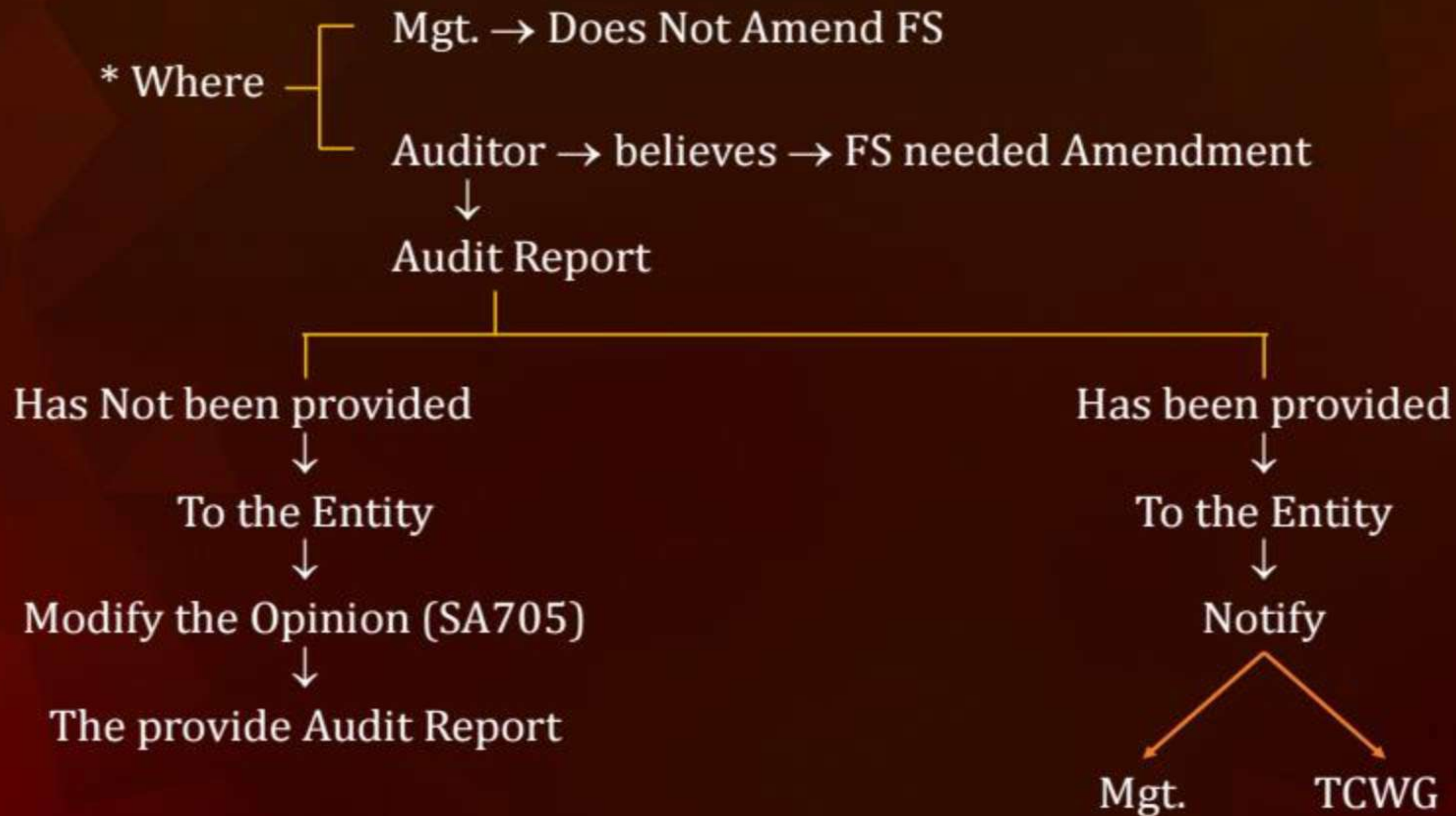


\* Mgt. → May not be Required → To amend FS

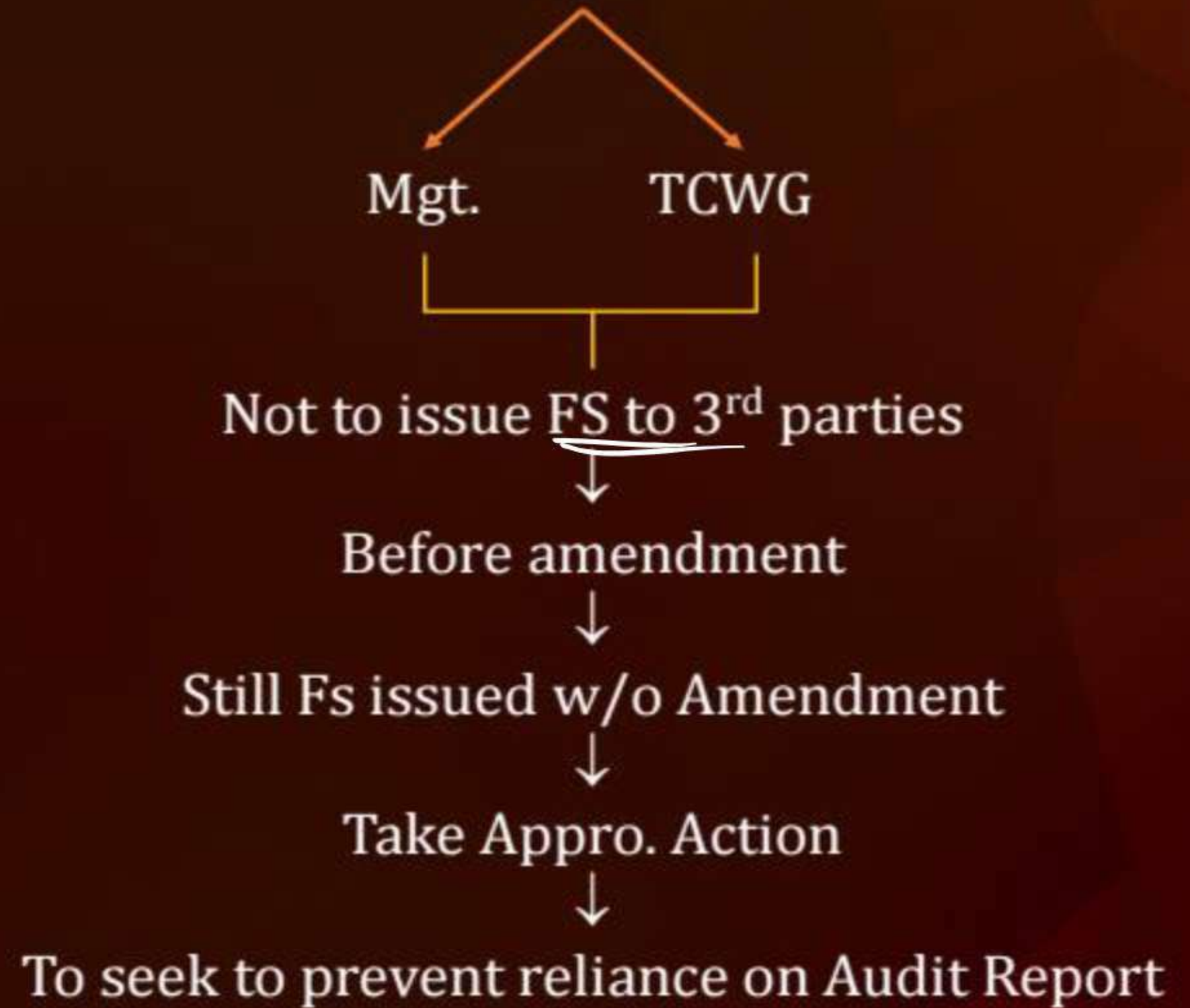


→ Auditor also → need Not provide











## Topic: Meaning of going concern and its significance



SA 570

F.S. are prepared → on assumption that

Entity is a Going Concern

Will continue its operations  
for a foreseeable future

UNLESS



Mgt

Intends to

Liquidate the  
Entity

Cease  
Operations

has

No realistic  
alternative



→ When enterprise → Not Viewed → as going concern  
↓

FS are prepared → Liquidation Basis



## Topic: SA 570 Going Concern







## Topic: Responsibility for assessment of the entity's ability to continue as a going concern

Preparation of FS → By Mgt → Assess Entity's ability



To Continue as going concern



Even if F.R.F. do not include an explicit req.

→ Factors Relevant to Mgt. judgement

Degree of uncertainty  
associated

Size / complexity  
of the entity

Info available  
at the time of

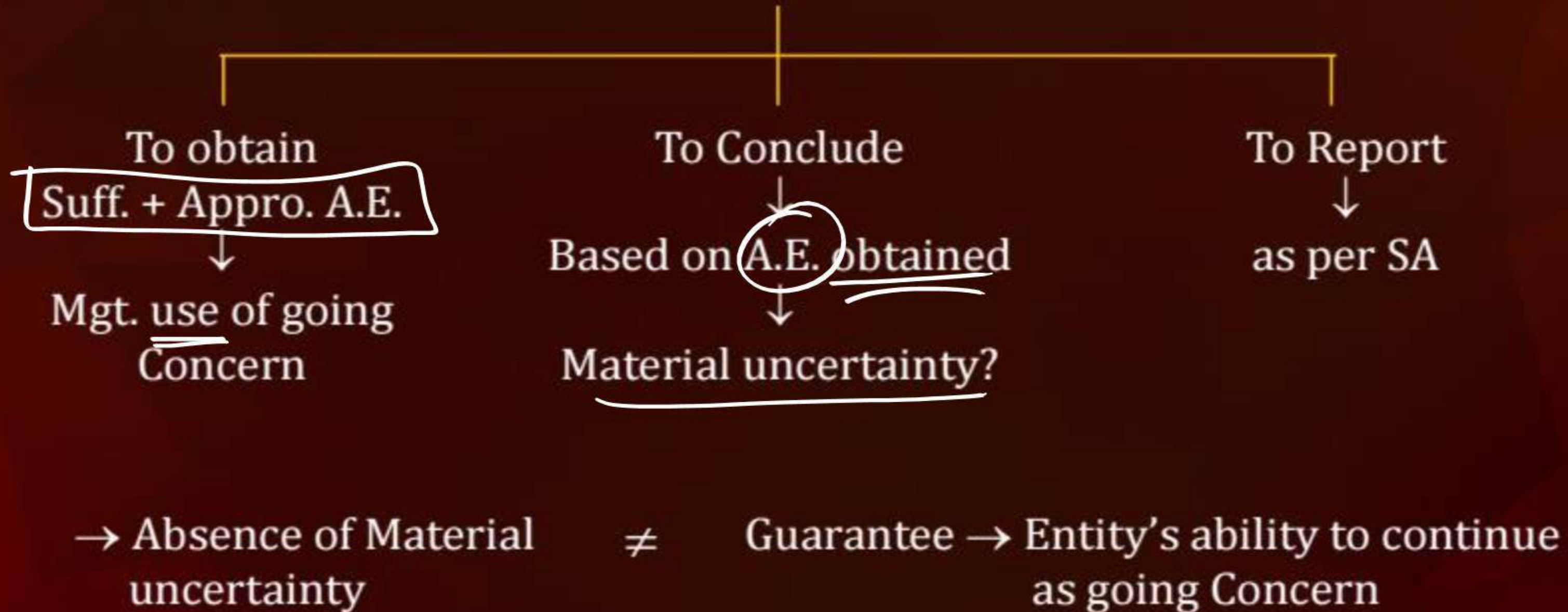
Judgement

Subsequent event





## Topic: Responsibilities of the auditor and Objectives of auditor in accordance with SA 570







## Topic: Risk assessment procedures & related activities



When performing R.A.P. → Auditor shall

↓  
Stage 1

Consider



Whether

Events



Conditions



That may cast significant doubt



Entity's ability to continue as G.C.

Exists



Determine



Mgt. has formed



Preliminary assessment





→ Events & Conditions → that may cast significant Doubt on Entity's ability to continue as a going concern

Eg.: Financial

- (1) Short term loans against F.A.
- (2) Entity not able to service its interest

Operating

- (1) Loss of Major F.A.
- (2) Strikes in the Entity

Others

- (1) Assets not enough to cover the claims of Litigation





## Topic: Evaluating management's assessment

→ Preliminary



(1) Auditor → Evaluate → Mgt. assessment of G.C.



Key part of Auditor's consideration of Mgt.'s use of G.C.

(2) Nor Auditor's Responsibility → Rectify → Lack of analysis



By Mgt.

(3) Auditor → cover → same period → used by Mgt.



At least 12 months





## Topic: Additional audit procedures when events or conditions are identified

Additional Audit Procedures → When Events / Conditions are identified



Determine whether Material uncertainties exists



That may cast doubt on Entity's ability to continue as Going Concern



The performing **ADDITIONAL AUDIT PROCEDURES**

(incl: Consideration of Mitigation factors)  
(Controls used to Manage & Handle risk)

Determine whether Mgt.  
Has assessed the entity's  
ability to continue as  
going concern → If Not  
request then to do so

Evaluate  
Mgt.'s plan for  
future action  
→ whether  
outcome

Whether Entity has  
prepared cash +  
flow forecast +  
Analysis of Forecast  
is a significant factor

Whether any  
additional  
facts/info. Became  
available → After  
Mgt. assessment

Requesting  
W.R. from  
Mgt.





## Topic: Auditor's conclusions



If material uncertainty exists → Appro. Disclosure

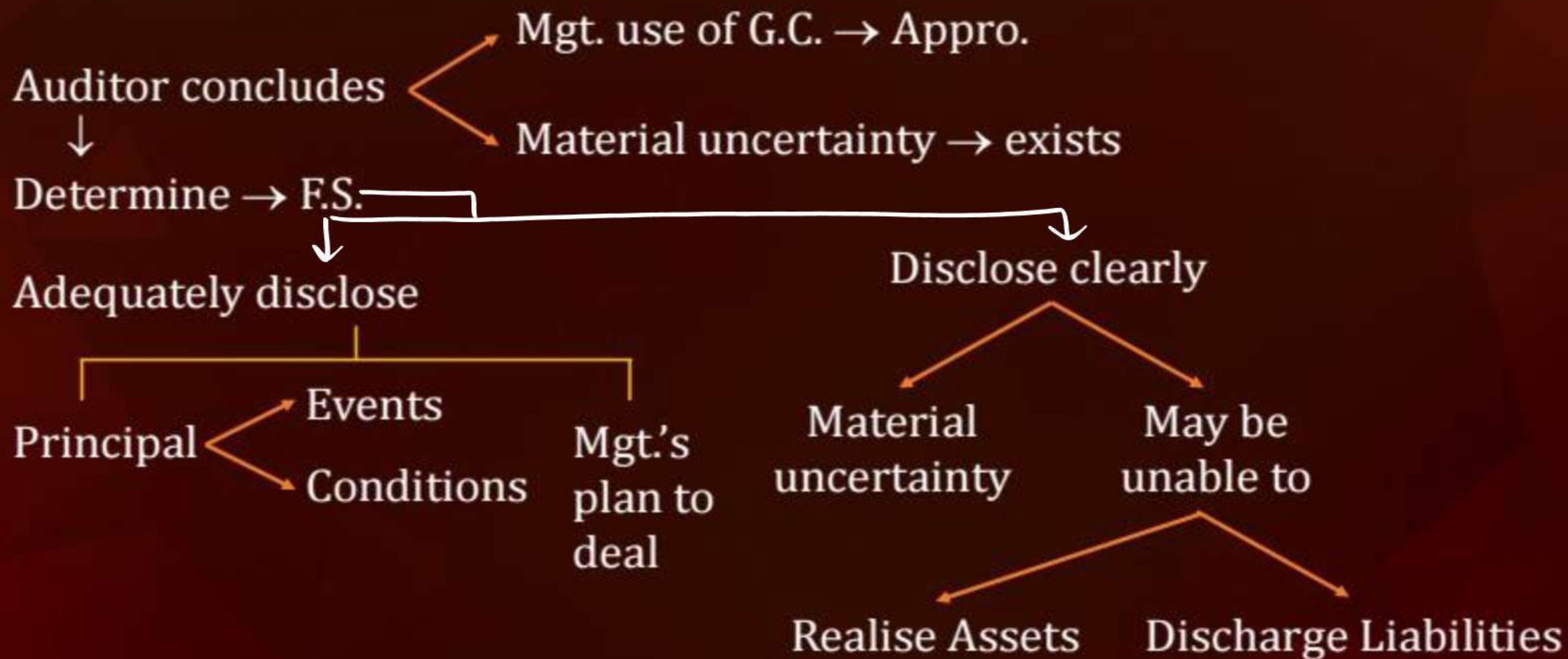


Nature

Implication



# Topic: Adequacy of disclosures when events or conditions have been identified and a material uncertainty exists







# **Topic: Adequacy of disclosures when events or conditions have been identified and a material uncertainty exists**



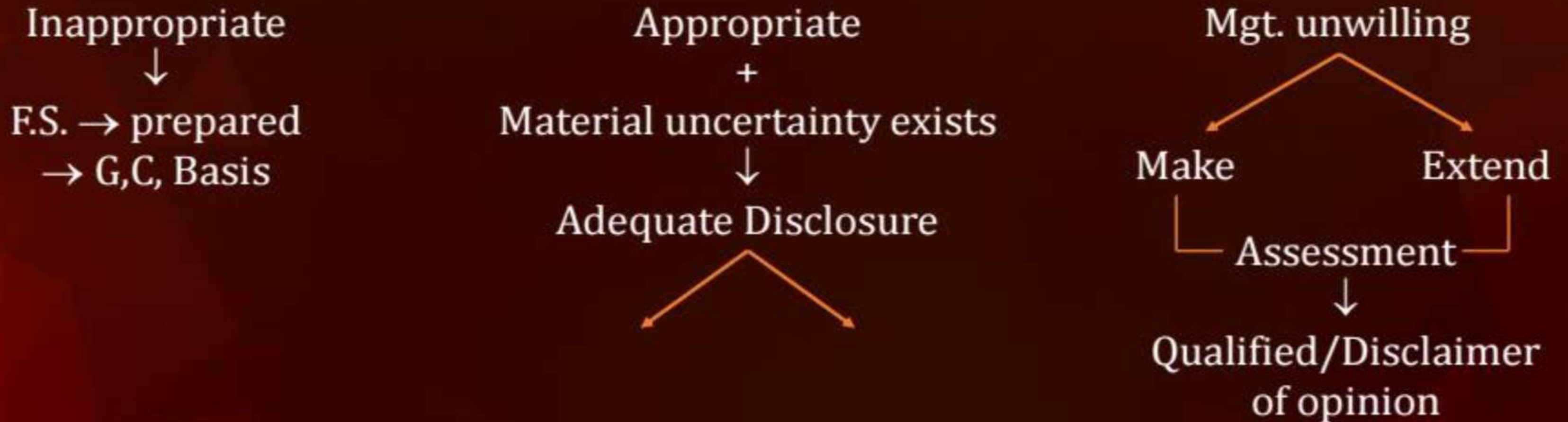
Auditor → Evaluate → F.S. provide → Adequate Disclosure



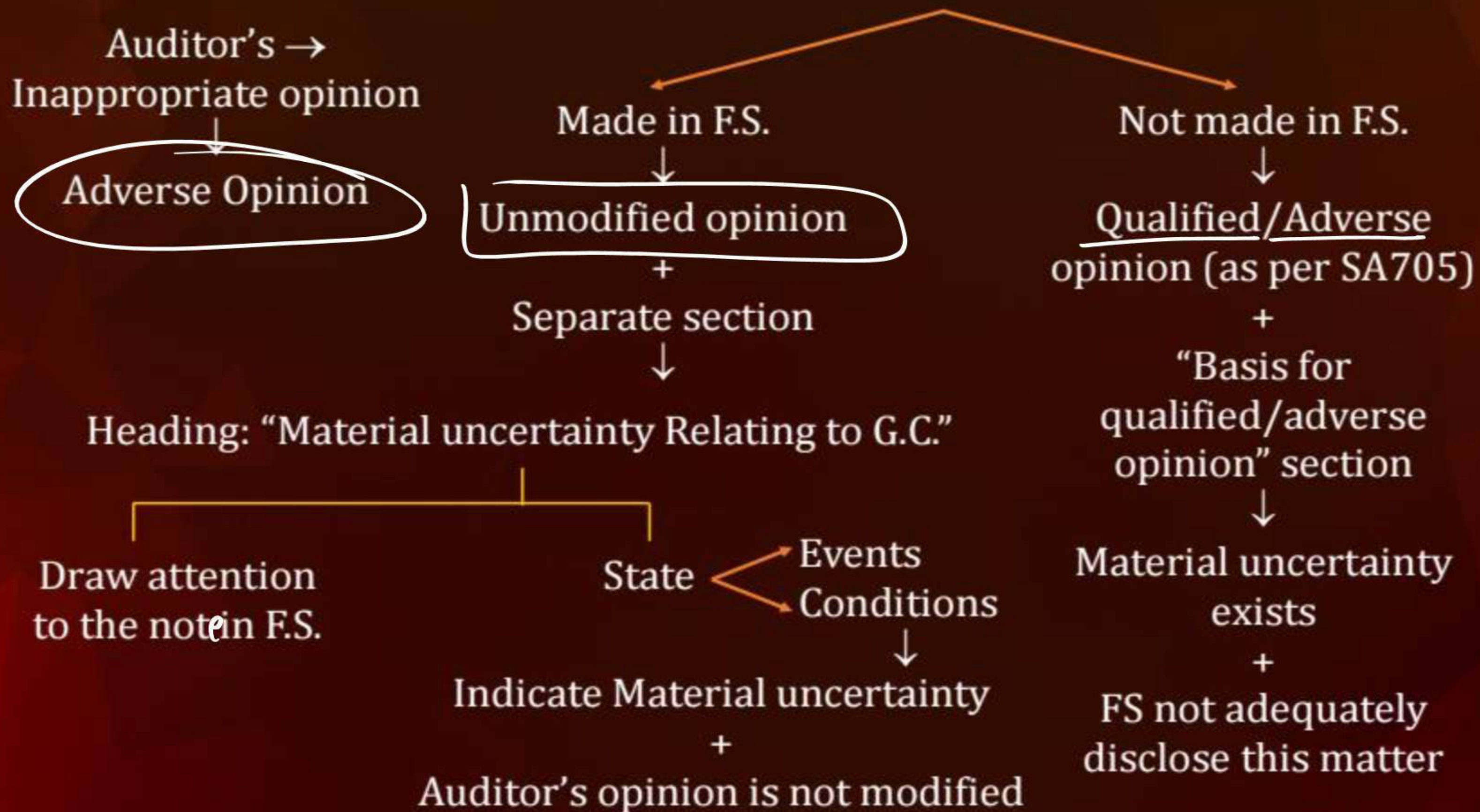


## Topic: Implications for the auditor's report

If use of G.C. basis of Accounting







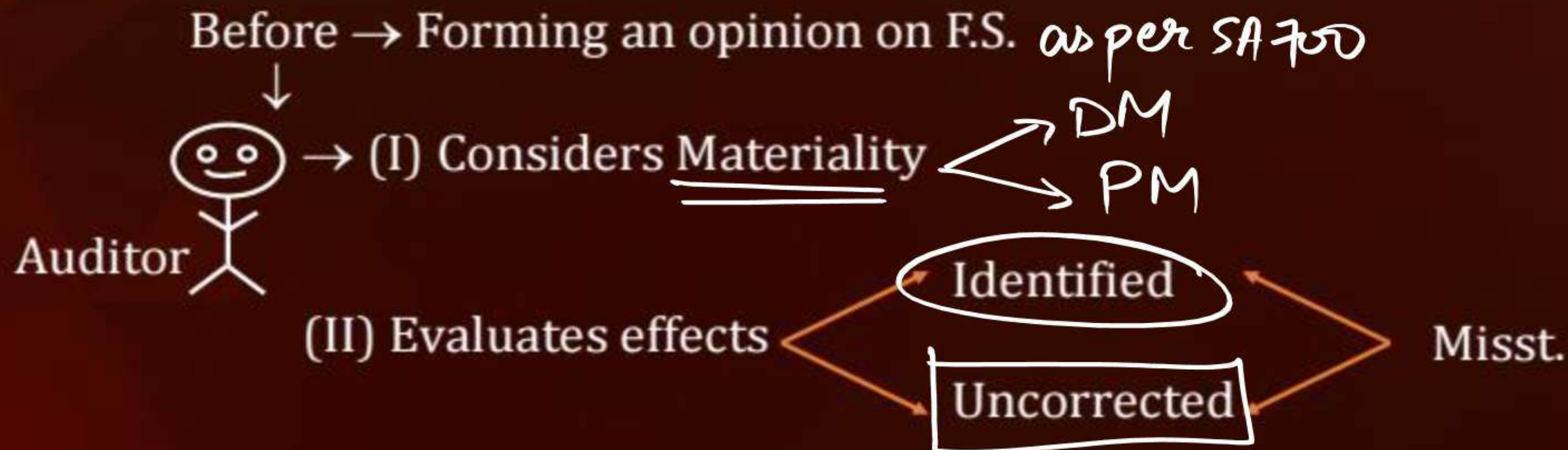




# Topic: Evaluation of Misstatements Identified During The Audit



SA 450







## **Topic: SA 450 Evaluation of Misstatements Identified during the Audit**



+

Uncorrected Misst.



## Topic: Objectives of auditor in accordance with SA 450







## Topic: Accumulation of misstatements identified during the audit

Auditor → Accumulate Misst. → Identified during an Audit

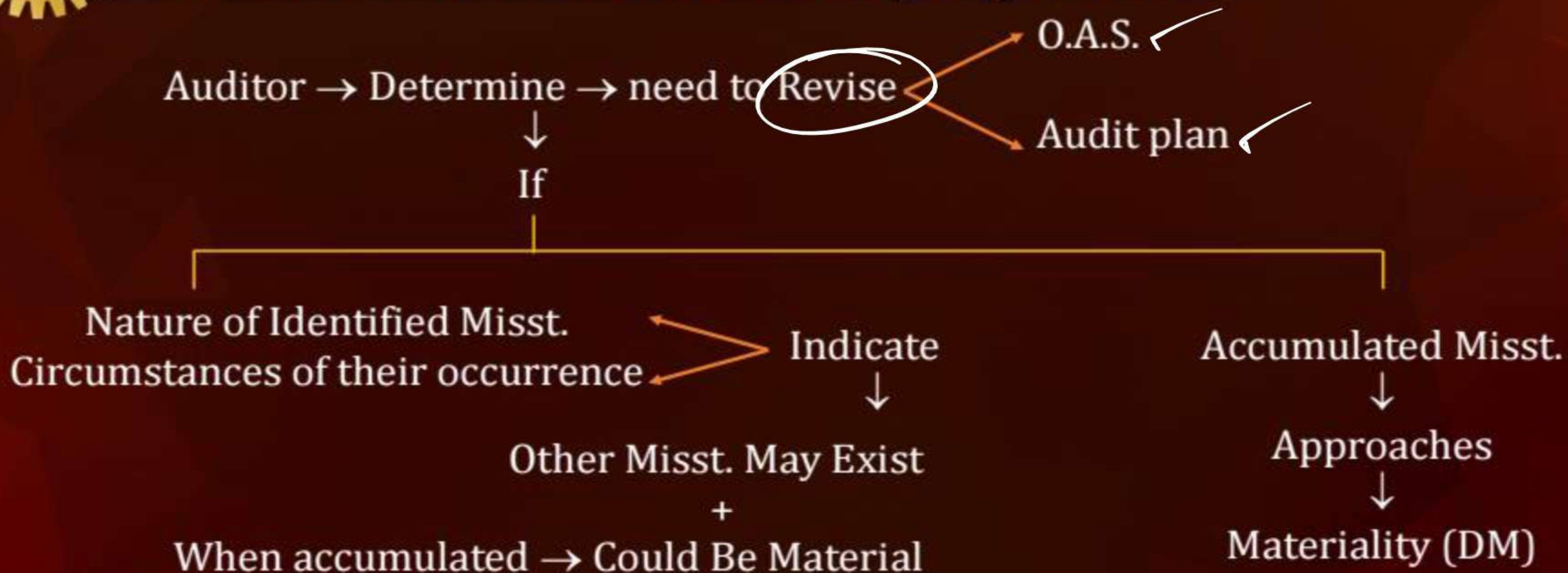


Except → Trivial (Immaterial) Misst.

↪ छोटी राशियाँ

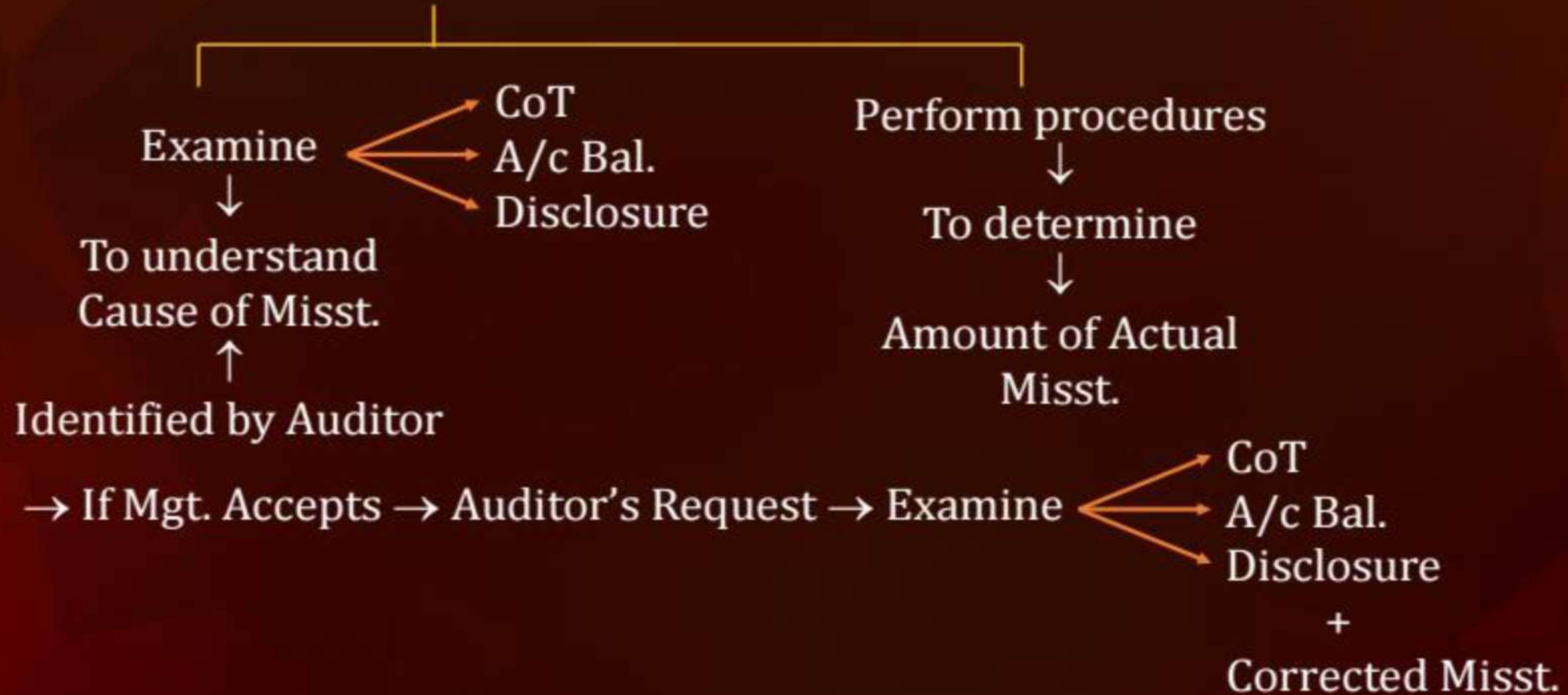


## Topic: Consideration of identified misstatements as the audit progresses





\* Auditor May Request Mgt. to

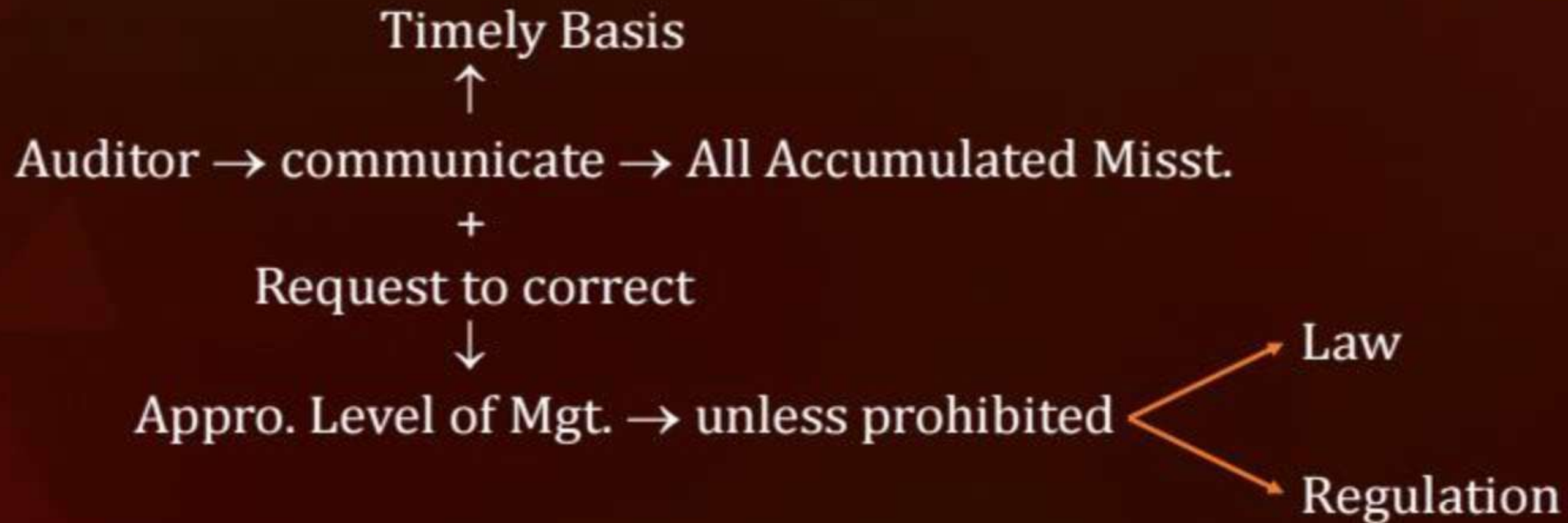


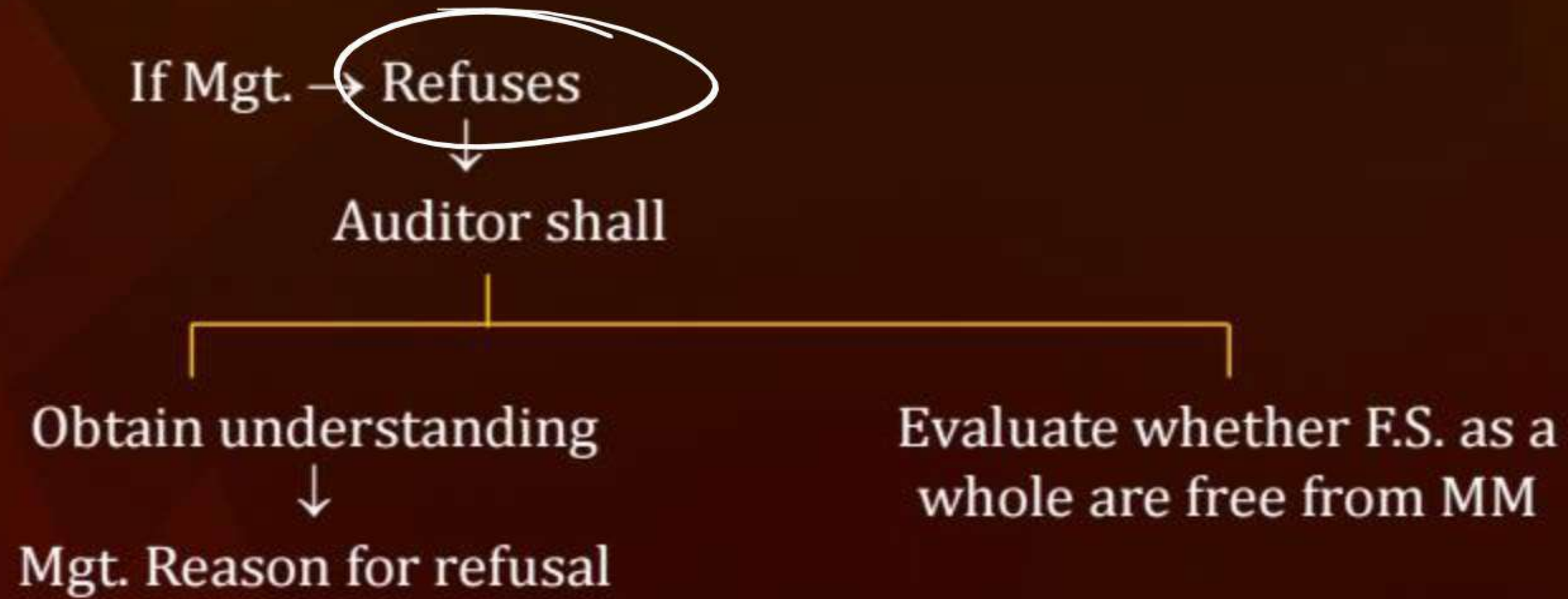
↓  
Auditor → perform → Additional Audit procedures  
↓  
To  
↓  
Misst. Remain?





## Topic: Communication and correction of misstatements







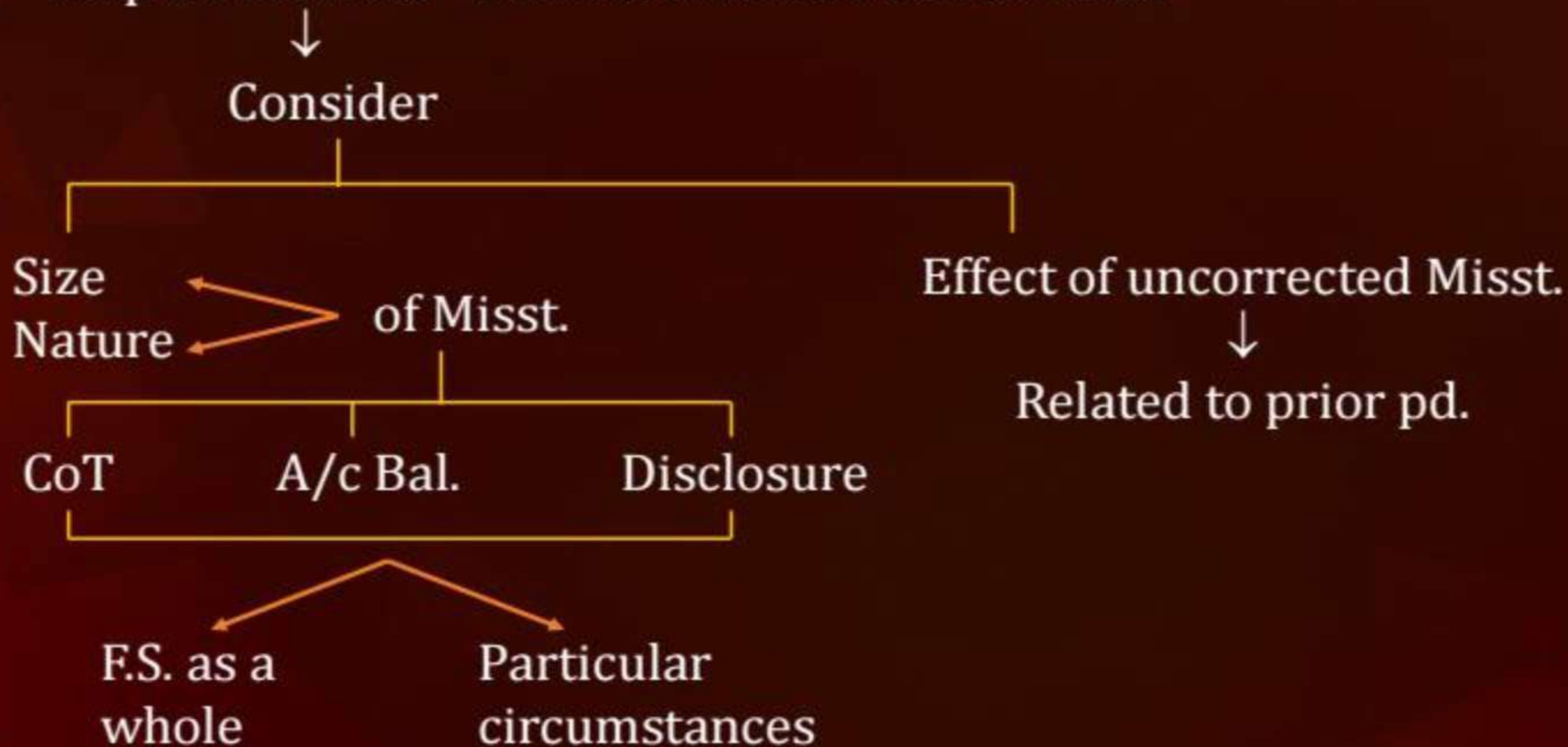


## Topic: Evaluating the effect of uncorrected misstatements



Step 1 : Reassess Materiality

Step 2 : Evaluate → Effect of uncorrected Misst.





## Topic: Communication with those charged with governance







```

graph LR
    Auditor --> Request
    Request --> WR((W.R))
    Request --> Mgt.
    Request --> TCWG
    WR --> Summary
    WR --> Misst.
    Misst. --> Immaterial

```





## Topic: Documentation regarding misstatements identified during audit



Amount below which



Trivial

Misst.

Accumulated

Corrected

Auditor's  
Conclusion





# Topic: Written Representations

## SA 580 Written Representation

Written statement by Mgt → Provided to Auditor → To confirm

DOES NOT INCLUDE

FS

Assertions

Supporting Books  
& Records

Certain Matters

Support other  
Audit Matters



## Topic: Written Representations as audit evidence

### W.R. as A.E.

W.R. = A.E. → But NOT Suff. + Appro. A.E. → on their own

W.R. → Does Not Affect  $\begin{cases} \text{Nature (N)} \\ \text{Extent (E)} \end{cases}$  of other A.E.

If Mgt.  $\begin{cases} \text{Modifies} \\ \text{Does not provide} \end{cases}$  W.R. → It may alert Auditor  
↓  
One more  $\begin{cases} \text{Significant issues may exist} \end{cases}$





## Topic: SA 580 -Written Representations



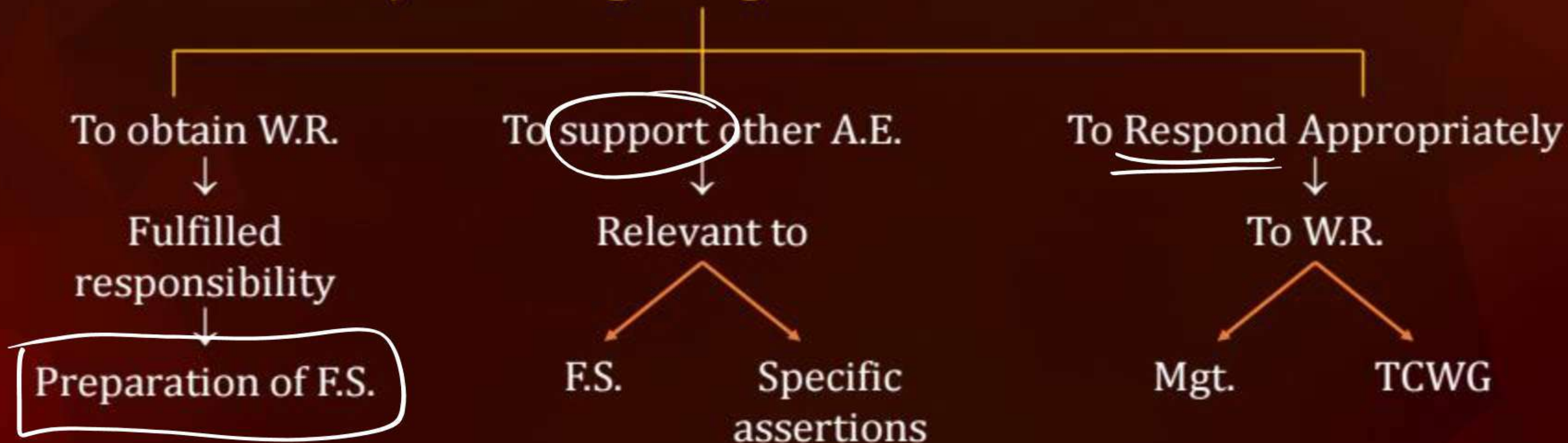
Auditor's Responsibility → To obtain W.R.   
Mgt.  
TCWG



## Topic: Objectives of auditor in accordance with SA 580



### Auditor's objectives Regarding W.R.



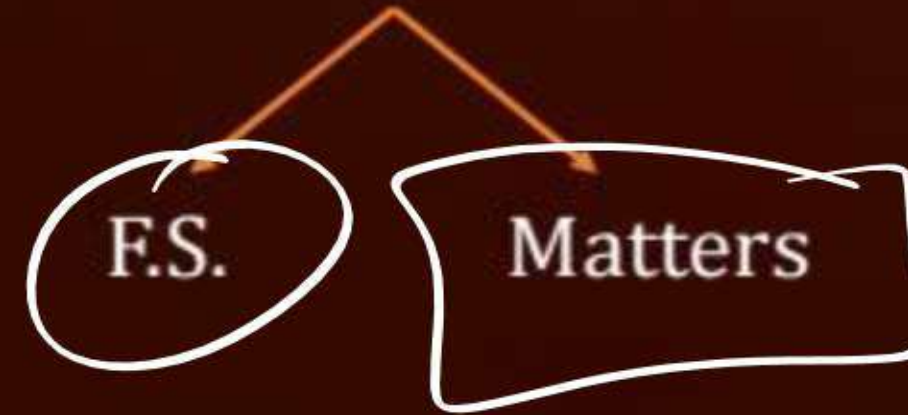




## Topic: From whom Written representations are requested by auditor?



Auditor → obtain W.R. → Mgt. → Appro. Responsibilities





## Topic: Written representations about management's responsibilities

### Management's responsibilities

Preparation of F.S.

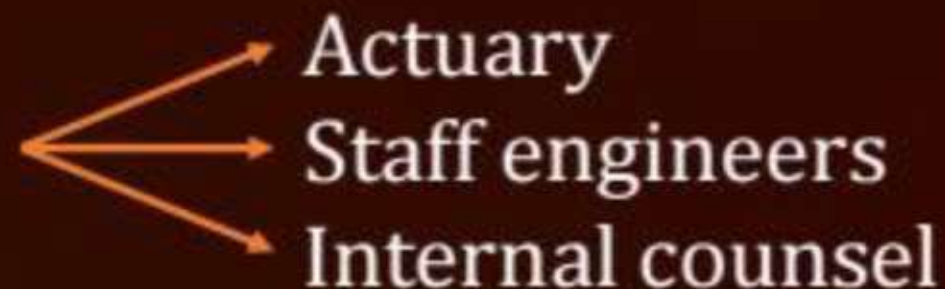


App. F.R.F.

+

Fair presentation

→ Individuals → specialized knowledge



Info provided

+

Access as agreed

+

Completeness of transaction

May include Qualifying Language → That Representations (WR) are made



TO THE BEST OF ITS KNOWLEDGE & BELIEFS

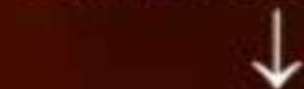




## Topic: Why Written representations about management responsibilities are necessary?



A.E. obtained → Mgt. has fulfilled → Responsibilities



NOT SUFFICIENT



without confirmation



From Mgt. → That it BELIEVES



It has fulfilled those Responsibilities

Preparation of F.S.

Info provided

+

Completeness  
of transaction



\* This is particularly appropriate when

Those who Signed the  
Terms of Audit  
Engagement  
↓  
On behalf of the Entity  
↓  
No Longer Have The  
Relevant  
Responsibilities

Terms of Audit  
Engagement  
↓  
Were prepared  
in the previous  
F.Y.

Indication  
↓  
That Mgt  
↓  
Misunderstood  
its  
Responsibilities

~~Indication~~  
↓  
~~That Mgt~~  
↓  
~~Misunderstood~~  
~~its~~  
~~Responsibilities~~  
△ in  
Circumstances





## Topic: Other Written representations

Selection + Application

A/c Policies

Plans/Intentions

That may affect

Carrying value

Classification

Assets / Liabilities

Actual /  
Contingent

Liabilities

Title / Control

Assets

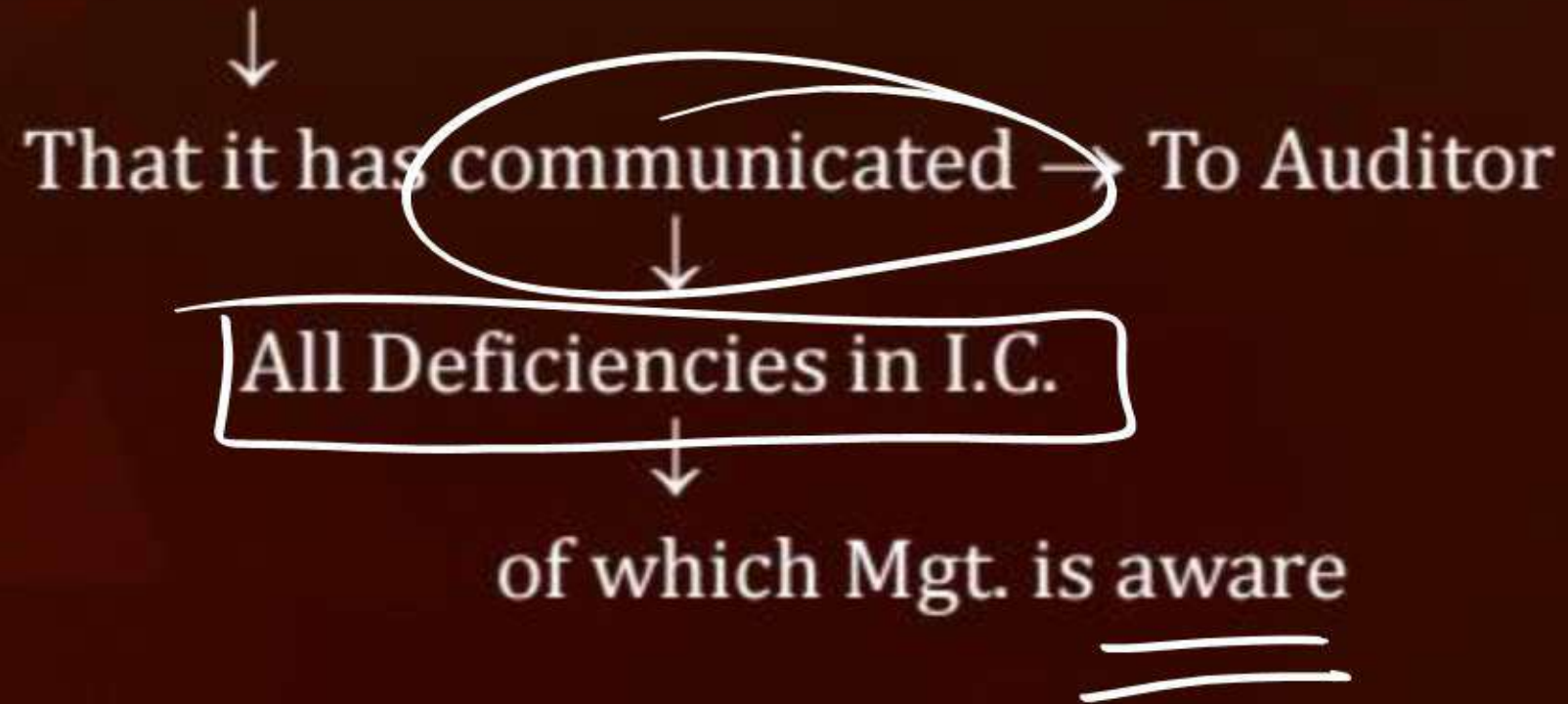
Non  
compliance

Law /  
Regulation

2



## Topic: Additional Written representations about information provided to the auditor







## Topic: Written representations about specific assertions



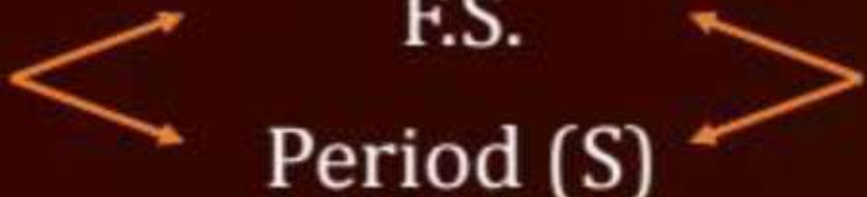




## Topic: Date of and Period(s) covered by Written Representations



Date & Period (s) covered by W.R.

- As near as practicable → to Auditor's Report But NOT AFTER because Auditor is concerned with events up to the date of Auditor's Report
- W.R. → for all  referred in Auditor's Report





## Topic: Form of Written representations

N

(i) Representation Letter → addressed to Auditor

(ii) If  $\begin{matrix} \nearrow \text{Law} \\ \searrow \text{Regulation} \end{matrix}$  requires → written public statement

↓  
Auditor will determine → Such W.R. provides

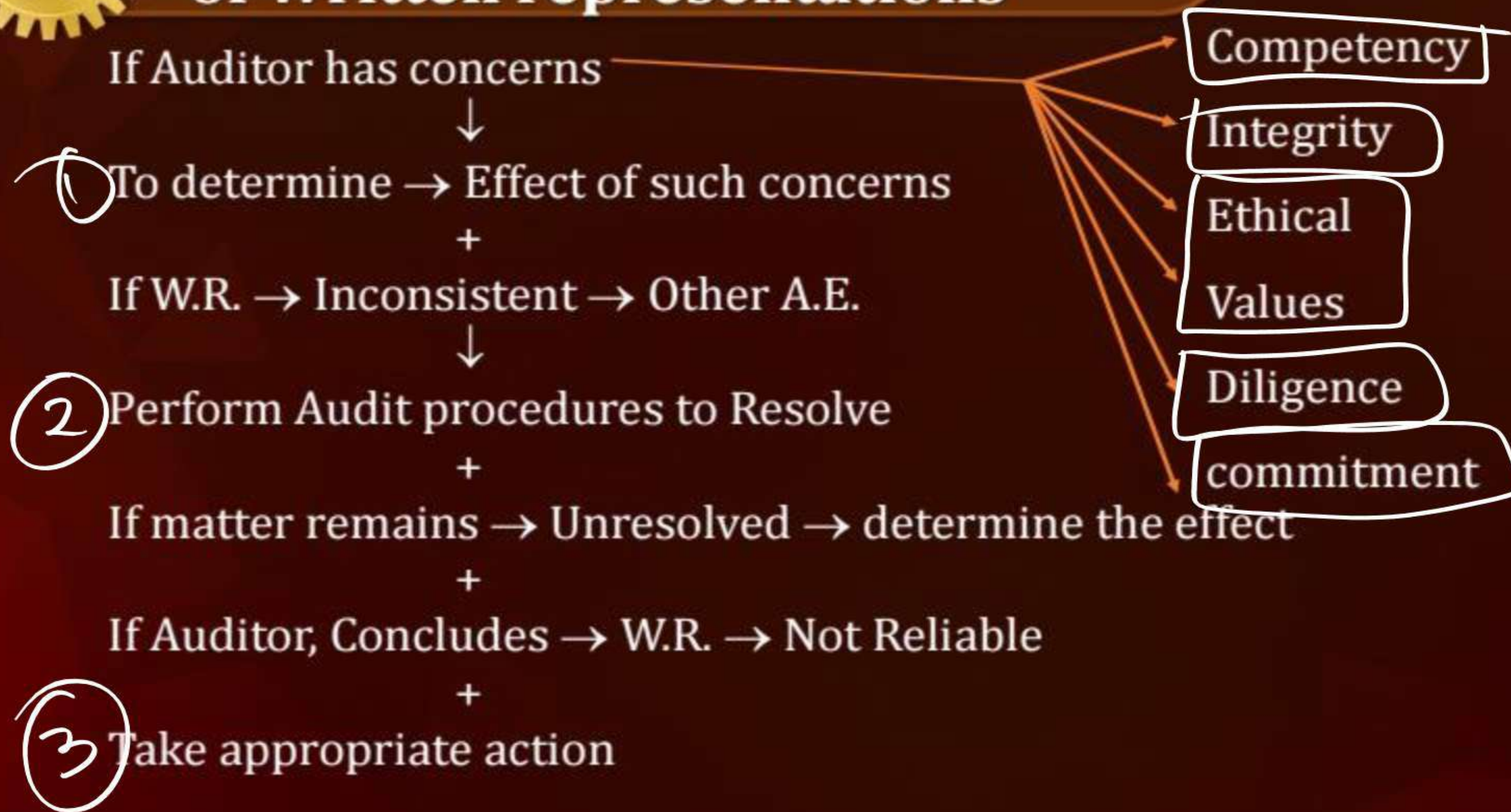
Some/All of Representations

Relevant Matters





## Topic: Doubt as to the reliability of Written representations







## Topic: Requested Written representations not provided



- (1) Discuss matter with Mgt.
- (2) Re-evaluate the Integrity of Mgt.
  - +
  - Evaluate the reliability of W.R.
- (3) Take appropriate action



**Topic: Disclaimer of opinion in case of non-reliability of Written Representations about management's responsibilities or failure to provide such Written Representations**

Auditor → Disclaim an Opinion → If

Suff. Doubt → Integrity of Mgt.

↓  
W.R. → NOT RELIABLE

Mgt. → Does not provide

↓  
W.R.

2

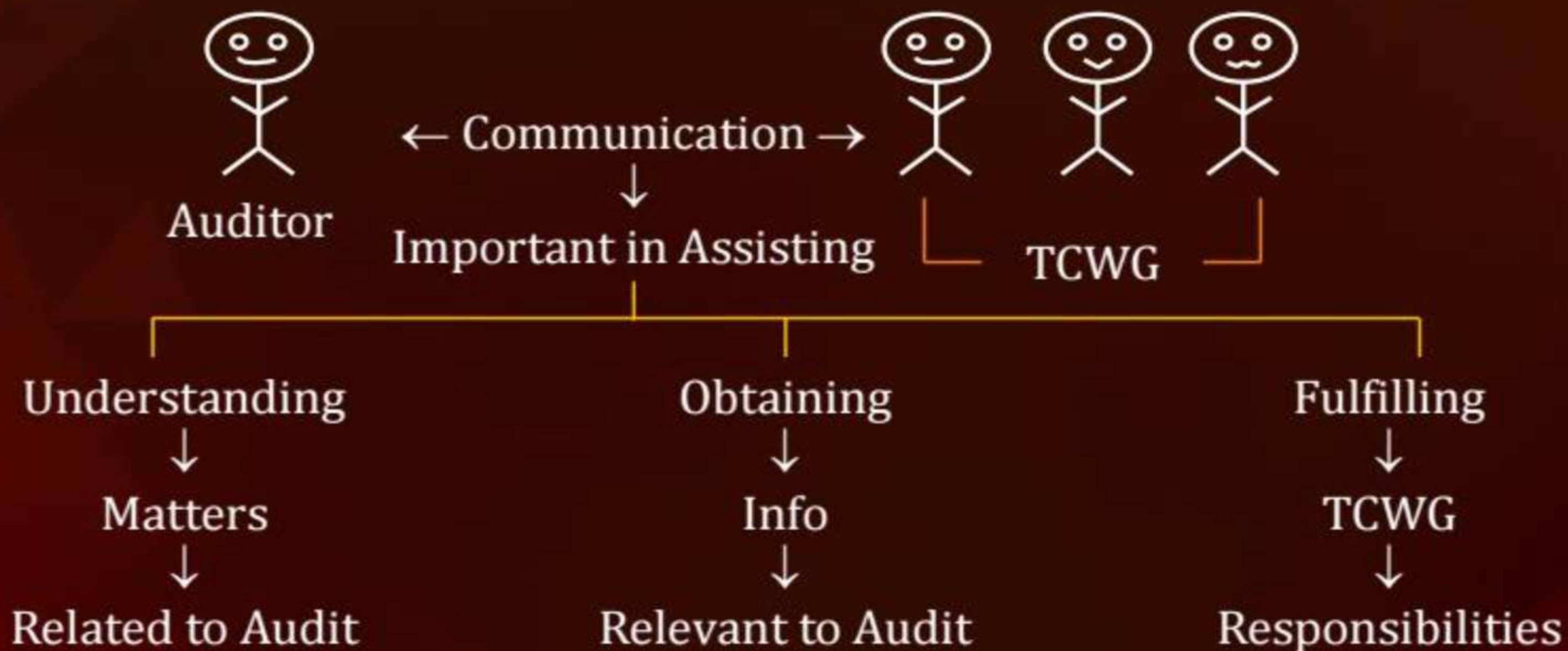




## Topic: Significance of communication with TCWG



SA 260

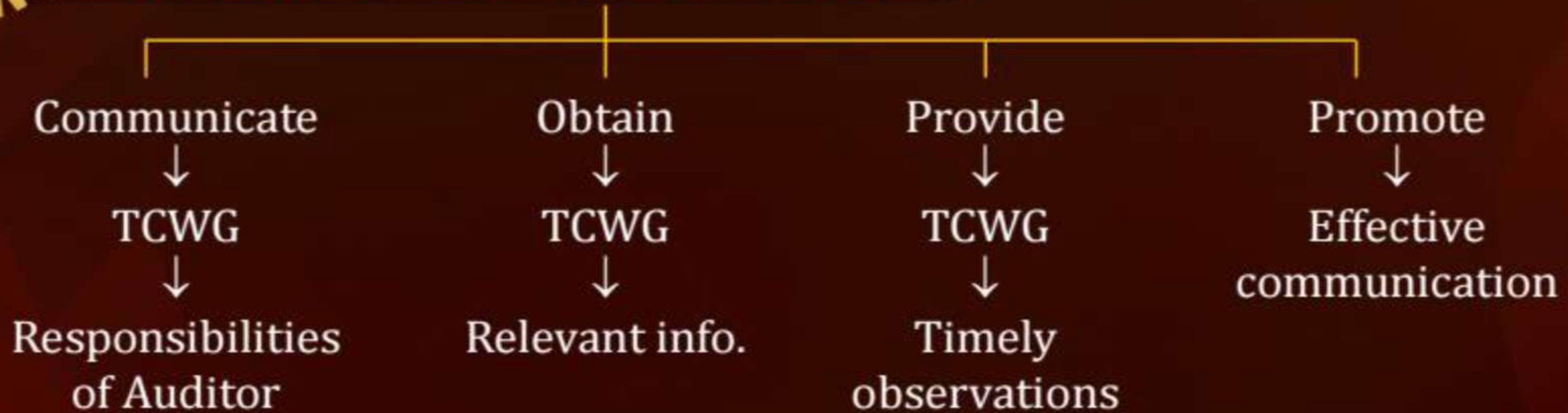








## Topic: Objectives of auditor in accordance with SA 260





# Topic: Matters to be communicated by auditor







# Topic: Communication of auditor's independence in case of listed entities





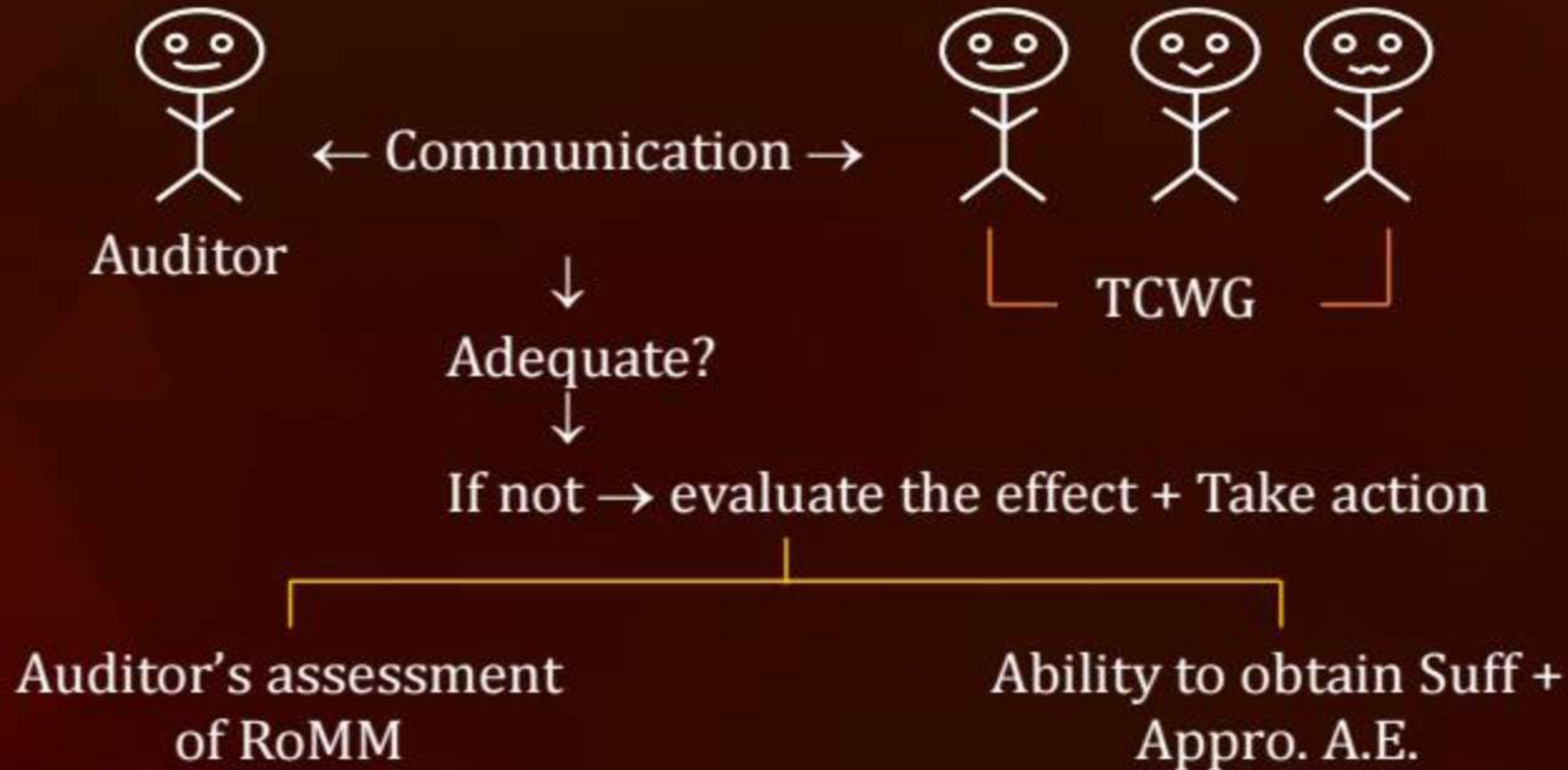
## Topic: The Communication process





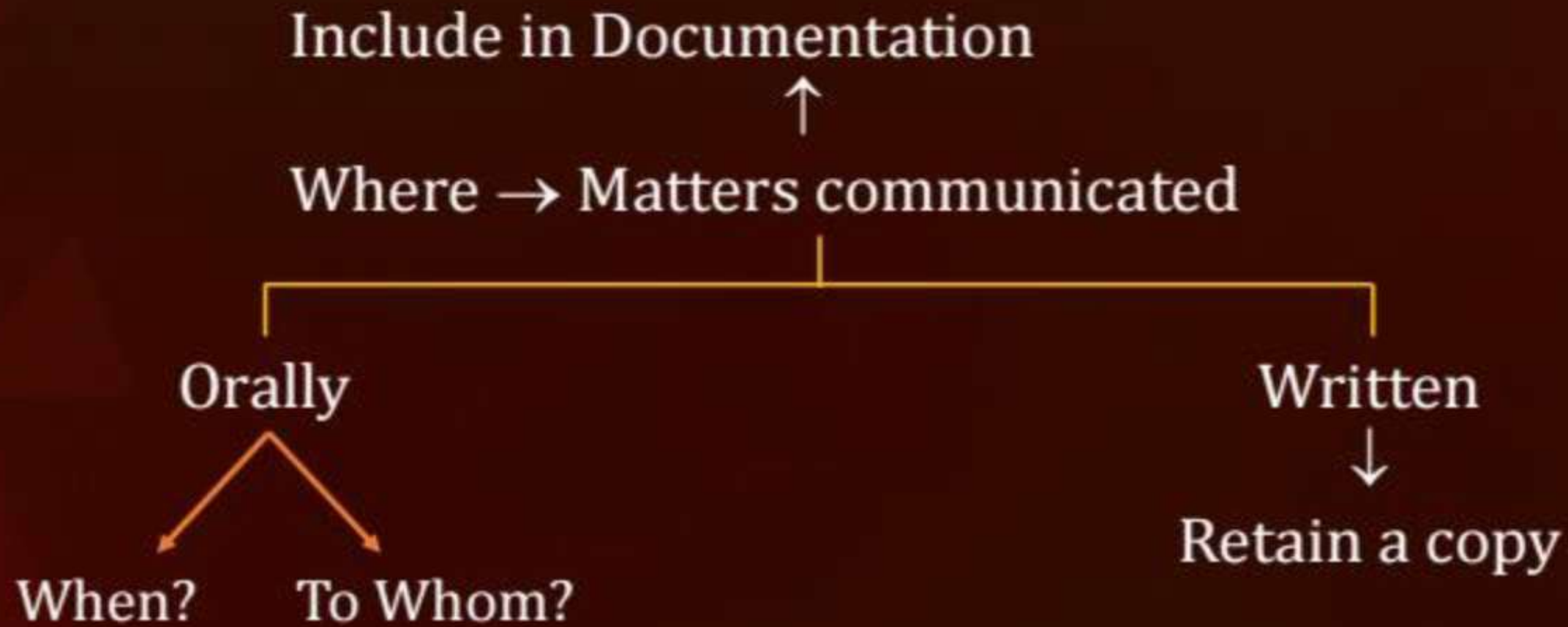


## Topic: Adequacy of the communication process





## Topic: Documentation







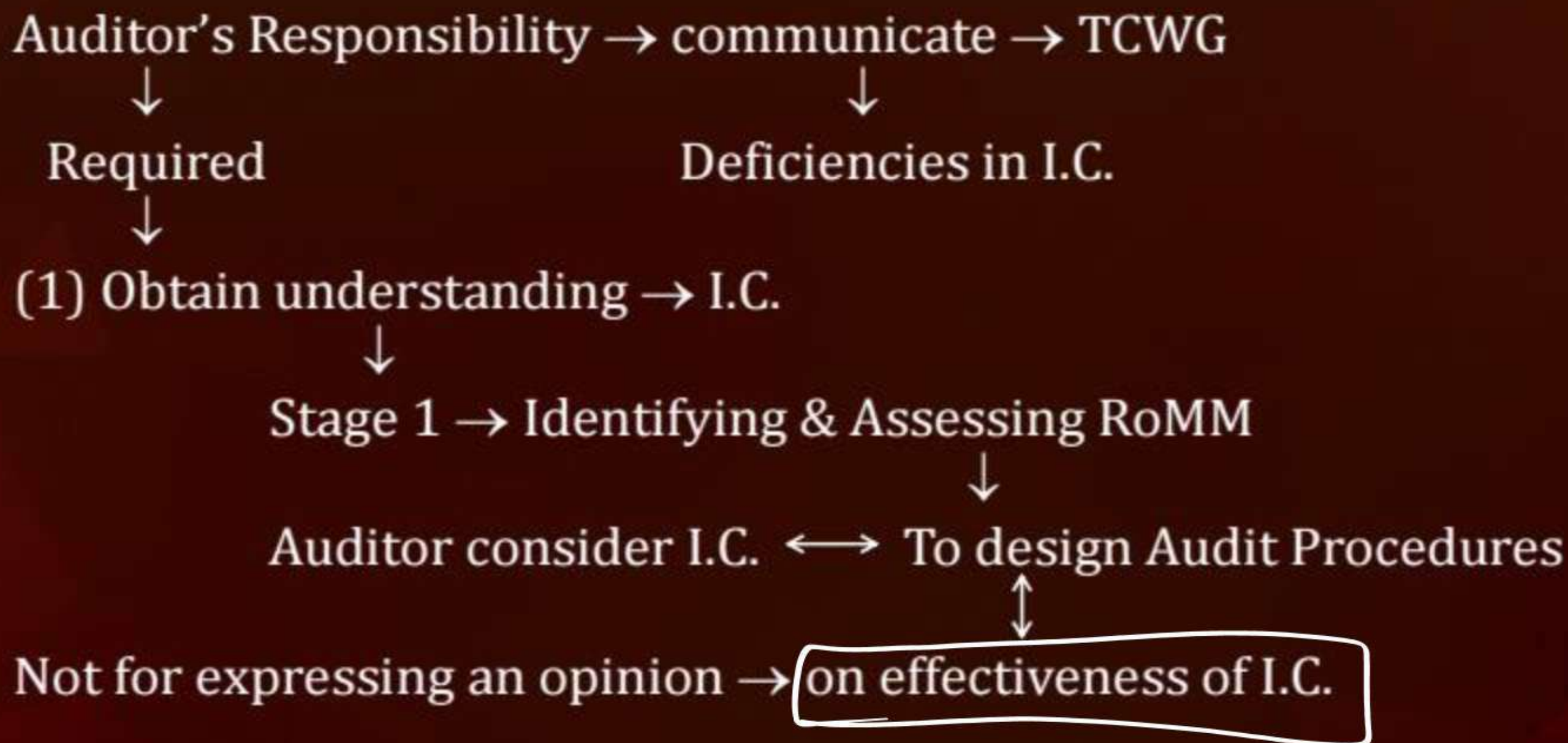
# Topic: Why communication of significant deficiencies in internal control is necessary?

↓  
In writing

→ A 265



## Topic: Scope of SA 265 -Communicating Deficiencies in Internal Control to Those Charged with Governance & Management







## Topic: Objective of auditor in accordance with SA 265



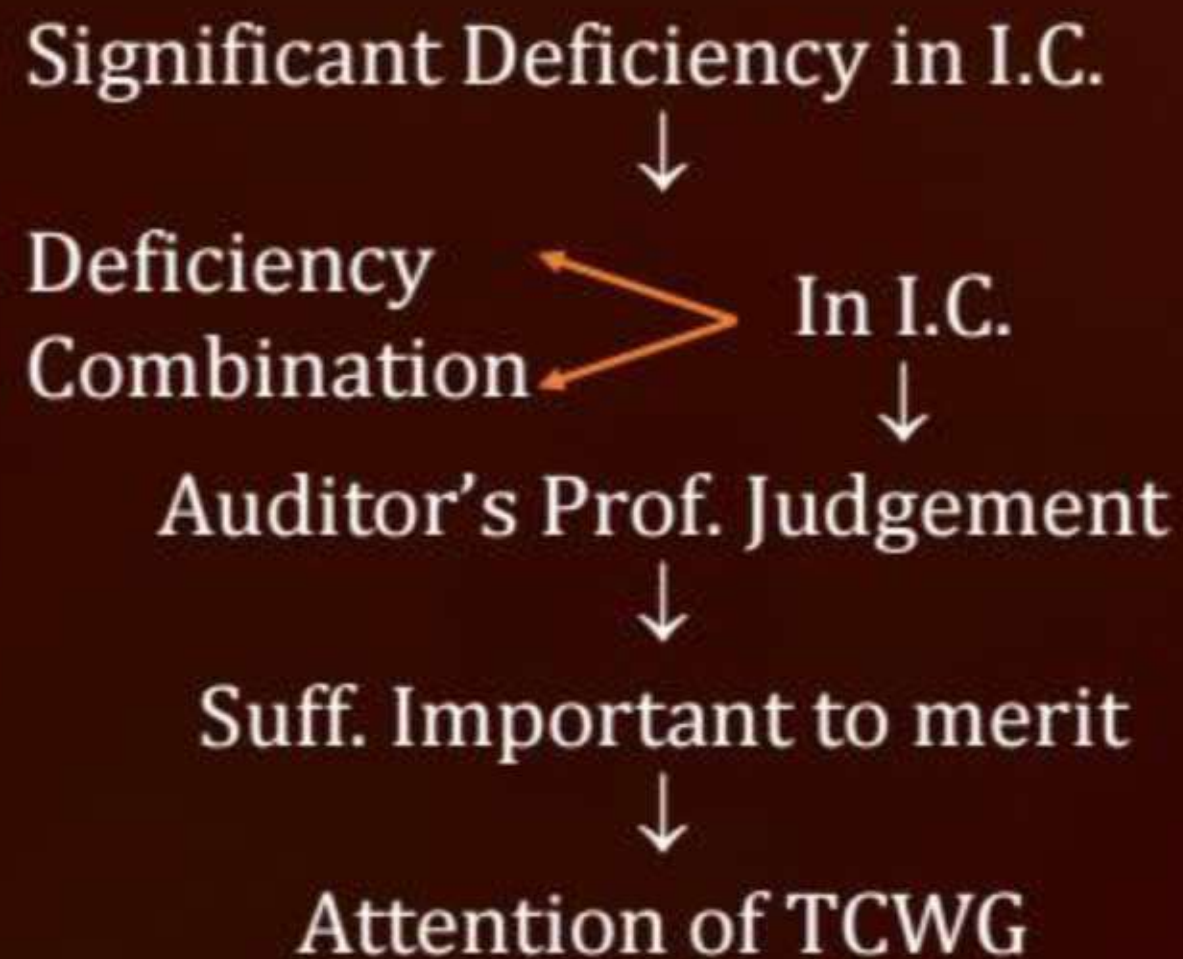
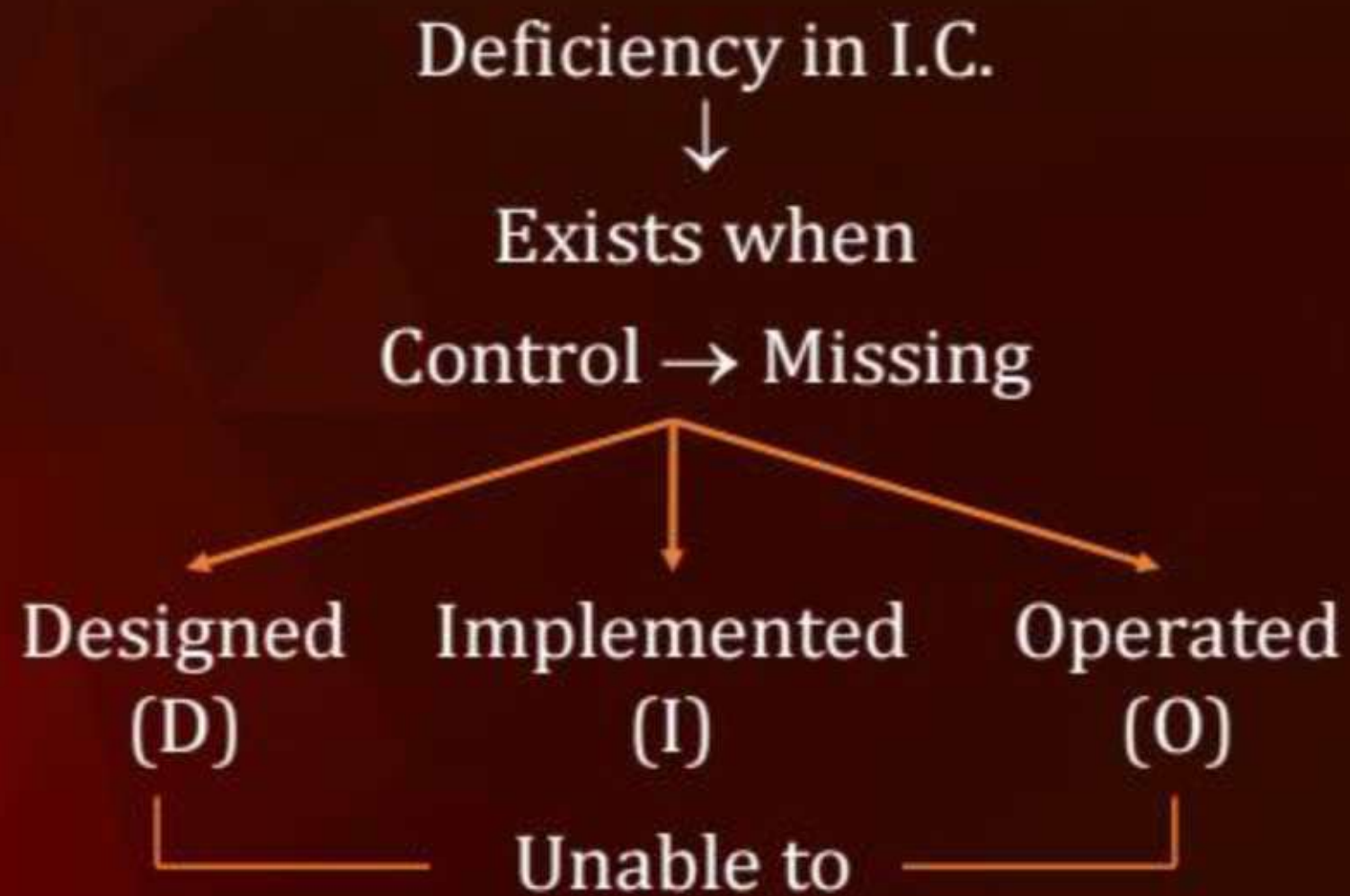
Communicate → TCWG → Deficiencies in I.C.

Identified during audit

Sufficiently important





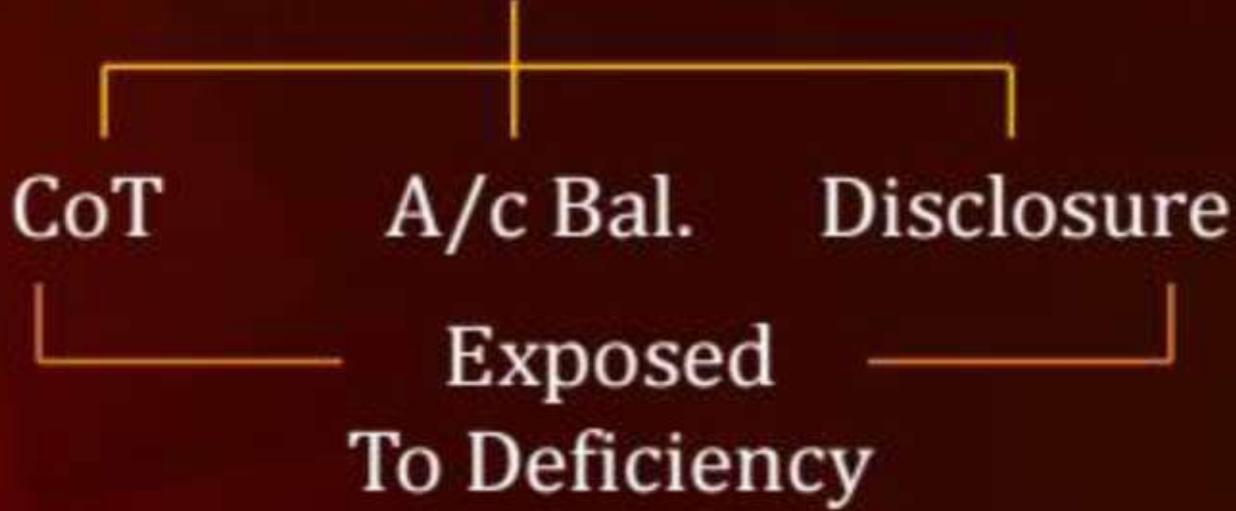


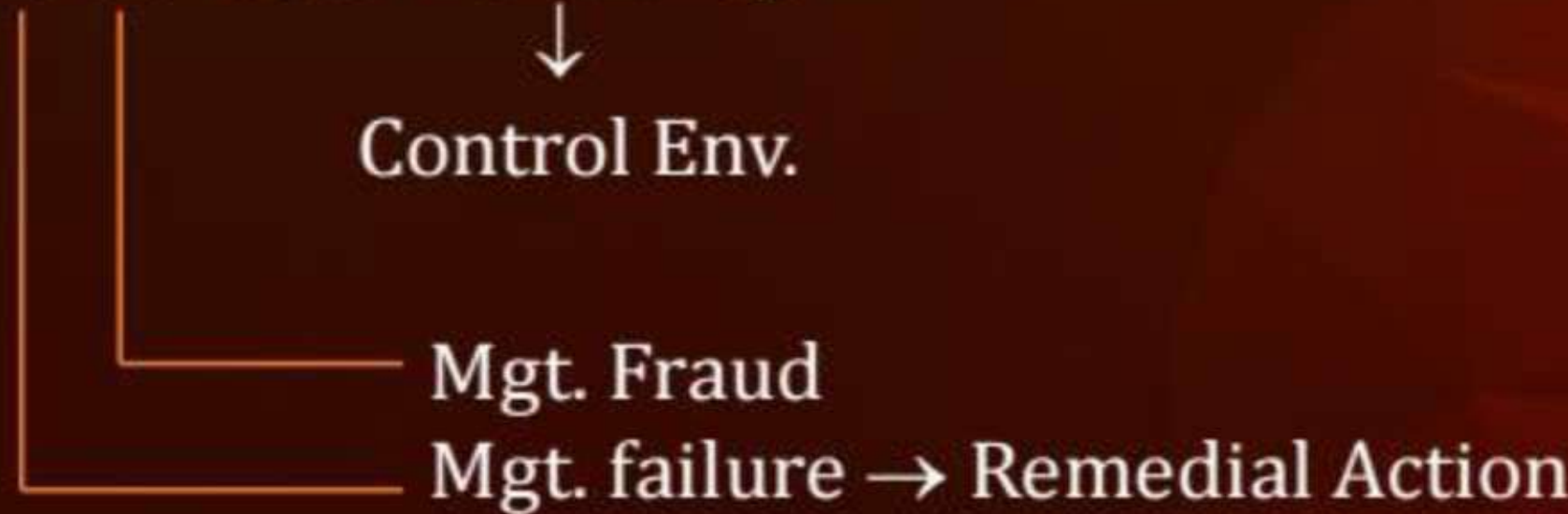
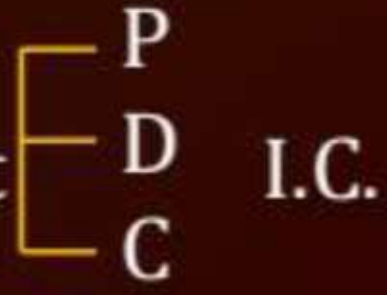



# Topic: Meaning of “Deficiency in internal control” & “significant deficiency in internal control”



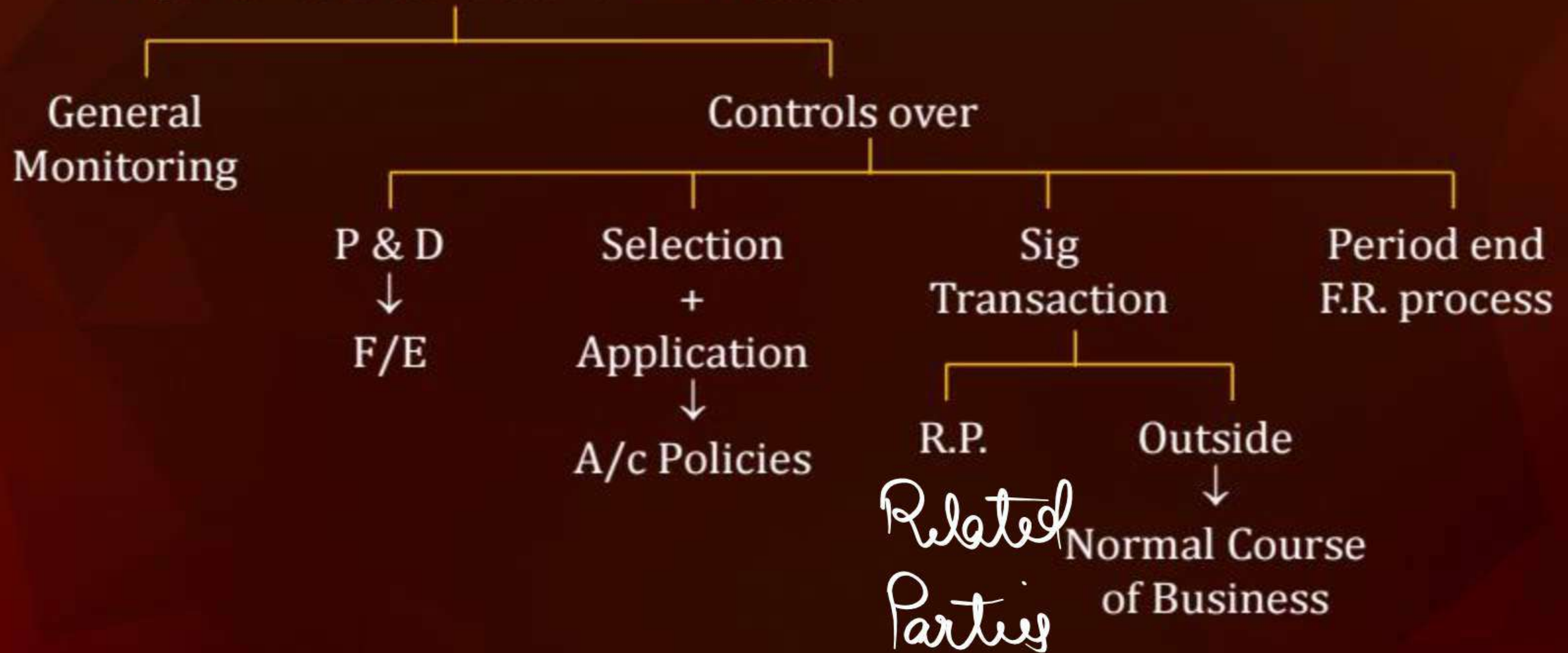




Matters	Indicators
<p>(1) Likelihood → in future</p> <p>(2) Susceptibility  Loss   Fraud</p> <p>(3) Subjectivity  Estimating  complexity  amount</p> <p>(4) FS → amounts → exposed</p> <p>(5) Volume of Transaction</p> <div data-bbox="309 1055 1463 1528">  <pre> graph TD     CoT --- Exposed     A["A/c Bal."] --- Exposed     Disclosure --- Exposed     Exposed --- Deficiency["Exposed To Deficiency"] </pre> </div> <p>(6) Cause  Exceptions  Frequency  Exceptions</p>	<p>(1) Evidence of Deficiency   <pre> graph TD     Evidence["Evidence of Deficiency"] --&gt; Control["Control Env."]     Evidence --&gt; MgtFraud["Mgt. Fraud"]     Evidence --&gt; MgtFailure["Mgt. failure → Remedial Action"] </pre> </p> <p>(2) Absence of R.A.P.</p> <p>(3) Ineffective R.A.P.</p> <p>(4) Misst. detected → Not  I.C.</p> <div data-bbox="1928 1210 2703 1410">  <pre> graph TD     Misst["Misst. detected"] --&gt; Audit["By Audit Procedures"] </pre> </div>

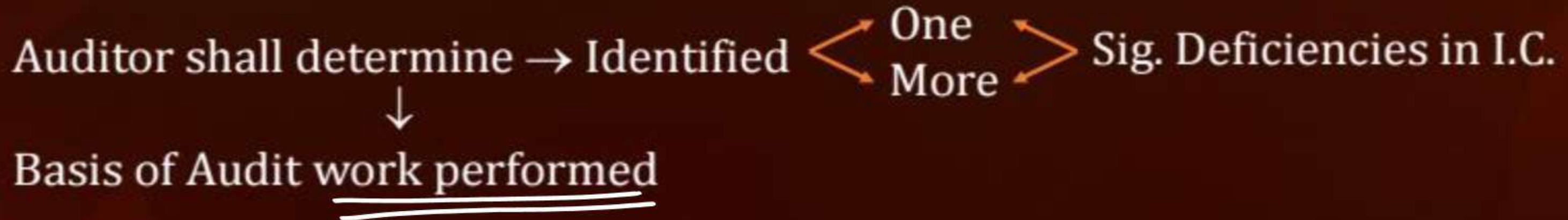


\* Importance of controls → F.R. Process





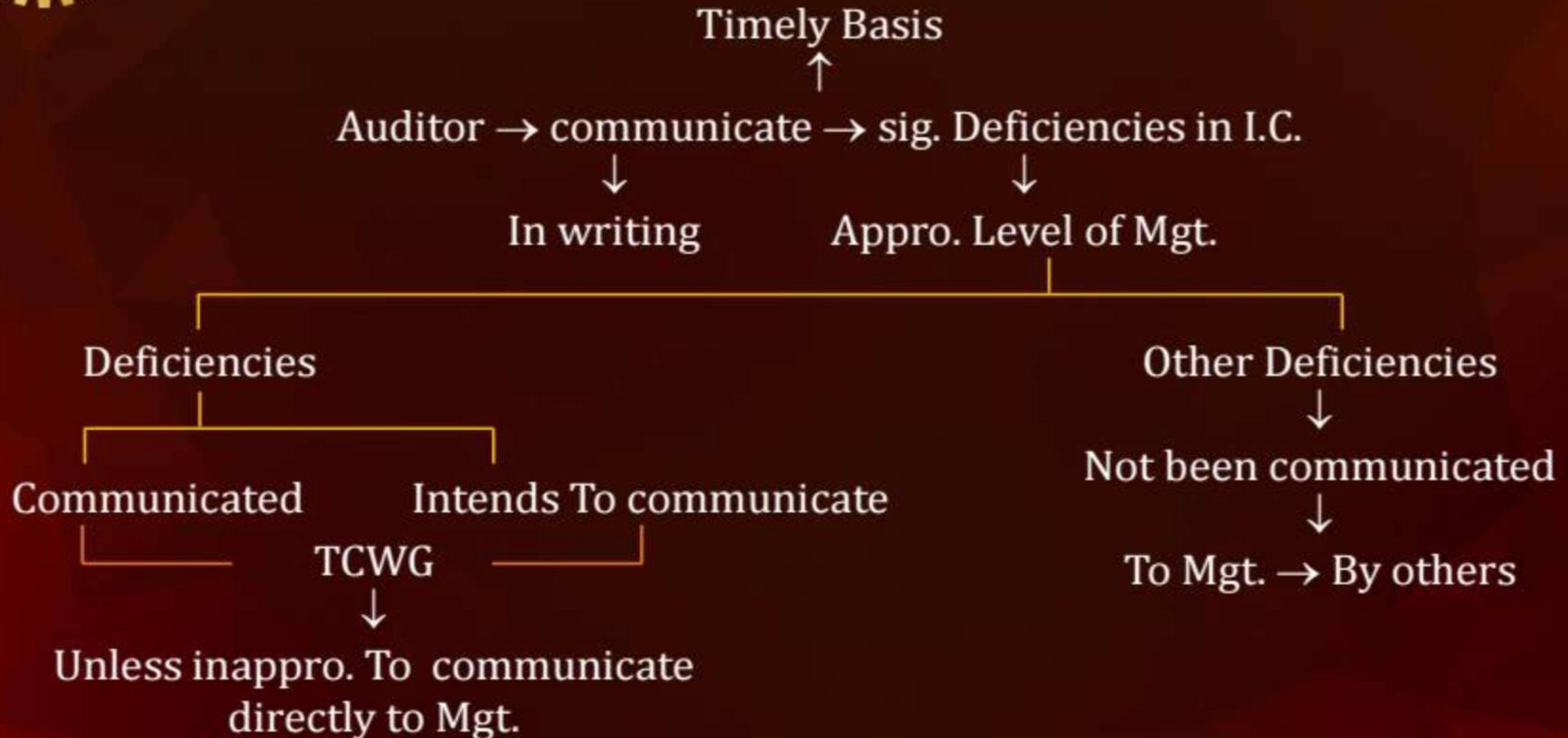
## Topic: Determination of significant deficiencies in internal control



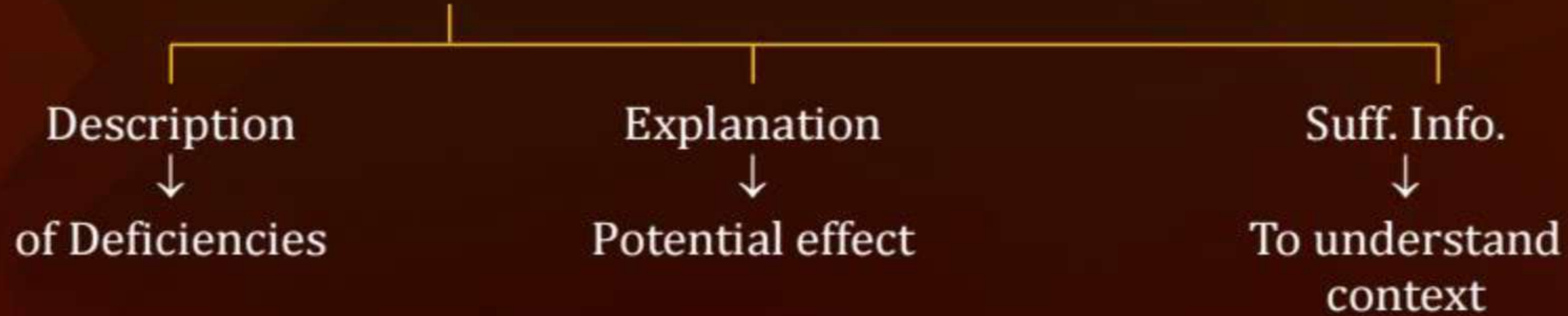




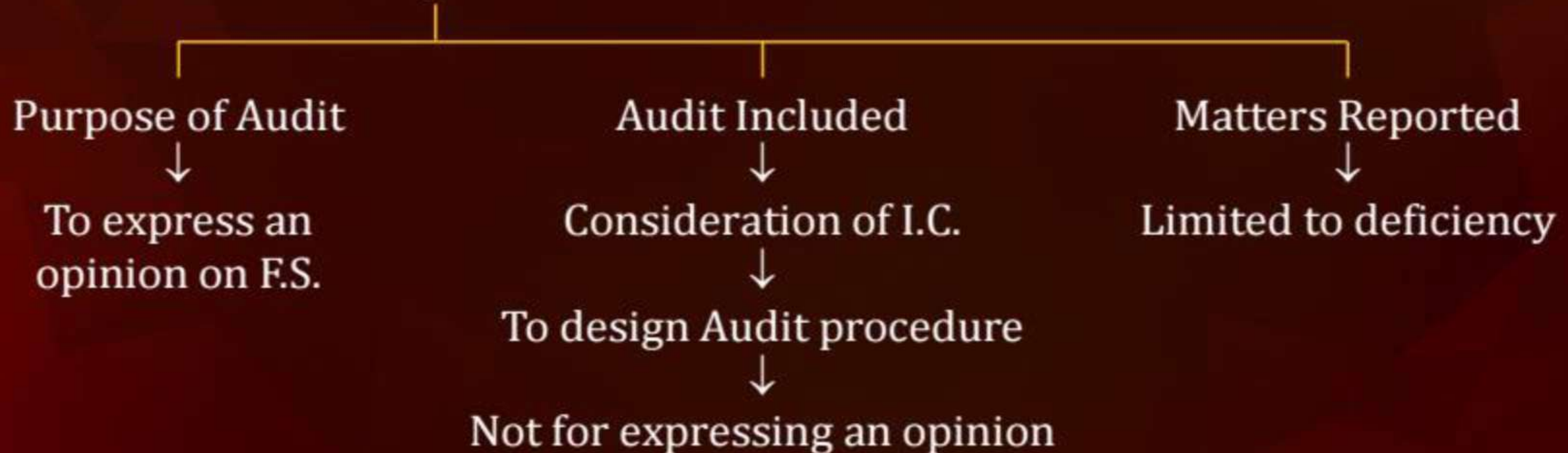
**Topic: Communication of significant deficiencies in internal control to those charged with governance**



\* Auditor → Include



\* Auditor → Explain

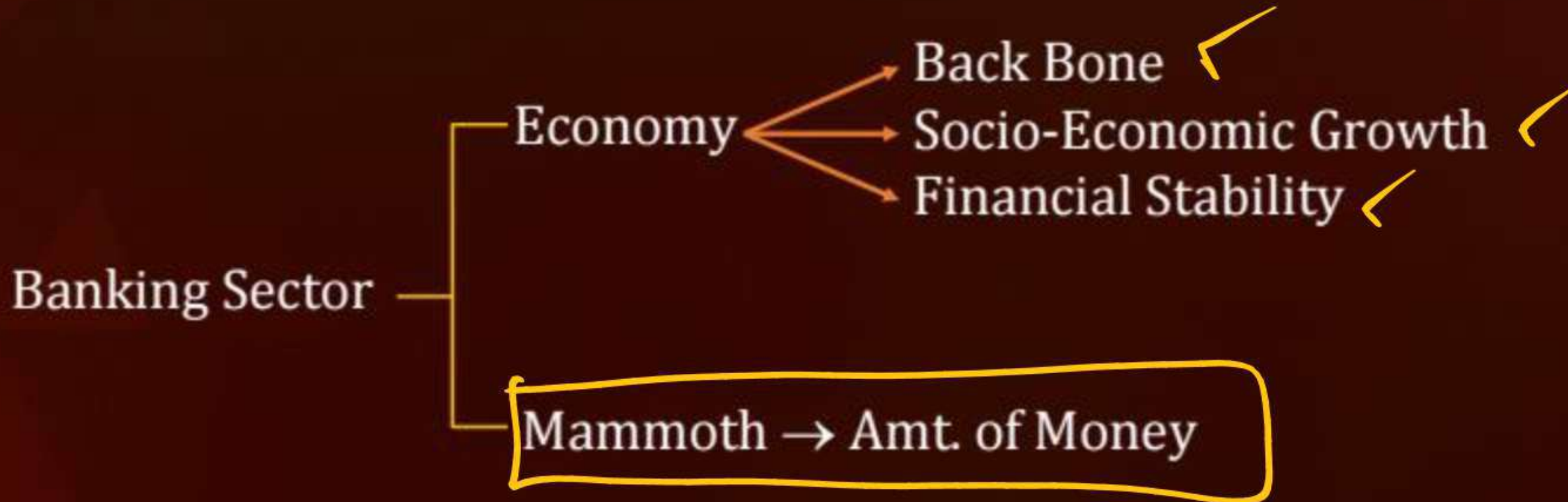




thank you



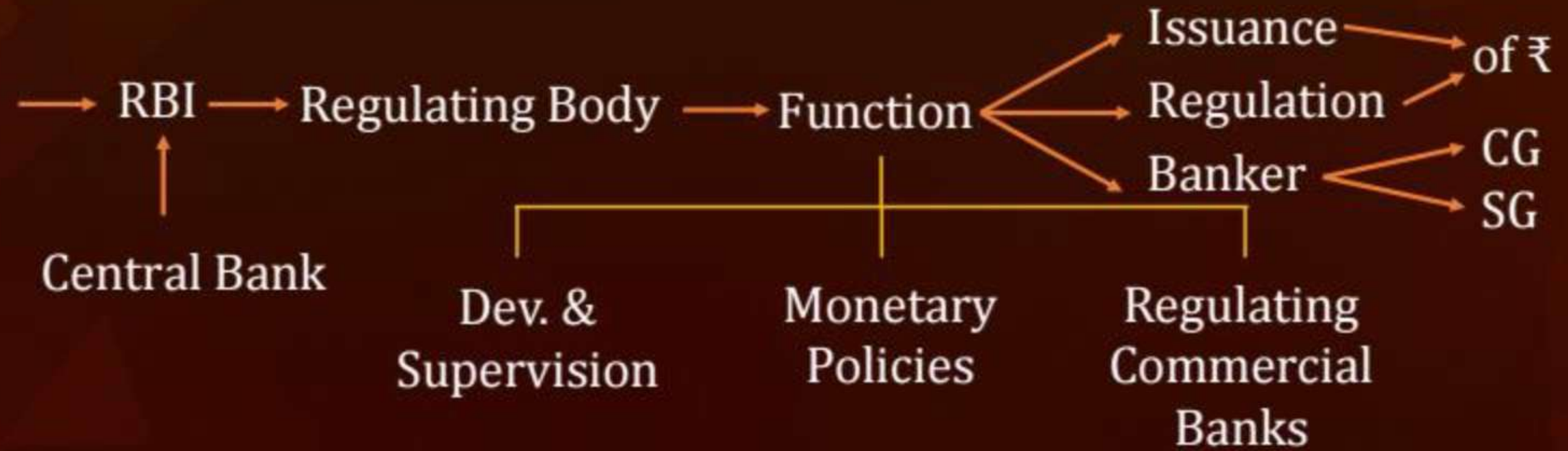
## Topic: Introduction





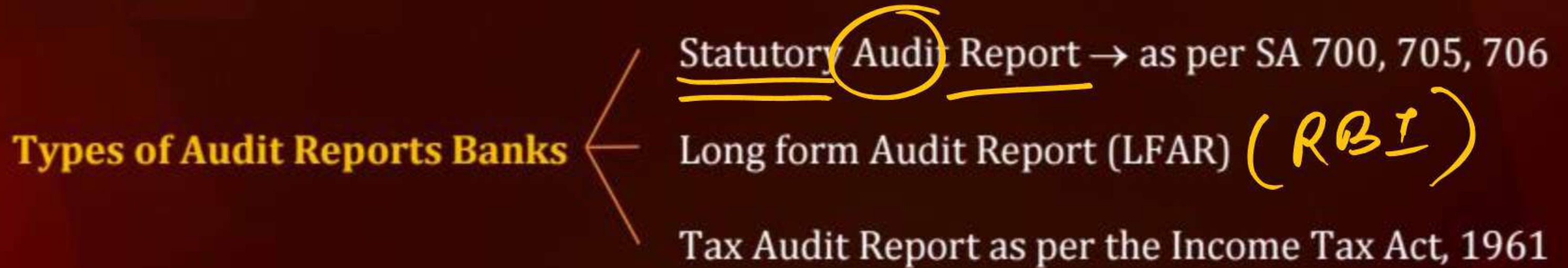
## - Types of Bank







बैंक अलग करने हैं → बाकी के Business से





## **Topic: Understanding of Accounting System Banks**



- **Any time – Anywhere Banking**
- **Core Banking Technology**



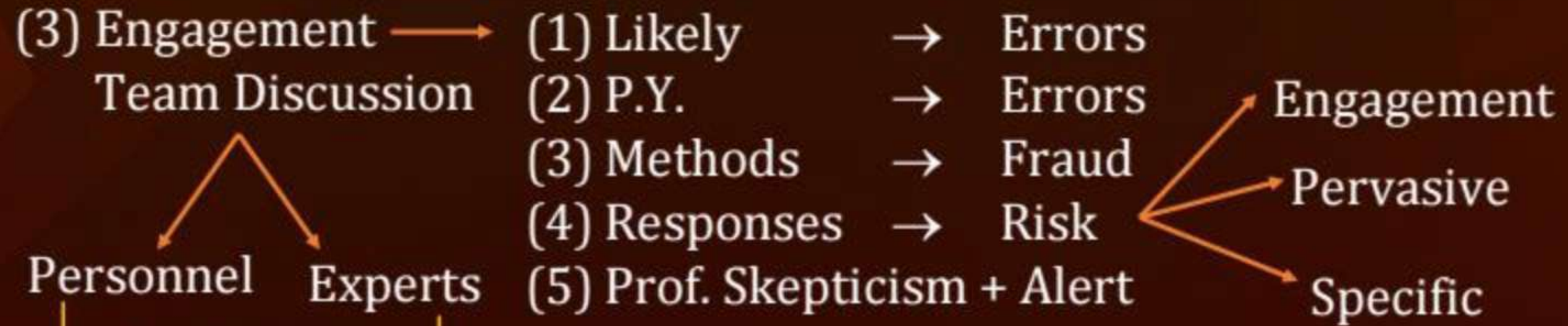


## Topic: Bank Audit Approach









## ADVANTAGES

Susceptibility



Fraud

Delegation



Work

Specialists



Needed

3m



## Topic: Income Recognition Policy

### Income Recognition policy

Should be Objective (on recovery) → rather than → Subjective by the books (Accrual)

Eg.: NPA → Immaterial Income → is recorded → when received → Not on Accrual Basis

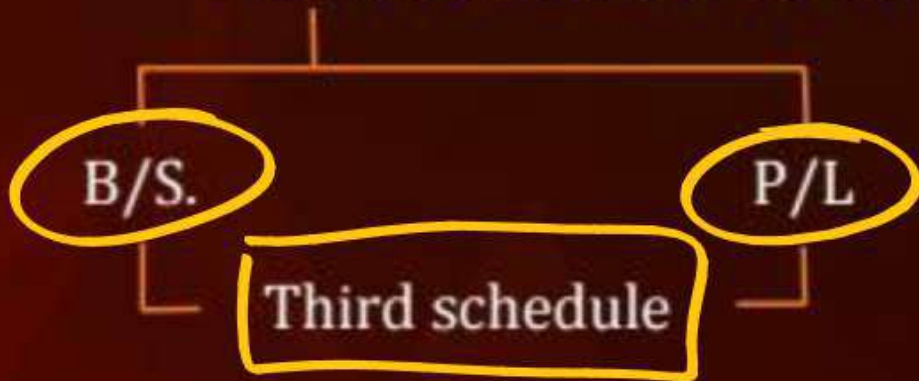




# Topic: Form and Content of Financial Statements



## Form & Content of Financial Statement



(Sec.29(1) & 29(2) of the banking Regulation Act, 1949)

+ Sec.133 of the companies Act, 2013 + Rule 7 of Companies (Accounts) Rules, 2014 (Accounting Standards)

Sec 29(1) & (2) → The Banking Reg Act.

Sec 133 → The Co Act

Rule 7 → Co (A/c) Rules



## Topic: Audit of Accounts



### Audit of Banks (Sec.30(1))

By Chartered Accountants → Duly qualified → to be appointed as Auditor of a Co.





# Topic: Eligibility, Qualifications and Disqualifications of Auditor



## **Eligibility, Qualifications & Disqualifications of an Auditor**

As per Sec.141 of the companies Act, 2013



# Topic: Form and Content of Financial Statements



Applicable as to a Company Auditor





## Topic: Appointment of Auditor

### Appointment of Auditor

- Banking Co. → AGM
  - Nationalised Bank → BoD
  - RRB → RRB → With approval of CG
- Prior approval of RBI

CG	RRB	RRB
RBI	Banking Co.	AGM
	Nationalised	BoD



## Topic: Remuneration of Auditor

**Remuneration of Auditor :** banking Co. → As per Sec.142 of the Companies Act, 2013

By Co. in

GM

Manner determined in GM

Nationalised Banks

SBI

RBI in consultation with CG





## Topic: Powers of Auditor



**Powers of Auditor :** Same as Co. Auditor powers



## Topic: Auditor's Report



### Audit Report:

Nationalised Banks + SBI → CG

### Points to be included

- (i) F.S.
  - True and Fair
  - Satisfactory → Info. + Explanation
- (ii) Transaction done by bank → were within powers of bank
- (iii) Returns required from → Officer → Branches → Adequate
- (iv) Any other Matter → as per CG






## Topic: Format of Report



**Format of Audit Report :** (Same as Ch. 8 (13 Points))

+

- Complies with SA
- Unaudited branches 
  - Info.
  - Quantification of → Advances → Deposits
  - Interest → Income → Expense
- Matters covered u/s 143 of the companies Act, 2013
- CARO 2020 → Not Applicable





## Topic: Long Form Audit Report

- To be submitted in addition to the above → before 30<sup>th</sup> June every year
- **Matters** to be included → specified by RBI

### **Advances**

- Credit Appraisal
- Loan policy
- Sanctioning / Disbursement
- Documentation

### **Liquidity & Fund Management**

- Investment
- SLR/CRR
- Cash
- ALM
- Call Money operations

### **Internal control**

- Written guidelines
- Balancing Books
- Inter Branch Recognition
- Fraud / Vigilance
- Suspense A/c.

### **Capital Adequacy**

### **Profitability**

### **System & Control**

### **Automation & Computerisation**

### **Other Matters**





## Topic: Reporting to RBI

V. Imp.



Committee on Legal Aspects of Bank Frauds



Recommendation



RBI issued circular → Applicable → Scheduled Commercial Banks



If an Accounting Professional → Course of



Finds anything

Except : RRB



(यह circular  
RRB पर  
बाध्य लागू नहीं)

Internal

External

Institutional

Audit

susceptible to  
be fraud

Fraudulent  
Activity

Act of Excess  
power


Foul  
play

Refer matter to RBI

- Consider SA 250 – “Consideration of laws & Regulations in an Audit of F.S.”



Confidentiality is over ridden by



```
graph LR; A[Confidentiality is over ridden by] --> B[Statute]; A --> C[Law]; A --> D[Courts];
```

SA 240 – “Auditor’s Responsibility relating to Fraud in an audit of F.S.”



Inform RBI + Chairman / MD / CEO of Bank

- Follow Sec. 143(12) of the companies Act, 2013





# Topic: Conducting An Audit

## Conducting an Audit:

### Stages

#### (1) Initial consideration by statutory Auditor

- Declaration of Indebtness ✓
- Internal Assignment in bank by statutory Auditor ✓
- Planning as per SA-300 'Planning an Audit of F.S.' → Prior Activities ✓

Perform procedures required by SA-220 'Quality control for Audit work'

<sup>210</sup>  
~~SA-120~~ 'Agreeing to the terms of Audit Engagement'

- Communication with previous Auditor → Clause (8), Part I, First Schedule of the chartered Accountants Act, 1949
- SA - 210 → for each period → documented?

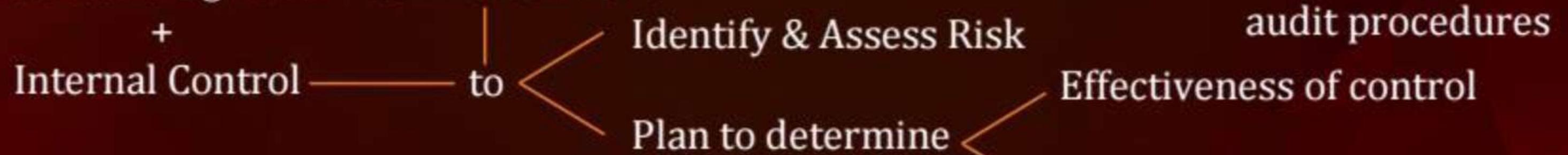


- SA-510 'Initial Engagement – Opening Balance' → Mismatch → If not properly accounted → qualified / Adverse Opinion
- Assessment of Engagement Risk
- Establishing engagement team
- Understanding bank & its Environment → SA-315 'Identifying & Assessing the RoMM through understanding the Entity & its environment'

(2) SA-315 → Identifying & Assessing RoMM at



(3) Understanding Bank + its Environment



(4) Understanding the Bank's Accounting Process



(5) Understanding Risk Management Process

- Involvement & Oversight in the control process by TCWG → written policies
- Identification, Measurement & Monitoring Risk → Against pre-approved → limits → criteria
- Control Activities
- Monitoring activities
- Reliable Info. System

(6) Engagement team discussion

(7) Establish overall audit strategy

(8) Develop Audit P on SA-300 → SA-220 → SA 210

(9) Audit Planning Memorandum

(10) Determine Audit Materiality

(11) Consider going concern

- (12) Assess Risk of Fraud including money laundering
- (13) Assess specific Risk
- (14) Risk associated with outsourcing of activities
- (15) SA-330 'Auditor's Response to assessed Risk'
- (16) Stress Testing
- (17) Basel – III framework
- (18) Reliance on → Review of → other report

Read all  
these points  
after the  
entire Audit  
Syllabus

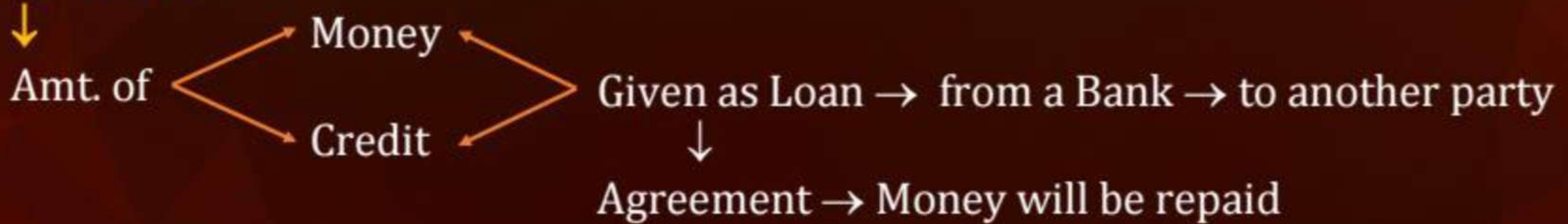




## Topic: Advances



### Advances



### \* Types of Advances

Funded

Actual transfer of funds

From Bank → To Borrower

Non Funded

L.C.  
B.G.



## Topic: What do Advances comprise

Term Loans

CC/OD/Demand  
Loans

Bills

Risk sharing  
Basis

Staff Loans



Interest  
bearing

Discounted

Purchased

[Consortium  
of  
Banks]



₹ 1 Crore → Housing loan

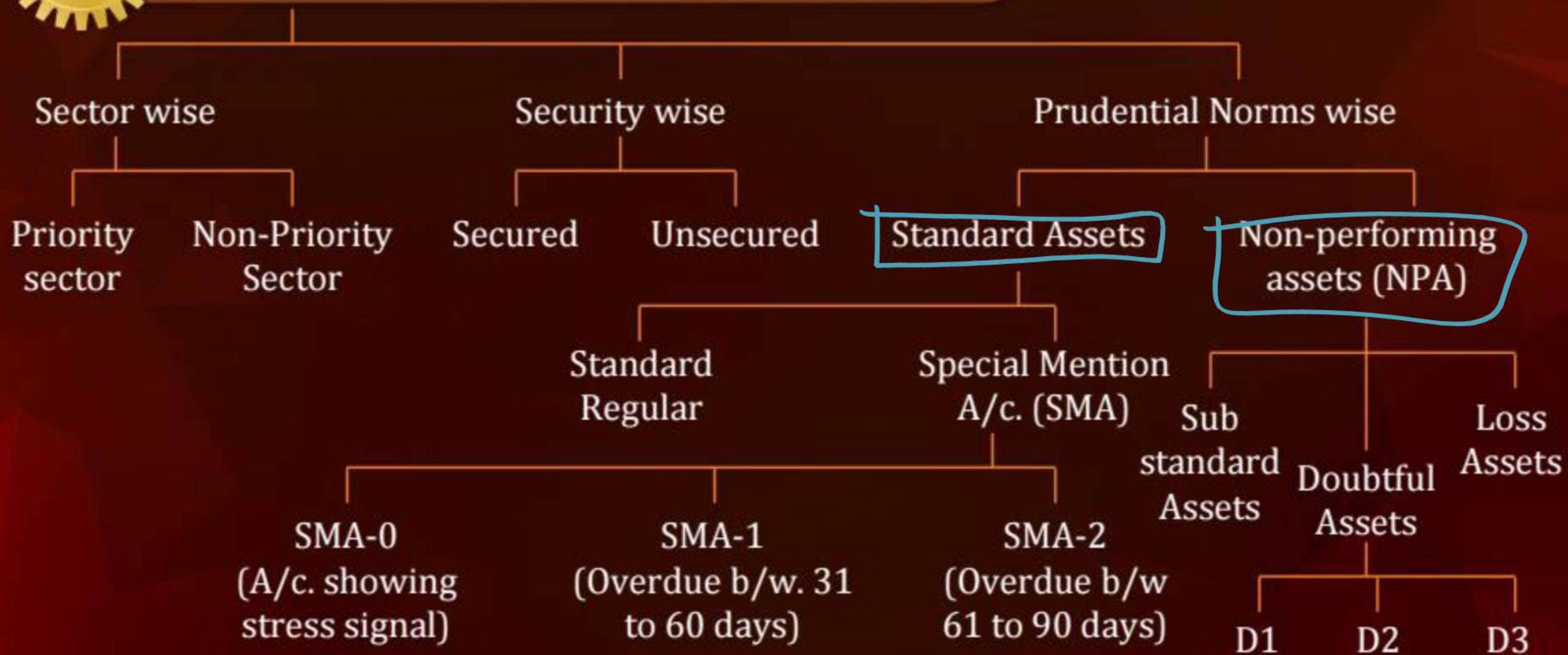
↓  
Asset for Bank

↓  
To be shown in B/S —

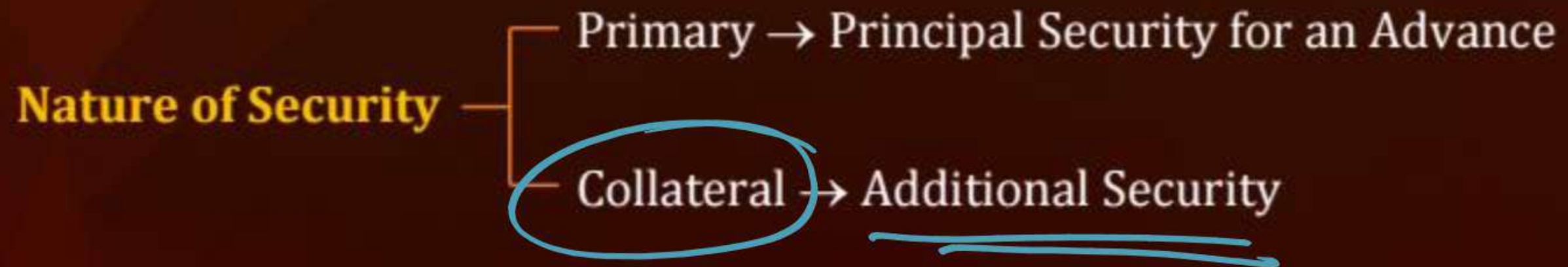
- Sector wise
  - Priority
  - Non Priority
- Security wise
  - Secured
  - Unsecured
- Prudential Norms



# Topic: Classification of Advances







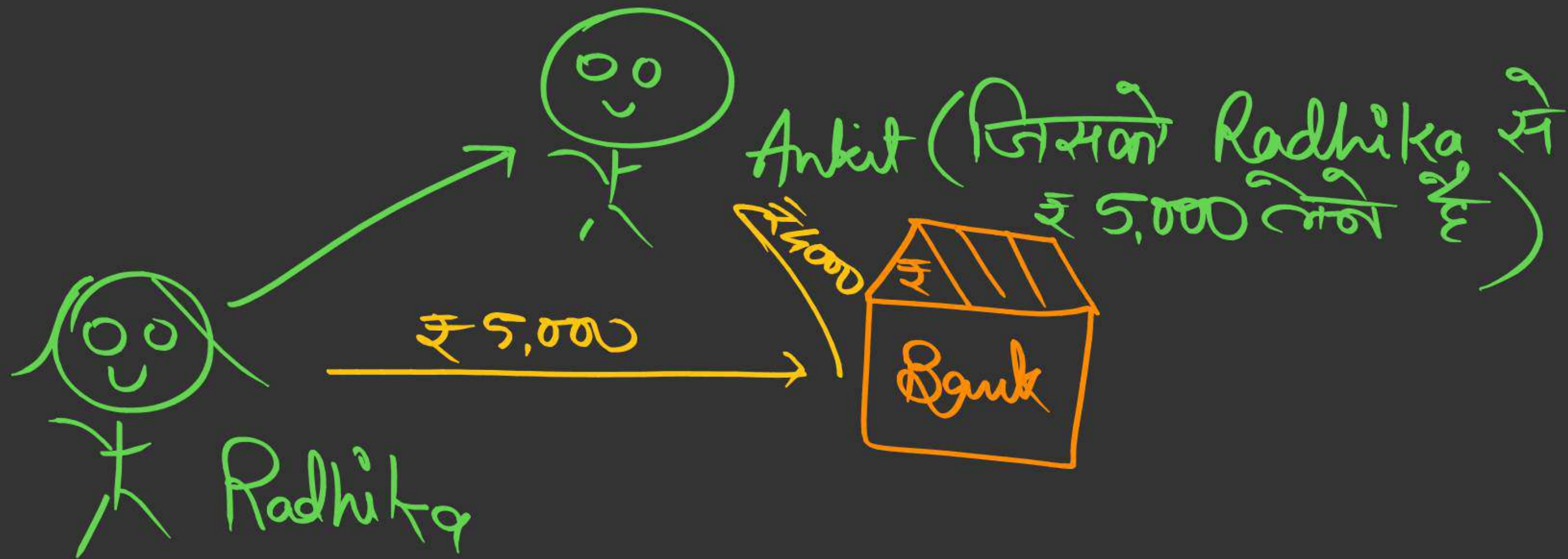


## Topic: Mode of Creation of Security

- (1) Mortgage Deed
  - Registered → By Mortgage Deed
  - Equitable → By mere Delivery
- (2) Pledge → Bailment or Delivery of Goods → By borrower → to lending bank
  - ↓
  - Ownership remains with the pledger
- (3) Hypothecation → Creation of an equitable charge → Ownership → possession → Not transferred
- (4) Assignment → Transfer of an existing
  - Debt
  - Right
  - PropertyBelonging to a person → In favour of another
- (5) Set-off → Debit Balance of Debtor's A/c. → Set off → In the same name + Right
- (6) Lien → Legal charge with consent of owner



# Assignment



# Prudential Norms on

- Income Recognition ①
- Asset Classification ②
- Provisioning pertaining to advances ③

(i) NPA → when Income is NOT generated for the bank

Term Loan / Bill Discounted → Interest + Principal → Overdue > 90 days

OD / CC A/c. → Out of order

(ii) Out of order → O/s Balance > Sanctioned Limit (SL) / Drawing Power (DP)

V. Imp.

3m

①

↑

Continuously

O/s Balance < SL/DP

②

But

No credit continuously for 90 days as on B/s date

③

OR

Credit not enough to cover Interest debited for 90 days



Bank has sanctioned an OD for ₹ 1 Cr @ 10% p.a.

Year	<u>Interest due</u>	Paid	Due
1	10 L	10 L	₹ 1 Cr.
2	10 L	2 L	₹ 1.08 Cr.
3			<u>₹ 1.08 Cr.</u>

(iii) Overdue → Amount not paid on the due date fixed by the bank

→ Account regularised before B/s date → without subjectivity → NPA Deemed

↓  
Solitary or few credits

→ If loan backed by CG → always standard asset → If guarantee continues

↓  
Could be NPA on Income recognition purpose

SG → Would be NPA → IF overdue > 90 days

Provisioning

Income Purposes



#### (iv) Advances under consortium

If bank receiving remittance → not parting with share of other member banks



from borrowers

A/c. should be treated as NPA

∴ Arrangements should be made to recover their share from lead bank

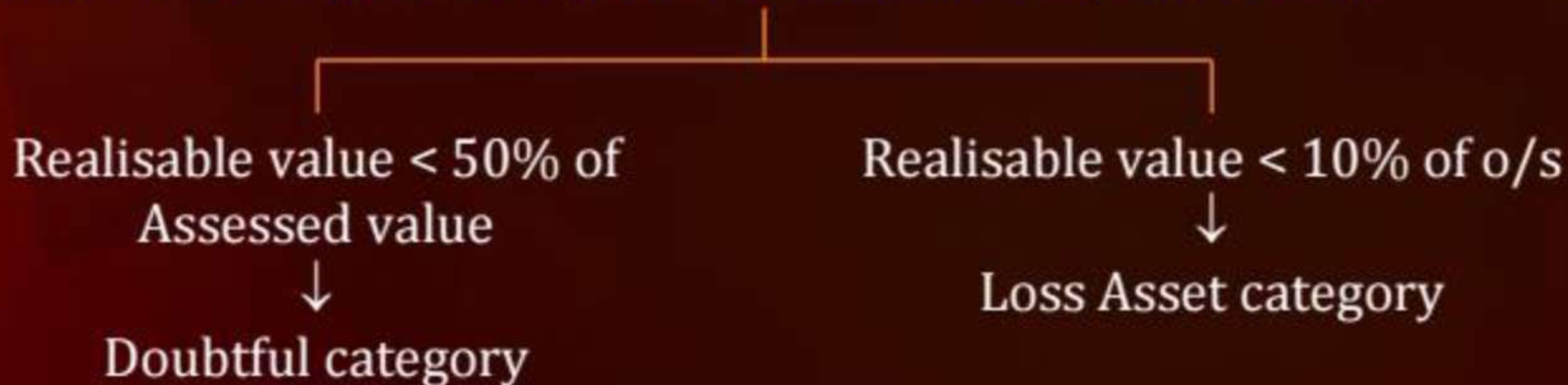
#### (v) Drawing power allocation in case of CC A/c.

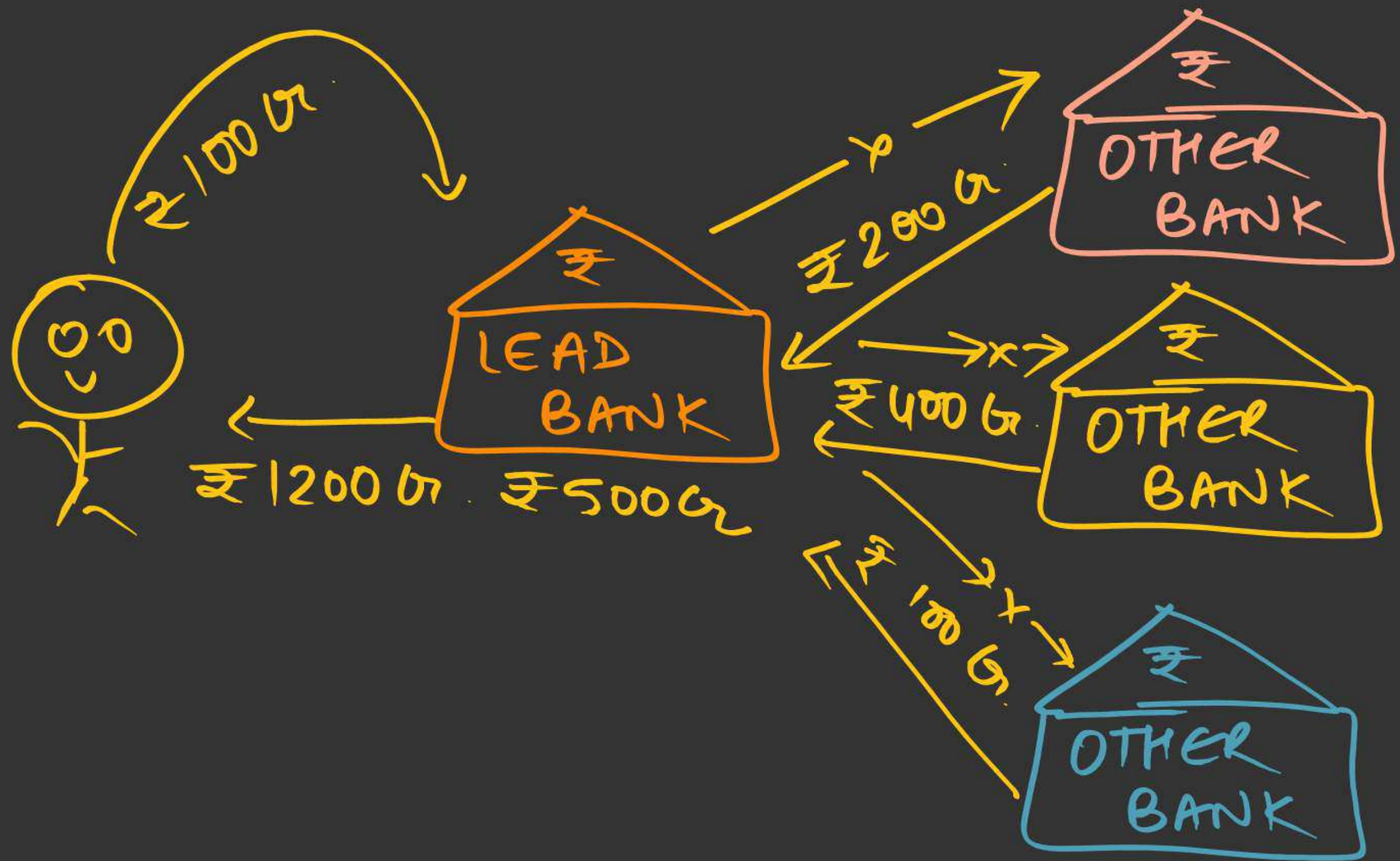
Lead Bank → Compute → Drawing power of the Borrower

+

Allocates to member banks

#### Value of Security eroded / fraud committed by borrower







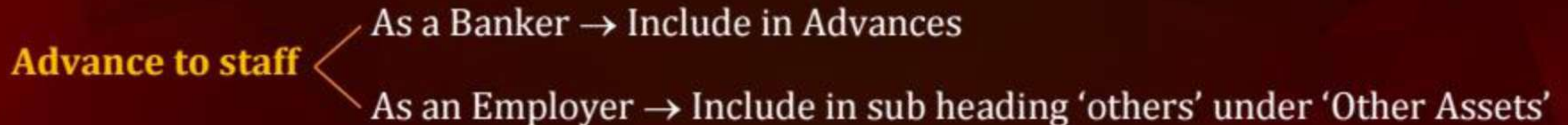
## Advance against term Deposit / NSCs / IVPs / KVPs

Not treated as NPA → Provided adequate margin is available

## Agricultural advances affected by natural calamities



## Agricultural Advances



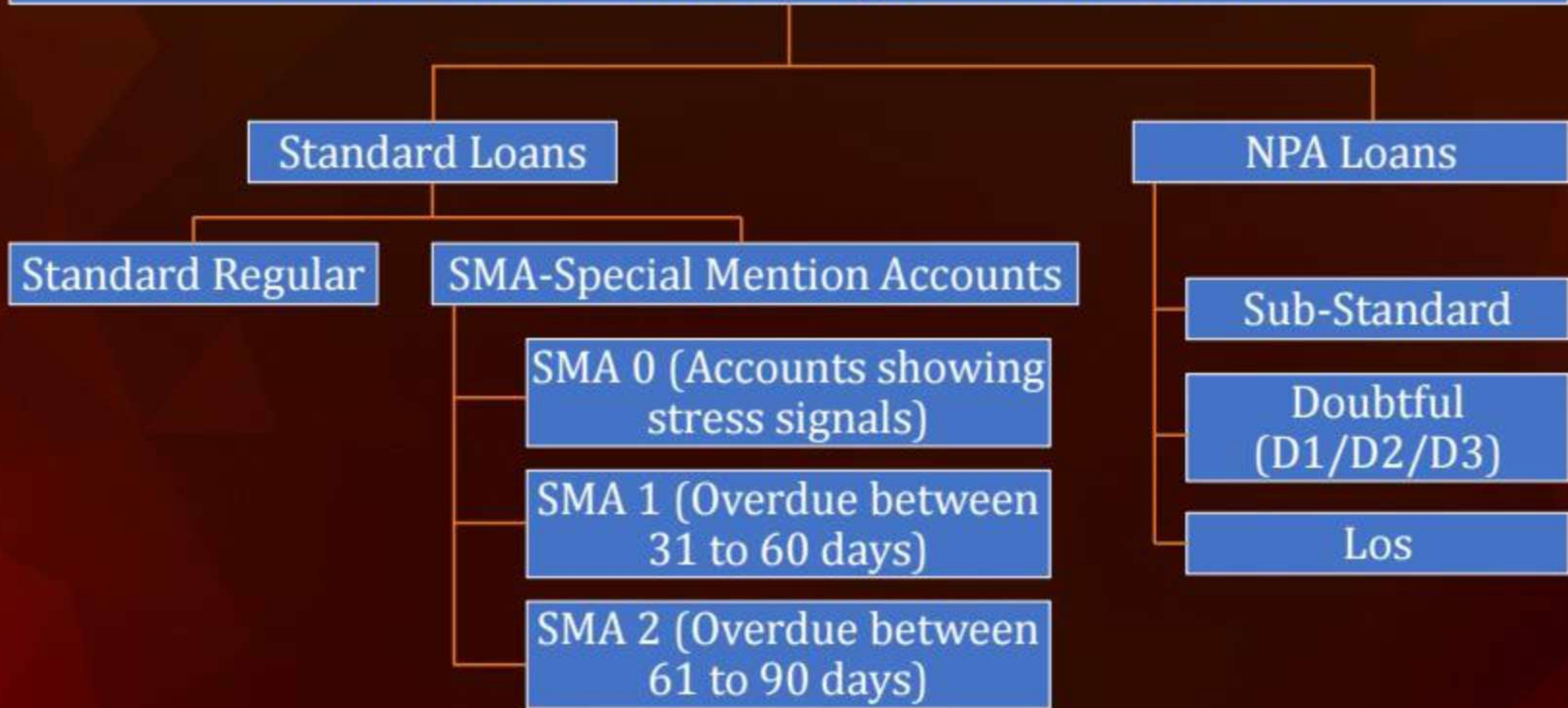


# **Topic: Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances**

**Classification of Advances as per RBI Prudential Norms**



## Classification of Advances as per Prudential Norms



- (i) Non-performing Assets:** An asset becomes NPA when it ceases to generate income for the Bank.





## Topic: Computation of Drawing Power

### Computation of Drawing Power

- All accounts → Kept under → SL / DP ✓
  - Exceptions / Against unapproved securities → Inform Mgt. / HO
- Current Assets → Adequate → IF DP in working capital
  - DP based up on → Current Stock statement → not exceeding 3 months
- Stock statement → to be scrutinized → in detail
- Annual report → Compare ← Monthly stock statement

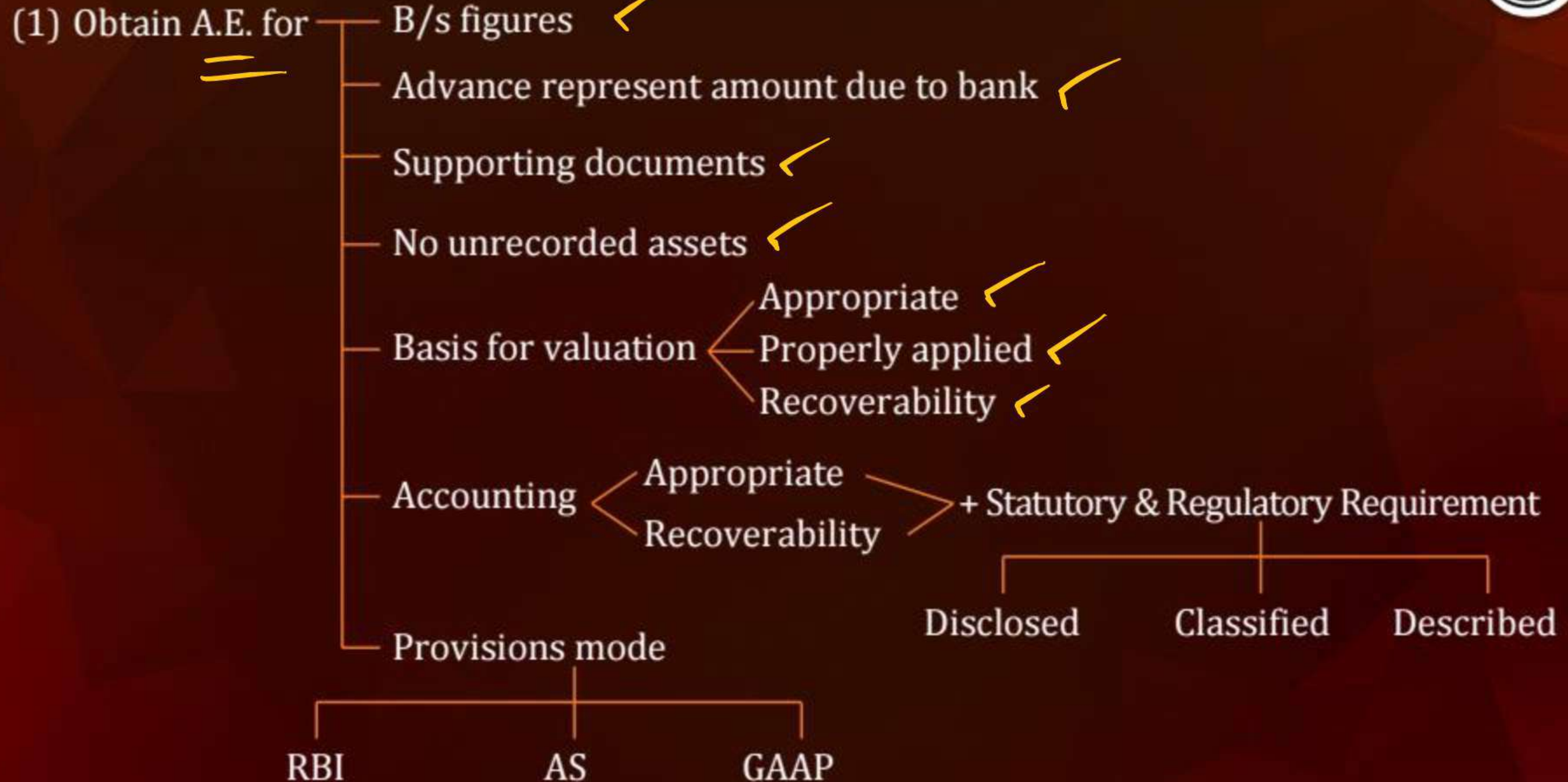


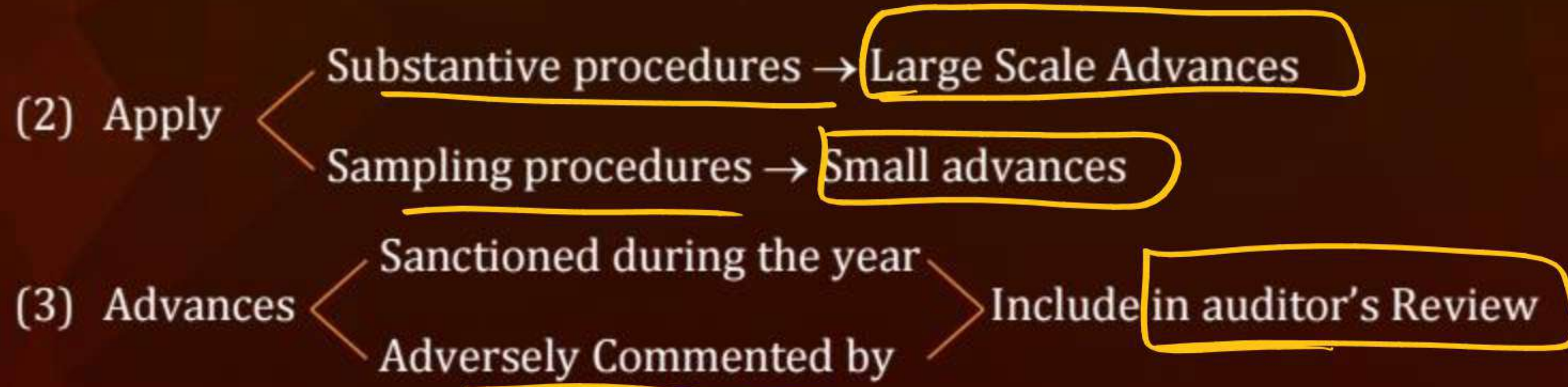
Deviation to be ascertained

- Stock audit of Borrower → by bank → If Advance > ₹ 5 crore



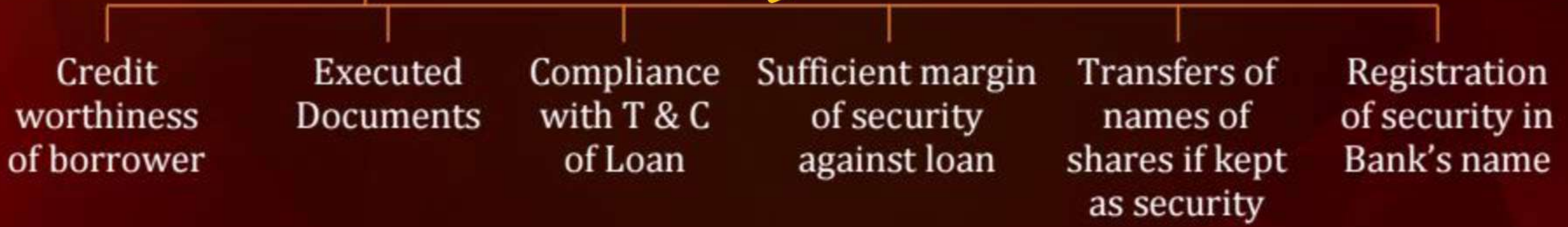
## Audit of Advances





RBI      Concurrent Auditor      Internal Inspection

(4) Evaluation of Internal Control (IC) *V. Imp.*







# Topic: Audit of Revenue Items – Profit and Loss Account

## Audit of Revenue Items

Incomes

Expenditure

(1) Reasonable Assurance

Transaction of  
Relevant period

No unrecorded  
Income

Recorded in  
proper amounts

Allocated to  
proper period

(2) As per RBI → Income to be recorded on Accrual basis as per AS-9

↓  
which exceeds 1% of  $\left\{ \begin{array}{l} \text{Total Income as per Gross Income} \\ \text{NPBT if recorded as per Net of cash basis} \end{array} \right.$

(3) Items may be recorded on cash basis → If not material

(4) Revenue Certainty → Reasonable to expect



Ultimate Collection



Accrual Basis

(5) Revenue Uncertainty → Cash Basis

Provided adequate margin



(6) Advances against securities → Interest → On Due Date

Term Deposits  
(FD)

NSCs

IVPs

KVPs

Life Policies



(7) Bills Purchased → O/s at the close of the year

↳ Discount Received → Apportioned → B/W 2 years

↳ Unexpired  $\frac{\text{Discount}}{\text{Rebate on Bill Discounted}}$

(8) Bills for collection → examine procedure → Crediting the party



on whose behalf



Bill has been collected

(9) Renegotiations → Recognized on Accrual Basis

\* Reversal of Income

If Advance → becomes NPA + wrongly recognised

↳ Income → should be REVERSED (Govt. Guarantee A/c also)

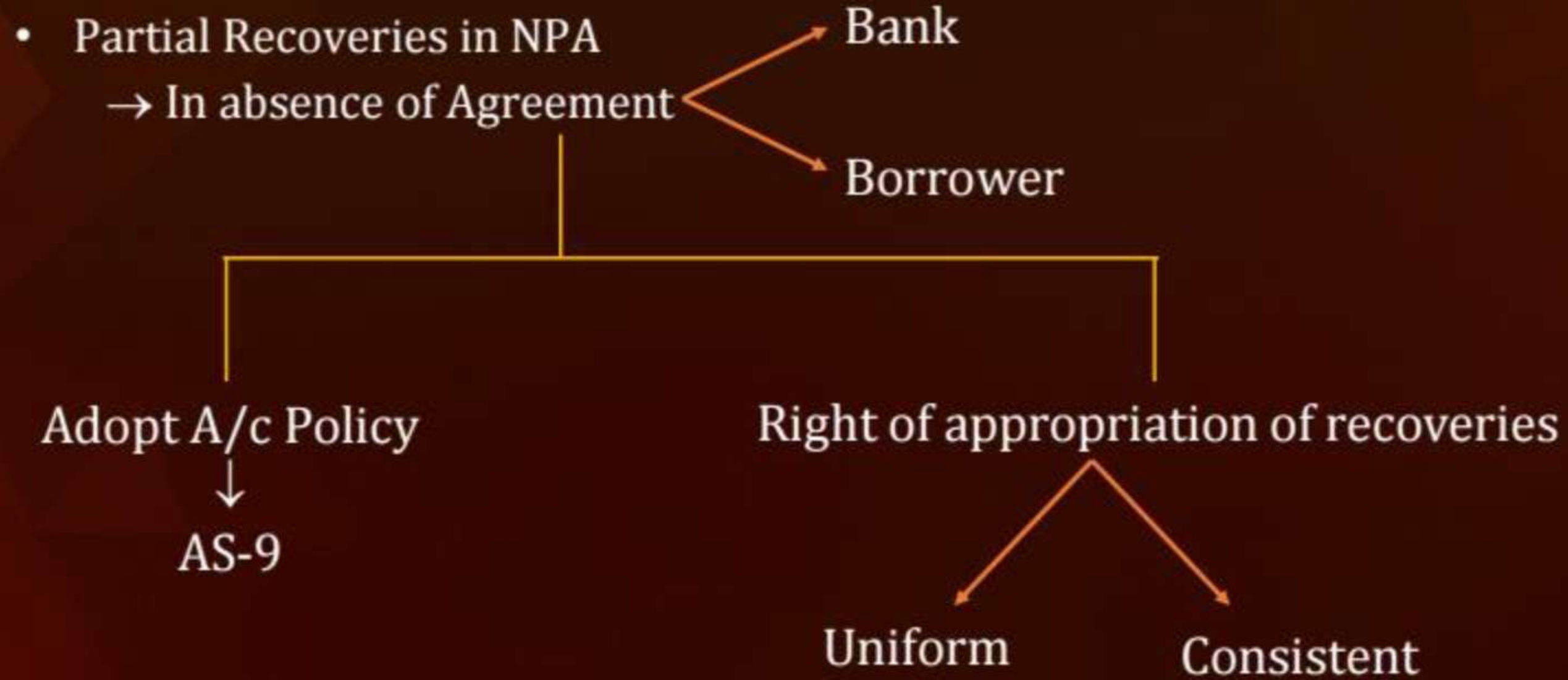


Accrued

Credited

+

Enquire → Large Debits



### **Memorandum A/c.**

Income on NPA should not be recorded or reverse if already recorded



But can be recorded in memorandum A/c. → for control purposes

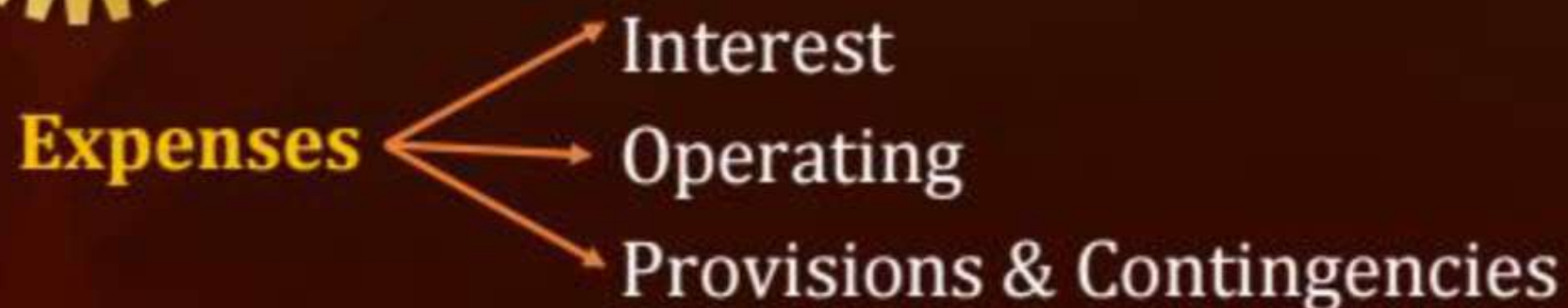


But not to be included for calculation of Advances





## Topic: Expenses



→ Audit Approach

### (I) Interest Expense

(i) Primary Concern → Assessment of Reasonableness of Amt.



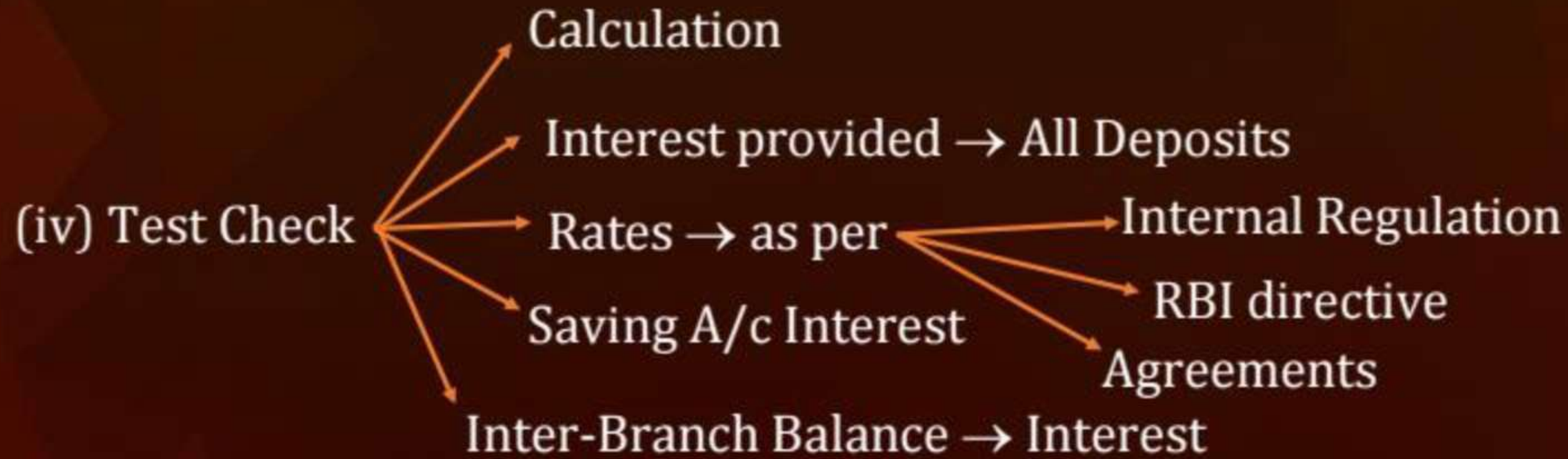
By analysing Ratios

(ii) Obtain → Analysis of o/s deposits ← end of each quarter

(iii) Compare → Avg. rate of interest paid

C.Y.

P.Y.



## (II) Operating Expenses

- (i) Study + Evaluate → Sys. Of I.C.
- (ii) Examine → Divergent + trends → Major Exp.
- (iii) Perform → SAP





### (III) Provisions & Contingencies V. Imp.

(i) Ensure → compliance → Regulatory Req.

(ii) Computation → Provision 

(iii) Detailed, Breakup



(iv) Tax provision computation

thank you