

dronacharya

FOR
CA INTERMEDIATE

2024

**Audit of Items of
Financial Statements**

Auditing & Ethics

ONE SHOT

Ch 5



Ankit Mundra Sir



Topic: Introduction



Explicit

Implicit

Assertion

→ Representation

→ By mgt.

→ used by Auditor

↓
Embodied in F.S.

↓
To consider difference ^{it} types of MM

↓
That May Occur

Auditor → To draw → Audit Programme

↓
To VERIFY assertions made by Mgt.

↓
by obtaining Suff. + Appro. A.E. → for claims

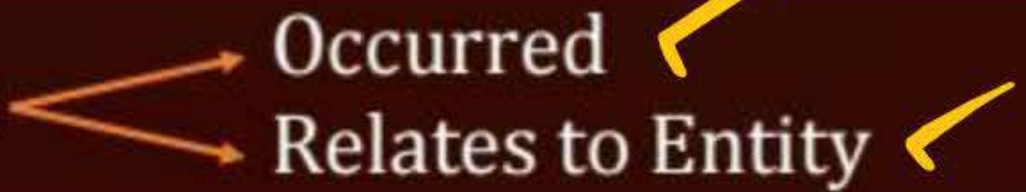

→ CoT

→ A/c. Bal.

→ Disclosures



Topic: Income Statement Captions Comprising Revenue & Expense Balances

Assertions	Explanations
① Occurrence	<p>Transactions </p> <p>Occurred ✓</p> <p>Relates to Entity ✓</p>
② Completeness	<p>Transactions → supposed to be Recorded</p> <p></p> <p>Recognized ✓</p> <p>Not Omitted ✓</p>
③ Cut-off	<p>Transactions → correct A/c period ✓</p> <p>Separate Assertion → Substantive Procedures</p> <p>↓</p> <p>Different</p>



Topic: Income Statement Captions Comprising Revenue & Expense Balances

Assertions

Explanations

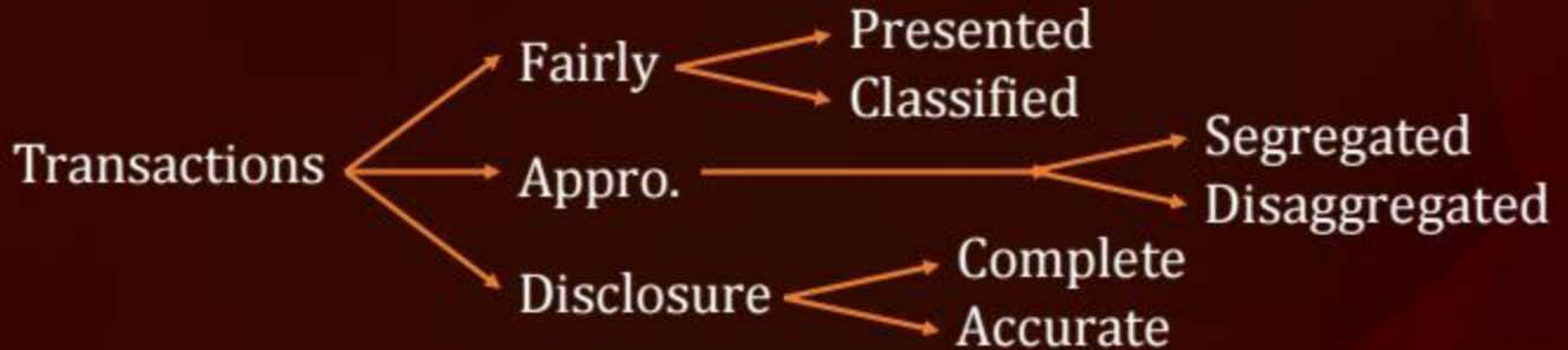
④

Measurement



⑤

Presentation
&
Disclosure





Topic: Balance Sheet Captions Comprising Assets, Liabilities And Equity Balances

Assertions	Explanations
① Existence	<u>Balances</u> → <u>EXISTS</u>
② Completeness	Balances → Supposed to be Recorded <div><div>Recognized</div><div>Not Omitted</div></div>
③ Cut-off	Balances → Correct A/c. Period ✓
④ Valuation	Balances → Appro. Valued ↓ No <div><div>Overstatement</div><div>Understatement</div></div>



Topic: Balance Sheet Captions Comprising Assets, Liabilities And Equity Balances

Assertions

⑤ Rights & Obligation

⑥ Presentation & Disclosure

Explanations

Assets → Rights
Ownership ✓
Legal Title ✓

Liabilities → Entity's Obligations ✓

Balances
Fairly
Presented
Classified
Appro.
Segregated
Disaggregated
Disclosure
Complete
Accurate



Topic: Balance Sheet Captions





Topic: Share Capital



Share Capital → Existence + Completeness + Valuation

(1) Tally → Period and Balance

(2)  Yes → Verify → Limits → Authorised Capital → MoA

(3) No → Obtain W.R. ← Company Secretary

(4) Obtain → Copies of Resolution ✓

(5) Compliance  The Companies Act, 2013 ✓

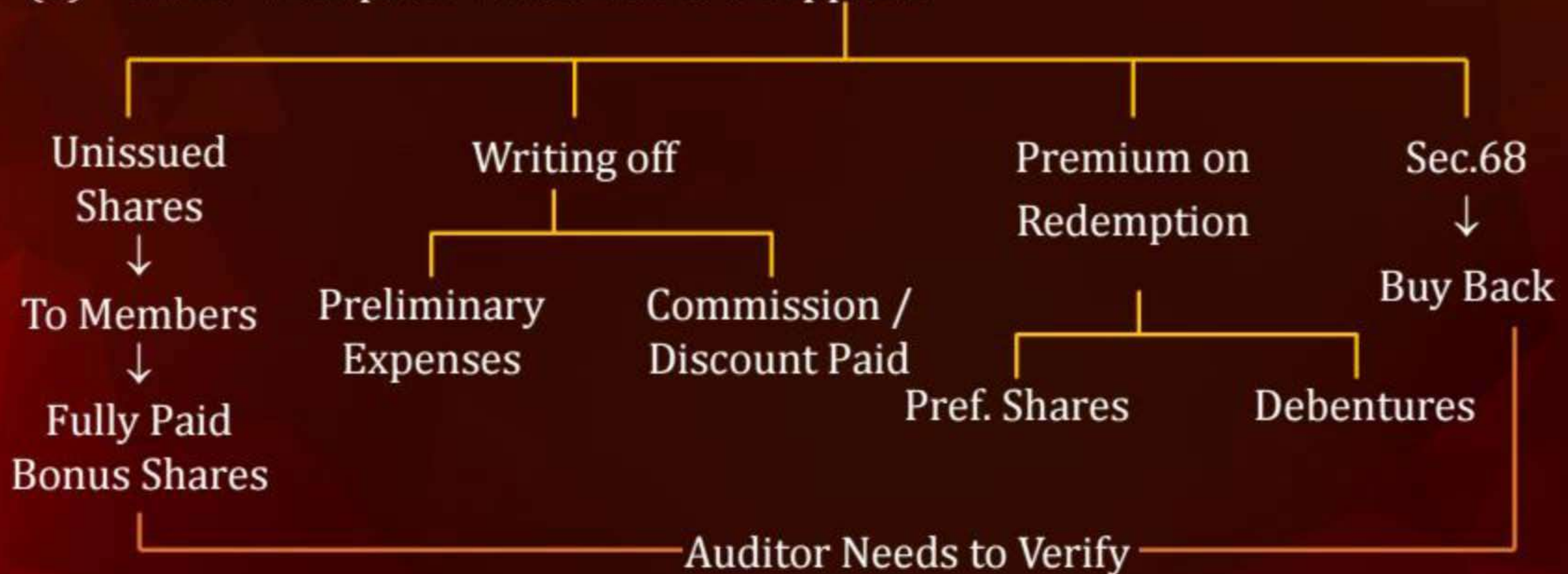
SEBI Regulations ✓

MCA Guidelines ✓



Topic: Shares Issued @ Premium

- (1) Compliance → Sec.52
- (2) Transfer → Amount → Securities Premium A/c.
- (3) State → Purpose → Amount to be applied





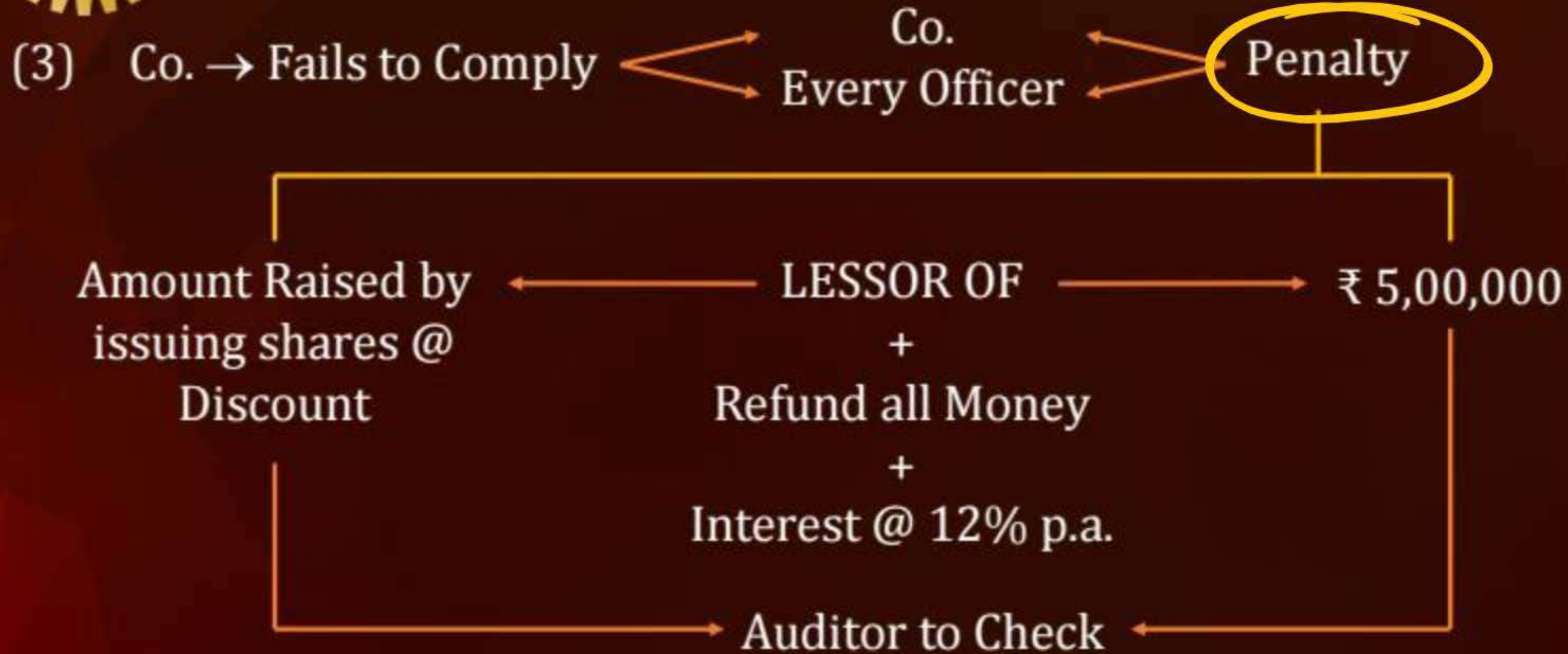
Topic: Shares Issued @ Discount

- (1) Compliance → Sec.53 ✓
- (2) Shall Not Issue Shares @ Discount → EXCEPT





Topic: Shares Issued @ Discount





Topic: Issue of Sweat Equity Shares

Sec 54

Equity Shares → By Co. → To Employee ✓
Director ✓

at

Discount

Consideration Other than Cash

For Providing

Know-how

IPR

Value Additions



Topic: Issue of Sweat Equity Shares

→ Auditor needs to Verify

(1) Compliance → Sec. 54 ✓

(2) SR → Passed by Co.

(3) Specifies

No. of Shares ✓

CMP ✓

Consideration ✓

Class (s)

(4) Regulations

→ Listed → SEBI

→ Unlisted → As prescribed

Directors

Employee



Topic: Reduction of Capital

- (1) Compliance → Sec. 66 ✓
- (2) Meeting of Share Holders
 Properly Convened ✓
 S. R. Passed ✓
- (3) Verify → AoA
- (4) No Defaults
 Repayment of Deposits ✓
 Payment of Interest on Deposits ✓
- (5) Examine
 Order of Tribunal
 MoM
 Filed with RoC
- (6) RoC Certificate
- (7) A/c. Entries
- (8) Revaluation of Assets → Properly Disclosed



Topic: Share Capital



Disclosure



Schedule III (Part-I) of The Companies Act, 2013

Share Capital → Additional Regulatory Info.



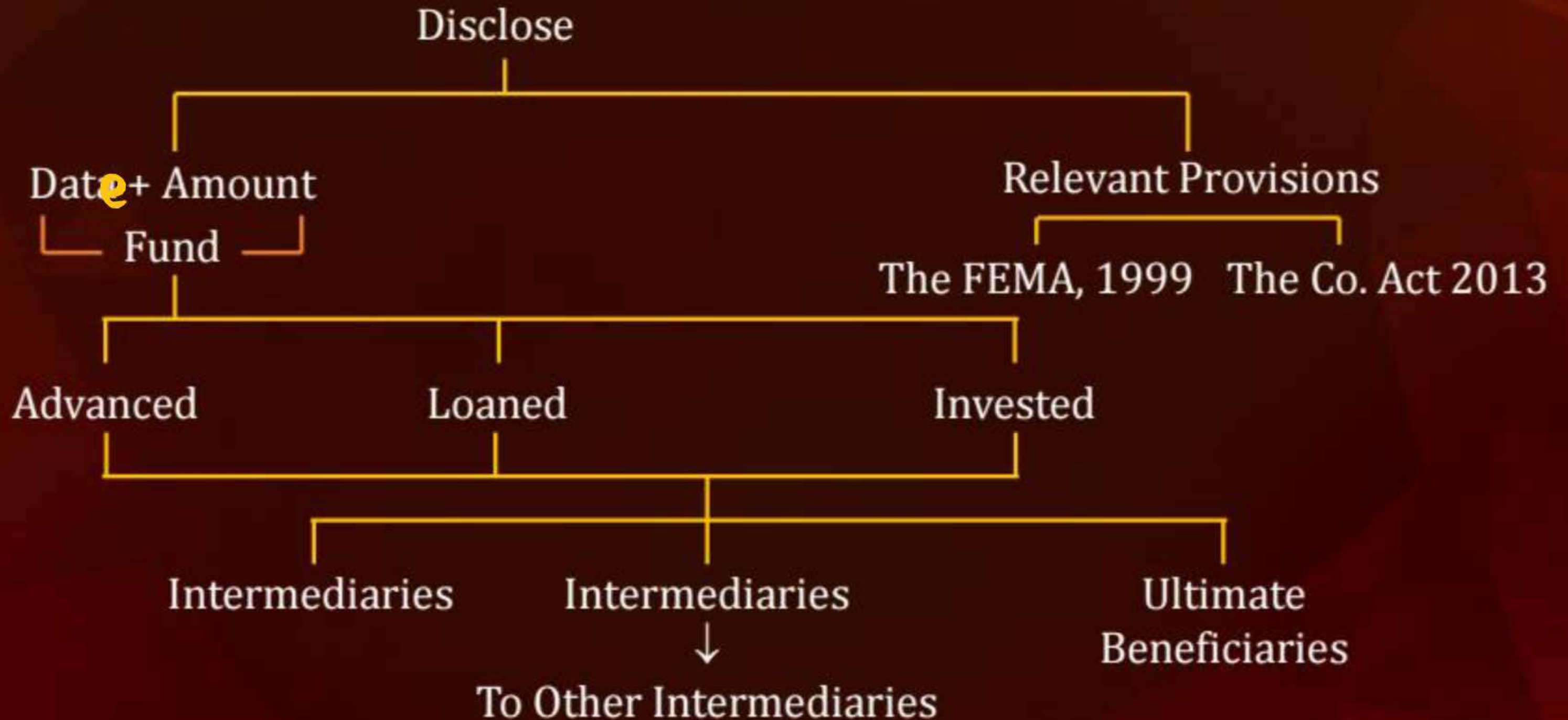
Sec. 143(3) (j) (d) [Ch.8 → Audit Report]



Disclose



Topic: Share Capital





Topic: Reserves and Surplus

Amounts → Appropriated → Out of Profits



Not Intended to Meet any

Liability

Contingency

-Commitment

Diminution in
Value of Assets

Depⁿ

Know to Exist → As at the B/s date



Topic: Reserves and Surplus



Existence



Trace
Tally

Opening Bal. → Previous Yr.

Profit & Loss → Completeness + valuation



Trace the Movement

St. of P/L

St. of Δ in Equity



Verify Boards Resolution

→ Disclosure



Schedule III (Part I) of The Companies Act, 2013



Topic: Borrowings



Existence → (1) Review → Board MoM → Agreement

↓
Authorised ✓

(2) Agree → Details

Interest
Rate

Nature

Repayment
Terms

Limits

H.P

Leasing

(3) Bal. Confirmation

SA 505

SA 580 ✓

(4) In Case of Debenture → Deb. Trust Deed



Topic: Borrowings



Completeness → (1) Sch. of Short Term
Long Term Borrowings

(2) Additional Debt.

Board MoM Contracts Confirmations Disbursements

(3) Trace → Cl. Bal.

(4) Unrecorded?

(5) Correct Period?

* Direct Confirmation Procedure

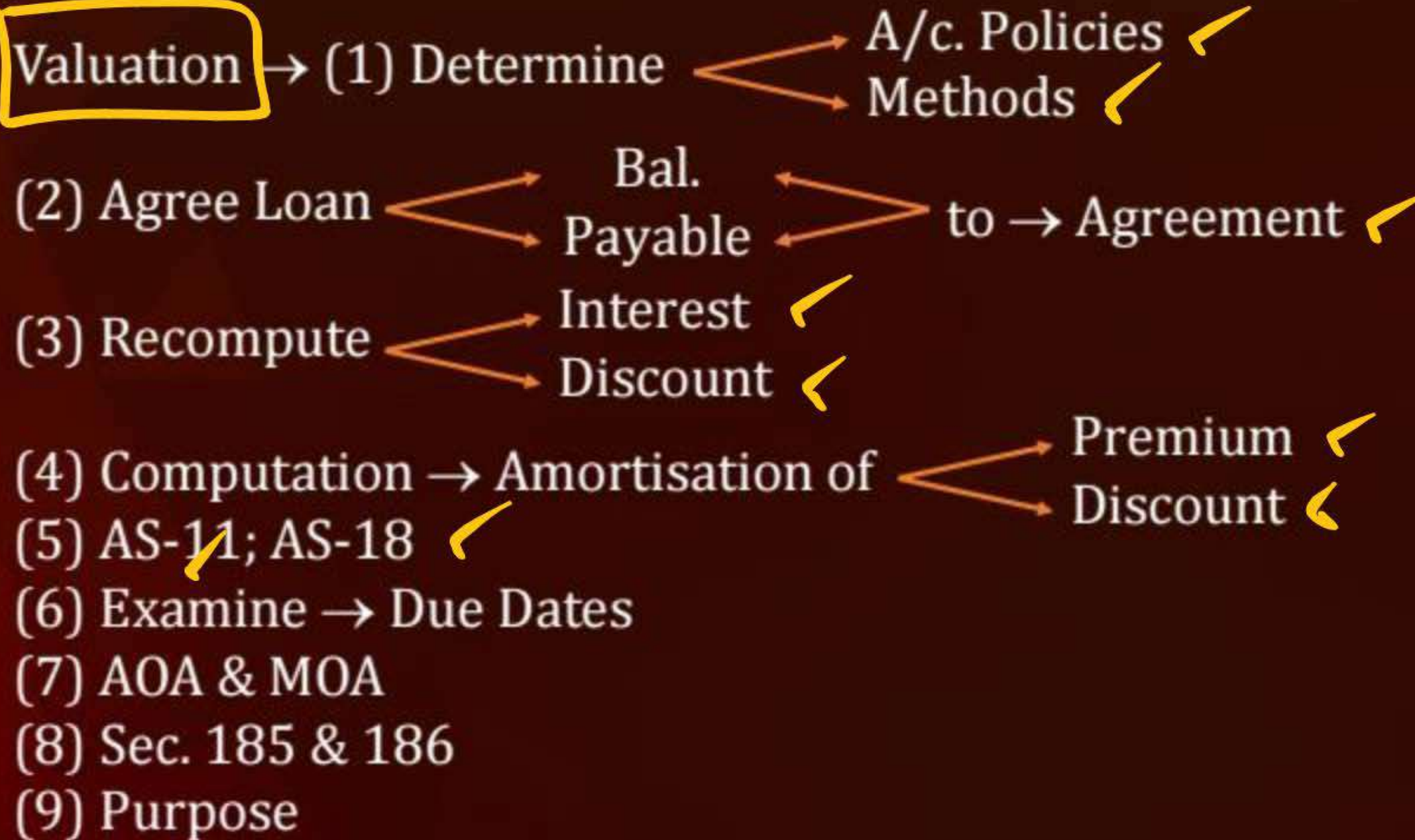
(1) Ascertain → Confirmation ask

(2) Reminders → Non-Replies

(3) Compare Bal. → Books → Confirmations

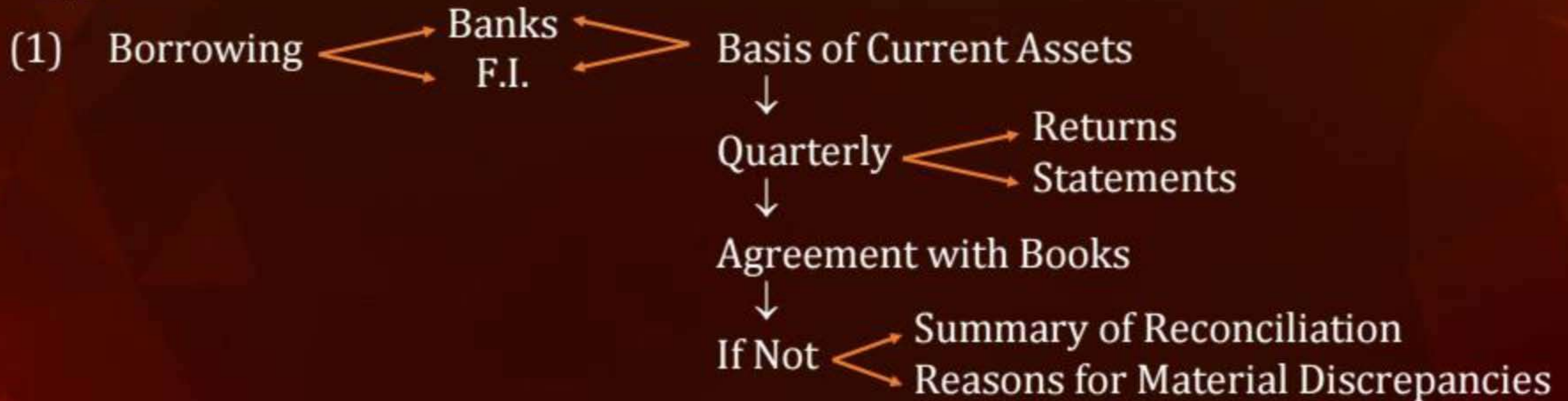


Topic: Borrowings





Topic: Additional Regulatory Info. Disclosure





Topic: Additional Regulatory Info. Disclosure





Topic: Additional Regulatory Info. Disclosure

(3) Charges / Satisfaction → Registration → Pending



RoC



DISCLOSE



Beyond Statutory pd.

Details

Reasons

(4) Utilisation of  Borrowed Funds
Securities Premium



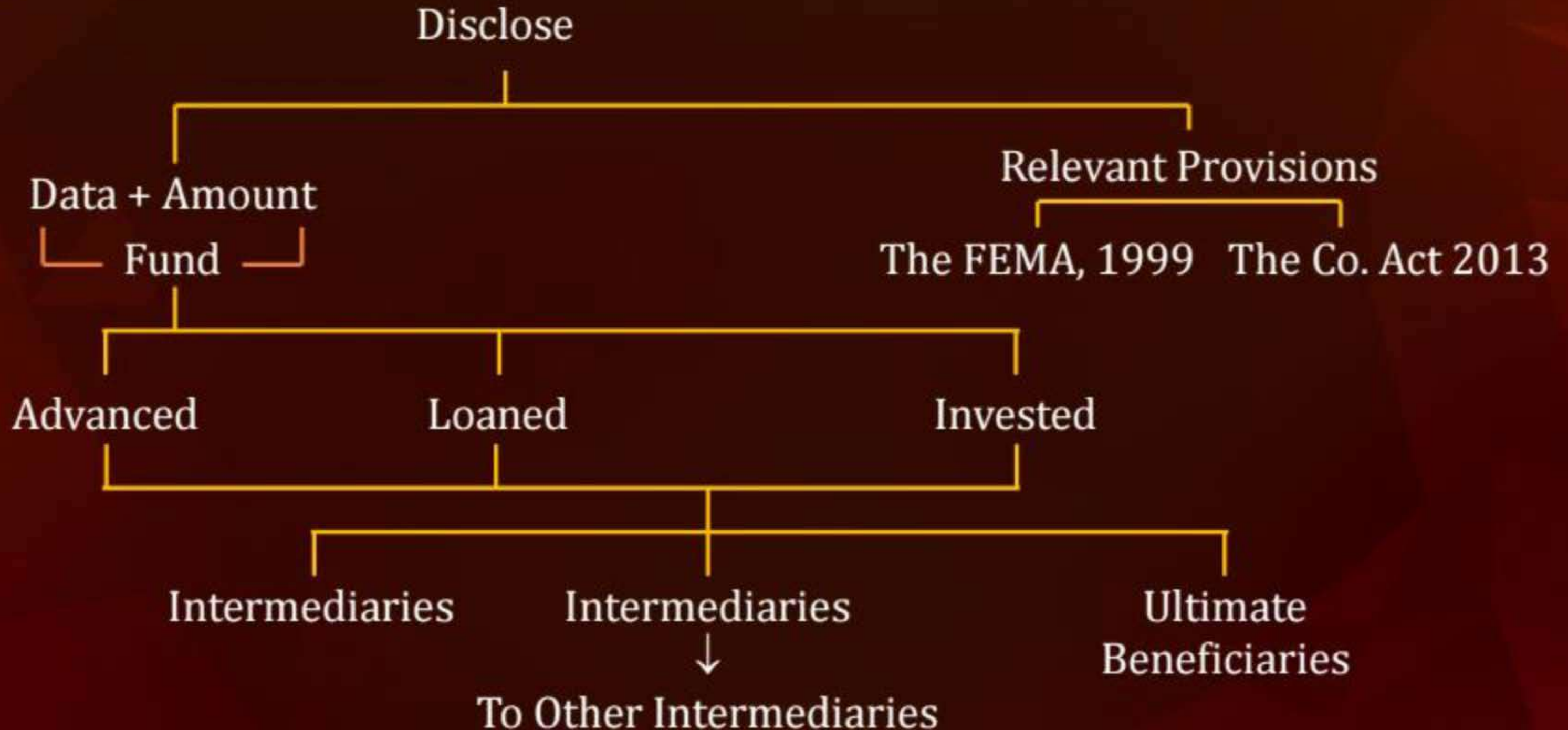
Sec 143 (3) (j) (d) [Ch. 8] → Audit Reports]



Disclose

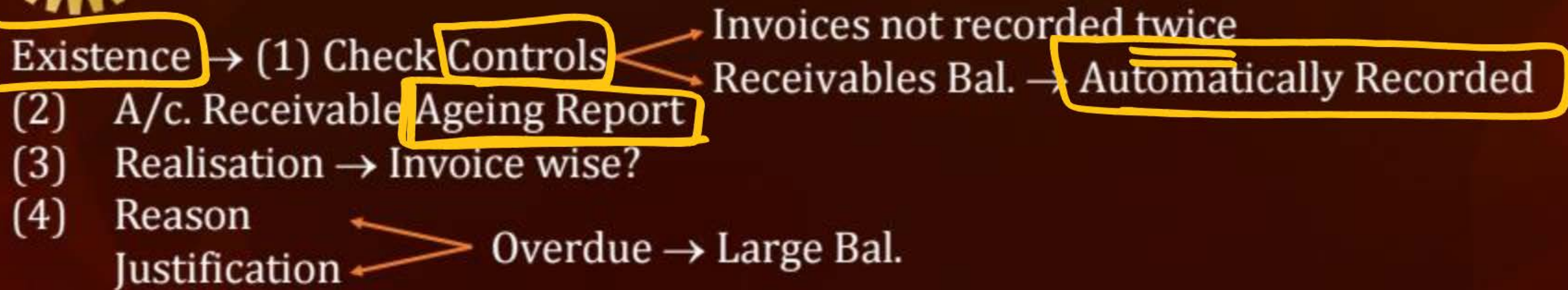


Topic: Additional Regulatory Info. Disclosure





Topic: Trade Receivables



* Direct Confirmation Procedure

- (1) With the consent of the Entity ✓
- (2) Form of Requesting Confirmation → With
Without → Bal.
- (3) Method of Selection
- (4) Discrepancies → Revealed by the Confirmation



Topic: Trade Receivables



(5) No Reply Received → Perform Alternate Procedure

Agreeing Bal. to Cash
Received ✓

Preparing Detailed
Analysis of Bal.

(6) Related Party Receivables ✓

* Completeness

- (1) Invoices Issued → Last few days
- (2) All Dispatched Goods → Invoiced
- (3) Match Invoices → Shipping / Dispatch Log
- (4) Review Process
 - Discount
 - Incentives
- (5) Review → Credit Memos



Topic: Trade Receivables

* Valuation

- (1) Obtain → Ageing Report
- (2) List of Debtors → Under Litigation
- (3) Provisions → Made at appro. Rate
- (4) Sch. Of Movements of Bad Debts
- (5) Check → Write – Offs.

* Disclosure

- (1) As 11
- (2) As 18
- (3) Sec. 189
- (4) CARO, 2020



Topic: Cash and Cash Equivalents

Existence + Completeness

(1) Checked by Surprise → Last Day of the year

+

Again after few days

(2) Desirable for the cashier to be present



Made to Sign

(3) Any  Slip
Chit
I.O.U.

(4) Perform → Cash Sensitivity Analysis



Topic: Cash and Cash Equivalents

(5) B.R.S → For all bank A/c.

Tally the Bal. as per
Bank Book

Cheques issued but not
presented for payments

Checking of all materials
Reconciling Items

* Direct Confirmation Procedure

(1) Contact $\begin{matrix} \nearrow \\ \searrow \end{matrix}$ $\begin{matrix} \text{Bank} \\ \text{F.I.} \end{matrix}$ $\begin{matrix} \nwarrow \\ \swarrow \end{matrix}$ Confirm → Amounts

Current
A/c.

Deposit
A/c.

Exchange Earners Foreign
Currency (EEFC) A/c.

CC A/c.

Restrictive use A/c.

Dividend A/c.

Escrow A/c.



Topic: Cash and Cash Equivalents



(2) Investigate
Reconcile Discrepancies + Seek W.R.

(3) Emphasis on → 100% Bank A/c. Bal. Confirmation

↓
No REPLY RECEIVED

↓
Additional Procedures

Imp.

Agree the Bal.



Bank St.

Internet / Online Login



Auditor's Personal
Presence

Sending Audit team Member
+ Entity Personnel



Bank Branch



Topic: Cash and Cash Equivalents

Valuation → Bank A/c. → Holding F.C. → Cl. Exchange Rates

Disclosure



Schedule III (Part I) of The Companies Act, 2013



Topic: Inventories



Held for Sale



Ordinary Course
of Business

Process of Production



of Such Sale

Form of

Materials

Supplies

To be Consumed

Existence → (1) Review → Entity's Plan → Inventory Count

+

Participate

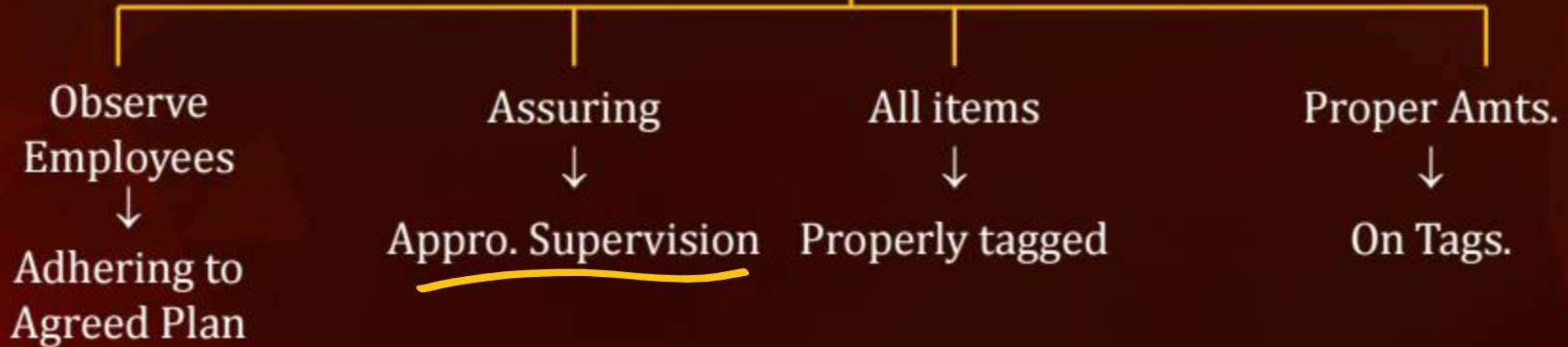
(2) Ensure → Consigned Goods → Segregated



Topic: Inventories



(3) Test Count → Inventory



Completeness → (1) Perform → Analytical Procedure

Inventory T/o Ratio

Vertical Analysis

Budgetary Expectation

↓
Actuals



Topic: Inventories

- (2) Examine → Non Financial Info.
- (3) Purchase ↘ Cut-off test
 Sale ↗
- (4) Clerical ↘ Accuracy
 Arithmetical ↗
- (5) Reconciliation

Rights

- (1) Documentation
- (2) Client Correspondence
- (3) Collateral Agreements
- (4) External Confirmation



Topic: Inventories



Valuation →

Raw Materials

Imp.





Topic: Inventories



Work in Progress

Ascertain



Stages of Production

Ascertain



Element of Cost

Material Cost



Exclude



Abnormal Wastage Factor



Topic: Inventories

→ Finished Goods → Ensure

Included Costs

Valued @ N.R.V.

Reasonable

Disclosure

Schedule III (Part I) of The Companies Act, 2013.



Topic: PPE





Topic: PPE



Existence → (1) Review → Entity's Plan → Physical Ver.

Own Staff

3rd Party

Annual

2/3 Years

(2) Evidence → Appro. Supervision

(3) Verification Report + Working Sheet

Property Tagged

Reconciliation

Discrepancies



Topic: PPE



Completeness → (1) Movement in PPE Schedule



$$\text{Opp. Bal.} + \text{Addition} - \text{Deletion} = \text{Cl. Bal.}$$

(2) Arithmetical Accuracy

(3) As per AS 10

(4) Rationale → For Deletion



Land

Valuation → (1) Depreciation (Unless Non-Depreciable)

(2) Method

(3) Impairment → AS 28



Topic: PPE



Rights & Obligation →

- (1) Land / Bldg. → Conveyance / Sale Deed
- (2) Original Title Deed ✓
- (3) Register of Charges ✓

Disclosure



Schedule III (Part I) of The Companies Act, 2013



Topic: PPE



Additional Regulatory Info.

(1) Title Deed → Not In The Name of Co.

Relevant Line item in B/s.	Description	Gross Carrying Value	Title Deed in the name of	Holder ↓ Promoter ↓ Director ↓ Relative	Held Since	Reason
-------------------------------------	-------------	----------------------------	------------------------------	---	------------	--------



Topic: I.A.

Identifiable → Non-Monetary Asset



Without → Physical Substance



Use in

- Production → G & S
- Rental → to others
- Administrative Purpose

Existence → (1) Verify → Active in use

Yes
No

Deletion Recorded?



Post Approval

Amortization Charges



Stopped



Topic: I.A.

Completeness → (1) Verify → Movement

$$\text{Op. Bal.} + \text{Addition} - \text{Deletion} = \text{Cl. Bal.}$$

(2) Check → Arithmetical Accuracy

(3) For Addition

As 26 Criteria

Approved

Internal Process

↓
Appro. Personnel

Quotations

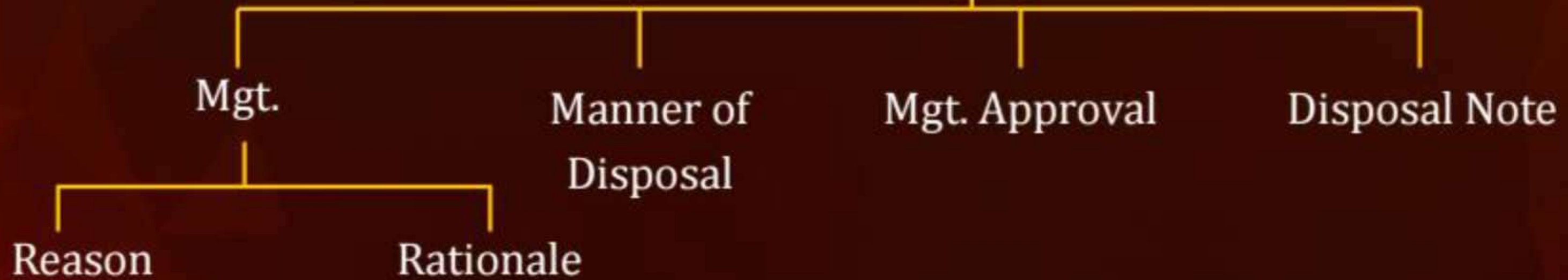
Tenders



Topic: I.A.



(4) For Deletion



Valuation →

(1) Charged Amortization



(2) Method

(3) Impairment → AS 28



Topic: I.A.



Rights & Obligation → Legal Title of Ownership → Entity

Disclosure



Schedule III (Part I) of The Companies Act, 2013

→ Additional Regulatory Info.

(1) Ageing Schedule

< 1 year	1 – 2 Year	2 – 3 Year	> 3 year
----------	------------	------------	----------



Topic: Trade Payables & Other Current Liabilities

Existence → (1) Controls → To Ensure

Purchase / Expense



Not Recorded more
than once

Payable Bal.



Automatically Recorded



General Ledger



(2) Obtain → Ageing Report

(3) Related Party Payables



Topic: Trade Payables & Other Current Liabilities

* Direct Confirmation Procedure

- (1) Contact Vendors 
 - Directly
 - Independently
- (2) For → All Significant Account
- (3) Consent of the Entity
- (4) Creditors → Confirm Bal. 
 - Date of B/s.
 - Any other Reasonably Close Date

↓

Decided by Auditor ↔ Consultation with Co.
- (5) Method of Selection
- (6) Investigate → Discrepancies



Topic: Trade Payables & Other Current Liabilities



Completeness

- (1) Last 5 Invoices
- (2) Prior pd. Goods → Received → Booked
- (3) Sample Basis
- (4) Purchase Date ← MATCH → Gate Entry Date



Topic: Trade Payables & Other Current Liabilities

(5) Statutory Dues

GST

TDS

PF

ESI

Valuation

(1) Old Creditor → Written Back → Process

(2) Ageing of Payable

(3) Write Back → Approved → CEO / MD

(4) Foreign Currency → AS 11

Disclosure → Schedule III (Part I) of The Companies Act. 2013



Topic: Loans & Advances & Other Current Assets

Existence

- (1) Direct Confirmation Procedures

Completeness

- (1) List of Advances
- (2) Verify → Loan Agreement
- (3) Authorized 
 - MoA
 - AoA
- (4) Inspect → Board's MoM
- (5) Related Party Loans
- (6) Balance with Statutory Authorities
- (7) Statutory Returns → Filed?



Topic: Loans & Advances & Other Current Assets

Valuation

- (1) Allowance for Doubtful A/c.
- (2) Ageing Report ✓
- (3) Identify & Analyse → A/c. → Appear doubtful
- (4) Write - offs
- (5) Schedule of Movement ✓
- (6) Foreign Currency Loans → AS 11 ✓

Disclosure

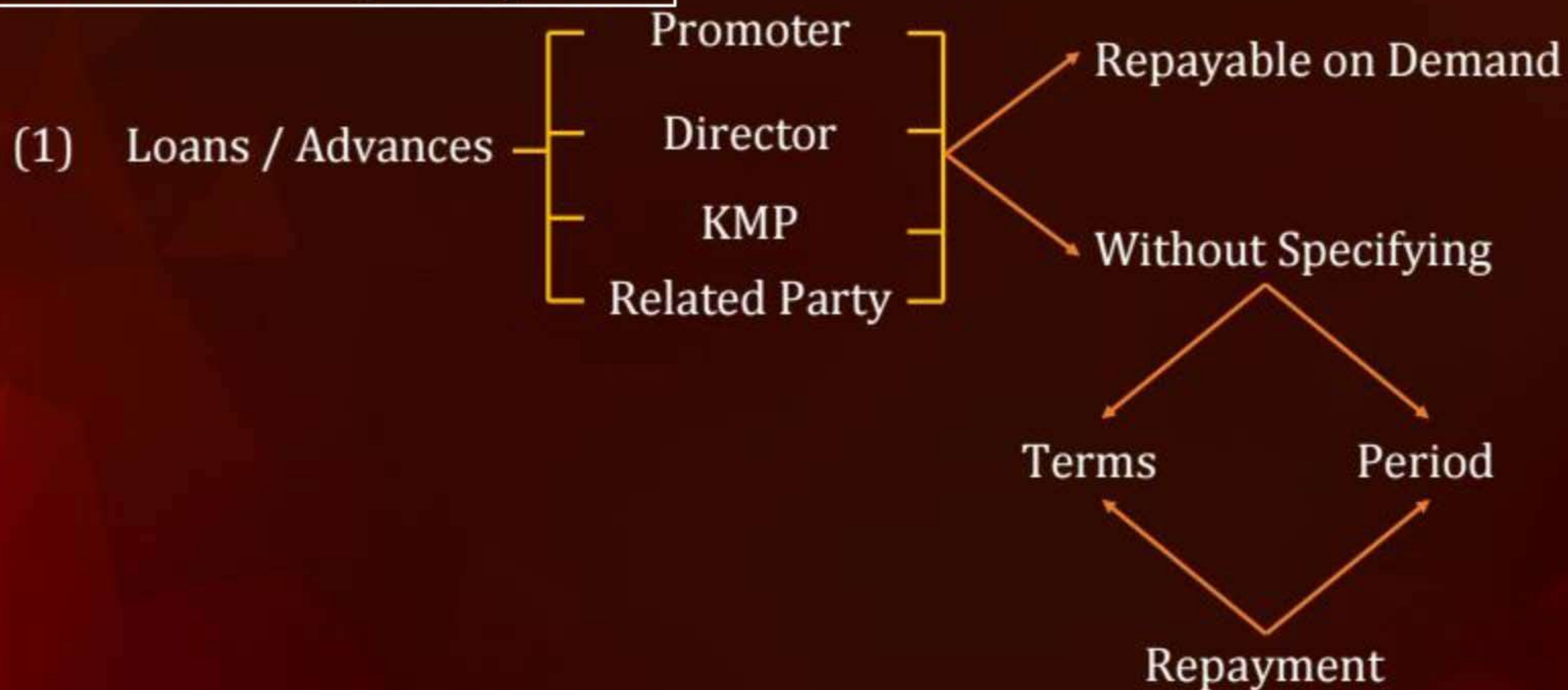


Schedule III (Part – I) of The companies Act, 2013



Topic: Loans & Advances & Other Current Assets

→ Additional Regulatory Info.





Topic: Provisions and Contingent Liabilities

* Measured → Substantial degree of estimation

* Recognized

Imp.

Present Obligation



Result



Past event

Probable Outflow of
resources



Settle the obligation

Reliable estimate



Amount of obligation



Topic: Provisions and Contingent Liabilities

Contingent Liabilities

Possible Obligation → Past Event

Existence will be confirmed

But not recognised

Occurrence

Non-Occurrence

Uncertain Future Events

Not in Control of Entity

Not probable

Amount

Outflow of
Resources

Cannot be measured

Suff. Reliability

To Settle Obligation



Topic: Provisions and Contingent Liabilities

Existence →

(1) Obtain → List of all provision



Compare → Ledger Balances ✓

(2) Inspect → Underlying Agreement



Warranty
Commitments

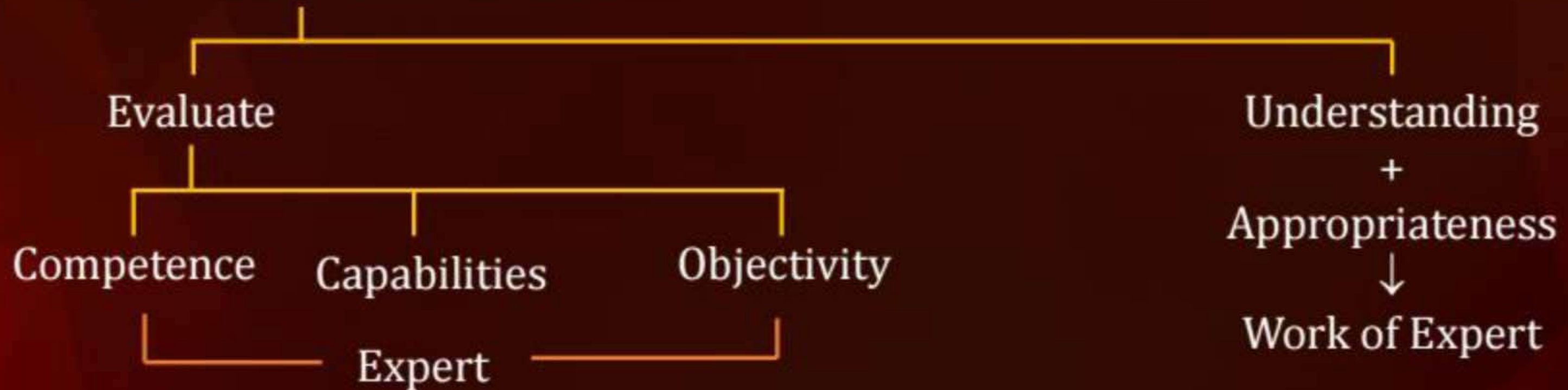
Legal / Other Claims



Topic: Provisions and Contingent Liabilities

Valuation →

- (1) Working + Basis → Provisions made
- (2) Expert Report → Required



- (3) Obtain → W.R. → Mgt. → Made → All provisions which were required to be made



Topic: Provisions and Contingent Liabilities

Disclosure



Schedule III (Part I) of The Companies Act, 2013

→ Additional Regulatory Info.

(1) Details of Benami Property held

Imp.



Disclose

Details of
Property

Year of
Acquisition

Amount

Details of
Beneficiaries

Nature
Status
Co.'s view

Proceedings





Topic: Provisions and Contingent Liabilities

(2) Relation with struck-off Companies



Disclose

V. Imp.

Name of Struck
off Co.

Nature of
Transaction with
struck off Co.

Bal. O/s.

Relationship with
struck off Co.



Topic: Statement of Profit and Loss-Captions





Topic: Sale of Products and Services

Sale of Products and Services

- (1) Understanding of
 - Organisation ✓
 - Revenue Centres ✓
 - I.C. ✓
- (2) ToC → Accordingly → Reduce Substantive Testing
- (3) Select → Random Selection of Sample
- (4) Perform → SAP



Topic: Sale of Products and Services

Occurrence

- (1) Revenue → Not overstated
 - (i) Single Invoice → Recorded Twice
Cancelled Invoice → Recorded
 - (ii) Test Check → Few Invoice → Entries
 - (iii) External Confirmation
 - (iv) Fictitious

Customer

Sale
 - (v) Uncertainty → Collectability
 - (vi) Customer's Obligation → Contingent
- (2) Sequence of Journal Entries

Date	Bill No.
11/4/24	35
X 9/4/24	36



Topic: Sale of Products and Services

- (3) Entries for unusual transactions
- (4) Sales Return to Sales Ratio

Completeness

- (1) Verify → Credit Notes
- (2) Trace → Shipping Docs.
- (3) Reconciliation → $\frac{\text{Total Sales}}{\text{Goods Dispatched}}$
- (4) GST $\begin{cases} \rightarrow \text{Tax} \\ \rightarrow \text{Returns} \end{cases}$



Topic: Sale of Products and Services

Measurement

(1) Trace few transaction



Inception to Completion

(2) Export Sales → AS 11

(3) Understanding  Client Operation
GAAP

Disclosure



Schedule III (Part II) of The companies Act, 2013.



**Topic: Other Income comprising
interest income/dividend income,
Gain/ Loss on sale of investments etc.**

Interest Income on FD

Occurrence + Completeness + Measurement

- (1) Obtain → List of FD + App. Interest Rates + No. of Days
- (2) Arithmetical Accuracy
- (3) Deposits o/s as at pd. end
- (4) Confirmation of Interest Income → from Bank
- (5) Copy of Form 26 AS ✓



Topic: Other Income comprising interest income, dividend income, Gain/ Loss on sale of investments etc.

Dividends

- (1) Recognized in → P/L
Only when Right To Receive → established
- (2) Verify → Gain / (Loss) → Recorded as → Other Income
- (3) Obtain → Mutual Fund st.

Disclosure



Schedule III (Part II) of The companies Act, 2013



Topic: Other Income comprising interest income, dividend income, Gain/ Loss on sale of investments etc.

Additional Info

(1) Undisclosed Income Co.



Give Details → Any transactions



NOT Recorded as Income

Surrendered

Disclosed

Tax Assessment



Unless Immunity → Any Scheme

State → whether



Previously

Unrecorded income

Related assets

Properly Recorded



During the year



Topic: Purchases



- (1) Understanding of
 - Organisation
 - Production Centres
 - I.C.
- (2) Identify → Controls → Over Purchase
- (3) ToC → Purchase Cycle → Determine → Control
 - Effective
 - Not
- (4) Random Selection → Transactions
- (5) Performing → SAP



Topic: Purchases



Occurrence

- (1) Purchase → Not
 - Under
 - Over → Stated
 - (i) Fictitious Vendors
 - (ii) Entry → Security Gate → Inward Register
 - (iii) Quality Inspection
 - (iv) GRN
 - Prepared
 - Signed
- (2) Original Purchase Invoice
- (3) Invoice → Booked → Only ONCE
 - ↓
- (4) Name of the Entity

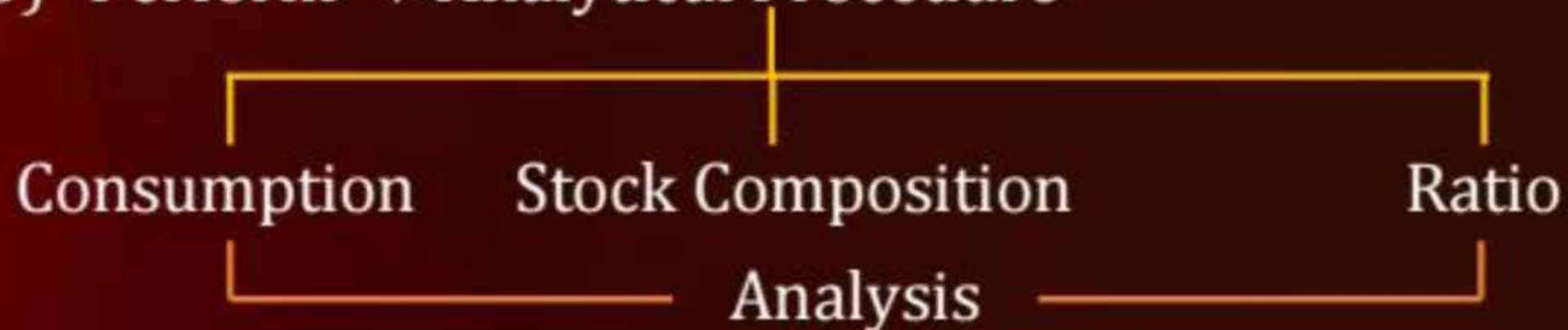


Topic: Purchases

- (5) Input Tax
- (6) Related Party Transactions

Completeness + Measurement

- (1) Cutoff Test → Correct A/c. pd.
- (2) Check → Last 5 transaction
- (3) Correct → A/c. Treatment
- (4) Obtain → W.R.
- (5) Perform → Analytical Procedure





Topic: Purchases

Disclosure



Schedule III (Pat II) of the Companies Act, 2013.



Topic: Employee Benefits Expenses

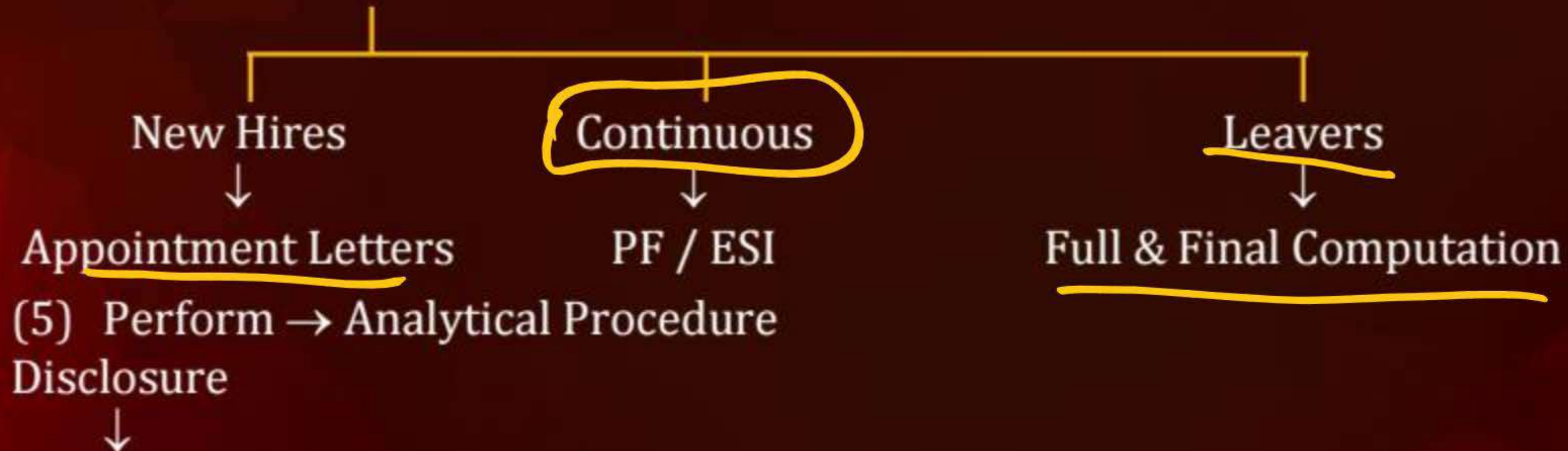
- (1) Understanding of
 - Organisation ✓
 - Hiring
 - Appraisal
 - Process ✓
- (2) ToC → Payment Process → Determine → Controls
 - Effective
 - Not
- (3) Random Selection → Transactions
- (4) Performing → SAP



Topic: Employee Benefits Expenses

Occurrence + Completeness + Measurements

- (1) Process of capturing attendance
 - (2) Fictitious Employees
 - (3) Sample of Employees
 - (4) List of Employees
- Bank Details ✓
ID Proofs ✓



Schedule III (Part II) of The Companies Act, 2013



Topic: Depreciation and Amortisation

- (1) Entity's → A/c. Policy
 - Depreciation
 - Amortisation
- (2) ↓
 - As per → The Companies Act, 2013
 - As
- (3) Policy
 - Applied Consistently
 - Δ → Adequately Disclosed
- (4) Depreciation / Amortisation → CHARGES
 - Valid
 - Accurately Calculated
 - Appro. Pd.
- (5) Obtain → F.A.R.
- (6) Perform → Analytical Procedure

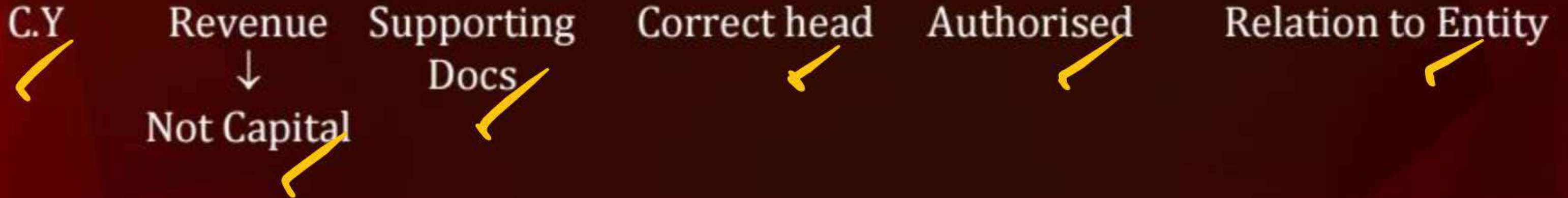


Topic: Other Expenses like Power and Fuel, Rent, Repair to Building, Plant and Machinery, Insurance, Travelling, Legal and Professional, Miscellaneous Expenses

Combined Question

V. Imp.

Expenditure





Other Expenses



Topic: Depreciation and Amortisation

* Rent Expense

- (i) Month wise schedule + Rent Agreement
- (ii) Recorded → For all 12 months
- (iii) Escalation Clause
- (iv) Agreement → Name of the Entity

* Power & Fuel Expense

- (i) Month wise schedule + Power Bills
- (ii) Recorded → For all 12 months
- (iii) Summary
 - Power units Consumed
 - Applicable Rate

+

Arithmetical Accuracy
- (iv) Monthly Trends



Topic: Depreciation and Amortisation

* Insurance Expense

(i) Summary of Policies ✓

(ii) Validity pd. ✓

(iii) Classification

```
graph LR
    A[Classification] --> B[Prepaid]
    A --> C[C.Y]
    B --> D[Correct?]
    C --> D
```

* Legal & Professional Expense

(i) Month
Consultant

```
graph LR
    A[Month Consultant] --> B[Wise]
    B --> C[Summary]
```

(ii) Monthly Retainership Agreement

+

12 month Expenditure → Recorded Correctly

(iii) Sample → Non-recurring exp.



Other Expenses



Topic: ~~Depreciation and Amortisation~~

(iv) May highlight → dispute → Entity

Not made any Provision

Not have been discussed to Auditor

* Travel, Repair & Maintenance, Printing & Stationery, Misc. Exp.

(i) Sample Basis

(ii) Monthly Summary

(iii) Perform Analytical Procedure

(iv) Compare  trends + Significant Variation



Other Exp.



Topic: Depreciation and Amortisation

Additional Info.

✓ ✓ Imp.

(1) C.S.R. → Sec. 135 → Disclose → Amount

Required
to be
disclosed

Expenditure
Incurred

Short fall at
the end

P.Y. Short fall

Reason for
Short fall



Other Exp



Topic: ~~Depreciation and Amortisation~~

(2) Details of  Crypto Virtual  Currency V.V. Imp.



thank you

dronacharya

FOR

CA INTERMEDIATE

2024

Audit Report

Ch-8

Ch-8

Auditing & Ethics

ONE SHOT



Ankit Mundra Sir



Topic: Forming an opinion and reporting on financial statements

SA 700



Auditor's Responsibility

To form an Opinion on F.S.

From
Content

Audit Report



Topic: Objective of the Auditor

(1) Forming an opinion on F.S. → Based on → Evaluation of → conclusion

↓
Drawn from

↓
Audit Evidence (AE)

↓
In application Financial Reporting Framework (app F.R.F.)

(2) Expressing clearly → that opinion → Written Report

→ *Audit Report*



Topic: To Form Opinion – Auditor to Obtain Reasonable Assurance

To form opinion → Auditor to obtain → Reasonable Assurance (RA) →
Whether F.S. are free material misstatement → Due to → Fraud/Error

- (i) Sufficient & appropriate A.E. obtained
- (ii) Uncorrected Misstatement → Material → Individually → Aggregate
- (iii) Evaluation



Topic: Evaluations by the Auditor

- (1) FS as per FRF
- (2) Qualitative aspects of Entity
 - (a) Accounting practice
 - (i) SA 260
 - (ii) Communication with TCWG
 - (b) Any management's Bias in Judgement
 - (i) SA540
 - (ii) Accounting Estimate, Related Disclosure



Topic: Qualitative Aspects of the Entity's Accounting Practices

(i) Mgt. Judgement $\begin{cases} \text{Amounts} \\ \text{Disclosures} \end{cases} \rightarrow \text{FS}$

4m

(ii) Discussion \rightarrow Qualitative Aspects \rightarrow A/c practices

(iii) *Possible bias \rightarrow Mgt. Judgements

\Rightarrow *Lack of Neutrality \rightarrow Indicators $\begin{cases} \text{Selective correction of Misst.} \\ \text{Possible Mgt. Bias} \rightarrow \text{A/c Estimate} \end{cases}$

*Effect of uncorrected Misst.

(iv) Possible Mgt. Bias \rightarrow A/c estimate



Indicators \rightarrow Do not constitute Misst.

Indicators are not Misst. Biasness is Misst.



Affect Auditor's Evaluation



FS as a whole are Free from MM



For purpose of Drawing conclusion



On reasonableness of Individual A/c
Estimate



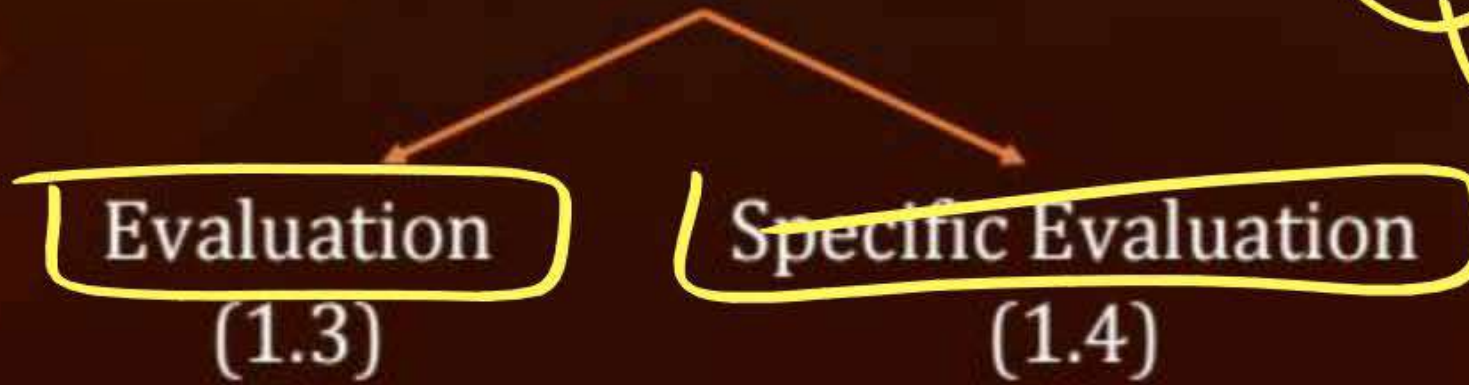
Topic: Specific Evaluations by the Auditor

Specific Evaluation

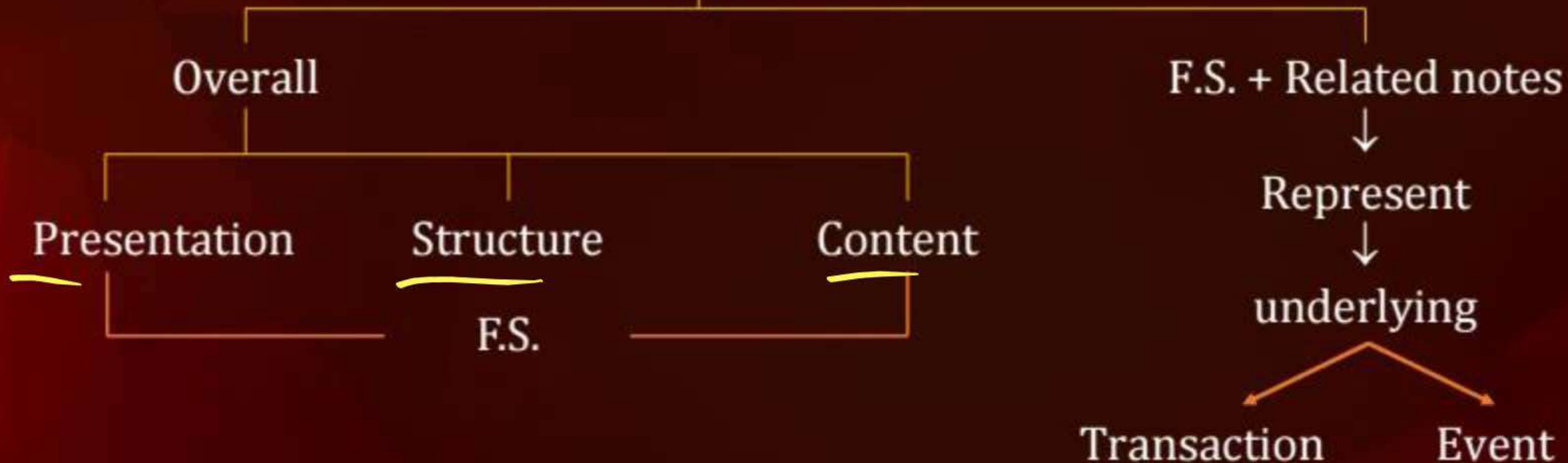
- (1) FS → Disclose → Significant Accounting Policies → Selected → app F.R.F
- (2) Accounting Estimate → Made by Mgt. → Reasonable
- (3) Info. In F.S.
 - (a) Relevant
 - (b) Reliable
 - (c) Comparable
 - (d) Understandable
- (4) F.S → Adequate Disclosure?
- (5) Terminologies → Appropriate?

*When F.S. are prepared → as per → Fair presentation Framework

→ app. F.R.F.



To also include consideration





Topic: Form of Opinion

(1) Unmodified

→ Good Opinion

(a) Auditor concludes → F.S. → as per App. F.R.F.

(2) Modified (SA 705)

→ Bad Opinion

(a) F.S.

(i) Not free from MM ✓

(ii) as per A.E. obtained

(b) Unable to obtain

(i) Suff. & Appro A.E.



Topic: Auditor's report



↓
Specific Heading

13 points

(i) Title → "Independent Auditor's Report"

(ii) Addressee → Law

Regulations

Terms of engagement

Specify → To whom

↓
Auditor's Report is to be
Addressed

(iii) **Auditor's Opinion** ↔ Heading + Also include

Identify
Entity
↓
NAME

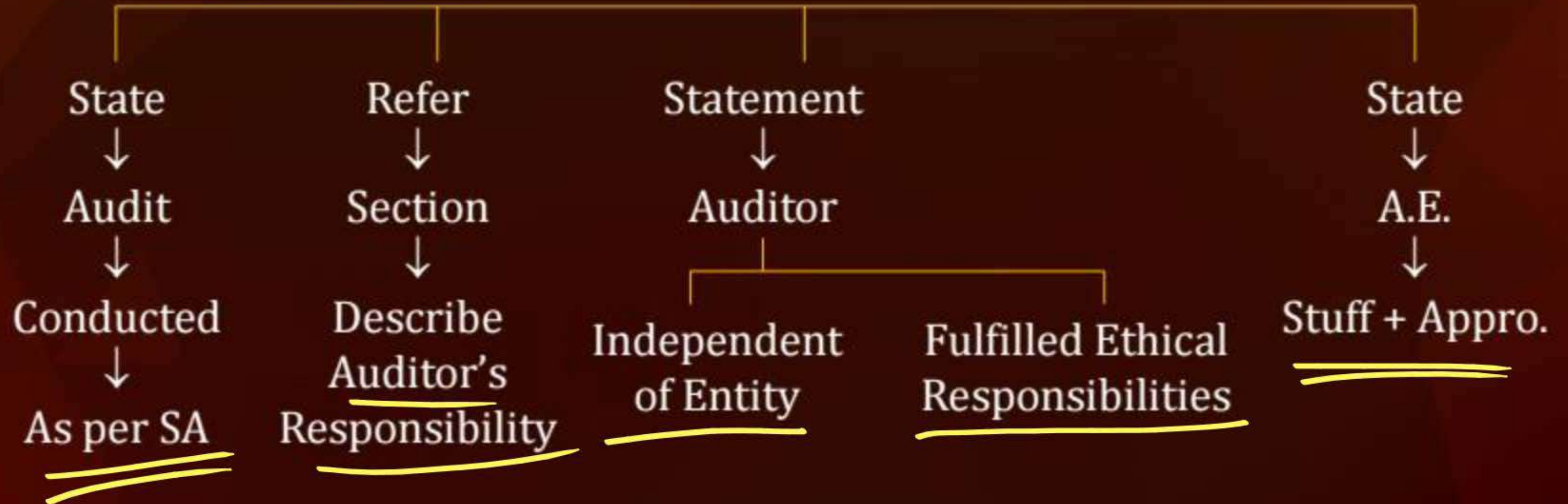
State
↓
F.S.
↓
Audited

Identify
↓
Title of
each st.

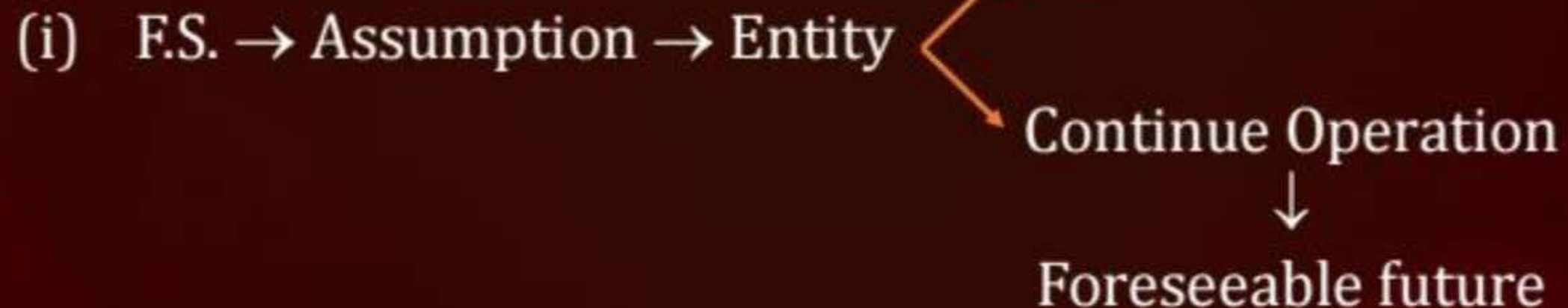
Refer
↙ ↘
Notes Sig. A/c
 Policies

Specify
↙ ↘
Date Pd.
 Covered

(iv) Basis for Opinion → Heading



(v) Going Concern → SA570





(viii) Auditor's Responsibilities → State

Objective of Auditor

R.A. High Assurance
≠ Guarantee

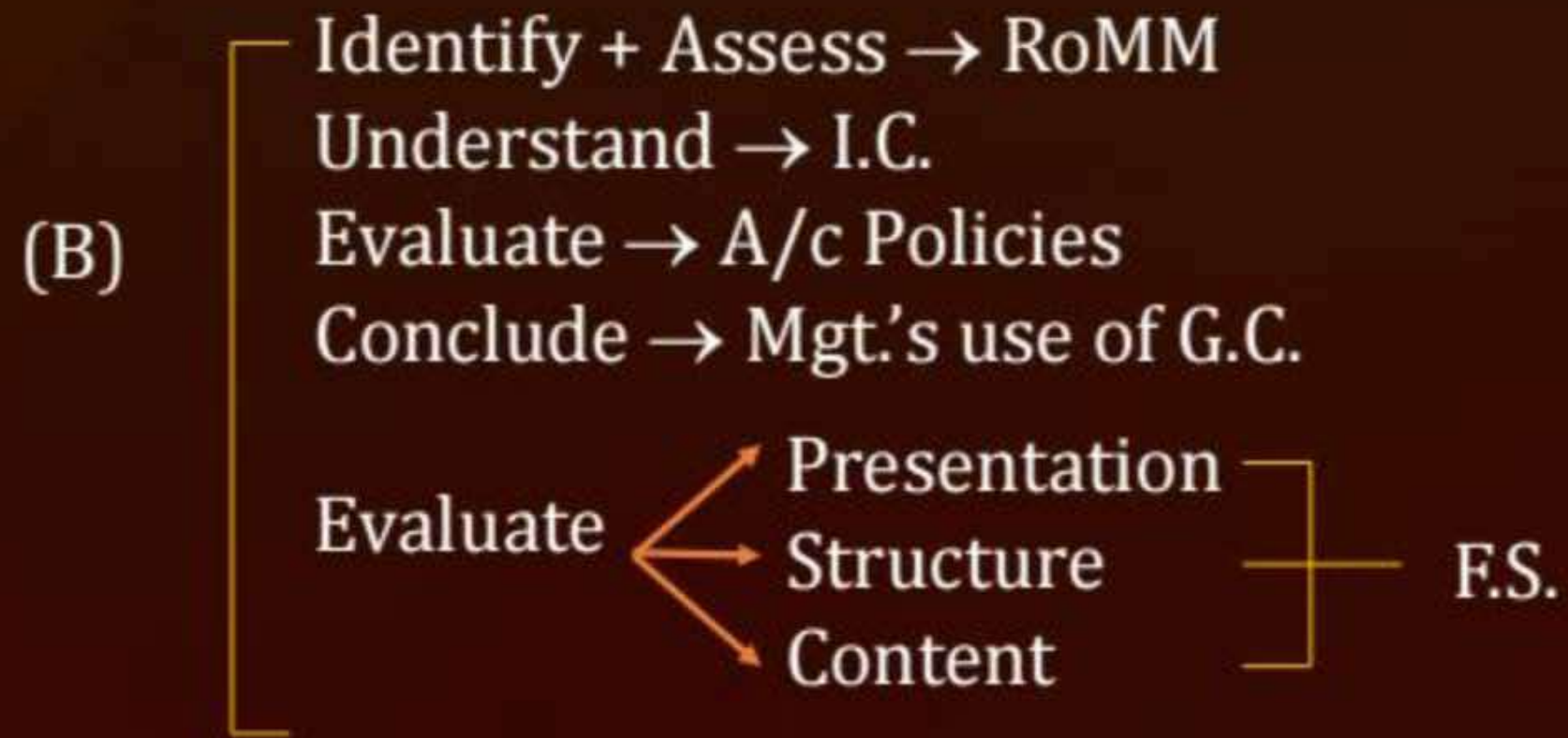
Misst. Arise from

F

E

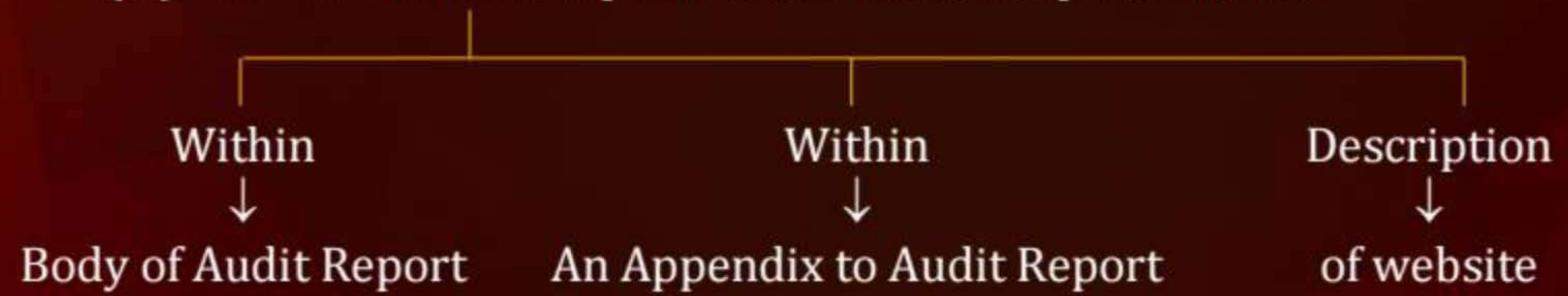
+

(A) Exercises → Prof Judgement
Maintains → Prof. Skepticism



(C) Describe → Group Audit Responsibilities

(ix) Location of Description of Auditor's Responsibilities



(x) Other Reporting Req. → Eg. CARO, 2020

(xi) Signature → proprietor



Personal Name

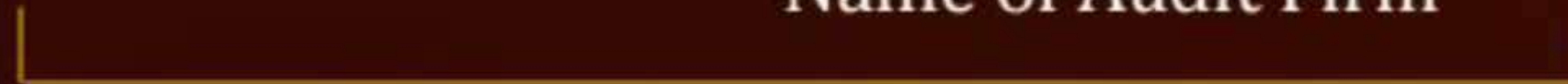
Firm



Personal Name (Eng. Partner)

+

Name of Audit Firm



+

ICAI Membership No.

+

ICAI F.R.N.

+

UDIN

(xii) Place of Signature → Specific Location

(xiii) Date of Auditor's Report → Not earlier than



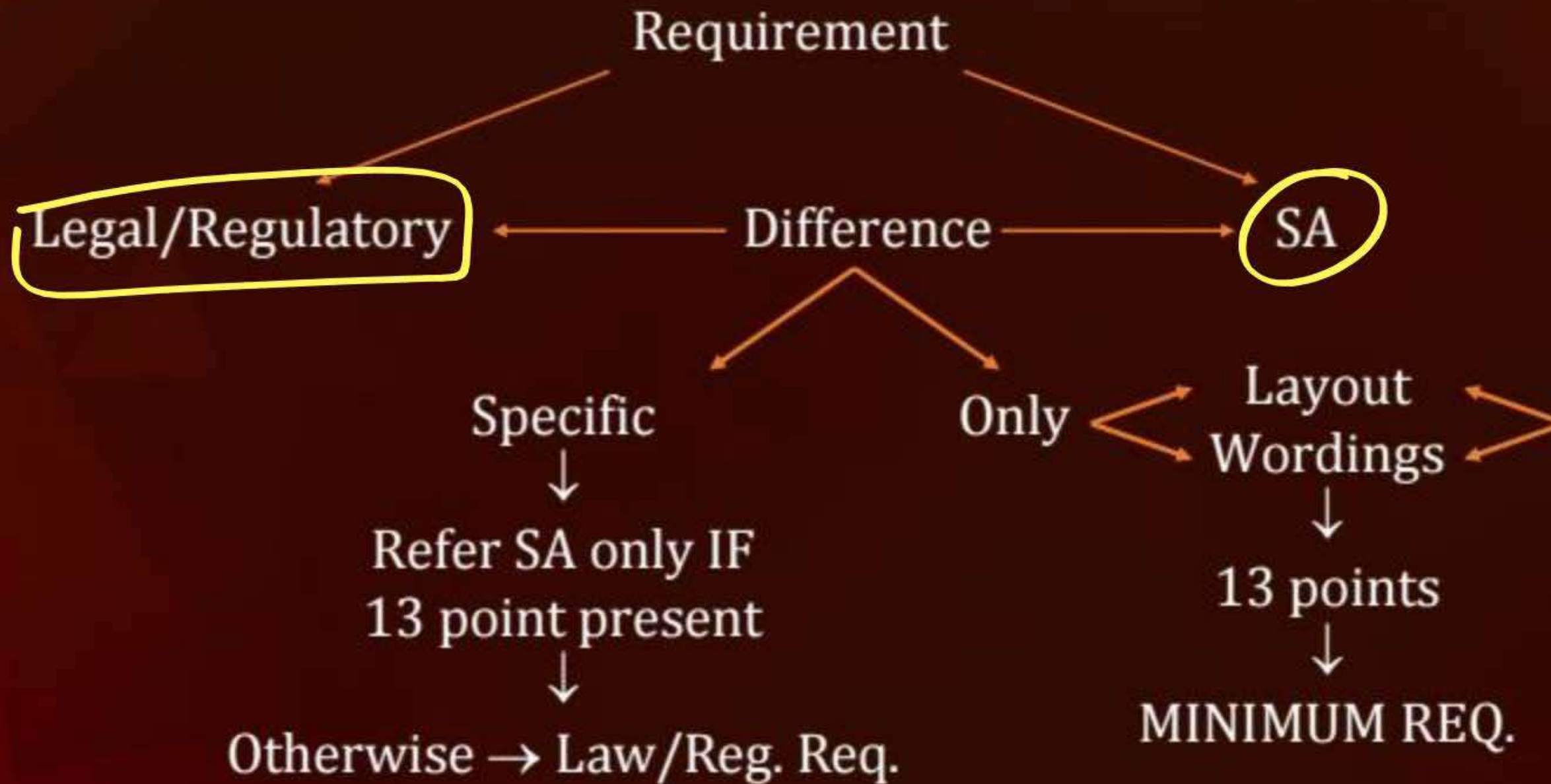
The date when Auditor Obtains Stuff + Appro. AE

*UDIN

- To curb malpractices
- Professional Development Committee of ICAI
- Phased Manner
- Mandatory → 1 Feb. 2019
- CA → Full Time CoP only
- 18 Digit → Alphanumeric
 - └ First 2 Digits → Last 2 Digits of C.Y.
 - └ Next 6 Digits → ICAI Membership No.
 - └ Last 10 Digits → Random Alpha – Numeric



Topic: Auditor's report prescribed by law or regulation





Topic: Modifications to the opinion in the independent auditor's report

↓
Deals with Auditor's Responsibility

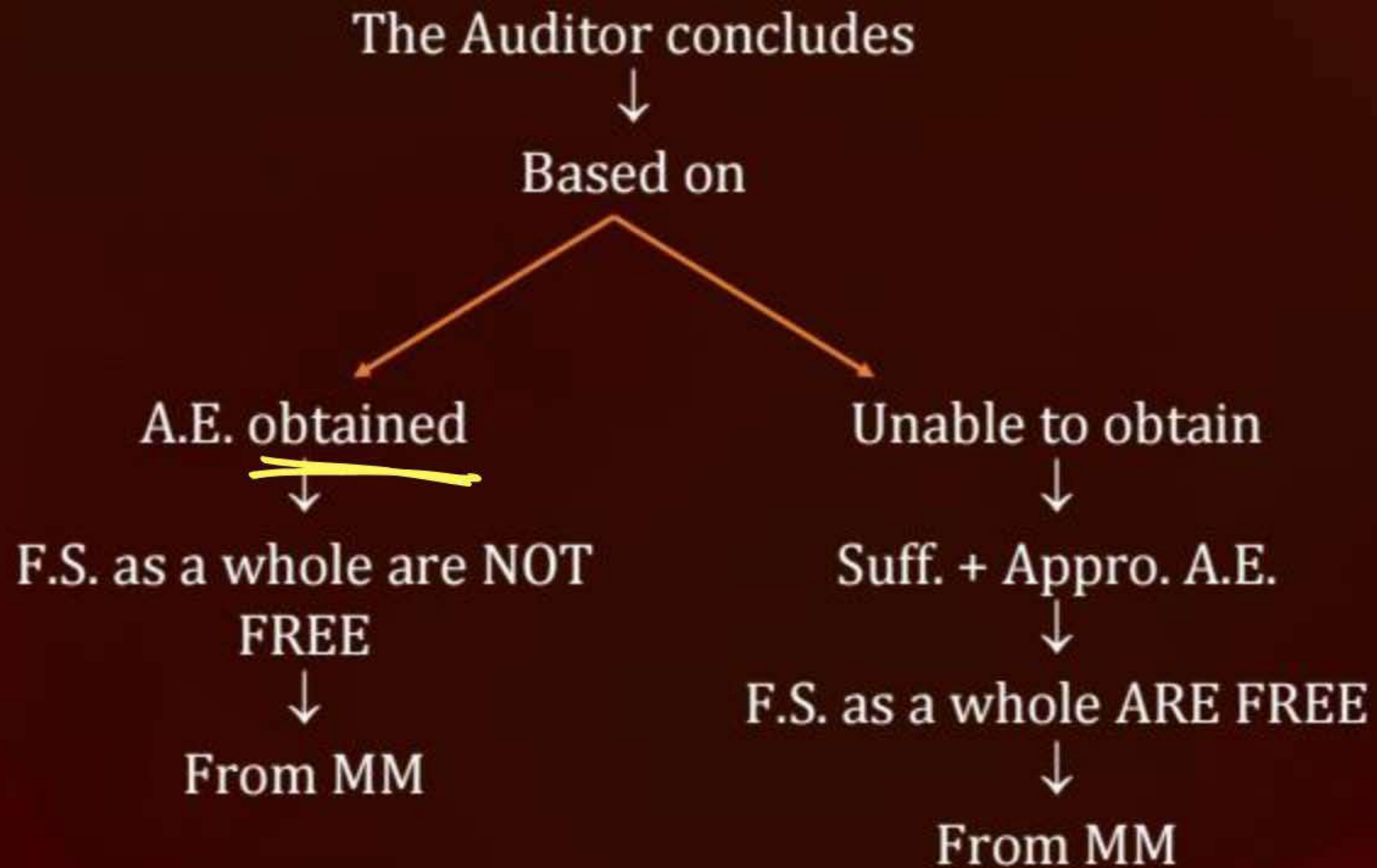
↓
To issue an appro. Audit Report

↓
In circumstances when → Modification is necessary





Topic: Circumstances When a Modification to the Auditor's Opinion Is Required





The Auditor concludes

A.E. obtained

F.S. as a whole are NOT FREE

From MM

Unable to obtain

Suff. + Appro. A.E.

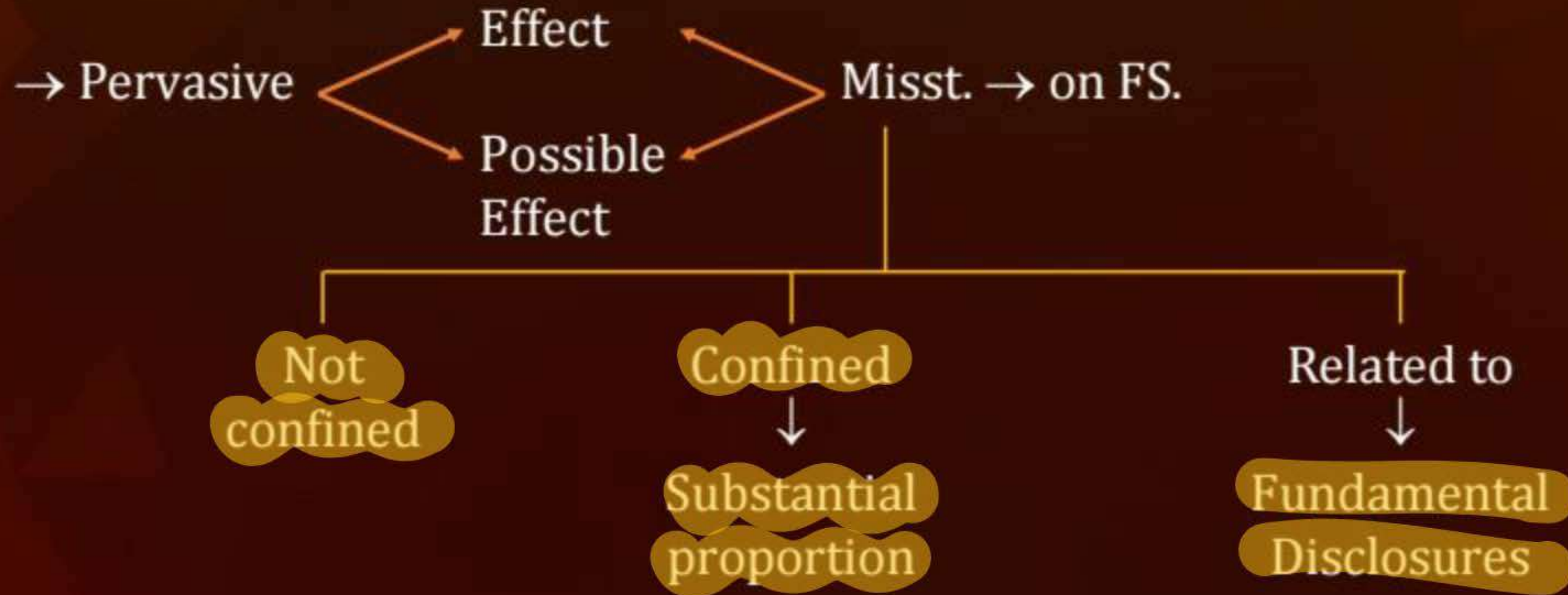
F.S. as a whole ARE FREE

From MM

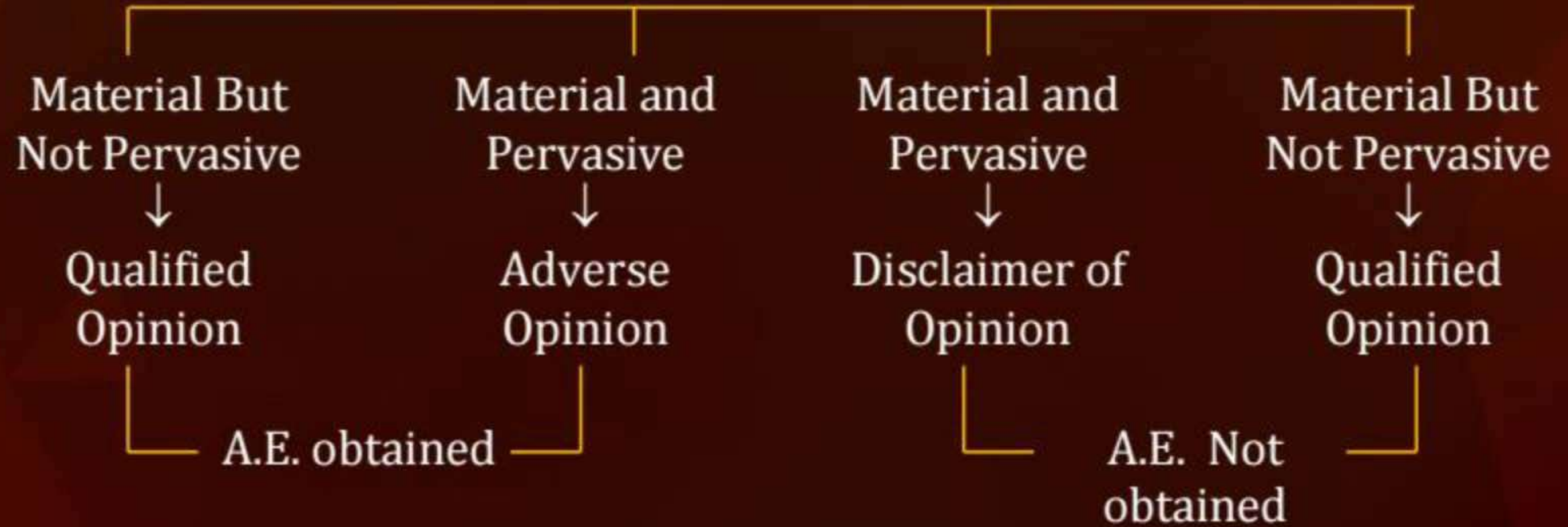


Topic: Types of Modified Opinions

Misstatement → Material	Suff. & Appro. A.E.	
	Obtained	Unable to Obtain
But not pervasive	Qualified opinion	Qualified opinion
And pervasive	Adverse opinion	Disclaimer of Opinion



Auditor → Having Obtained → Unable to obtain → Suff. + Appro. A.E. → Concludes that → Misstatement → Individually → Aggregate





Topic: Which type of opinion is appropriate?

Appropriateness of opinion → Depends Upon

Nature of Matter

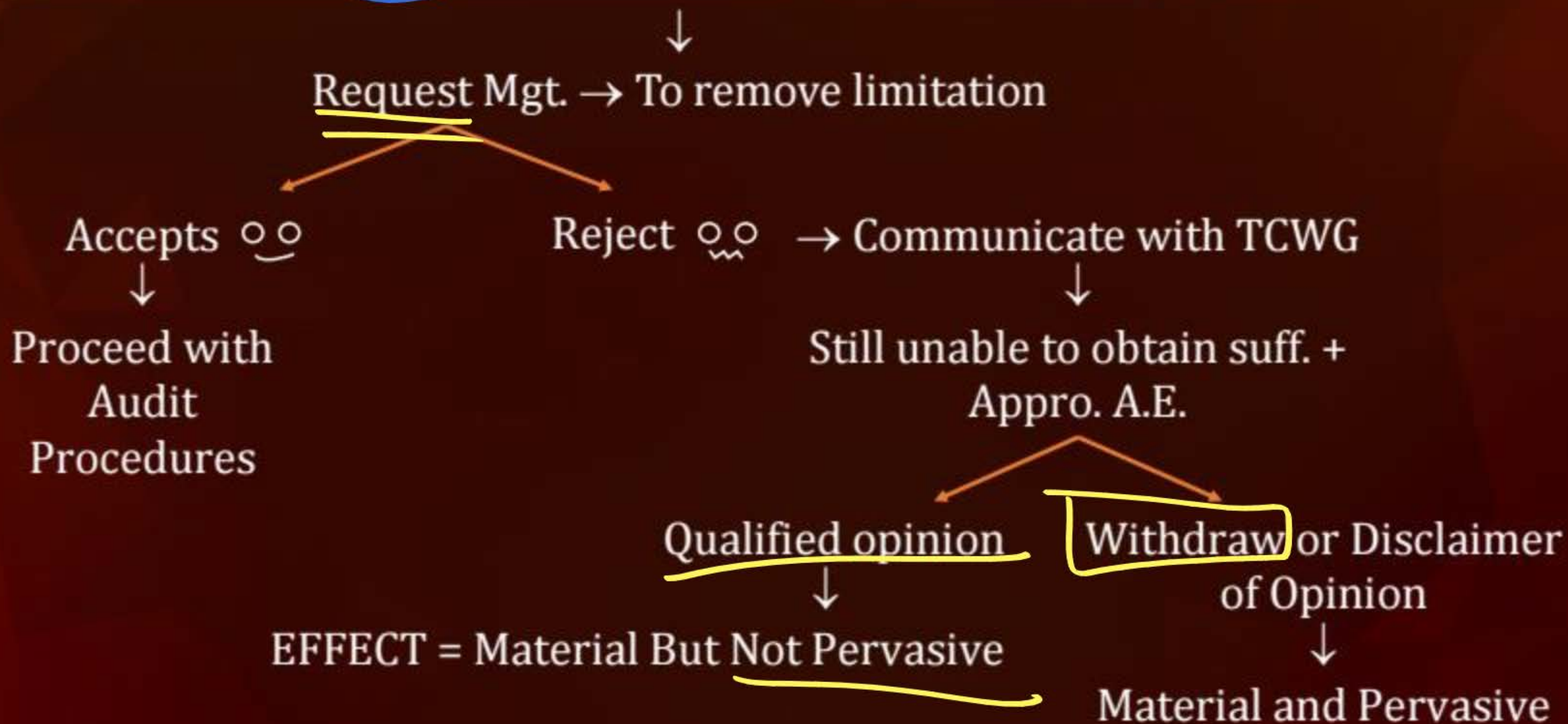
Auditor Judgement
about Pervasiveness

F.S. are
Materially
Misstated

F.S. May be materially
Misstated → In are of
inability to obtain Suff. +
Appro A.E.



Topic: Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation after the Auditor Has Accepted the Engagement





Topic: Form & Content of the Auditor's Report When the Opinion is Unmodified/Modified

OPINION	PHRASES USE	NOT TO USE
Unmodified	<u>Present fairly</u> in <u>all material respects</u>	With the <u>foregoing explanation</u>
	Give <u>true & fair view</u>	<u>Subject to</u>
Qualified	<u>Except</u> for the effects of matters described in Basis for Qualified opinion ↓ F.S. ↙ ↘ Present fairly in acc. with	

OPINION	PHRASES USE	NOT TO USE
Adverse	<p><u>Because</u> of the significance of the <u>matters described</u> in Basis for Adverse opinion</p> <p>↓</p> <p>F.S.</p> <p>↙ ↘</p> <p><u>Do not</u> <u>not in acc.</u> <u>present fairly</u> <u>with</u></p>	
Disclaimer	Do not express on opinion	
	Not able to obtain suff. + Appro. A.E.	



Topic: Basis for Opinion



→ Amend the heading



Basis for Opinion

Basis for
Qualified
Opinion

Basis for
Adverse
Opinion

Basis for
Disclaimer
Opinion

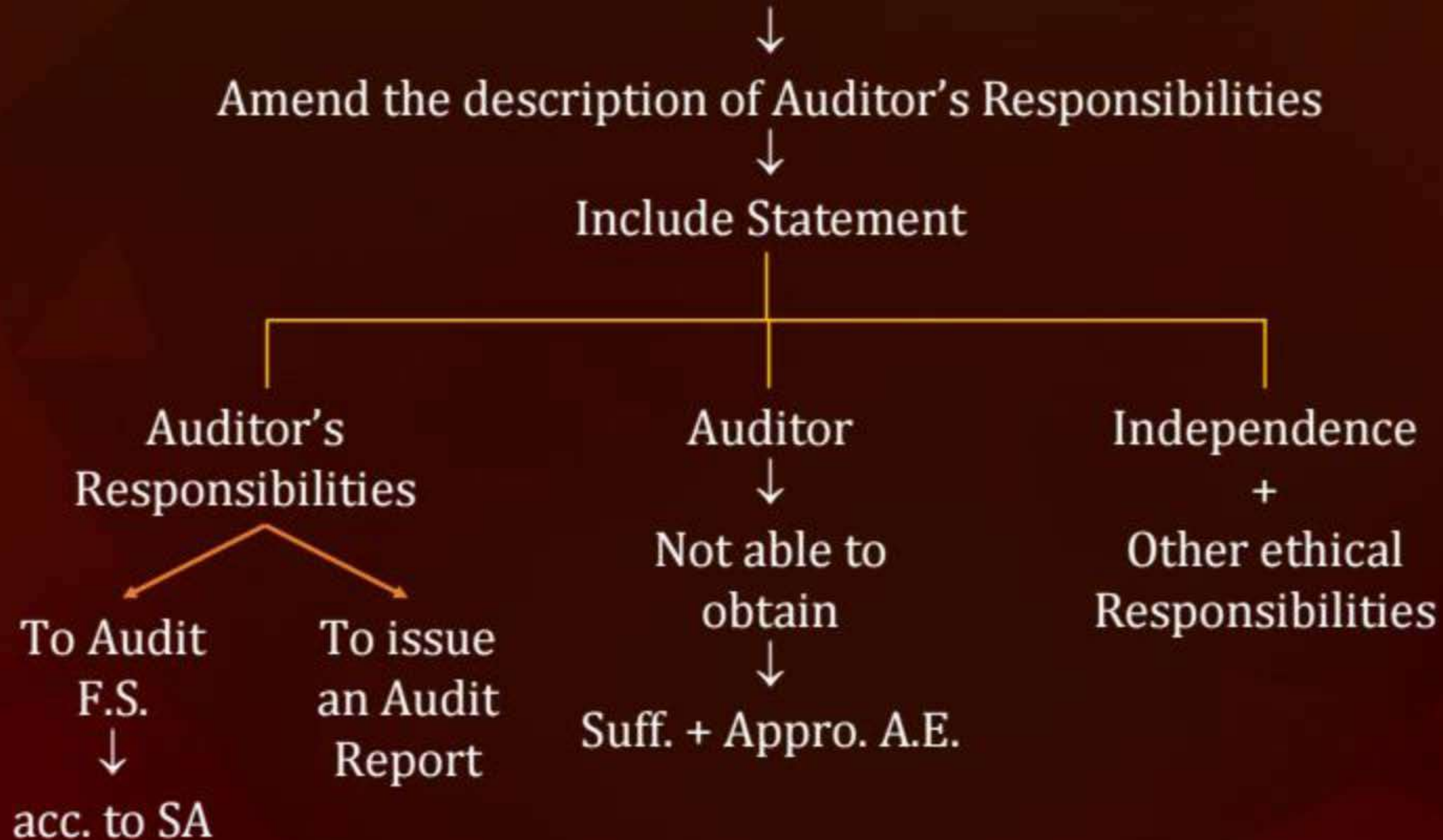
+

Include description of matter



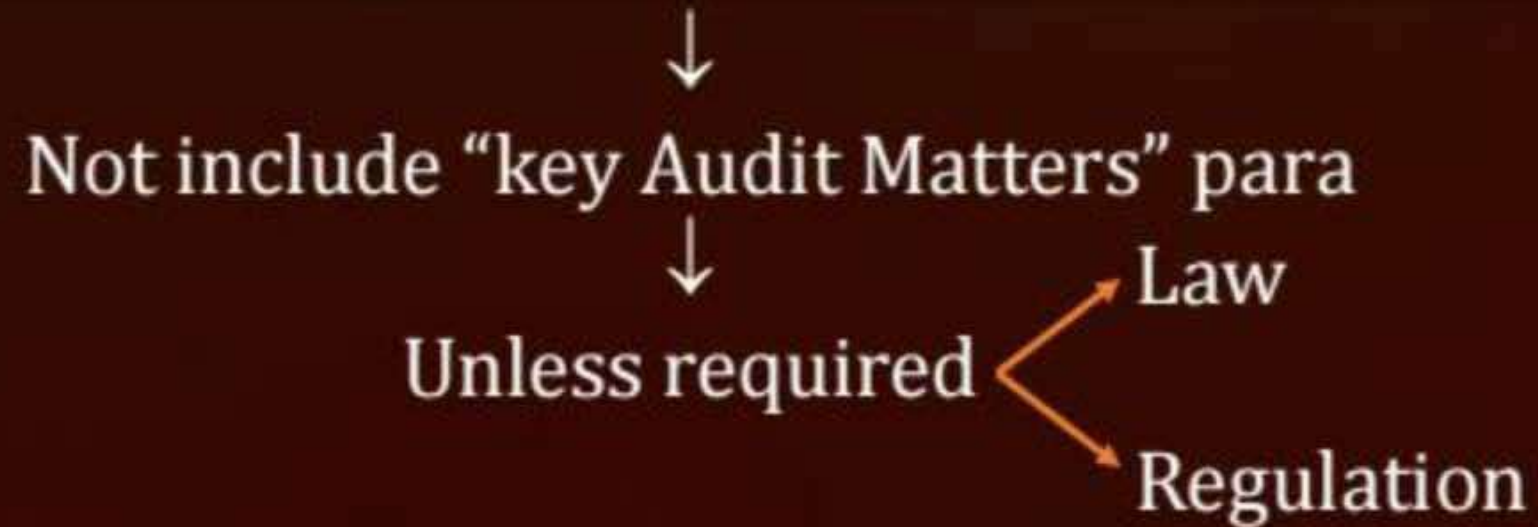


Description of Auditor's Responsibilities for the Audit of the Financial Statements When the Auditor Disclaims an Opinion on the Financial Statements





Topic: Considerations When the Auditor Disclaims an Opinion on the Financial Statements





Topic: Communication with Those Charged with Governance



When Auditor EXPECTS to MODIFY the opinion



Circumstances

Wordings

Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report

SA 706

Emphasis of Matter Paragraph & other Matter Paragraph (SA-706)

Additional Communication to the users of F.S

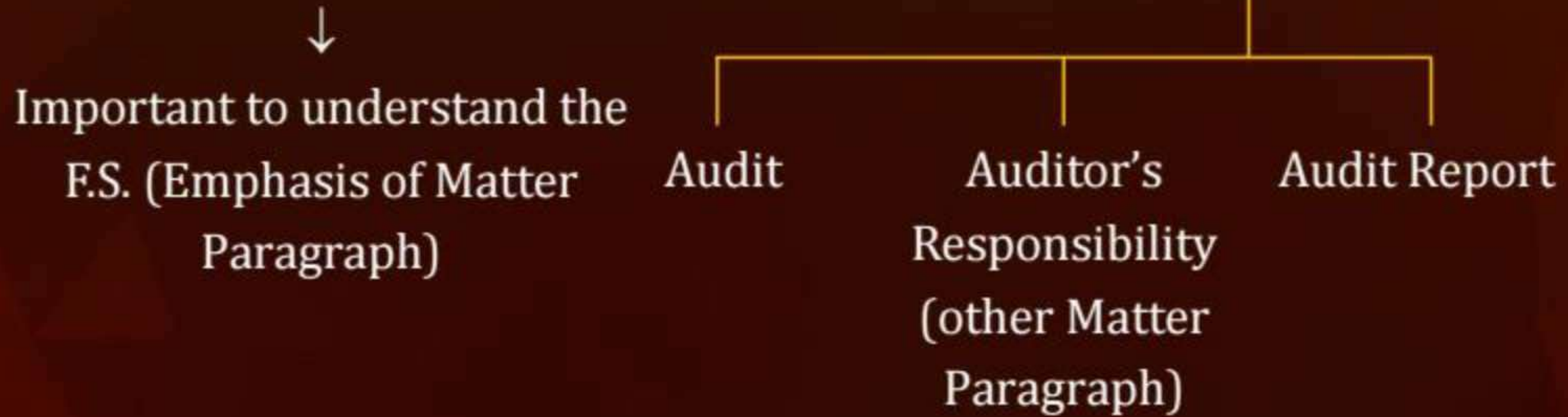
Necessary as per Auditor's Judgement

To Report a Matter

Although appropriately
presented in F.S.

Any other matter that is relevant
to the user's understanding of

from 13 points





Topic: Emphasis of Matter Paragraphs in the Auditor's Report



Provided

→ As a result of Matter → Auditor is Not required → to Modify opinion
as per SA-705 As per → SA-701 → the Matter is Not A key Audit Matter



Topic: Separate section for Emphasis of Matter paragraph



Inclusions

- (1) Separate Section in Auditor's Report → Heading to Include the term →
"Emphasis of Matter"
- (2) Paragraph to Include

Clear reference to matter

Disclosures in F.S. where matter can be found

- (3) Indicate → Auditor's opinion is NOT Modified

The inclusion of an Emphasis of Matter paragraph in the auditor's report does not affect the auditor's opinion





Topic: Other Matter Paragraphs in the Auditor's Report



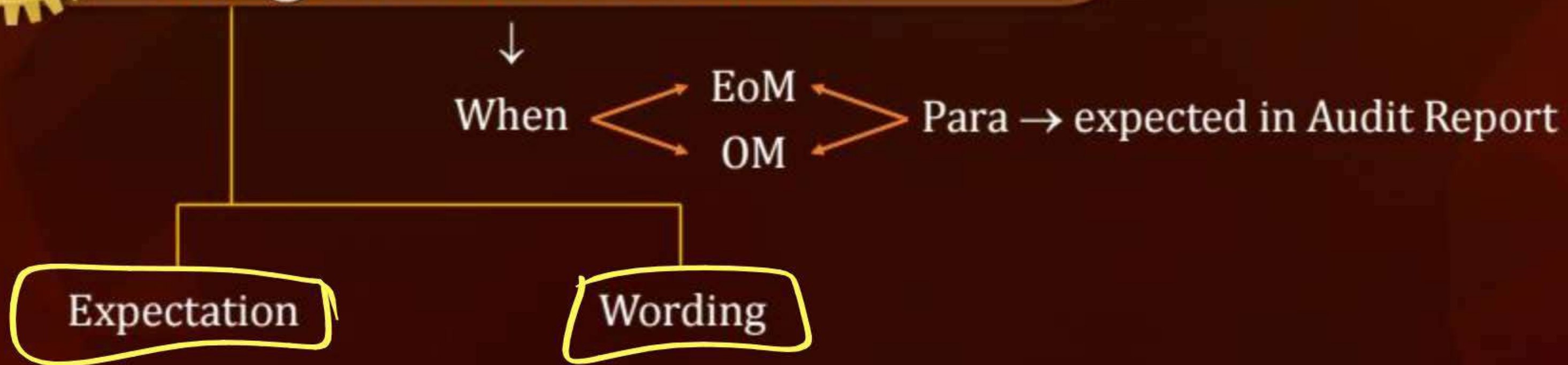
"Other Matter Paragraph" → Not included in F.S. → Provided

Show in a separate section

- (1) Not Prohibited → Law → Regulation
- (2) As per SA-701 → The matter is not a key audit matter



Topic: Communication with Those Charged with Governance





Topic: Communicating key audit matters in the independent auditor's report (SA 701)



Definition → Matters → were of Most. Significance



In Auditor's Prof. Judgement



In an audit of F.S.



C.Y.



Topic: Purpose of Communicating Key Audit Matters



Enhance → Communicative Value of Auditor's Report



By providing → greater transparency



Topic: Objectives of the Auditor regarding Key Audit Matters







To determine key
Audit Matters

Communicate → Auditor's Report



Topic: Determining Key Audit Matters

(1) Area of  Higher assessed RoMM 
 Sig. Risk Identified → SA 315 

(2) Sig. Auditor's Judgement → Relating to areas in FS.



That involves

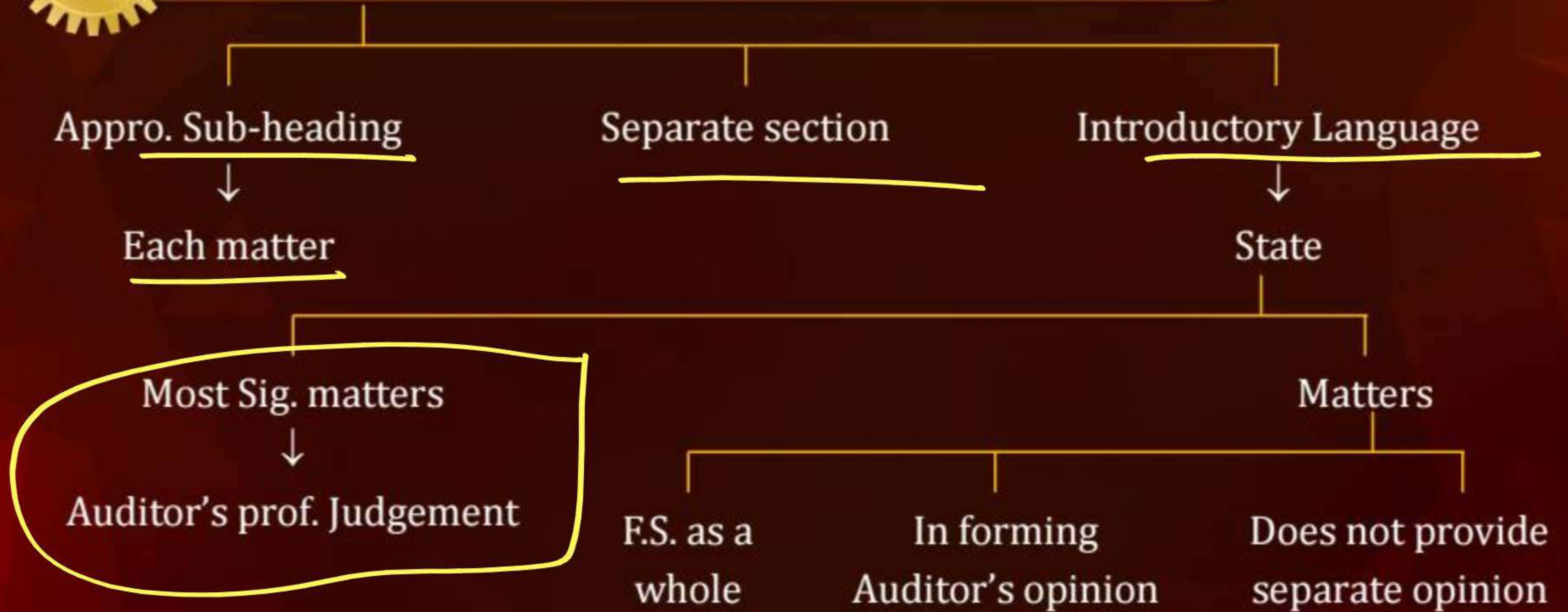


Sig. Mgt. Judgement

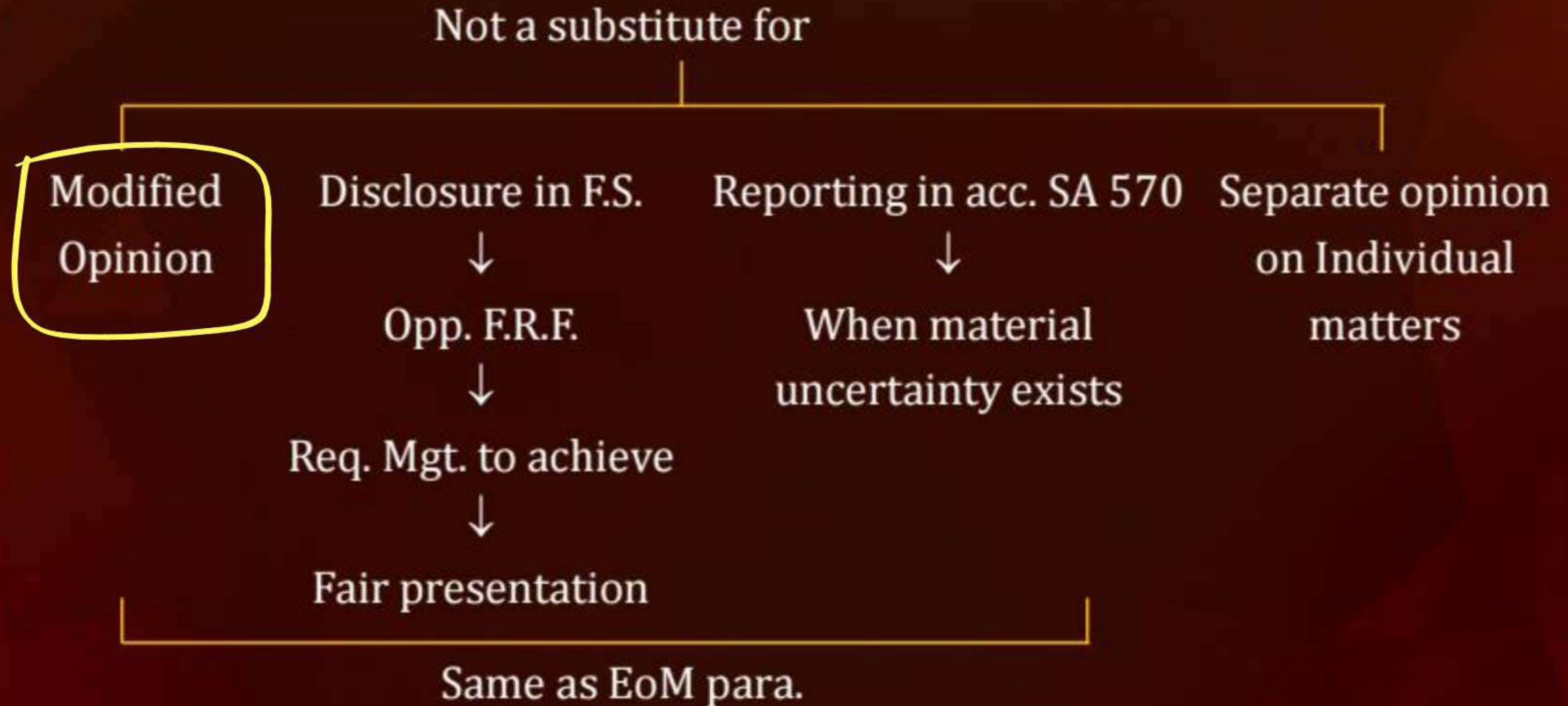
(3) Effect on Audit of → Sig.  Events  Accrued during the pd.
 Transactions 



Topic: Communicating Key Audit Matters



Communicating Key Audit Matters-not a substitute for disclosure in the Financial Statements etc.





Topic: Communication with Those Charged with Governance



Key Audit matters

No Key Audit matters



As per

Facts

Circumstances

Audit



Topic: Standard On Auditing -710, “Comparative Information - Corresponding Figures & Comparative Financial Statements”





Topic: The Nature of the Comparative Information



- Nature → Depends upon requirement of → app F.R.F.
- Approaches
 - Corresponding figure → Auditor's opinion on C.Y. only

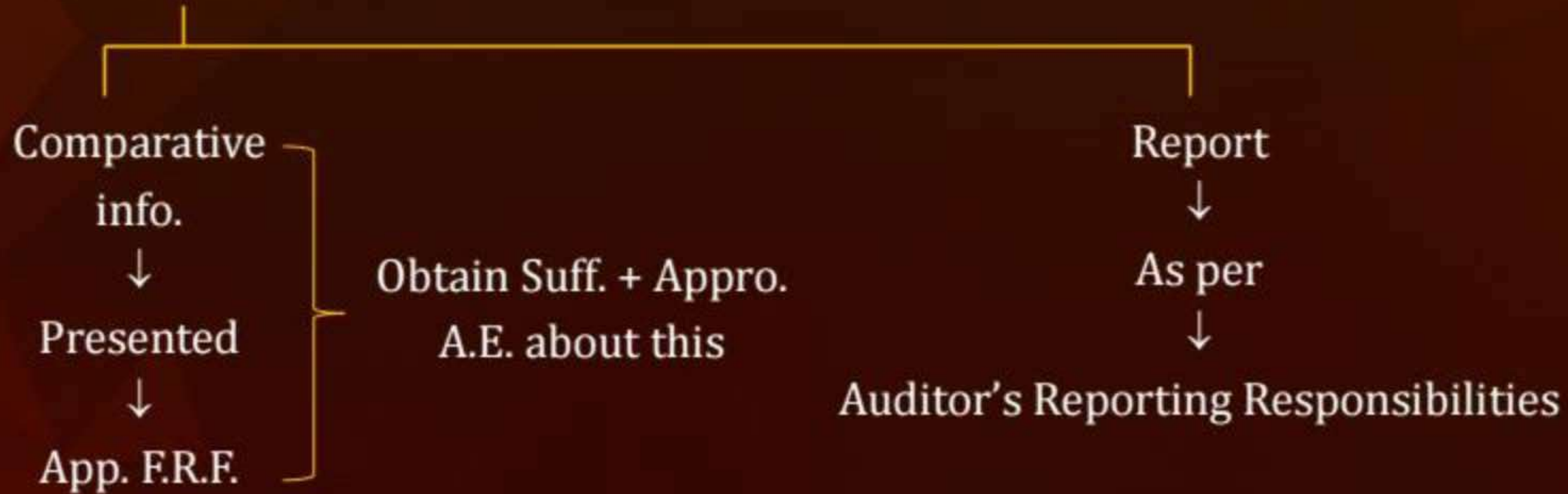
Comparative F.S. → Auditor's opinion of each period

Law

Regulation

Term of engagement

*Objective



*Definition → Comparative Info.

Amounts

Other Disclosures

Included in F.S.

One

More

Prior pd.

As per app. F.R.F.



Topic: Audit Procedures regarding comparative information



4m

(1) Determine → F.S. include → Comparative info?

Required by app. F.R.F.

Appro. Classified?

(2) Evaluate → Comparative info?

Agrees

Amount

Other Disclosure

Prior pd.

A/c Policies

Consistent

Not Consistent



Properly

Accounted

Presented

Disclosed

(3) Possible Misst.?

No



Yes → perform Additional Audit Procedures

+

Requirement of SA 560

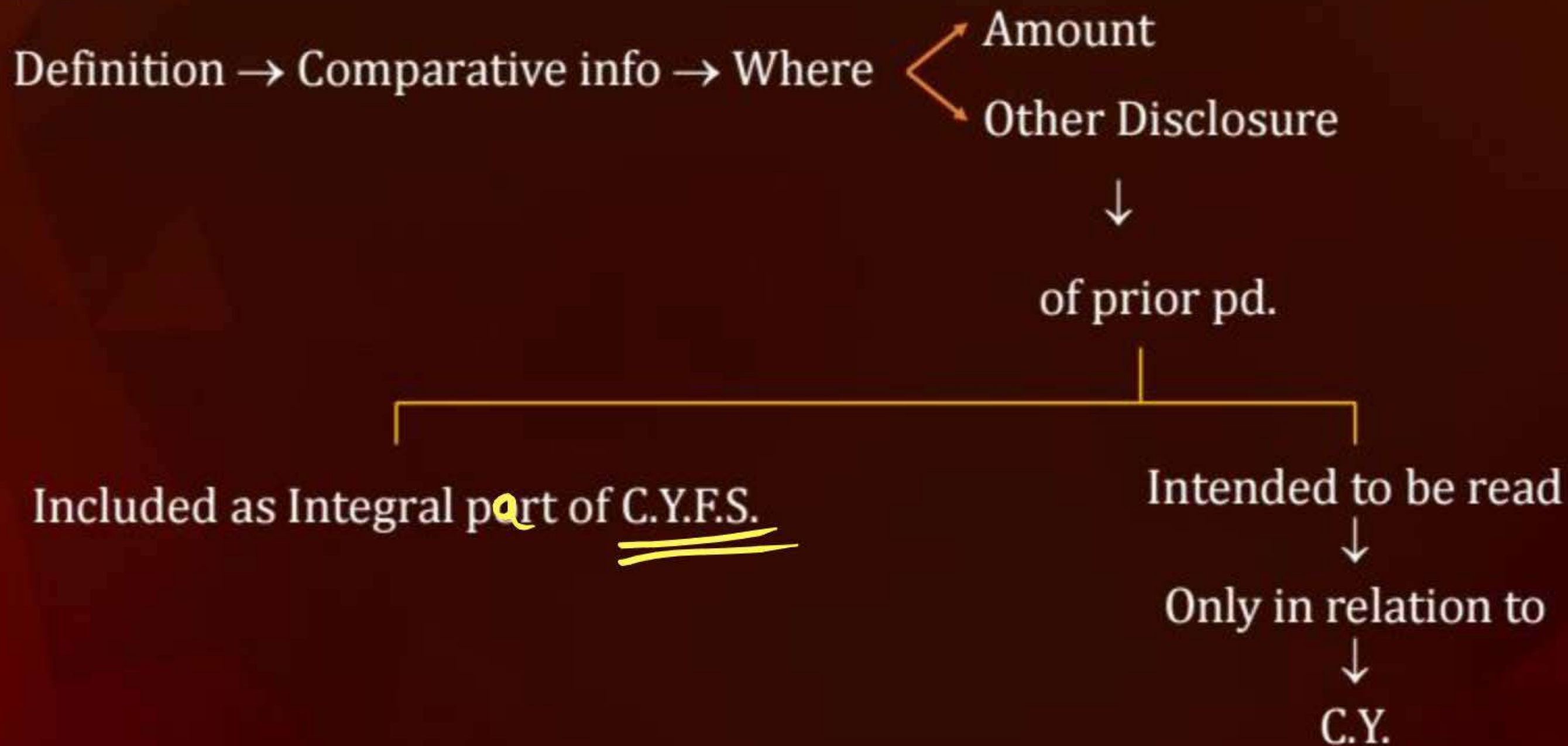


Only if Auditor had Audit prior pd. F.S.

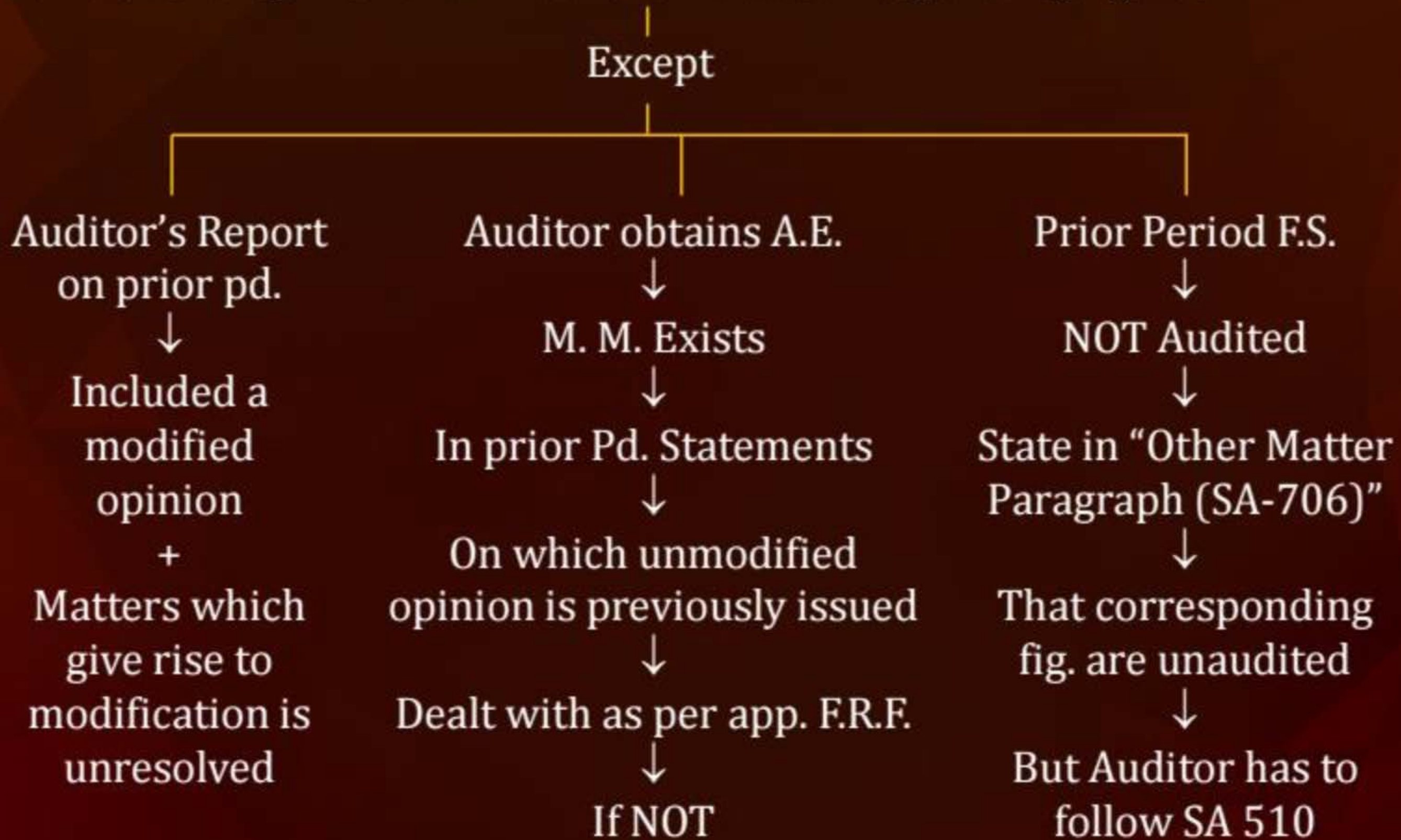
(4) Obtain W.R.



Topic: Audit Reporting regarding Corresponding Figures



→ Auditor's opinion shall Not Refer → to corresponding figures





*Prior period Financial Statements Audited by a Predecessor Auditor





Topic: Comparative Financial Statements

- Auditor's opinion refer to Each Period
- Reporting on prior period F.S. → in connection with → with → current period audit



Auditor's opinion → Differs → from opinion expressed previously



Disclose



Substantive reason → for different opinion



In other Matter paragraph (SA-706)

*Prior Period Financial Statements Audited by a Predecessor Auditor

Auditor shall

Express Opinion on C.Y.F.S.

State in OM para

F.S. → prior pd.



Audited by
predecessor Auditor

Type of opinion



Predecessor Auditor



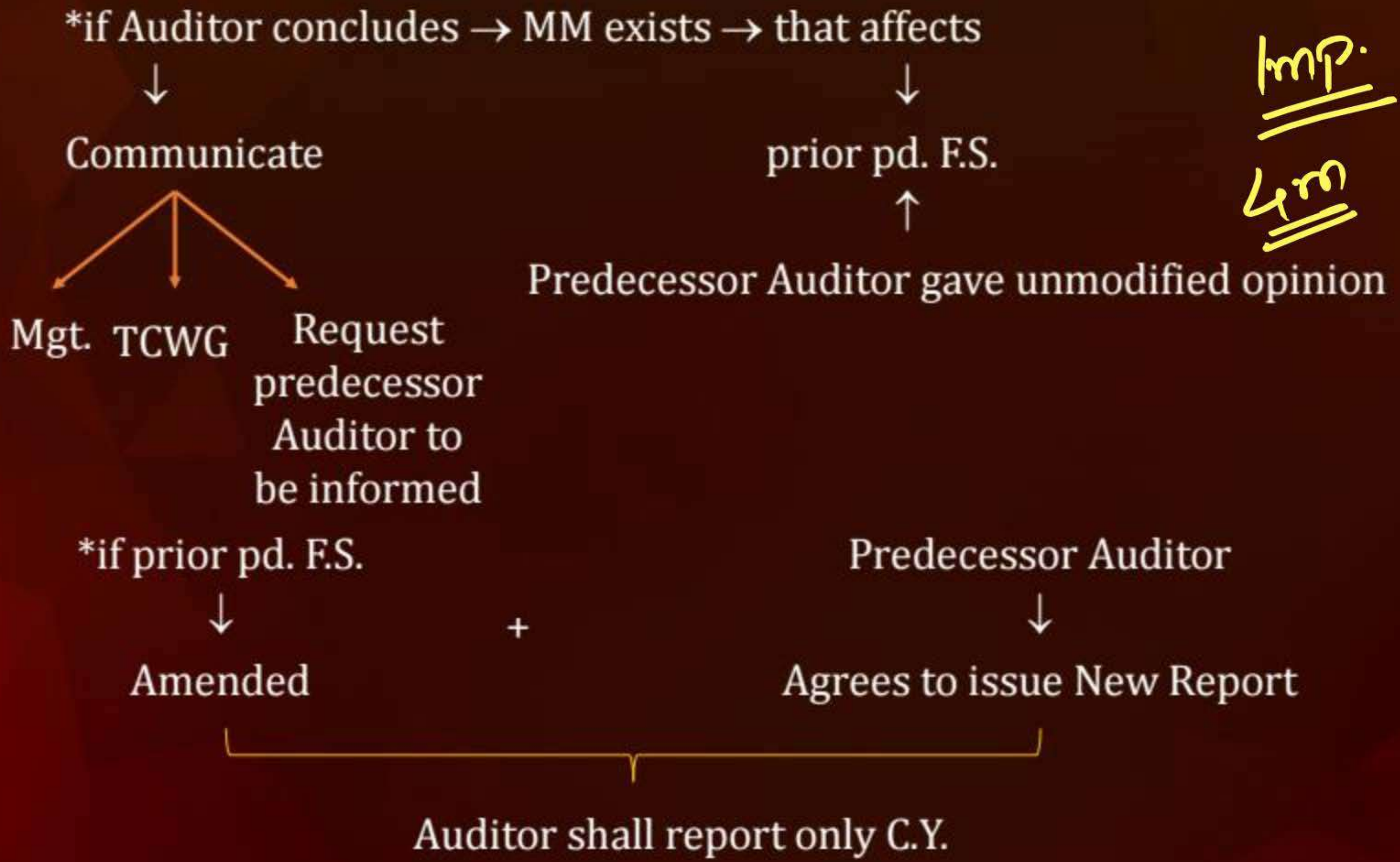
Reason



If modified opinion

Date of previous
Report

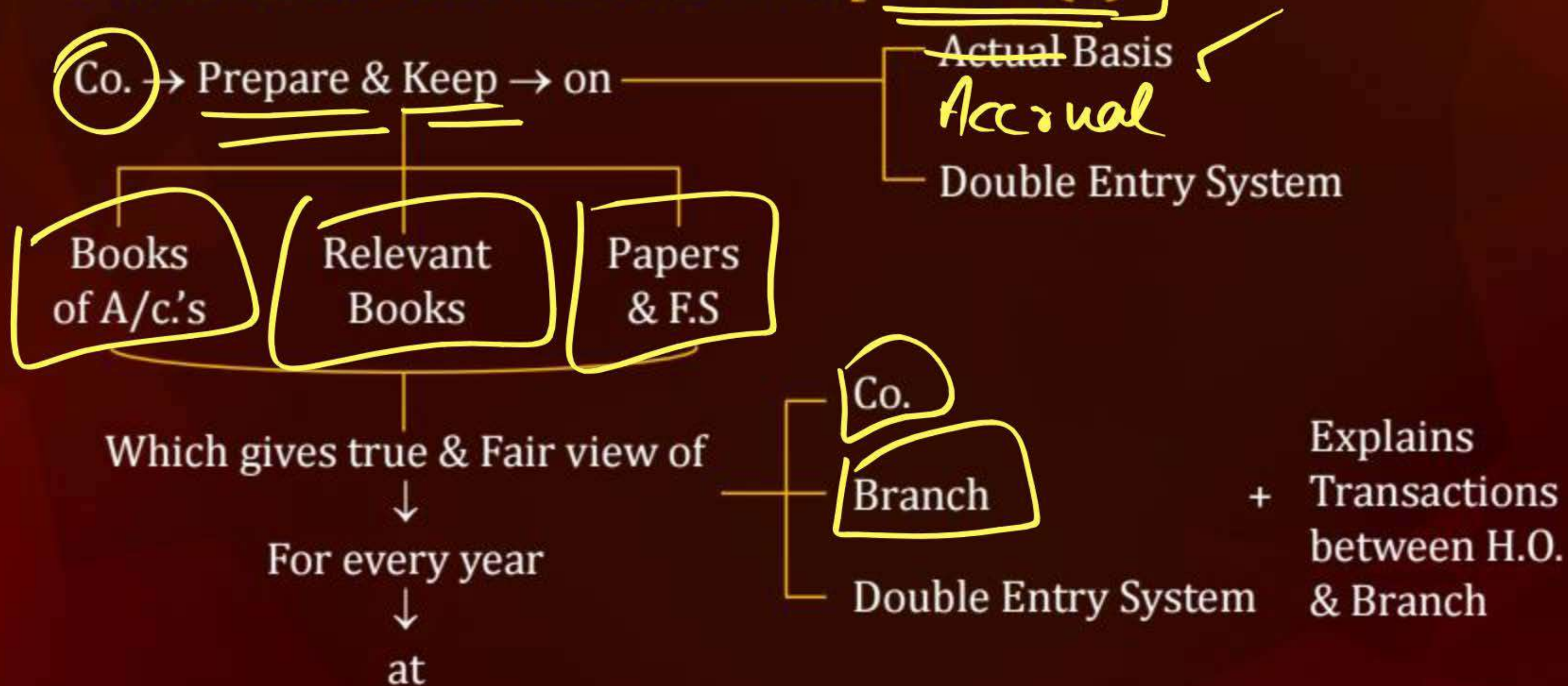
Unless predecessor Auditor's Report → Revised

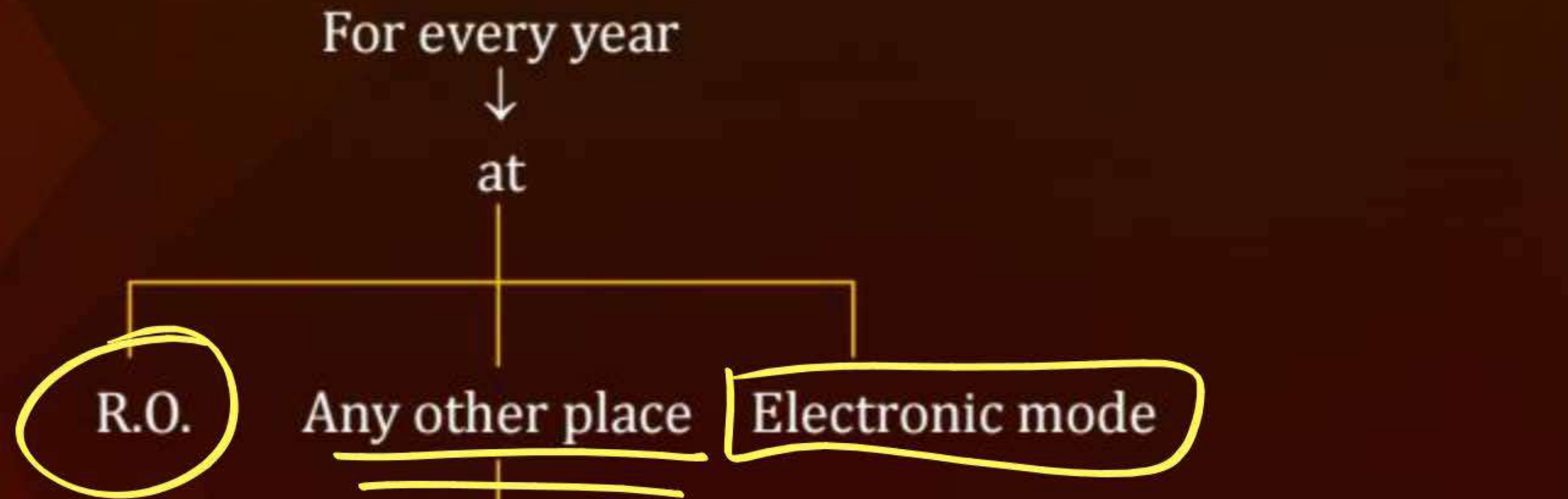




Topic: Audit of Branch Office Accounts

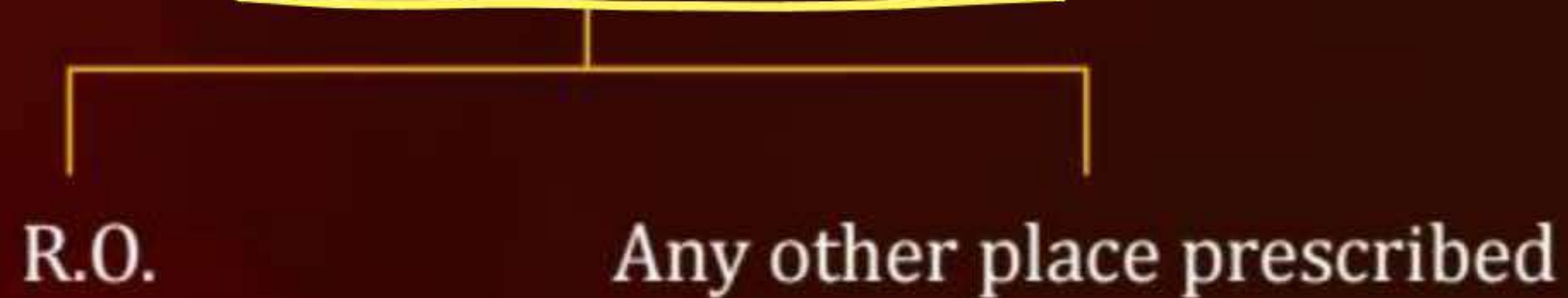
Audit of Branch Office Accounts [Sec.128(1)]





Decided by BOD → Notice to ROC → within 7 days

- If Branch → outside India & In India → Sec.128(1) will be satisfied → if → Proper periodic Return



Sec.143(8)

Continue from Duties of Auditor (7th Point)

Audit of Branch

H.O. Auditor

Any other (Branch Auditor)

Branch outside India

Accountant + According to laws of that country

- If Branch is outside India
- Branch Auditor → Sends Report → H.O. Auditor
- Reporting of Fraud as → Applies to Branch Auditor → Limited to Branch only per Rule 12, CAAR, 2014

→ Definitions

Principal Auditor



Auditor with Responsibility
of Reporting



On entity Fin. Info.

W.O.

Includes



Fin. Info.

One

More

└─ Components ─┘



Audited by another Auditor

Other Auditor



Other than
principal Auditor



With responsibility
of reporting



On fin. Info.



Of a component



Which is included



Fin info. Audited by
principal auditor

Component

- Division
- Branch
- Subsidiary
- JV
- Associated enterprise
- Other entity



Whose fin. Info.



Included in fin.
Info. Audited by
principal Auditor

Branch



Topic: Using the work of Another Auditor (SA-600)

Generally the Principal Auditor → relies over → work of → Component Auditor

Unless

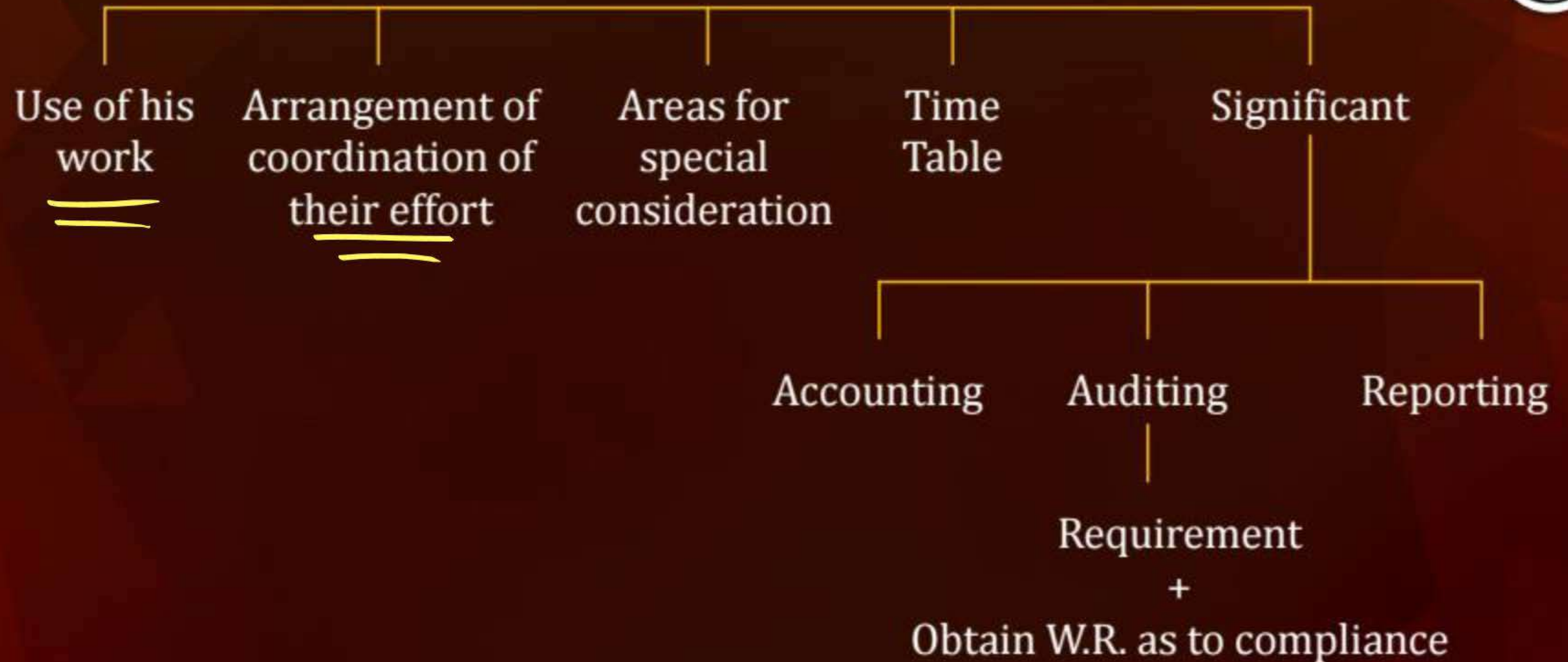
For special circumstances → that necessitates → Principal Auditor → to

Perform Procedures to obtain

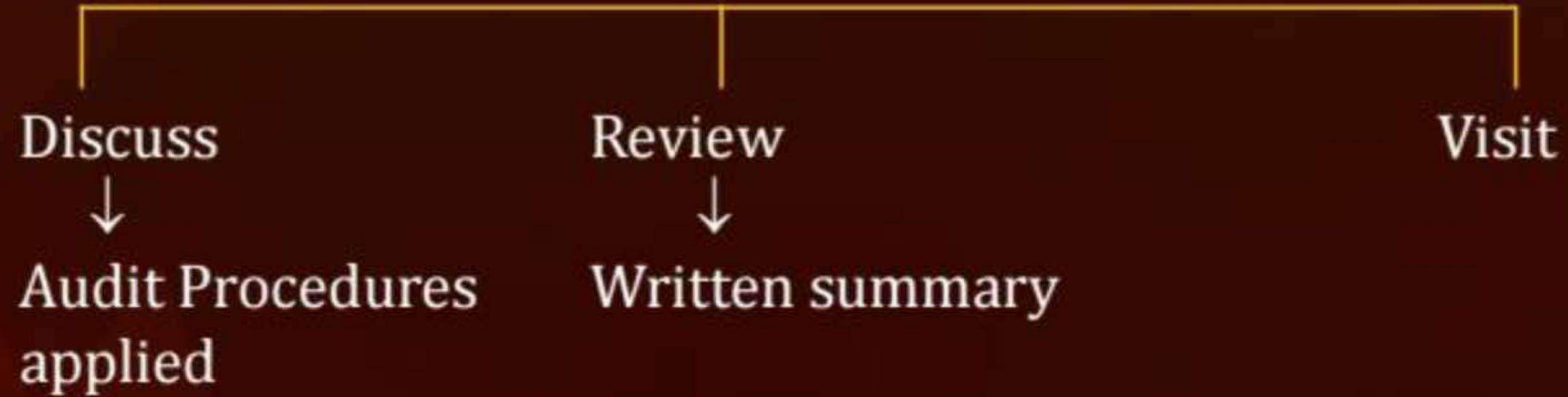
Sufficient & Appropriate Audit Evidence (AE)

+

Advice the Branch Auditor about



The principal Auditor → Might → via  Questionnaire
Check-list



3m



Topic: Joint Audit



* Involves → sharing → Total work

Advantages	Disadvantages
(1) Sharing → expertise	(1) Fees → shared
(2) Mutual consultation	(2) Psychological Problems
(3) Lower workload	(3) Superiority Complex
(4) Better Quality	(4) Co-ordination Problem
(5) Lower cost	(5) Uncertainty → Liability

SA 299 (Revised) – Joint Audit of F.S
+
SA 200 – “ Overall Objectives of an Independent Auditor & Conduct of an Audit in Accordance with SA”

Lays down special consideration for JA

(i) Engagement Partner
+
Other key member of Engagement Team

From each JA → should be involved in planning the audit

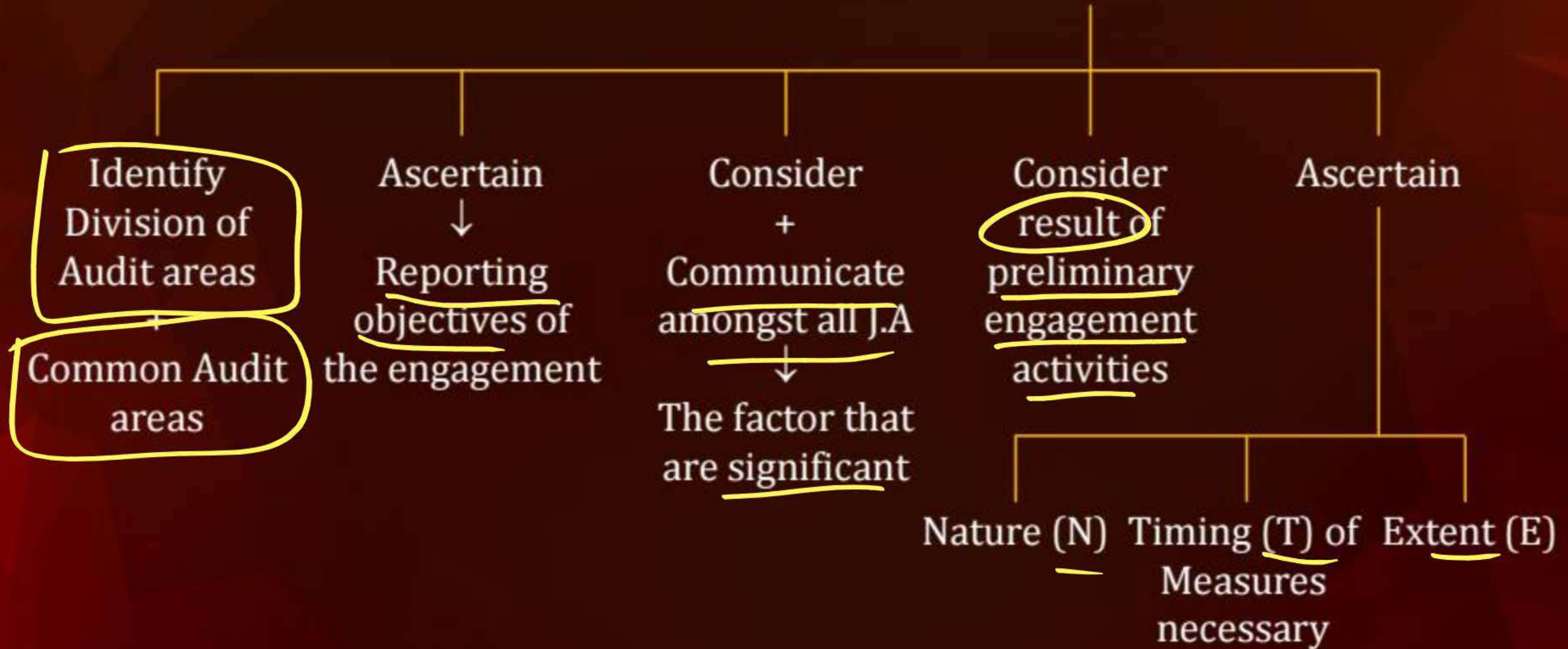
(ii) JA should → Jointly establish → Overall Audit strategy → which sets overall

Scope Timing (T) of Audit Direction

+
Guides development of Audit plan

(iii) Before commencement of Audit

→ J.A. Should → Discuss → Develop → J.A. Plan → Regarding



(iv) Each J.A. → Consider → Assess → RoMM (Risk of Material Misstatement)
+

Communicate to other J.A

(v) J.A. Should → Discuss → Document → N.T.E. of Audit Producers → for →
Common → Specific → Areas allotted

(vi) J.A. should obtain → Common Engagement letter → Common Mgt.
Representation Letter.

(vii) The work allocation letter should be → Signed by All J.A. → Communicate
to TCWG (Those charged with Governance)

➤ Each Auditor is responsible → Only for work allotted → to him

➤ Jointly & severally liable :-

(1) Work not divided + carried on by all

(2) Decisions taken by all

(3) Matters on which arrangement is there

(4) Disclosers relating to

(i) Statutes, (ii) F.S., (iii) Audit Report)

um

- The JA should Communicate to other JA



In writing + Prior to completion of Audit

Matters relevant
to areas of
responsibility of
other JA

Deserves their
attention

Require
Disclosure

Require
Discussion

Application
of Judgement

4m

→ J.A are required to issue → common Audit Report

→ If in Disagreement → Separate Audit Report + But shall make reference in each
others Audit Report



Topic: Reporting requirements under The Companies act, 2013

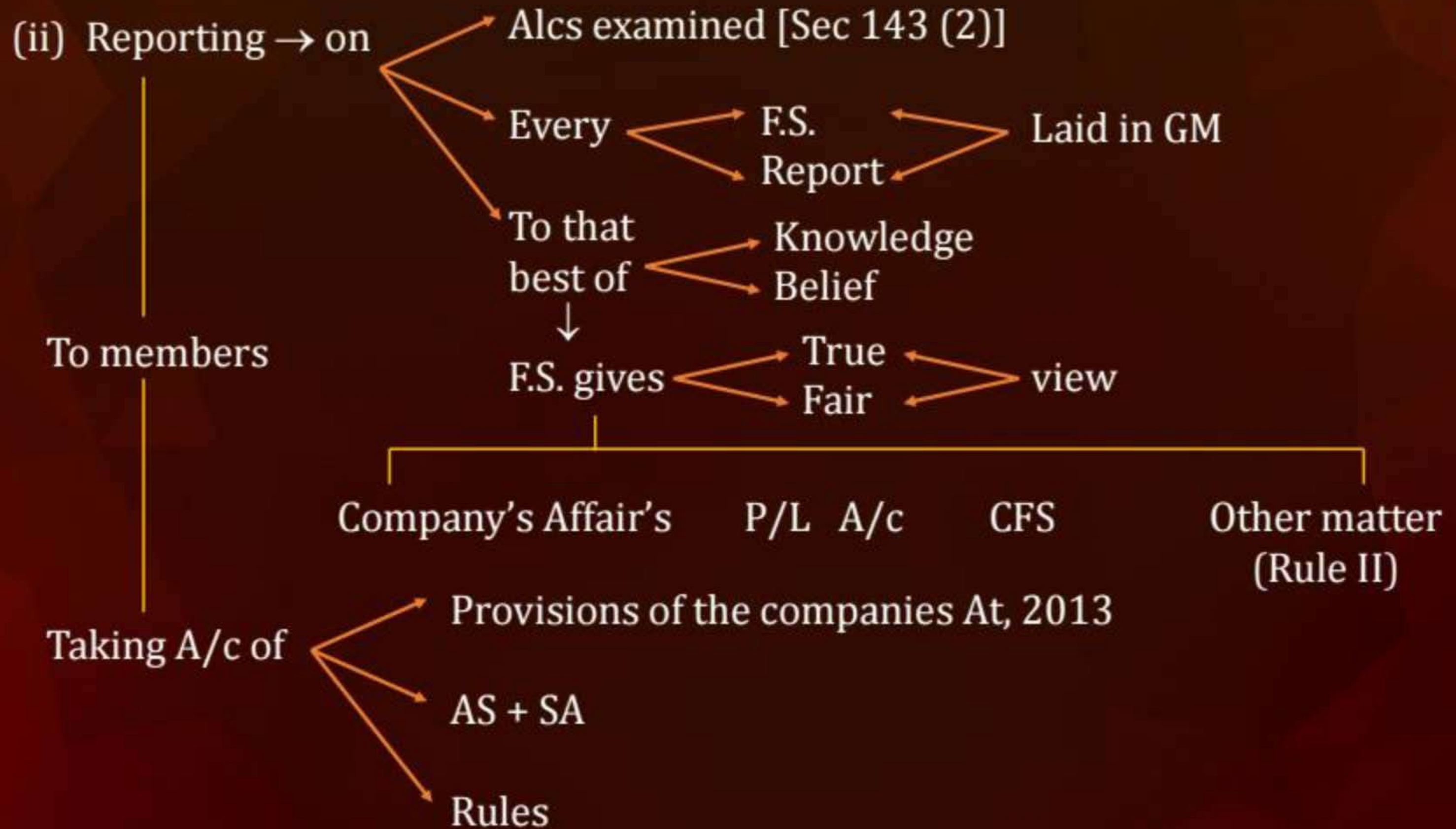


Duties of Auditor

Already studied in Law

(i) **Duty to Inquire on certain matters** ← Report only if the matter is in ~~advance~~ **Adverse** [Sec 143(1)]





(4) Duty to report (Sec. 143(3))

(a) Sought + Obtained → Info + Explanation → Best of knowledge + Belief

Yes

No

→ Details there of + Effect on FS



(b) As per his opinion

Proper books are maintained as per law

Proper returns from branches not visited by him

(c) Report as Sec. 143(8)

Sent to him → by branch Auditor

Manner in which he has dealt with it

Even books of branches are within rights

(d) B/S + P/L → in agreement → Books of A/c. + Returns

(e) F.S. → Comply → AS

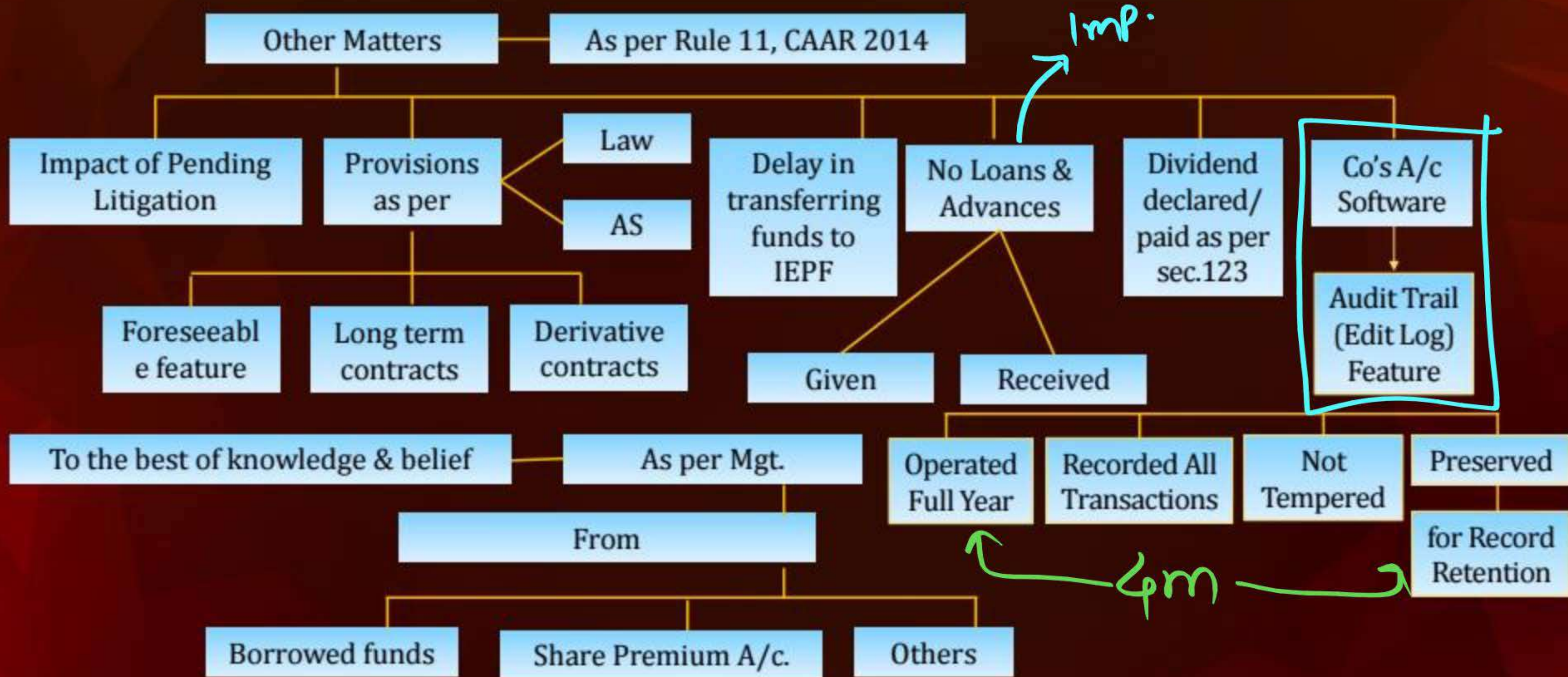
(f) Adverse → Observation + Comment → on financial matter/ transaction

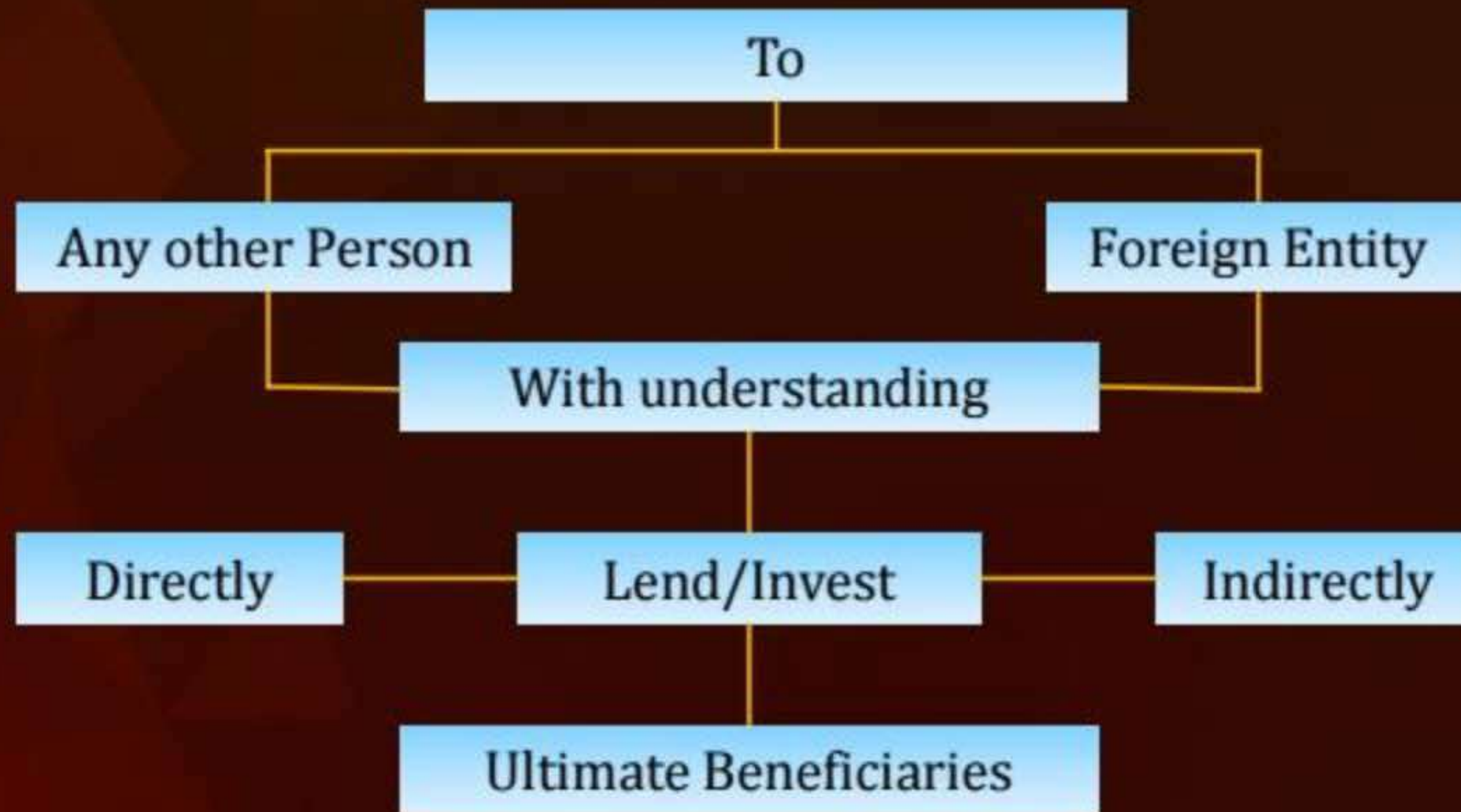
- (g) Directors → Disqualified → ~~W~~/s. 164(2)
- (h) Qualification + Reservation + Adverse Remarks → Maintenance of A/c. + Other Matters
- (i) Adequate + Effective → Internal Financial Control → W.R. ~~t~~ F.S.

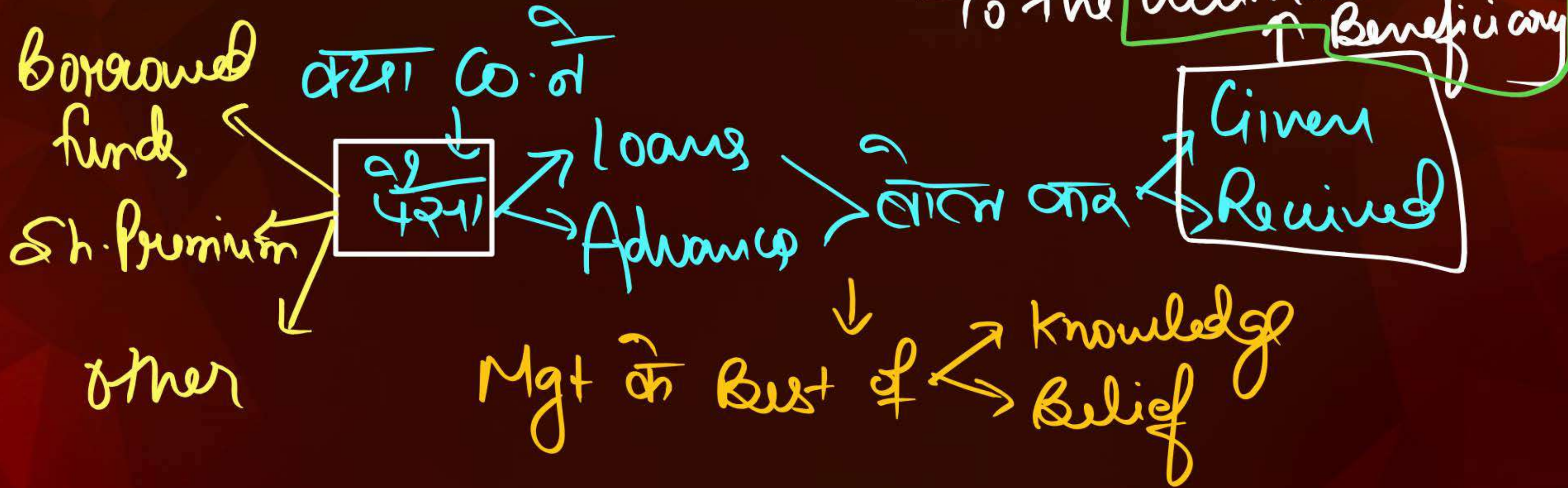
Exception :

Pvt. Co. → OPC → Small Co. → Co. → T/o. < ₹ 50 Crore → Borrowings < ₹ 25 Crore

(j) Other Matters → As per rule 11, CAAR, 2014







(3) Duty to report on any other matter specified by CG

→ Eg : CARO, 2020

→ CG → Consult → NFRA

Pass

For such

Class

Description

of Co's

General

Specific

Order

That → Auditor should include a statement

(4) Duty to Report Fraud → If Auditor → In course of performance → CA

→ Cost Auditor (Sec.148)

→ Company Secretary (Sec.204)

Has reason to believe

Fraud Occurred

≥ ₹ 1 Crore

Report to CG
(Sec. 143(12) + Rule 13, CAAR, 2014)

Less than ₹ 1 Crore

Report to

Audit committee or
Board of Directors

Disclosure in
Board Report

+

Clause (xi) of para 3 of CARO, 2020



Topic: Reporting under Companies Auditor's Report Order, 2020 [CARO,2020]





Topic: Companies (Auditors Report) order 2020

- Additional Reporting Requirement → Shall not apply to CFS → Except Point
- Applicable to every co. [including Foreign Co. → Sec. 2(42)] (xxi)

Except :

- (i) Banking Co. → Registered v/s 5(c) of the banking Regulation act. 1949
- (ii) Insurance Co. → Registered under the insurance Act, 1938
- (iii) Sec.8 Co. ——— Not a Holding / Subsidiary Co. of a Public Co.
- (iv) OPC ——— Paid up share Capital + Reserve & Surplus \leq ₹1 Crore
- (v) Small Co. ——— Borrowings → Banks → F.I. \leq ₹1 Crore → at any time
- (vi) Private Co. ——— Revenue \leq ₹ 10 Crore

(incl. Discontinued operations)



Topic: Matter to be Included (Paragraph 3 & 4)

Paragraph 3

(i) Property, Plant & Equipment (PPE)

(a) Co. → Maintaining → Proper Records → of PPE Physically

Quantitative Details

Situations

By
Management

At reasonable
Intervals

If any discrepancy
found

If yes, properly
draft with?

(ii) 1.A.

(i)

(b) *Verification*

(c) Immovable properties → Title Deeds → In the Name of Co.

Other Than →
Properties Co. is Lessee
+ Lease Agreement →
In favour of Lessee

Yes

Other → Details
there of

Km

Description

Gross carrying value

Held in name of

Promoter

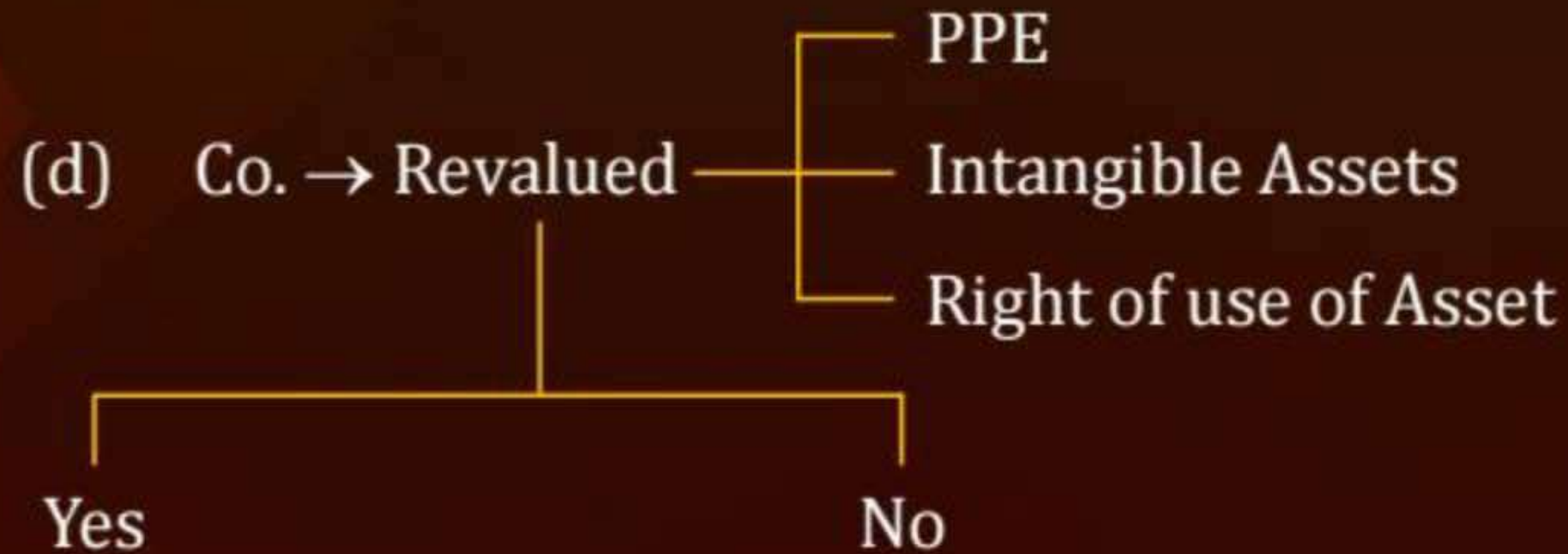
Relative

Director

Employee

Period held

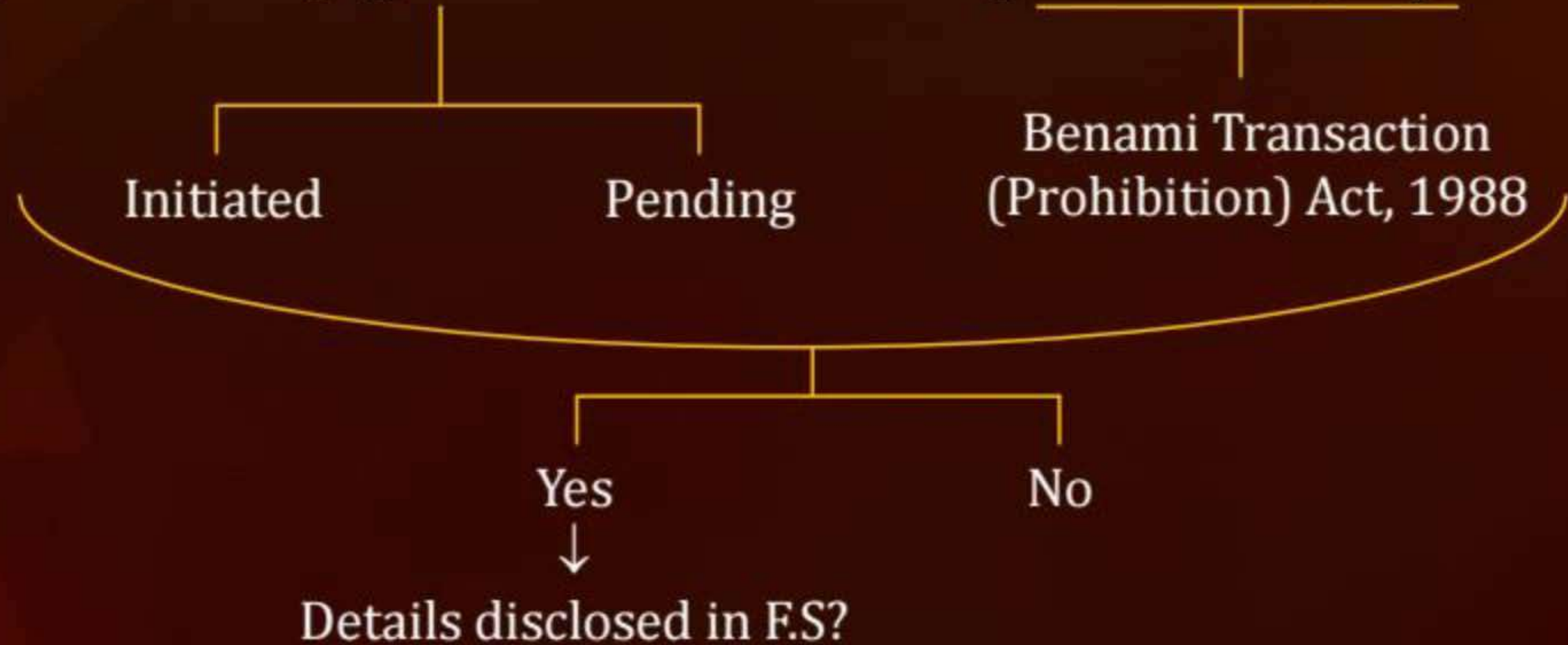
Reason



Based on Valuations by Registered Values?

Specify → Amount of change → of > 10% of net carrying value of each class of PPE + I.A.

(e) Proceeding against the Co. → for holding 'Benami Property'



(ii) Inventories :

(a) Inventories

← Physical Verification

↓
By Management

↓
at Reasonable Interval

↓
If any material discrepancy → 10% of each class of Inventory

Yes

No

Properly draft with in
books of A/c

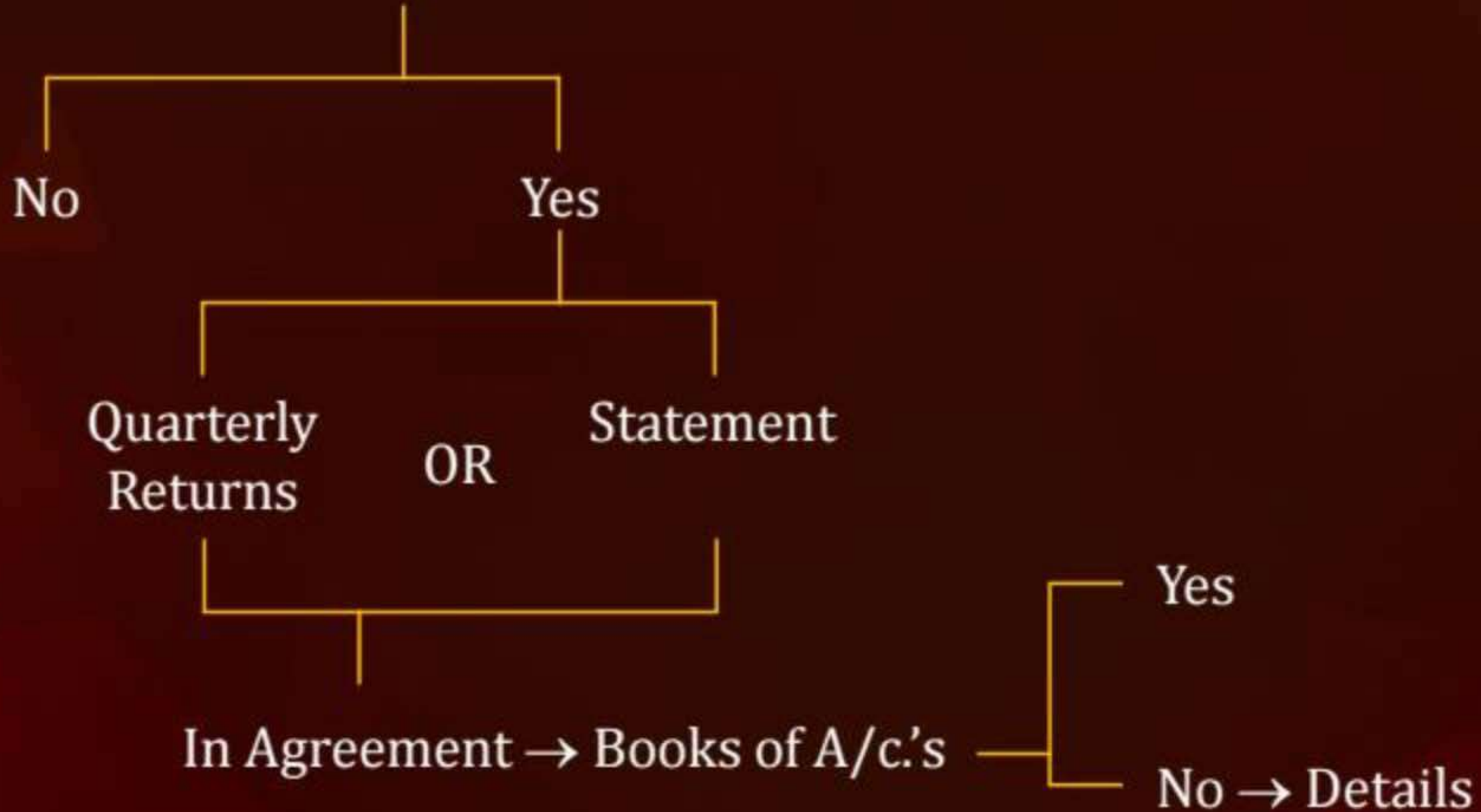
(b) Working Capital limit → Bank → F.I



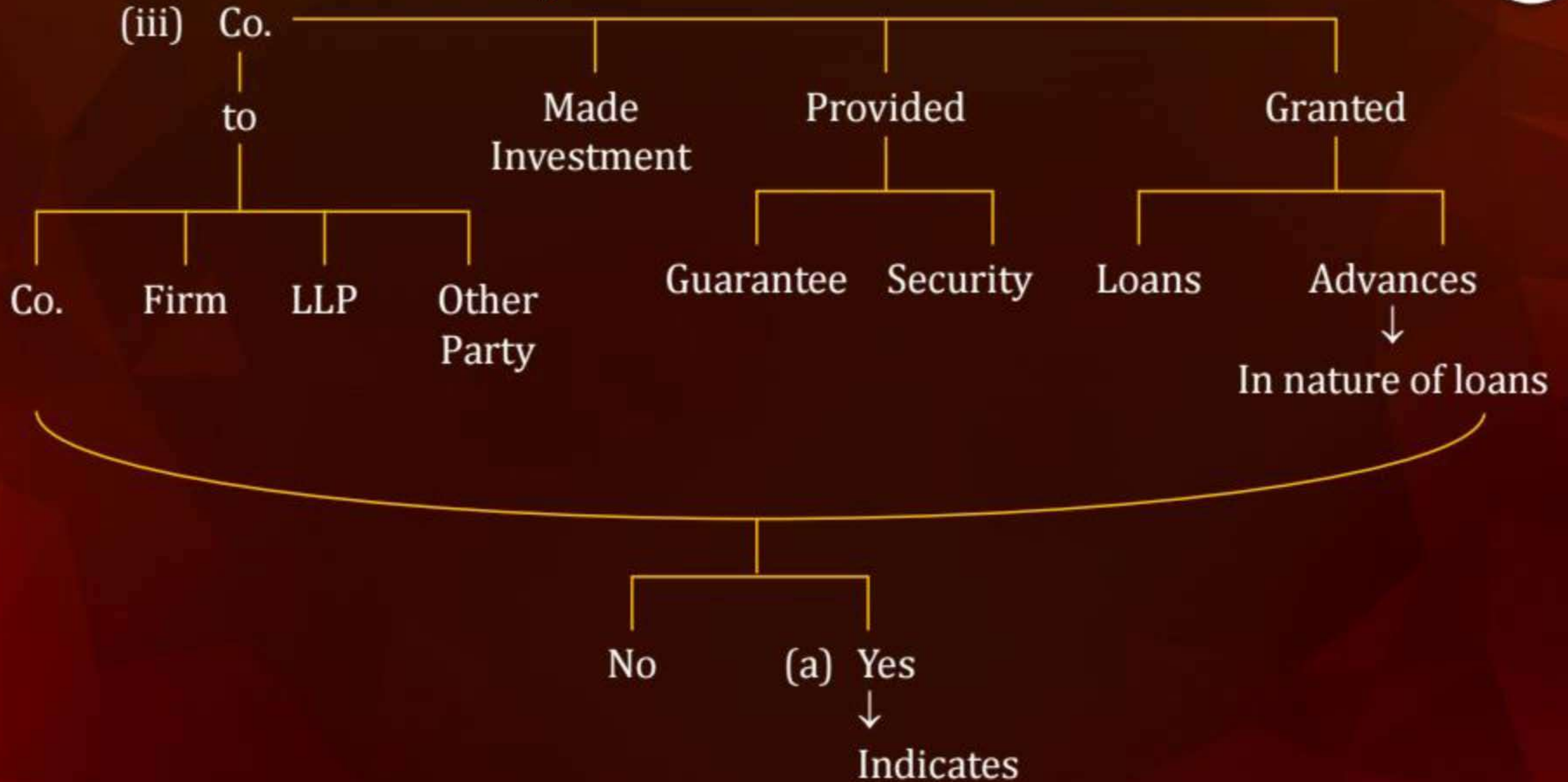
Sanctioned → > ₹ 5 Crore



On the basis of security of C.A.



4m



Aggregate amount
during the year

Balance O/s at
B/s date

(A) Subsidiary, J.V., Associates

(B) Others

(b) T&C → are not prejudicial to the interest of the co.

(c) Schedule of Repayment of Principal

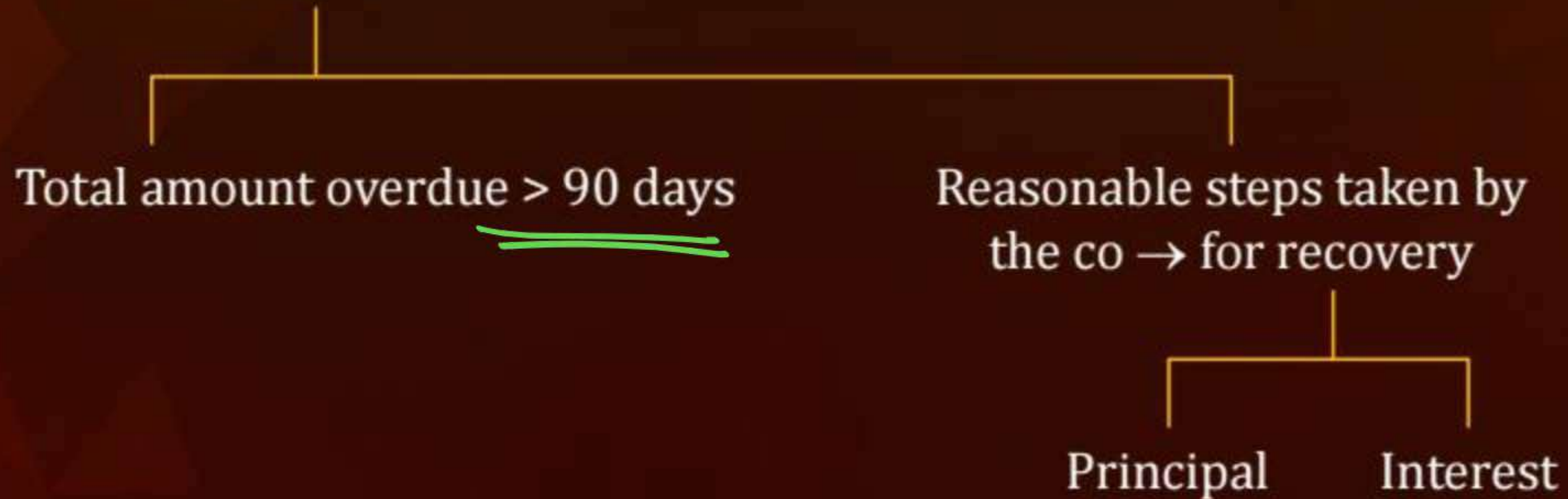
Payment of Interest

Stipulated ? + Regular?

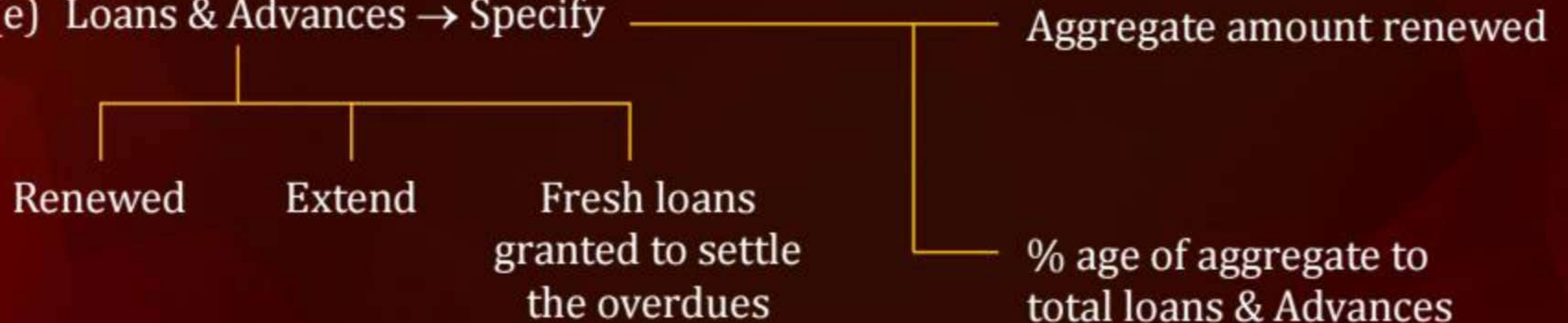
Repayment

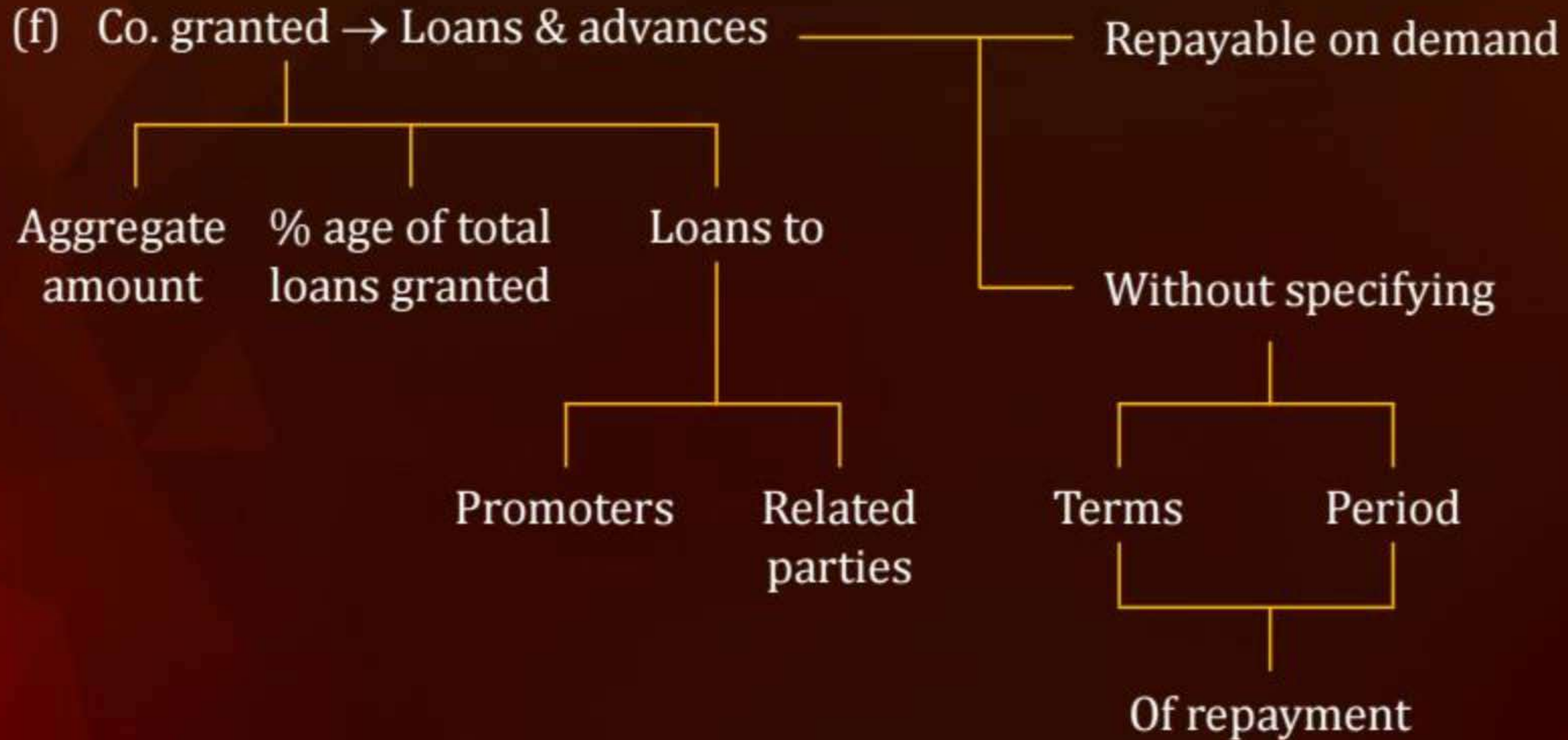
Receipts

(d) Overdue → State

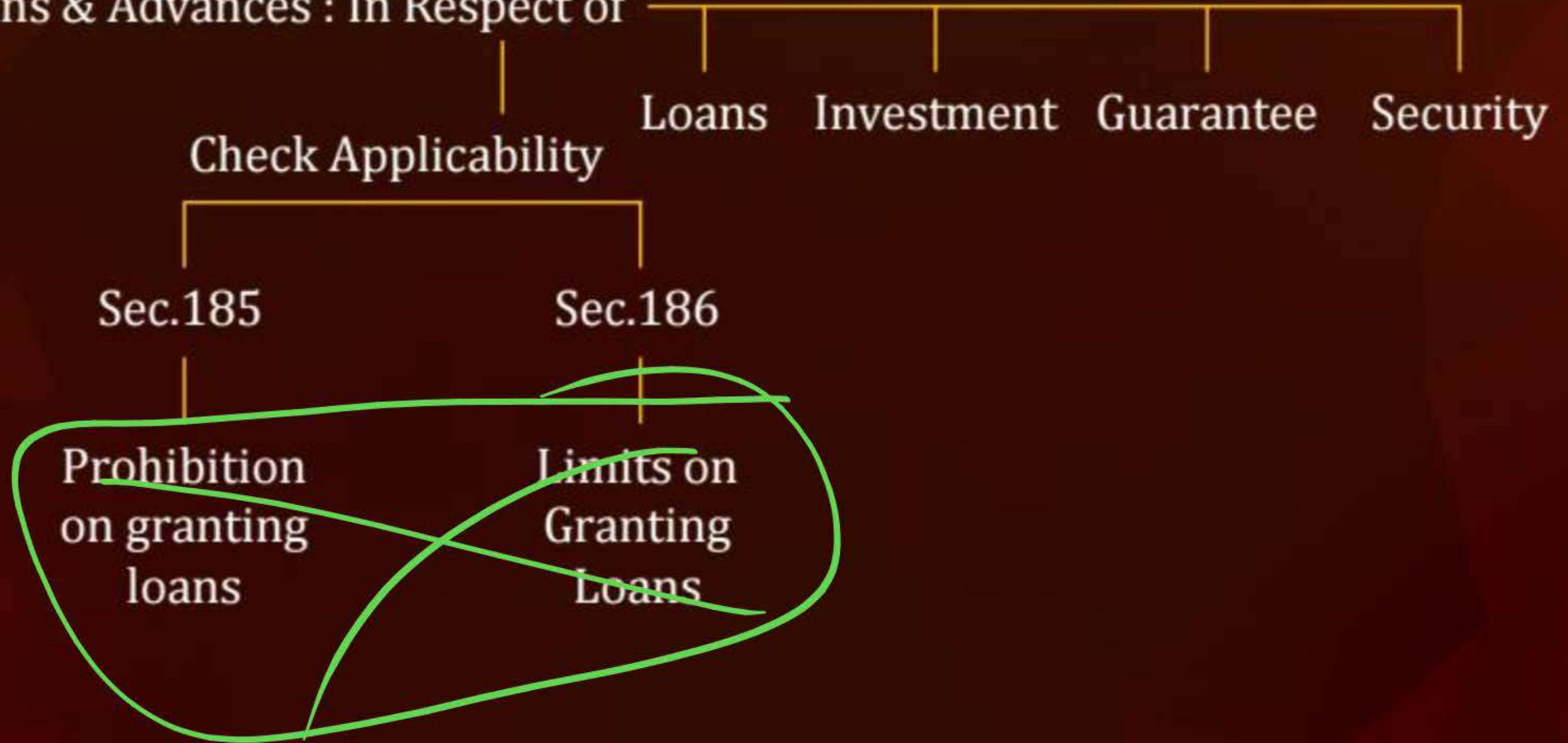


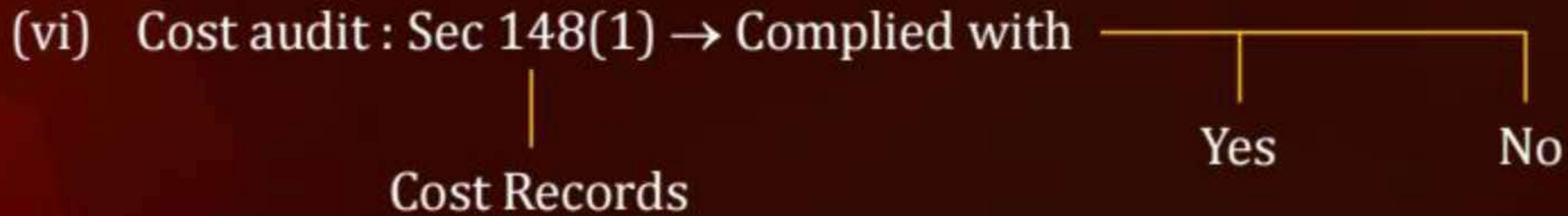
(e) Loans & Advances → Specify

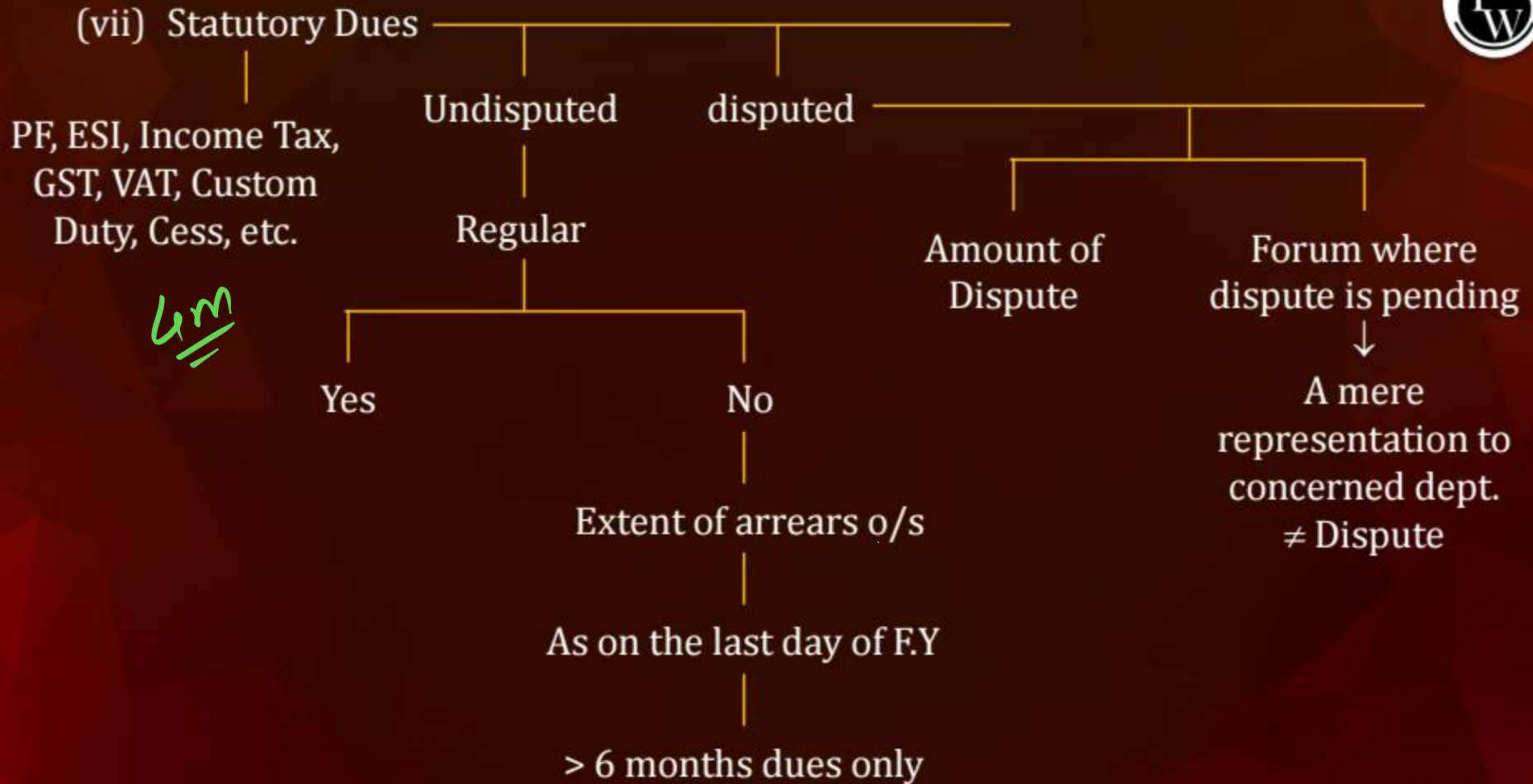




(iv) Loans & Advances : In Respect of







(viii) Any transaction → not recorded → Books of A/c.

Surrendered / Disclosed → As Income → In Income Tax Assessment

Previously unrecorded Income → Properly Recorded → in Books of A/c.

(ix) Repayment of

Loans

Borrowings

Interest

Default

Yes

No

Nature of
Borrowing

Principal
of interest

Remark

Amount
of Default

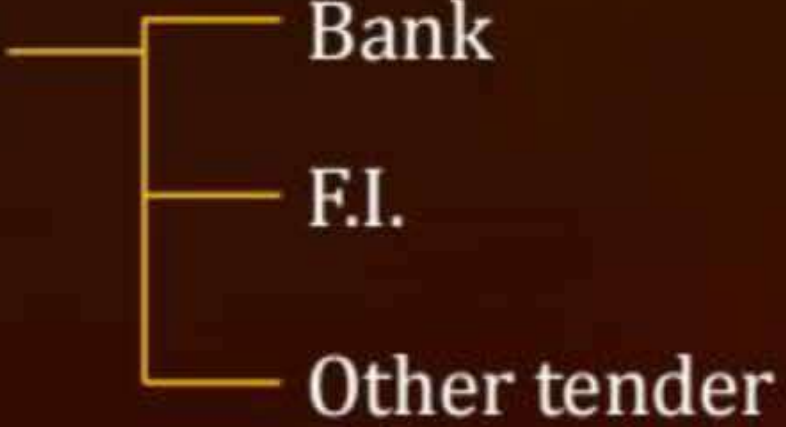
Period of
Default +

Lender wise detail →
In case of default to

Banks

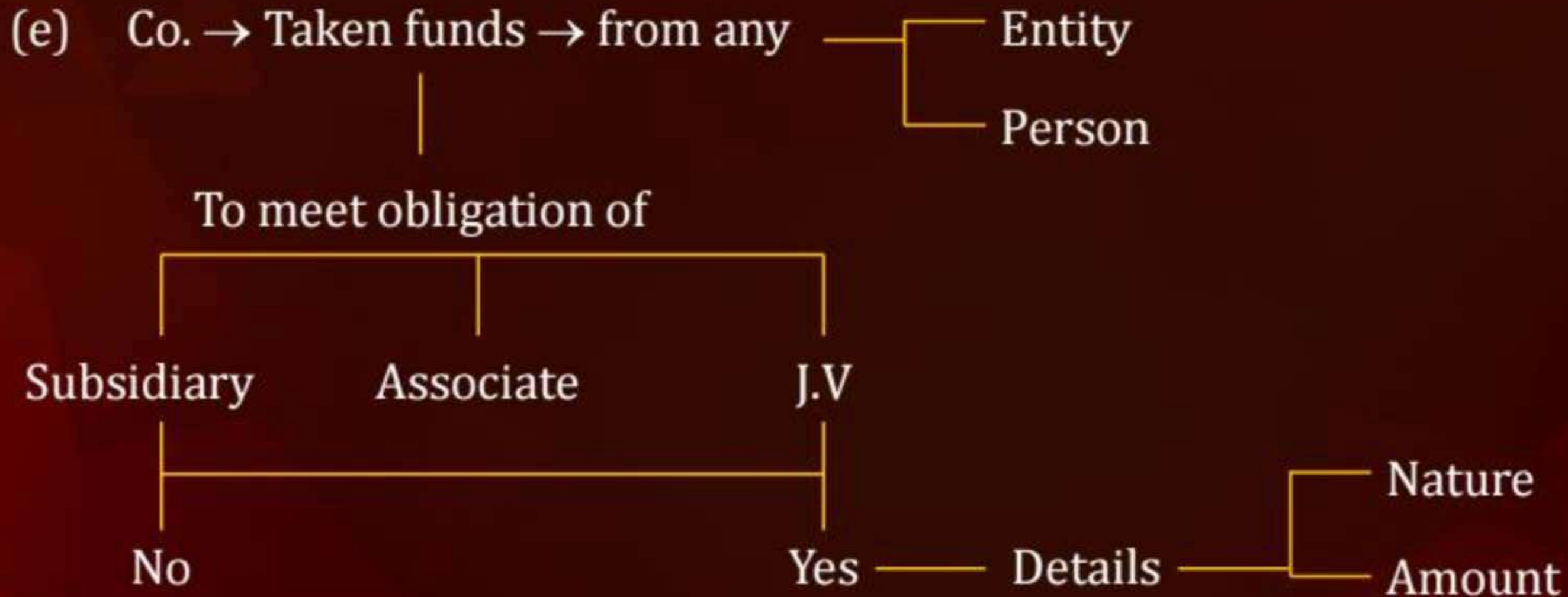
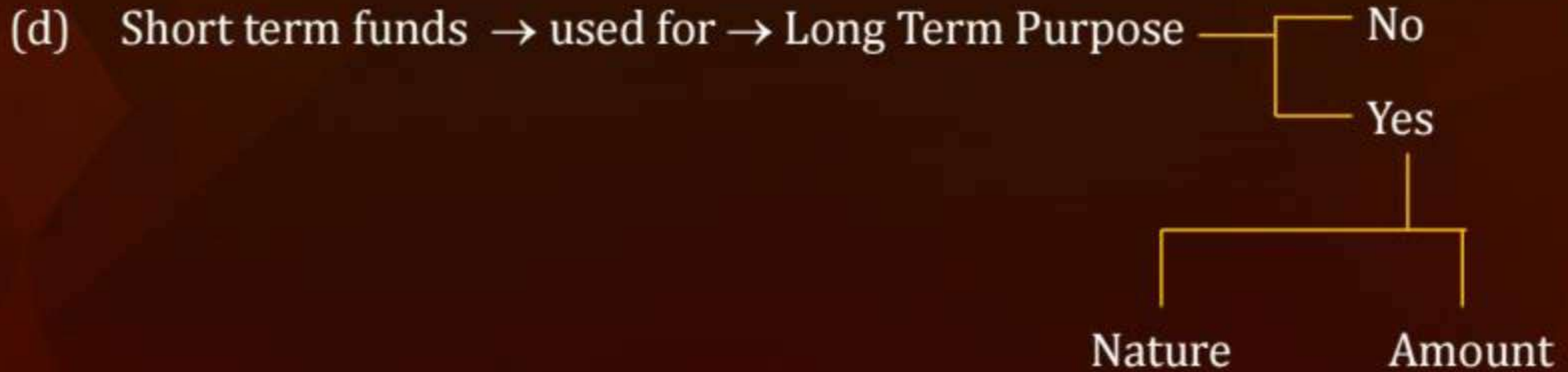
F.I.

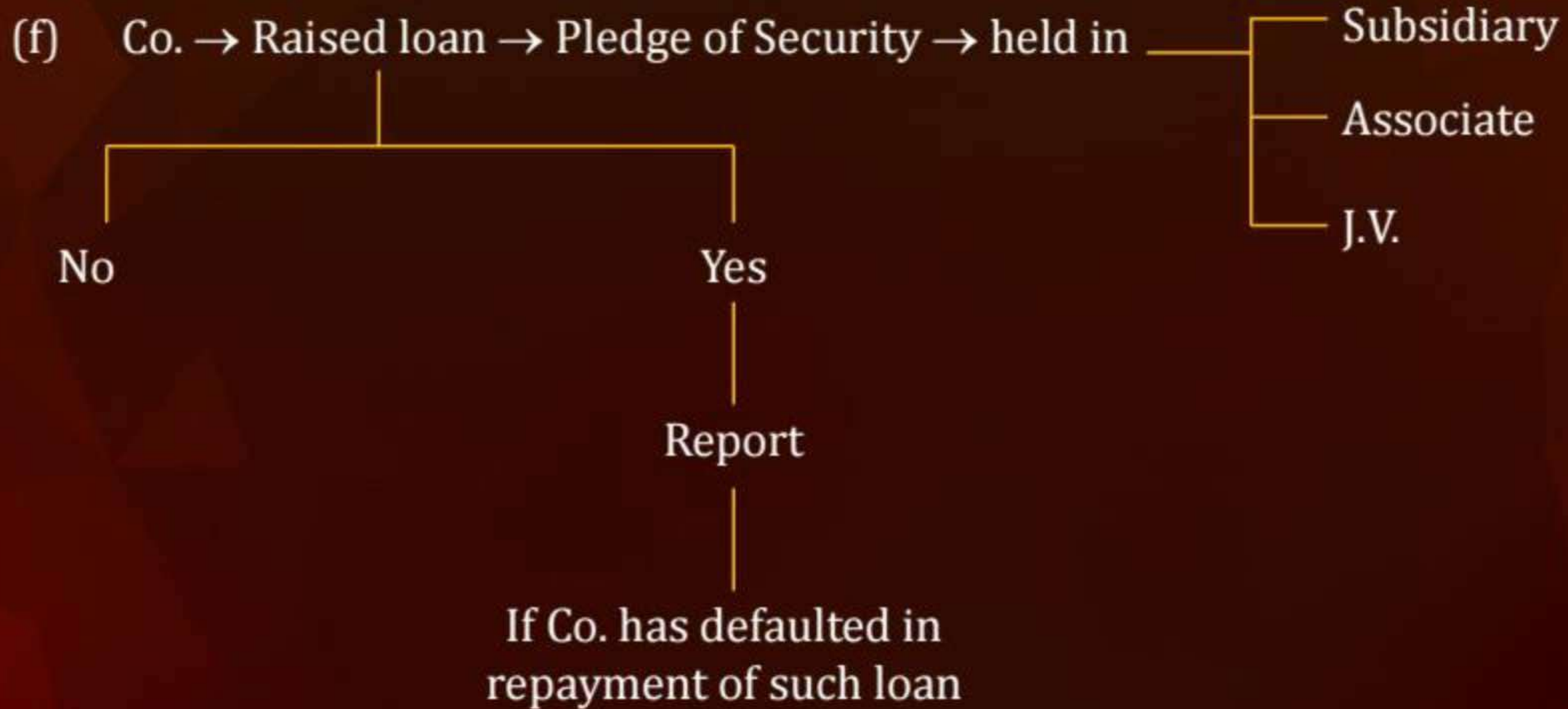
Government

(b) Co. → Declared → Willful defaulter → by — 

(c) Term Loan → Applied → For the purpose for which loans were obtained



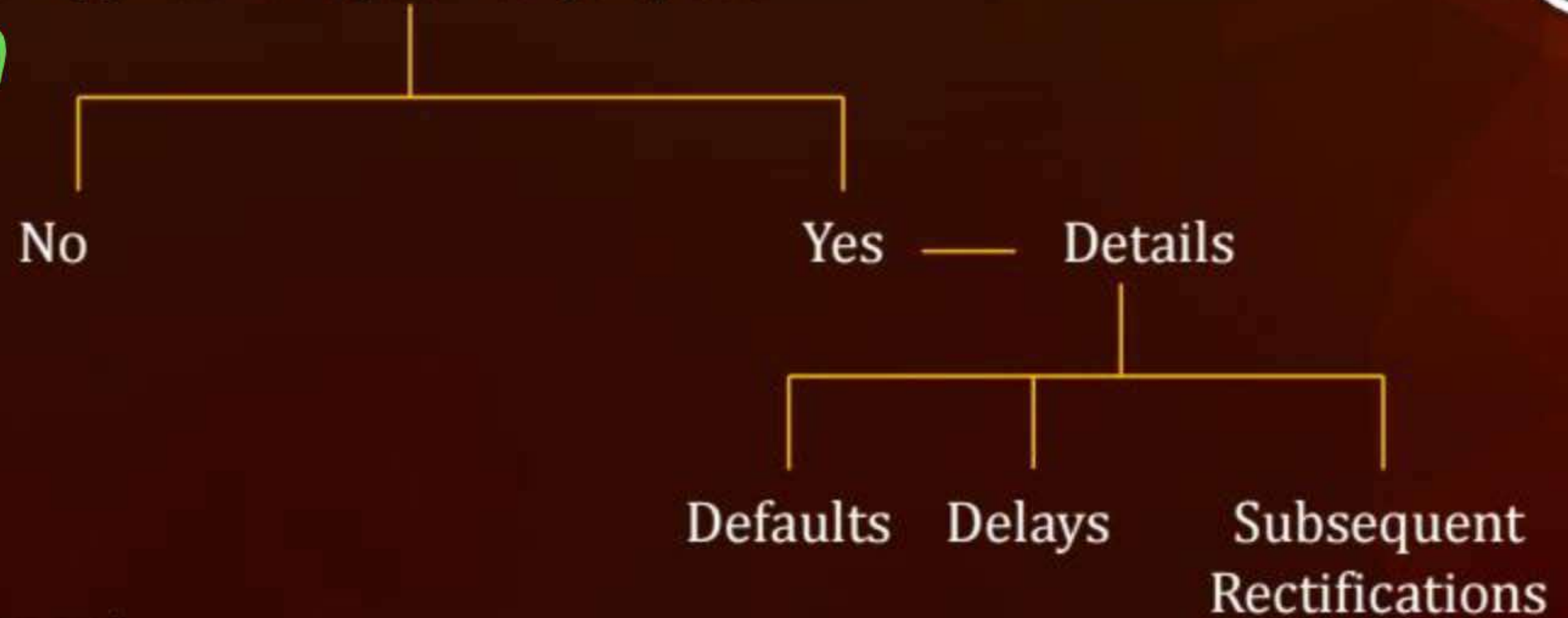




(x) IPO / FPO / : → Applied for specified purpose

Term Loan

(a)



(b) Pref. Allotment
Pvt. Placement
Convertible
Debentures

Sec 42 & 62 → complied?
+

Funds applied for same purpose



(xi) Fraud : (a) on the Co. By the Co.

3m

Officer / Employee

No

+

Yes → Nature + Amount

(b) ADT - 4 → filed ?

(c) Whistle - blower → Complaints → Considered ?

(xii) Nidhi Co. → Complied with → Nidhi Rules, 2014

NBFC

$\frac{\text{Net Owned Funds}}{\text{Deposit}} = \frac{1}{20}$

10% Unencumbered
Term Deposit

3m

Interest

Any default in payment of ——— Repayment

(xiii) Related Party Transactions :

As per Sec. 177



Audit
Committee

As per Sec. 188

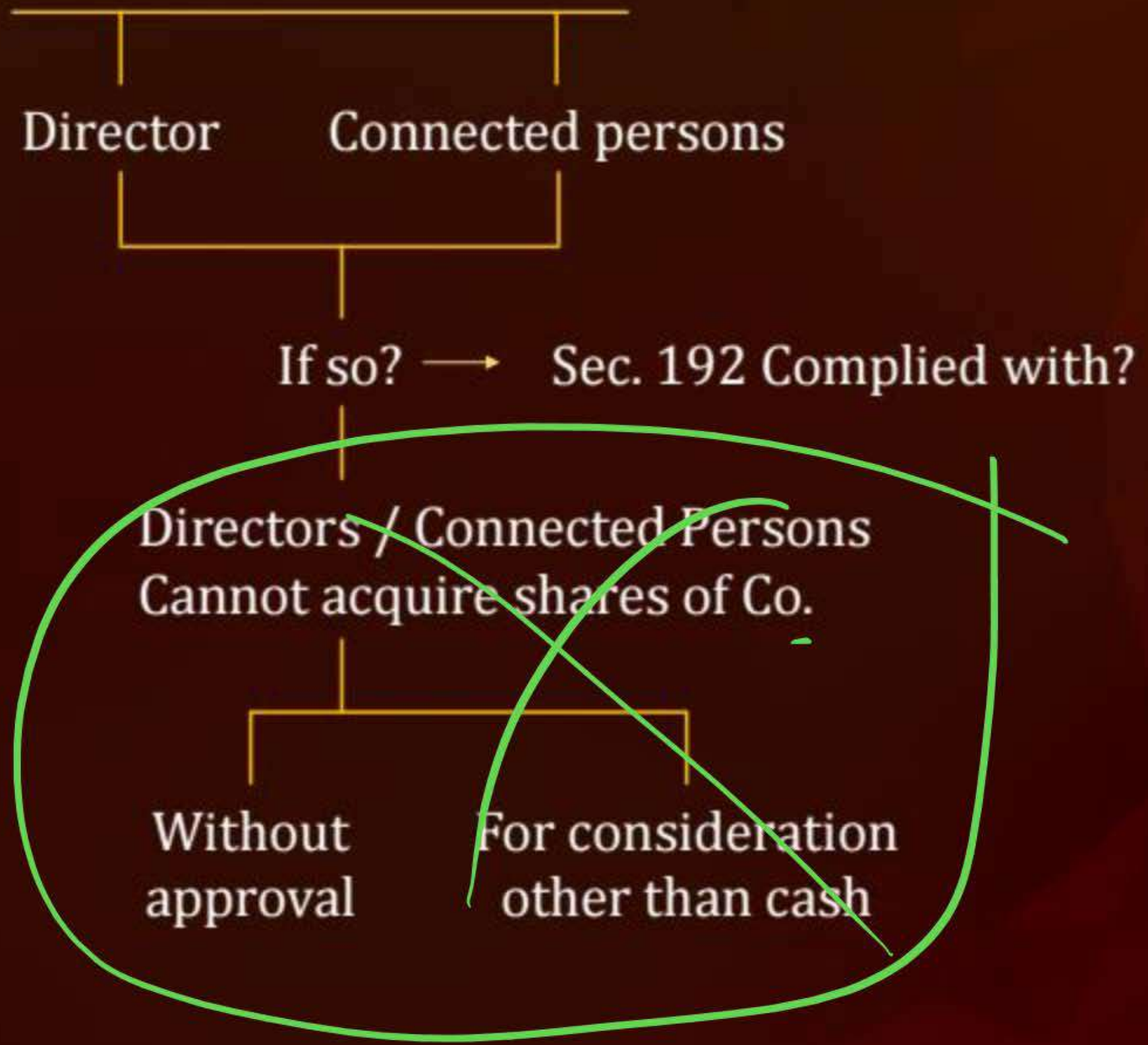


Restriction on Related
Party Transaction

→ Disclosed in F.S → as per AS - 18

- (xiv) (a) Internal Audit System → Commensurate → with Nature
Size of business
- + Internal
- (b) Report of ~~International~~ Auditor
 Considered by
 Statutory Auditor

(xv) Non Cash Transactions



(xvi) NBFC → Co. required to be

(a) Registered → u/s 45 IA of the RBI Act, 1934



To be regarded as NBFC

4m

(b) Valid Registration obtained?

(c) → Co. → Core Investment Co. (CIC) + Criteria still fulfilled?

+

(d) Indicate No. of CIC in group

(xvii) Co. → incurred Cash Loss → Current F.Y. → Previous F.Y.



State the amount

(xviii) Resignation of statutory Auditor? → Yes → Incoming Auditor

Issues

Objections

Concerns

of outgoing auditor

(xix) On the basis of → Auditor is of opinion → Material uncertainty exists

Co. is capable of meeting its liabilities existing on B/s date

When they fall due within a period of 1 year from B/s date

Financial Ratios

Ageing + Expected date of Realisation of financial Assets

Payment of financial Liabilities

Other info accompanying F.S.

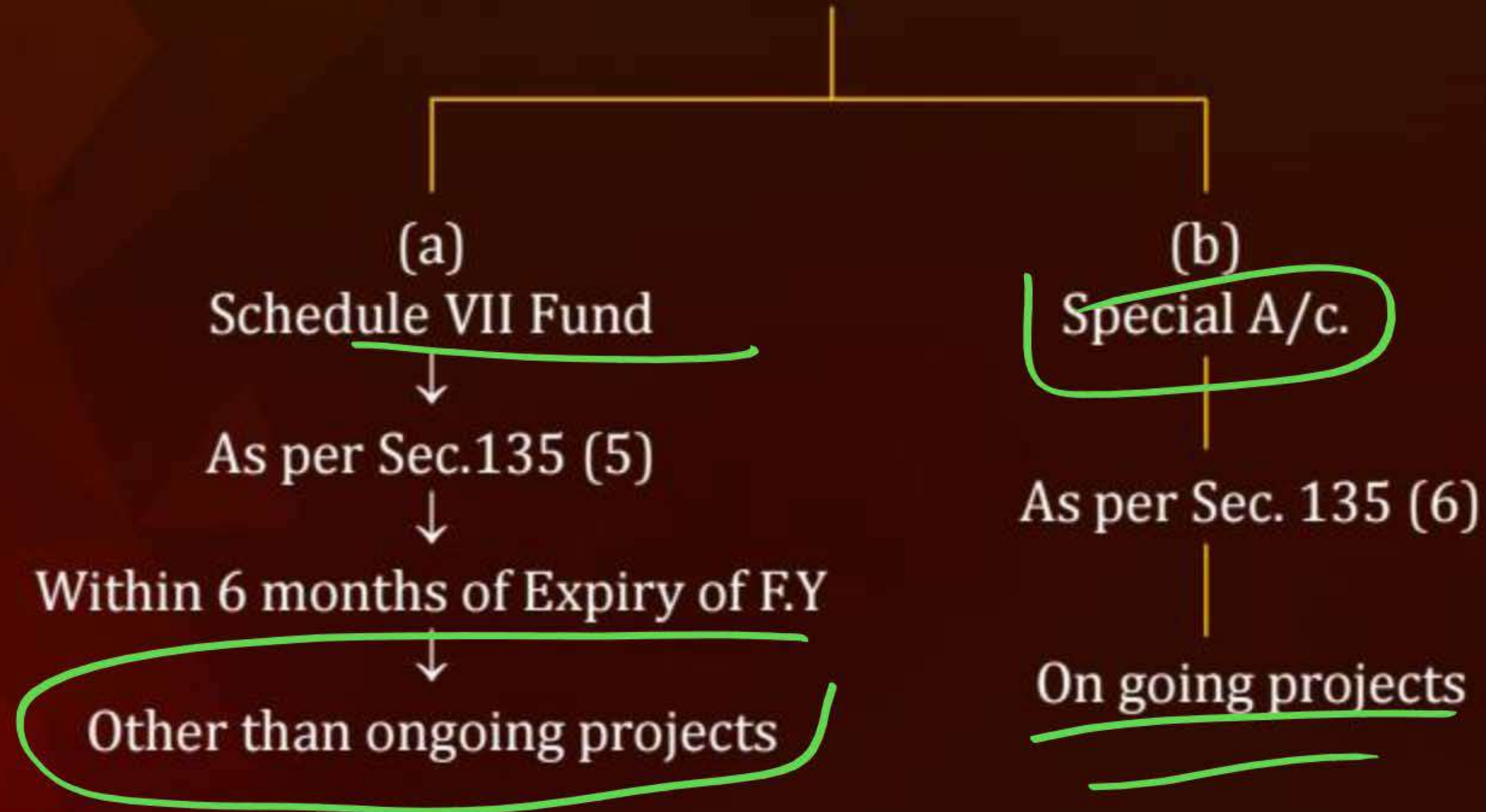
Auditor's Knowledge of

BOD

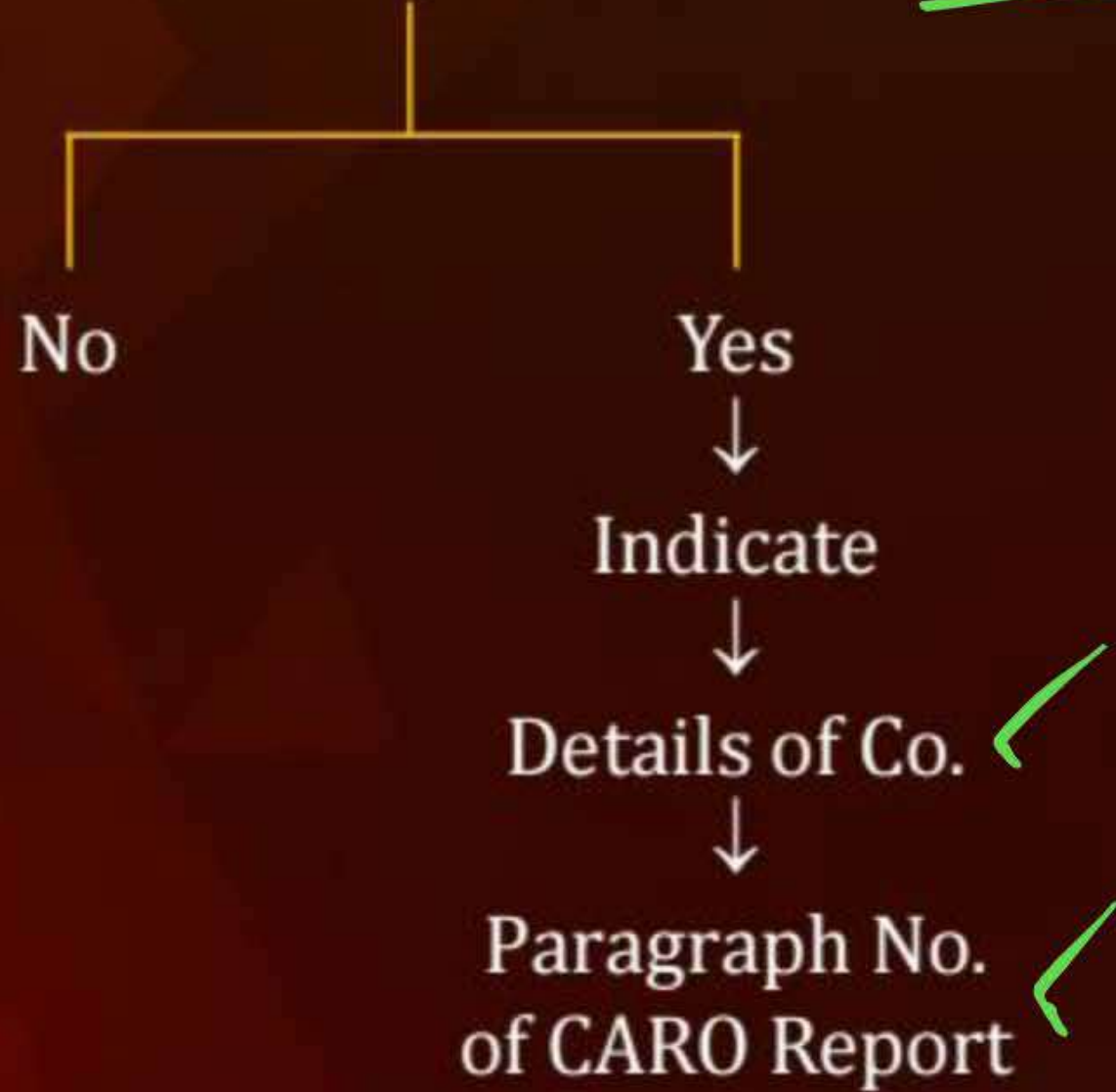
Management

Plan

(xx) Co. → transferred → unspent amount to



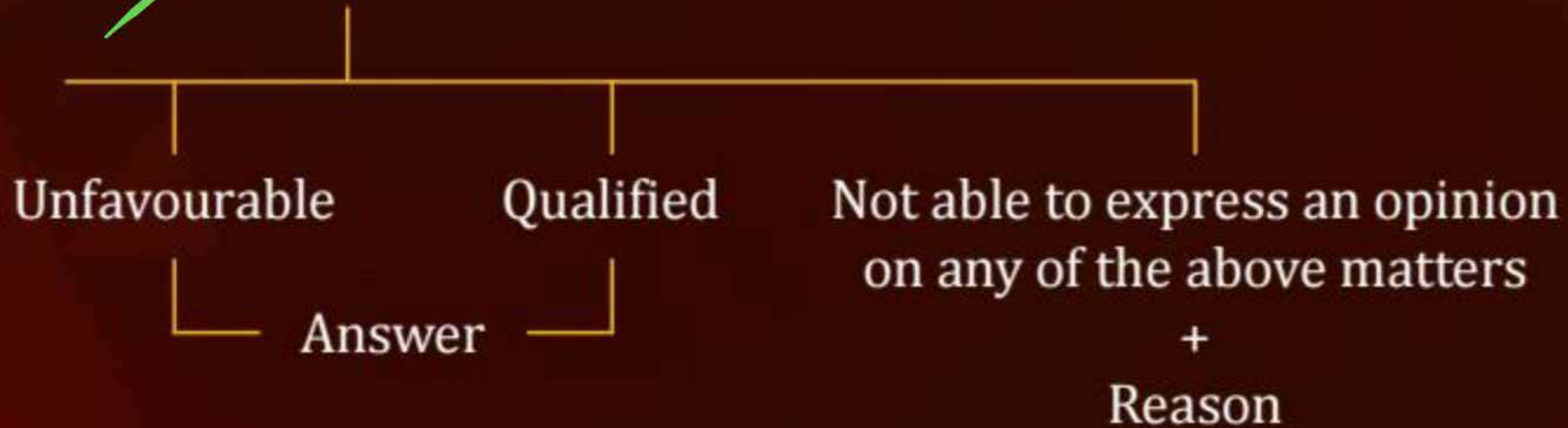
(xxi) Auditor Made → Qualification/Adverse Remark → in CARO Report → in CFS





Topic: Paragraph 4 of CARO 2020

Basis to be stated for



thank you

dronacharya

FOR
CA INTERMEDIATE

2024

Special Features of Audit of
Different Types of Entities

Auditing & Ethics

ONE SHOT



Ankit Mundra Sir



Topic: Background

(1) Government Audit

Revenue

Expenditure

Control ✓

Parliament

State Legislature (SL)

Insistence up on Grant

➤ No expenditure can be incurred → Unless voted up on by

Parliament

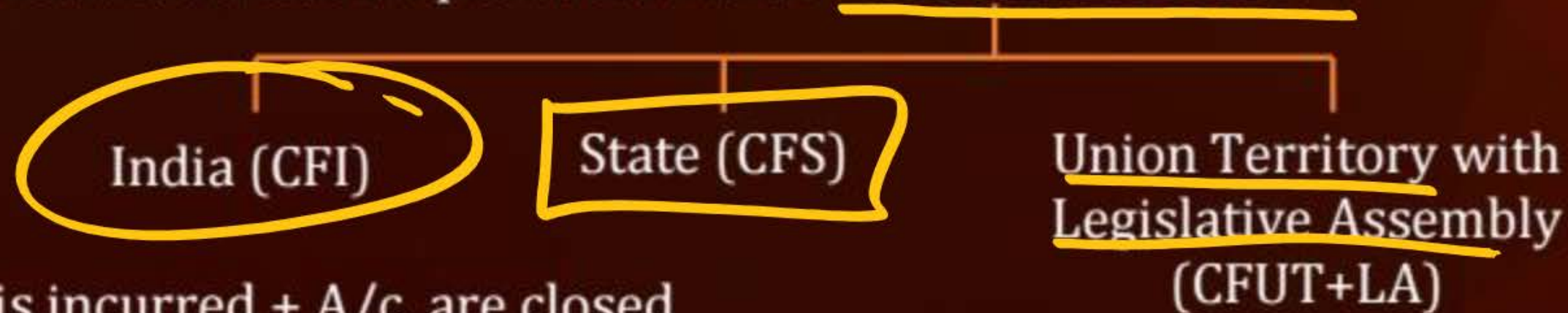
State Legislature (SL)



Topic: Background



- Funds for such expenditure must be provided out of 'consolidated Fund of



- After expenditure is incurred + A/c. are closed

↓
Appropriation A/c. are prepared

↓
Scrutinized by 'Public Accounts Committee' (PAC)

- Initially → Govt. Audit was → Expenditure oriented
Gradually → Audit of Receipts was taken up
- With rapid growth of public Enterprises → Commercial Audit Came into Being



Topic: Background



➤ Large no. of Non-Commercial Autonomous Bodies → Field of

ଅନୁମତି ନାହିଁ ଅନୁମତି
ଅନୁମତି ନାହିଁ ଅନୁମତି

Financed by Govt.



Required to be Audited

Development

Academic

Scientific

Social Research

➤ Definition



Govt. Audit



U.N. Handbook

Objective

Systematic

Professional

Independent

Examination

Financial

Administrative

Operations

Other

Of Public entity



Topic: Background



Mode subsequently → To their execution

For the purpose

Evaluating
Verifying

Presenting

Report

Explanatory
Comments

Audit
findings

Conclusions

Recommendation

By Responsible officials



Topic: Background

➤ Objective of Govt. Audit



➤ Main objectives of Govt. Audit





Topic: Background



➤ Administrative Accountability



➤ Govt. is $\left\langle \begin{array}{l} \text{Neither equipped} \\ \text{Nor intended} \end{array} \right\rangle$ to → function as an → Investigative Agency
To pursue every irregularity or misdemeanour

↓
दांडबाड़ी



Topic: Background



➤ The comptroller & Auditor General (Duties, Powers & Conditions of Services) Act, 1971

➤ Govt. Audit → Conducted by → Independent Statutory Authority

In India ↓ The controller & Auditor General of India (C & AG)

↓ Through → The Indian Audit & Accounts Department

↓ in accordance with

Constitution of India

Laws made by
Parliament

Rules & Orders



Topic: Legal Framework and Comptroller & Auditor General

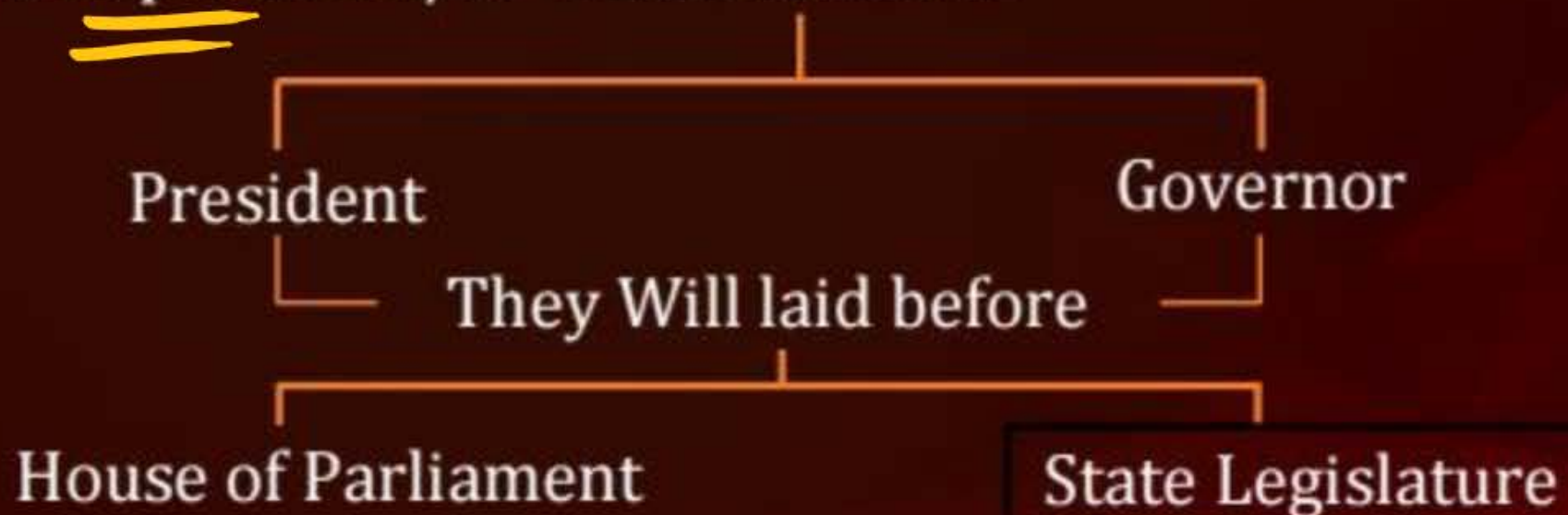


- Appointed by → The president of India
- Shall not be Removed Except → on proven → misbehaviour → in capacity
 - ↓
 - > 2/3 Majority → of Both houses of Parliament → Present & Voting
- After appointment → salary cannot be varied
 - ↓
 - To his disadvantage



Topic: Legal Framework and Comptroller & Auditor General

- Salary = Supreme Court Judge
- President to Consult C & AG → for appointing any person in Indian Audit & Accounts Department → for deciding Administrative Power of C & AG
- Article 149 → of the constitution of Indian → Gives powers to C & AG
 - The C & AG (Duties, Powers & Conditions of Service) Act, 1971 → Defines the powers
- Article 150 → Format of Accounts of Union & States → Decided by President ✓
→ Advice of C&AG ✓
- Article 151 → C & AG to provide Report an A/c. → Submitted to



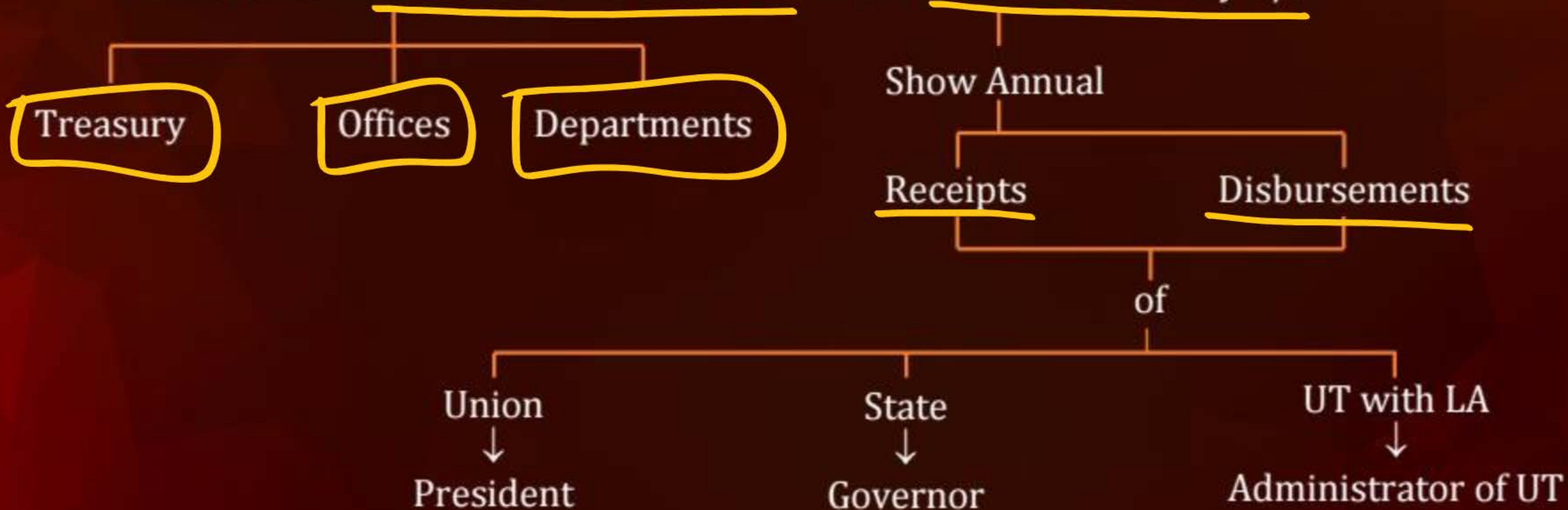


Topic: Comptroller and Auditor General's — Duties and Powers

Duties of C & AG (7 Duties)

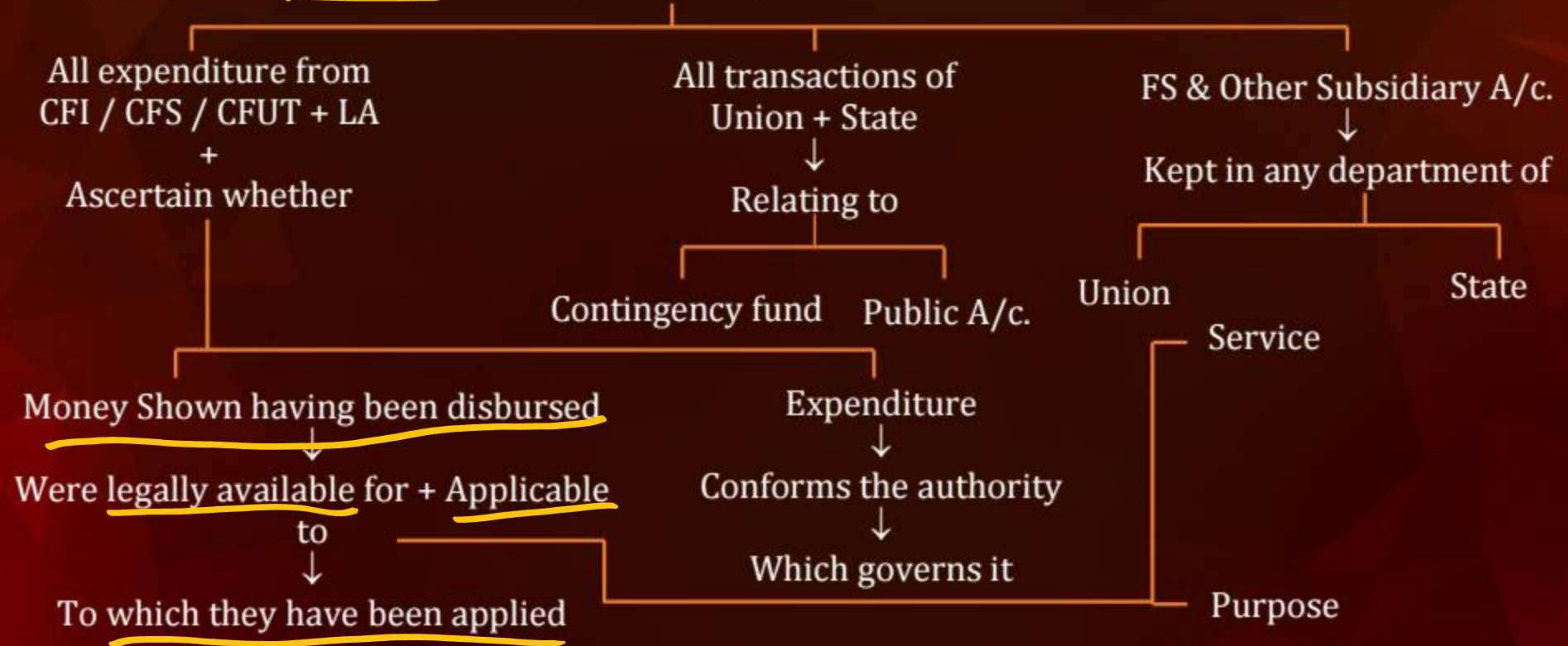
(i) Compile + Submit → A/c.'s of Union + State

Rendered to Audit & Accounts Officers ← From Initial & Subsidiary A/c.

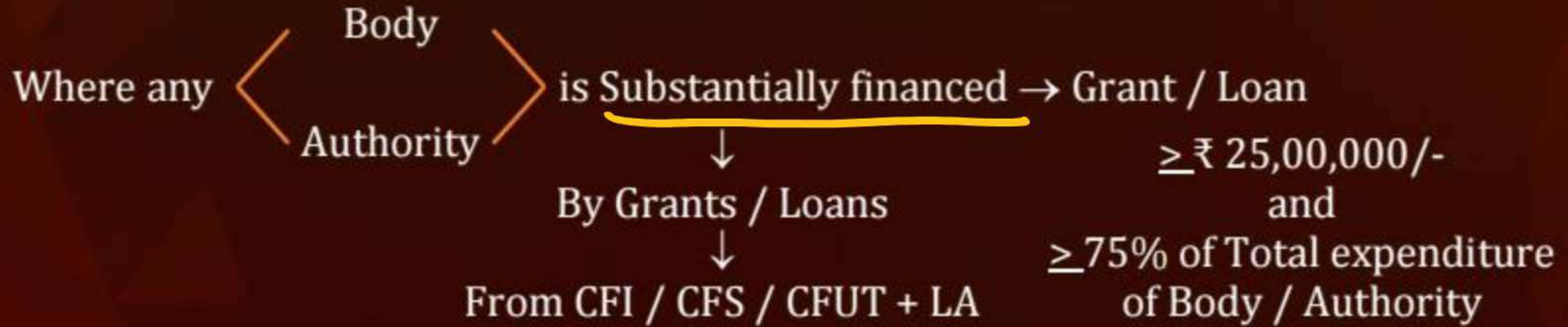


→ As per the Act → It is not the responsibility of CRAG → to → Give Info. → Prepare A/c.

(ii) General Provisions Relating to Audit Report



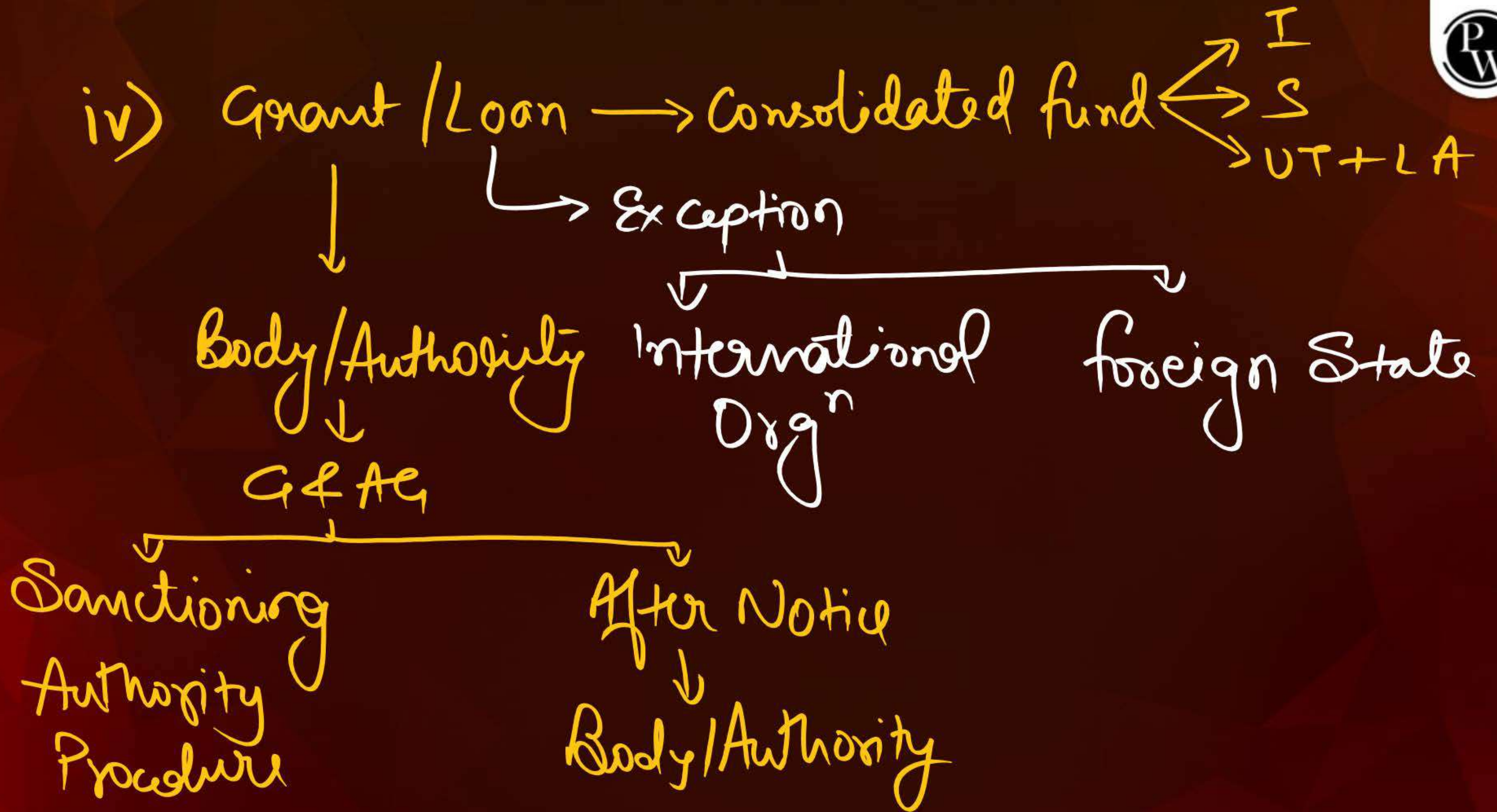
(iii) Audit of Receipts & Expenditure



Substantially financed Eg: College को \rightarrow Loan = ₹ 76,00,000/-

\downarrow

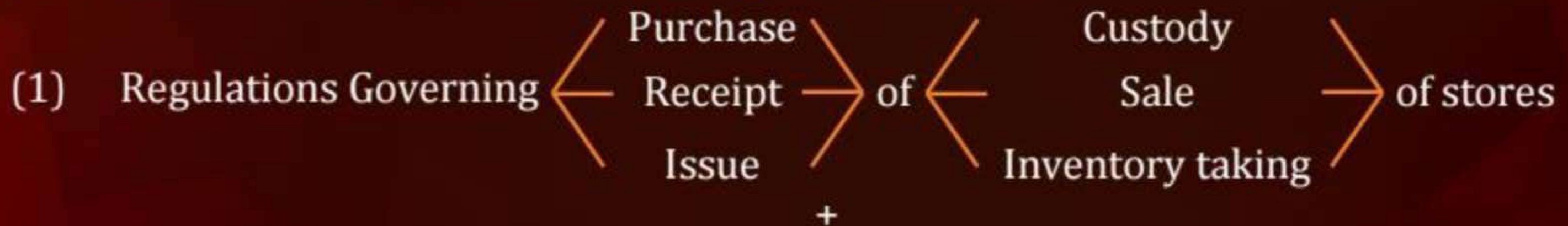
Total Expenditure \rightarrow ₹ 1,00,00,000/-



- (v) Audit of Receipts of Union + State + Satisfies himself that → Rules & Procedures →
Designed to secure an effective check on



- (vi) Audit of A/c's of stores & Inventories *v. imp.* of Revenue



+
Devised & Properly Carried out

(2) Aim is to bring in any deficiencies in
 Quantities of stores held
 System of Control

(3) Ensures
 Prices paid are reasonable + in agreement → with those shown in contact
 Certificates of
 Quality
 Quantity
 By
 Inspecting
 Receiving
 Units

(4) Periodical Verification

(vii) Audit of Govt. Co. & Corporations

→ In accordance with the companies Act, 2013

→ Appoint Auditor w/s. 139(7) & 139 (5)

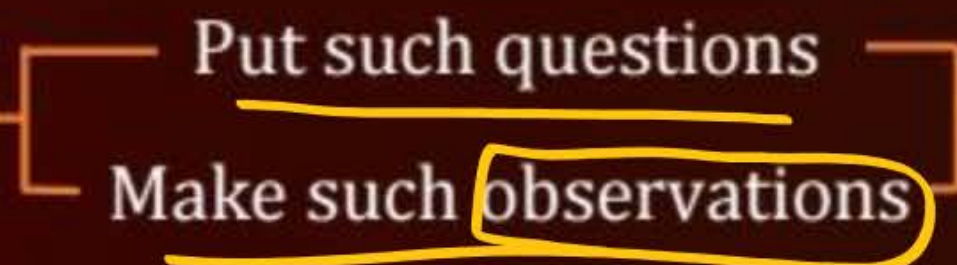


Topic: Powers of C & AG

(i) To Inspect → any office → under control of → Union → State

Including office responsible for creation of → initial & Subsidiary A/c.

(ii) To require any  Relevant to audit → To be sent to specified places

(iii) To  He may consider necessary

(iv) Power to → dispense with → any part of detailed audit of A/cs and CoT

9011



Topic: Expenditure Audit

V.I.M.P

The basic standards → Set to ensure → provision of funds

↓
Authorised by competent authority

×
Fixing limit within which → Expenditure can be incurred

(i) Audit against Rules & orders

Expenditure incurred → conforms

Relevant provisions of statutory enactments

Financial rules & Regulations formed by competent authority



Topic: Expenditure Audit

V. Imp.

→ Quasi-Judicial work → involves → interpretation

Constitution ✓

Statues ✓

Rules ✓

Regulations ✓

Orders ✓

→ Final power → interpretation ≠ C&AG

→ Categories → Rules
Regulation
Orders

Power

incur

Sanction

Expenditure

CFI

CFS

CFUT+LA

Presentation → Claims

Withdrawl → Consolidated Fund
Contingency Fund
Public A/c

Govt. Servants

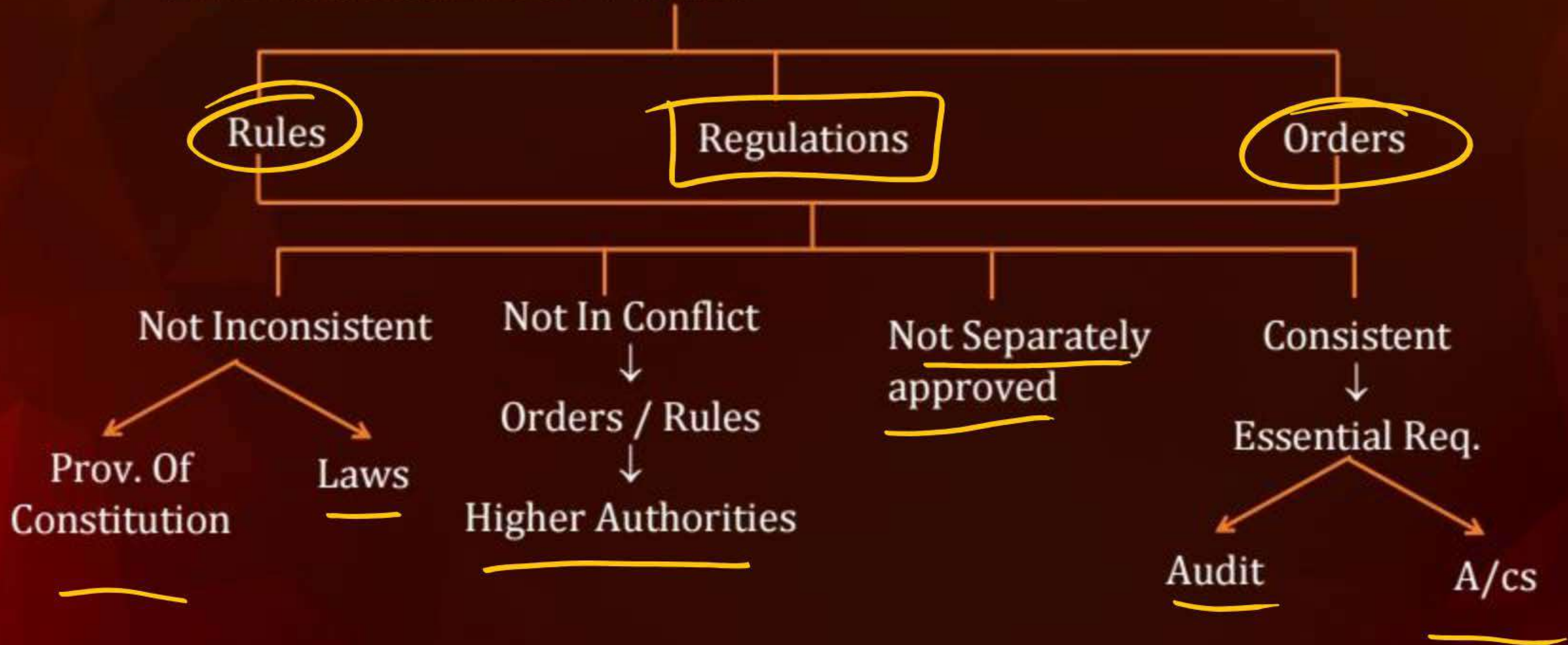
Condition of Service

Pay

Allowances

Pensions

→ Executive Authorities → To see



(ii) Audit of Sanctions

There is Sanction → accorded by → competent authority

General

Specific

(iii) Audit against provision of funds

There is provision of funds → out of which expenditure can be incurred

Authorized by competent authority

Amount does not exceed appropriation

(iv) Propriety Audit

Expenditure incurred → with due regard to

Broad

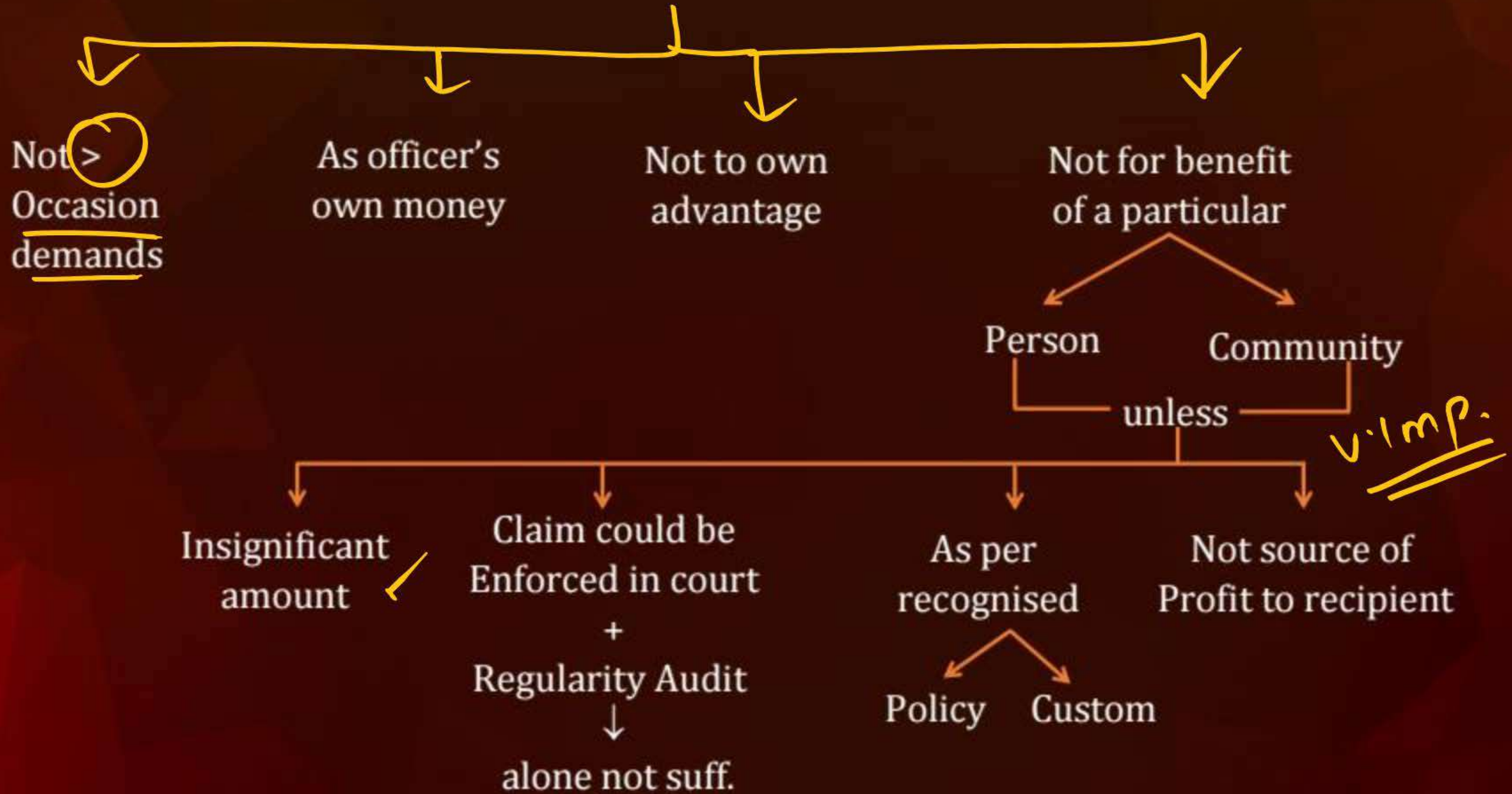
General

Principles of

Financial Propriety

Expenditure

✓. Imp.



(v) Performance Audit / Full Scope Audit





Topic: Audit of Receipts



(i) All $\left\langle \begin{array}{c} \text{Revenue} \\ \text{Debts} \end{array} \right\rangle$ Due to Govt. \rightarrow Correctly $\left\langle \begin{array}{c} \text{Assessed} \\ \text{Realised} \\ \text{Credited} \end{array} \right\rangle$

(ii) Adequate $\left\langle \begin{array}{c} \text{Regulations} \\ \text{Procedures} \end{array} \right\rangle$ Have been framed

(iii) Such $\left\langle \begin{array}{c} \text{Regulations} \\ \text{Procedures} \end{array} \right\rangle$ Actually been carried out

(iv) Adequate checks are imposed

(v) Review of $\left\langle \begin{array}{c} \text{Systems} \\ \text{Procedures} \end{array} \right\rangle$



Topic: Audit of Commercial Accounts

Categories

Departmental Enterprises

Engaged in commercial / trading activities

Subject to same laws, financial & other regulations as other Govt. Dept agencies

Audit is undertaken in the same manner as any Dept. of Govt. where commercial A/c. are kept

Statutory Bodies, Corporations

Created by specific statutes

Mostly financed by Govt.

In form of loans & Advances

Audit depends upon nature & type of statutes

Govt. Co.

Under the companies Act. 2013

Have their own auditor appointed by C & AG

C & AG conducts → Test Audit of + Periodical financial Audit + Performance Audit + Issue direction to Co. Auditor



Topic: Audit of Commercial Accounts

In case of Govt. Co. → C & AG shall have right to → Within 60 Days → Receipt of Audit Report

Conduct supplementary Audit

v/s 143(6)(a)

↓
FS of the Co.

↓
By such person(s) he may
authorize

↓
Require Info.

Comment up on / Supplement

↓
Such audit report v/s 143(6)(b)

↓
To be sent by Co. to

Member

Trustee

Anyone entitled to AGM

Test Audit

↓
C&AG can cause Test Audit



Topic: Reporting Procedures



→ Reporting Procedure → As per article 151 → C & AG shall report on A/c.

Union → President of India State → Governor

Publish Report in Legislature + Newspaper (Generally) + Create a climate for public Opinion



Topic: Background

Local Bodies



Definition → Municipality → Local self Govt. → Urban areas

Municipal Authorities (MA)

Municipal Corporations

Municipal Councils

Notified Area Committee

Town Area committee

Cantonment committee

Tax powers

Limited to few items

Wider range → Optional in nature + subject to procedure → requiring SG Sanctions

Functions of MA

Regulatory

Maintenance

Development

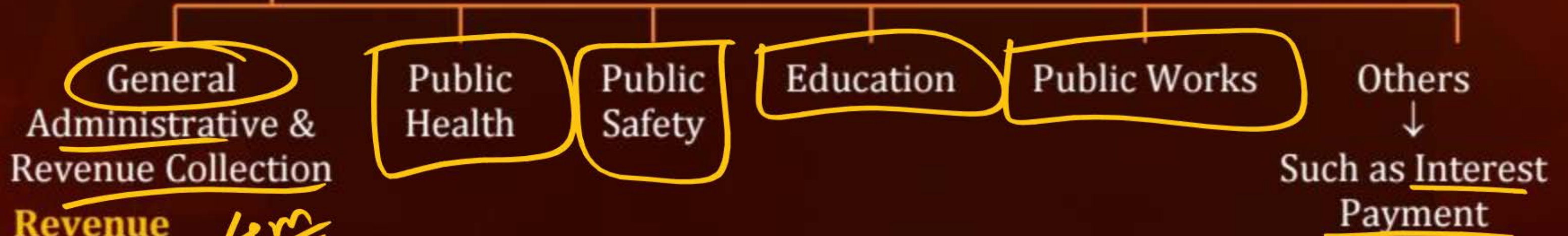
Imp. 3m



Topic: Background

Expenditure incurred by MA

4m



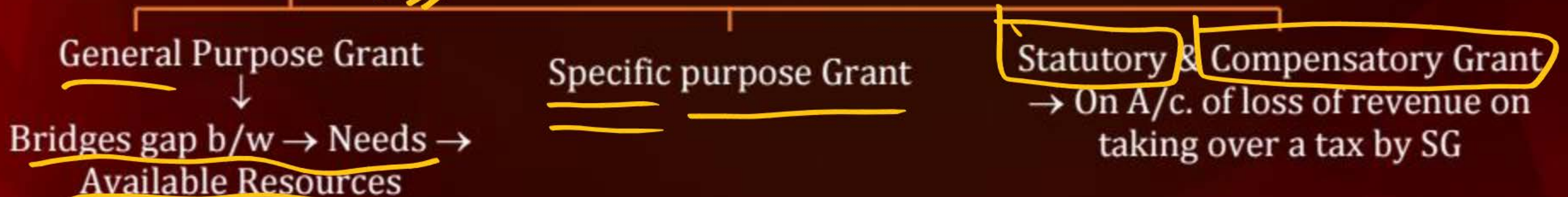
Revenue

4m

Property Tax, Octroi, Profession Tax, Non-Mechanised Vehicle Tax, Taxes on Advertising, Taxes on animals & Boats, Tolls, Show-Tax, etc.

Types of Grants

3m





Topic: Financial Administration

Financial Administration

3m

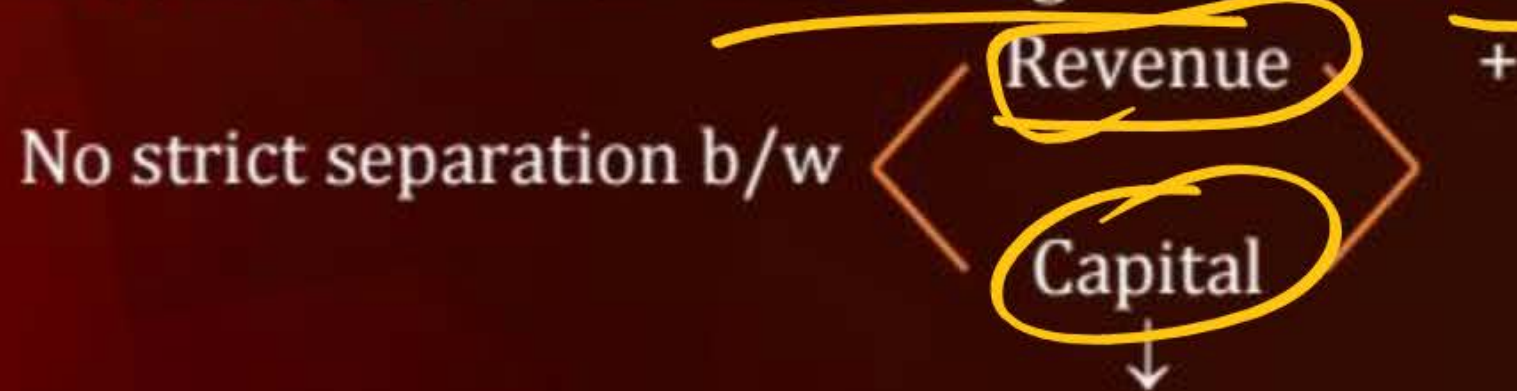
To be familiar with → in order to plan an audit

(1) Budgetary Procedure → Consider → Financial Accountability → Control of Expenditure

→ Main Objective → funds are raise + Money is spent

By Executive department

In accordance with Rules & Regulations + Limit of sanction + Authorization



Under 'Extraordinary Items' head



Topic: Financial Administration





Topic: Financial Administration



(3) Accounting System → Municipal

Accounting

Budget

Formals

CRITICISED

Neither simple

Nor Comprehensible

Sometimes Provides

Inadequate

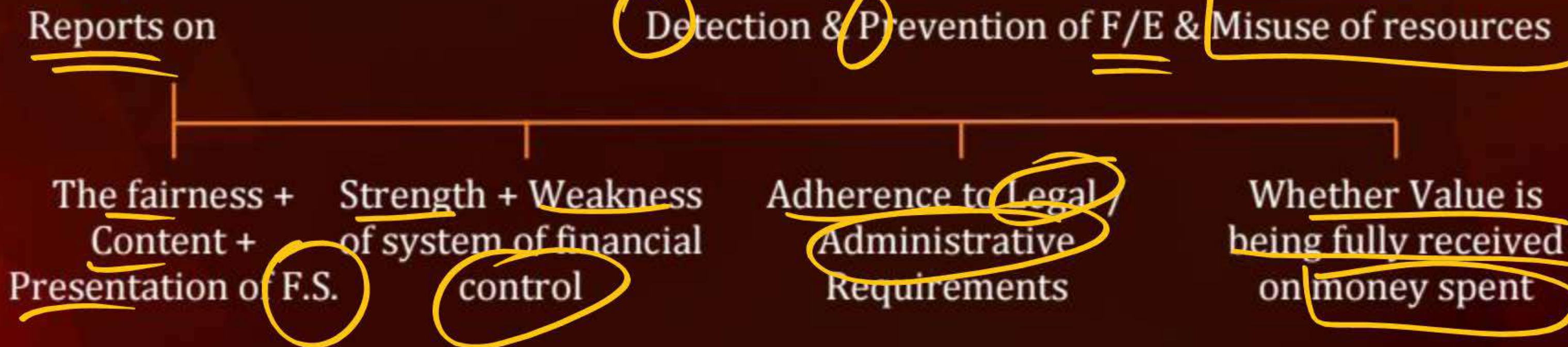
Surfeit

Info



Topic: Objective of Audit of Local Bodies

→ Objective of Audit





Topic: Audit Programme for Local Bodies

(1) Smaller Municipal Authority → Local fund Audit wing → of SG → is generally incharge of Audit of Municipal A/c.

Bigger Municipal Authority → have power to appoint their own auditor

(2) Auditor to report on





Topic: Audit of Non - Governmental Organisation (NGO'S)





Topic: Background



Audit of NGO's

Registration :

- (1) No act warrants a Mandatory Registration under them
- (2) NGO can be incorporated under

The Societies
Registration
Act, 1860

The Indian Trust Act, 1882

Additional Acts if Registered
as a trust → Immovable
property
> ₹ 100

The companies Act, 2013

Sec.8

Books as per Accrual
system of Accounting

The Registration Act,
1908 (Sec.17(1))

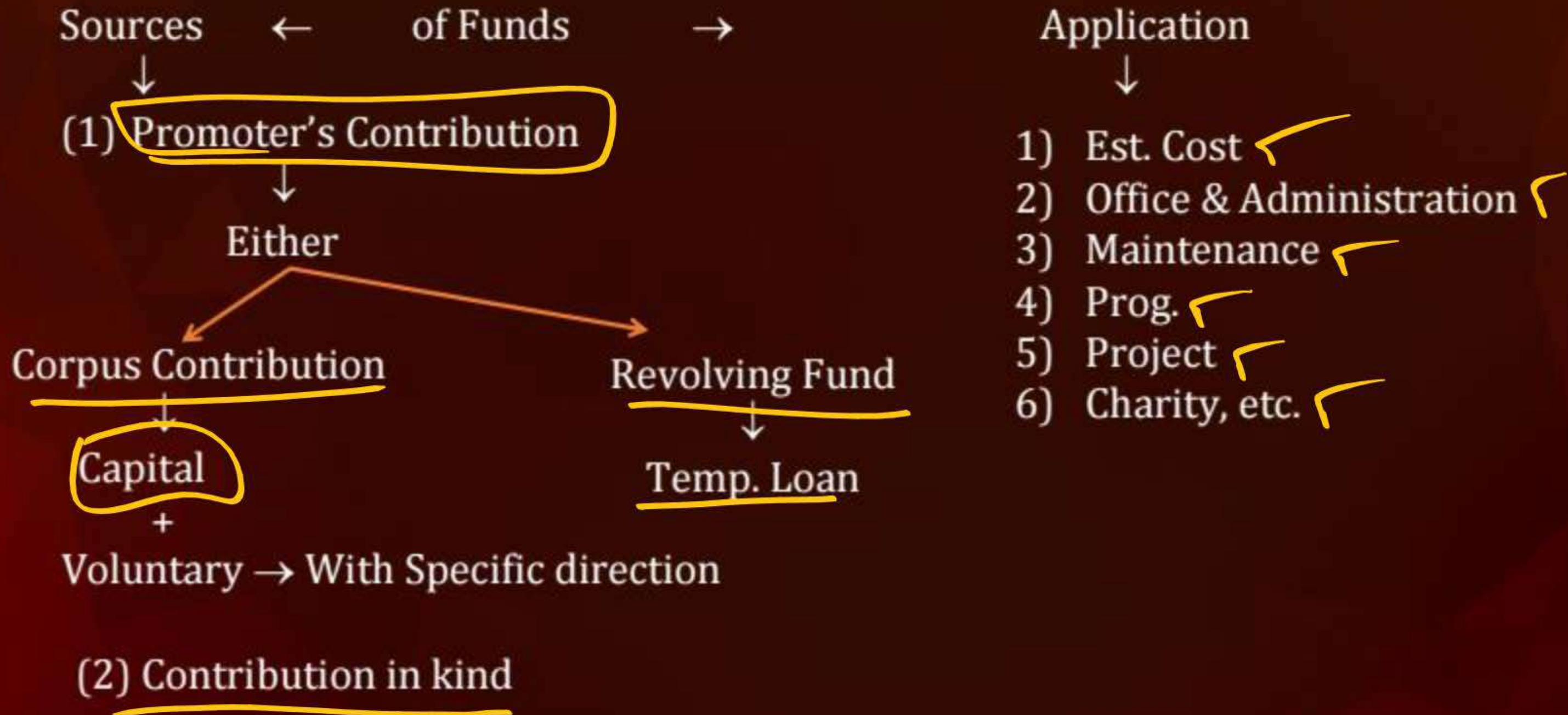
The Transfer of Property
Act, 1882 (Sec.123)

The Income Tax Act, 1961 + The foreign Contribution (Regulation) Act, ~~1976~~

2010



Topic: Sources and Applications of Funds





Topic: Provisions Relating to Audit

Auditor of NGO → Registered under

The societies Registration Act, 1860

OR

The Indian Trust Act, 1882

Appointed Mgt. of Society / Trust

The Companies Act, 2013

Sec.8

Appointed by Members of Co.



Topic: Provisions Relating to Audit

Compulsory Audit as per :-

- The Companies Act, 2013 ✓
- The foreign contribution (Regulation) Act, 2010 → Prescribed format

3m

↓
Ministry of Home Affairs → 30 May

- The Income tax Act, 1961

NGO

Private Development
Assistance (PDA)



Topic: Provisions Relating to Audit

Audit has to Consider

V. Imp.

- (i) Knowledge
 - Work
 - Mission
 - Vision
 - Area of Operation
 of NGO

- (ii) Updated knowledge of relevant statutes
- (iii) Legal form of organisation → Review
- (iv) Examination of Minutes of Meeting
- (v) Study Accounting System ✓
- (vi) Set Materiality ✓
- (vii) N.T.E. of Report ✓



Topic: Audit of Firm



Appointment → Auditor + His Remuneration + Nature + Scope of Audit

To be decided by the partners

- In writing → Via Letter of Appointment (LoA)
- Communication with previous auditor
- Ensure → application of AS → If AS not applied

Clause (8), Part I, Sch. I of
The CA Act, 1949

Compulsory audit

Qualified Audit Report

Voluntary Audit

Disclosure of Non-
Compliance in Audit Report



Topic: Audit of Firm



→ Matters to be Considered

BEFORE AUDIT

- 1) Name > Business
Style >
- 2) Duration
- 3) Amount of Capital
- 4) Year of end?
- 5) Borrowing Capacity
- 6) Capital > Interest Rate
Loan >
- 7) Salaries
- 8) Managing Partner

PARTNERSHIP DEED

DURING AUDIT

(1) Confirming (LoA) → Signed by partner → Duly authorized

State

Scope

Nature

Limitation

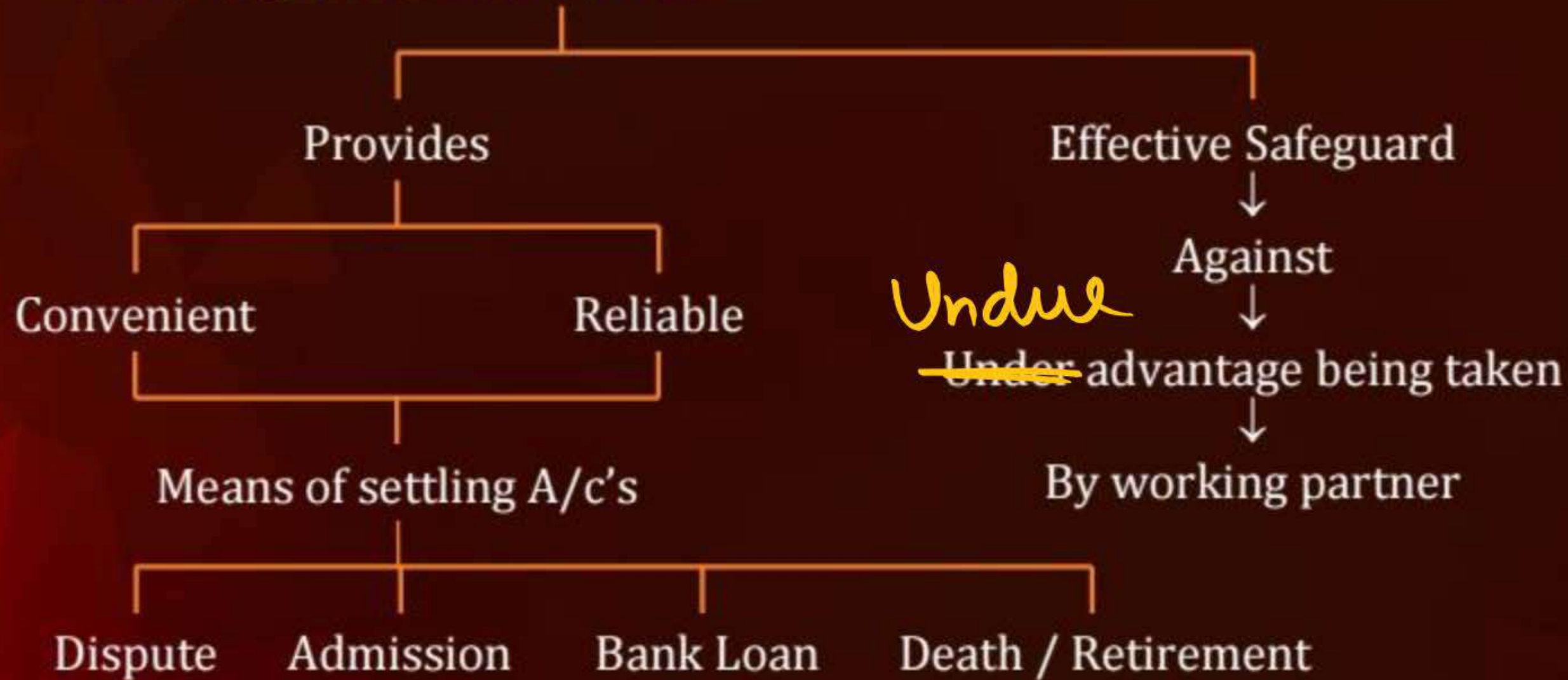
- (2) Study the minutes
- (3) Verification of T & C of partnership agreement
- (4) Examining Books of A/c's
- (5) Verifying that interest of no partner has suffered
- (6) Provision for Tax has been made
- (7) Verifying P/L → Divided in Proper Ratio



Topic: Audit of Firm



Advantages of an Audit firm





Topic: Basics of Limited Liability Partnerships (LLP) Audit



Definition



Small LLP

Partner's Capital [Contribution]



$\leq ₹ 25,00,000$



$\leq ₹ 5,00,00,000$



[Present]



[May be prescribed by CG]



Max Limit



In Future

Turnover



$\leq 4,00,000$

$\leq 50,00,00,000$



Topic: Basics of Limited Liability Partnerships (LLP) Audit

→ Books of A/c's of LLP

(i) Details of money → Received → Expended

(ii) Details of Assets + Liabilities

(iii) Statement of → → WIP → FG → Inventories → COGS

Cost of Goods
Purchased

WIP

FG

Inventories

COGS

(iv) Other particulars which partners may decide



Topic: Basics of Limited Liability Partnerships (LLP) Audit



Audit of A/cs of LLP

Compulsory Audit



As per rule 24 of LLP
Rules, 2009



T/o > ₹ 40 lakhs

Contribution > ₹ 25 Lakhs

Voluntary Audit



To be conducted as per Rules

Advantages/Purpose/Need of Audit

Detection
of errors

Disputes

Reliability

Compliance
& Mgt.

Reconstitution



Topic: Basics of Limited Liability Partnerships (LLP) Audit



Returns to be maintained and filed by an LLP :-

Prepare → Statement of Accounts & Solvency (SAS) ← *Public Docⁿ*

↓
In prescribed form → Form 8

↓
File with RoC every year → 30 days from the end of 6 months of F.Y. to which it relates

LLP to file → Annual Return → In Form 11 → with RoC

↓
Public Document

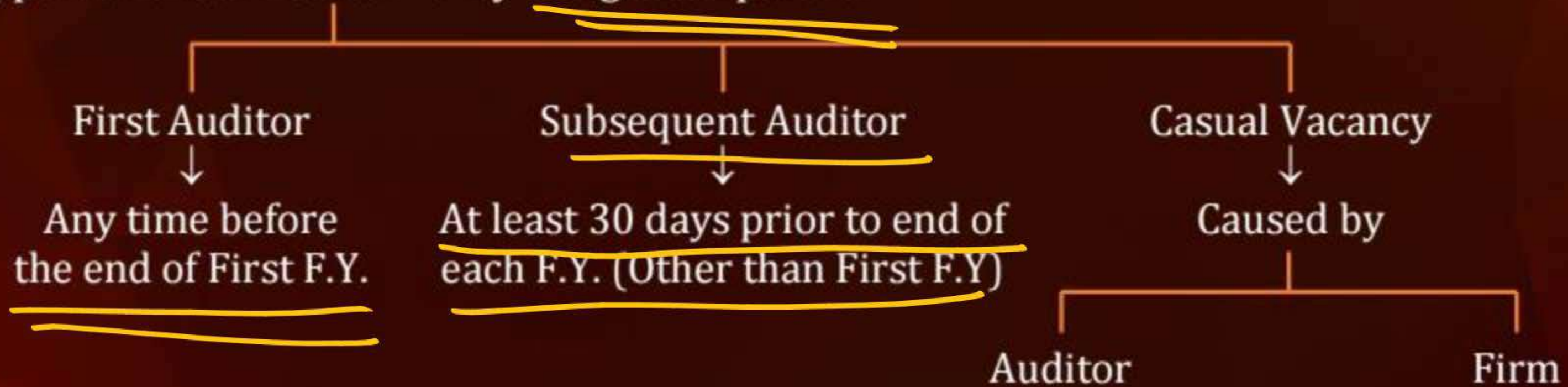
Within 60 days of close of F.Y.



Topic: Basics of Limited Liability Partnerships (LLP) Audit



Appointment of Auditor → By designated partner



→ If designated partner fails → Other partners may appoint



Topic: Basics of Limited Liability Partnerships (LLP) Audit



Auditor's Duty Regarding Audit of LLP

Imp

4pm

Engagement Letter
↓
Writing

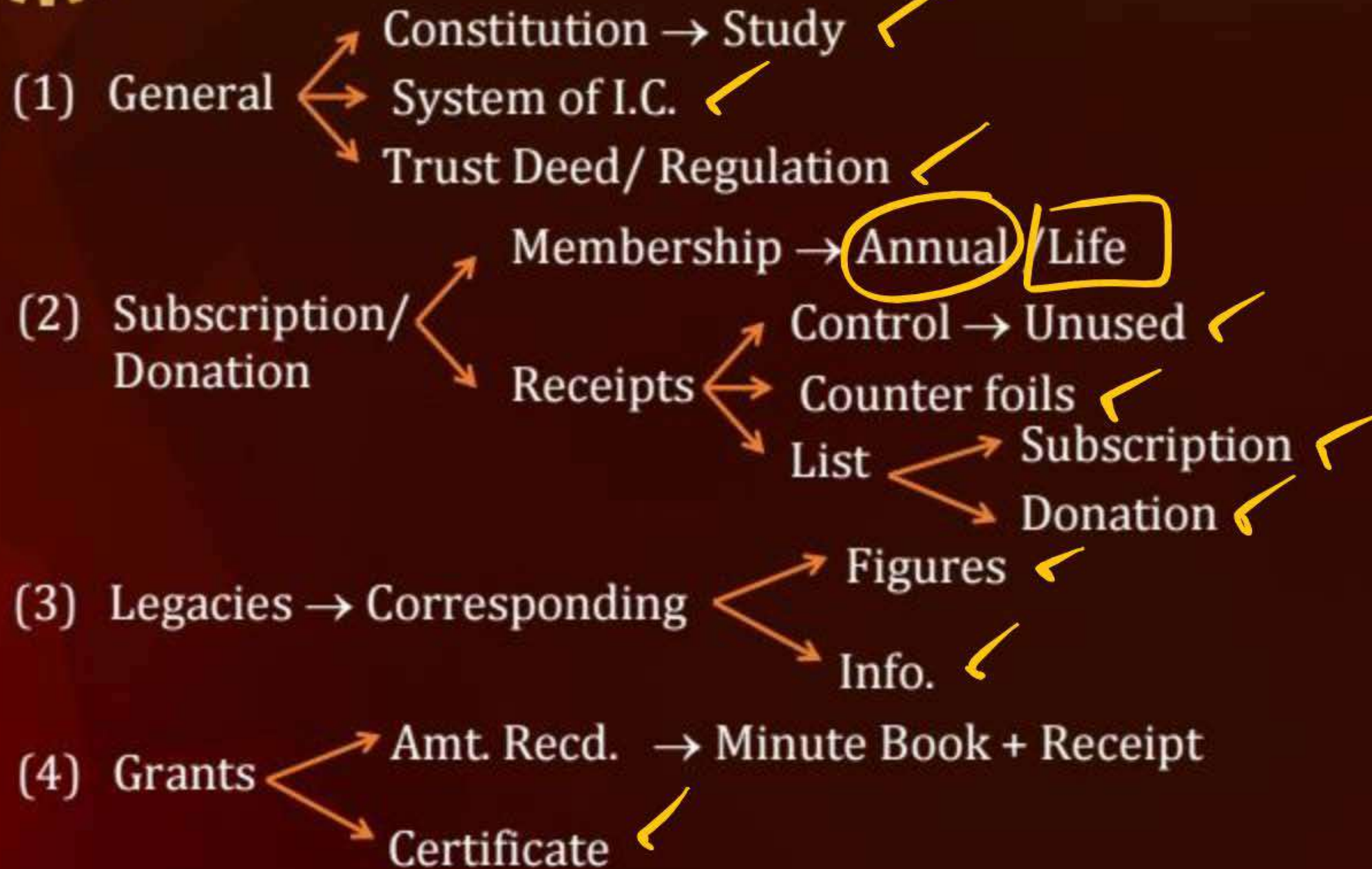
Minutes Book
↓
Refer
↓
Resolutions

LLP Agreement
→ Nature Of Business
→ Amount Of Capital
→ Interest
→ Drawings
→ PSR

Reporting
↓
Records Obtained Info. Restriction?
↓ ↓ ↓
Correct Reliable Explanation

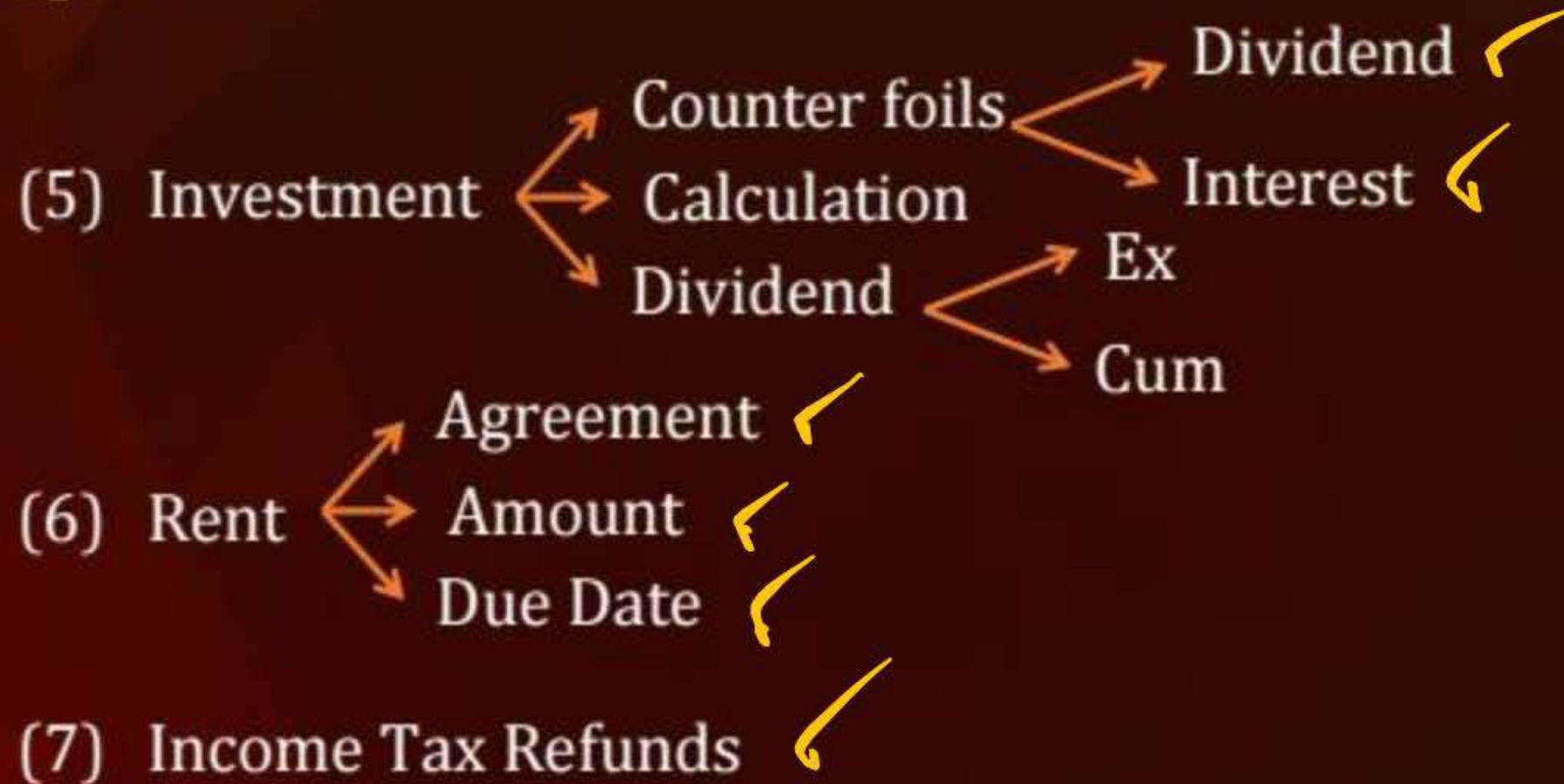


Topic: Audit of Charitable Institution





Topic: Audit of Charitable Institution





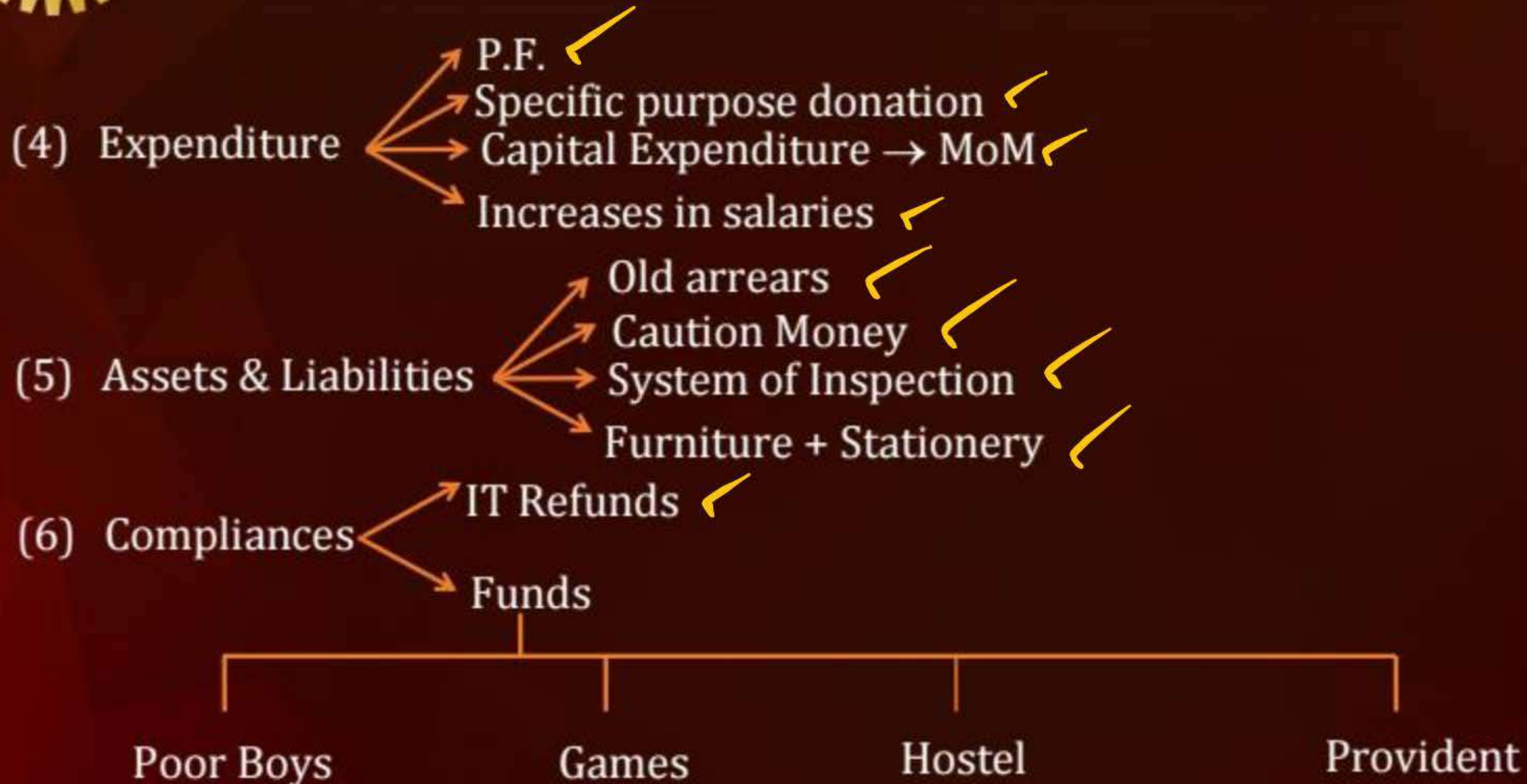
Topic: Audit of Educational Institutions

[School, College OR University]

- (1) General
 - School/College → Trust Deed/ Regulation ✓
 - University → Act/ Regulation ✓
 - MoM ✓
- (2) Fee
 - Student Register ✓
 - Counter foils ✓
 - Advance Fee + Irrecoverable ✓
 - Studentship + Concession ✓
 - Fines + Dues ✓
 - Cauton Deposit ✓
- (3) Grants/ Donation
 - Rent rolls ✓
 - Endowment + Legacies ✓
 - Disallowed → Reason ✓



Topic: Audit of Educational Institutions (School, College OR University)





Topic: Audit of Hospital

Imp.



- (1) Register of Patients
 - Copies of Bills ✓
 - Attendance ✓
 - Amount Recoverable ✓
- (2) Collection of Cash
 - Entered → Cash Book ✓
 - Counter foils ✓
 - Rent ✓
- (3) Income
 - Investment Register ✓
 - Rents ✓
 - Dividends ✓
 - Interest ✓
- (4) Legacies + Donations ✓



Topic: Audit of Hospital



- (5) Authorisation + Sanctions
- Trustees ✓
 - Managing Committees ✓
- (6) Internal Check → Medicine + Linen + Apparatus + Instruments
- (7) Depreciation
- (8) ~~Inventories~~ Inventories



Topic: Audit of Club

- (1) Entrance Fee + Counter foils ✓
- (2) Subscriptions ✓
- (3) Arrears of Subscriptions ✓
- (4) Arithmetical Accuracy ✓
- (5) Irrecoverable Member Dues ✓
- (6) Price

↗
↘

Food ✓

Drinks ✓
- (7) Purchase → Furniture + Sports items + Crockery
- (8) Management Powers



Topic: Audit of Cinema

Imp.



- (1) Internal Control Mechanism
 - Entrance → Printed tickets ✓
 - Serially numbered + Bound into books ✓
 - Diff.
 - Show ✓
 - Class ✓
 - Adv. Booking → Separate series ✓
- (2) St. of ticket sold ✓
- (3) Free passes ✓
- (4) Tax Collected ✓
- (5) Advertisement ✓
- (6) Depreciation ✓
- (7) Adv. Paid to distributors ✓
- (8) Restaurant Income ✓



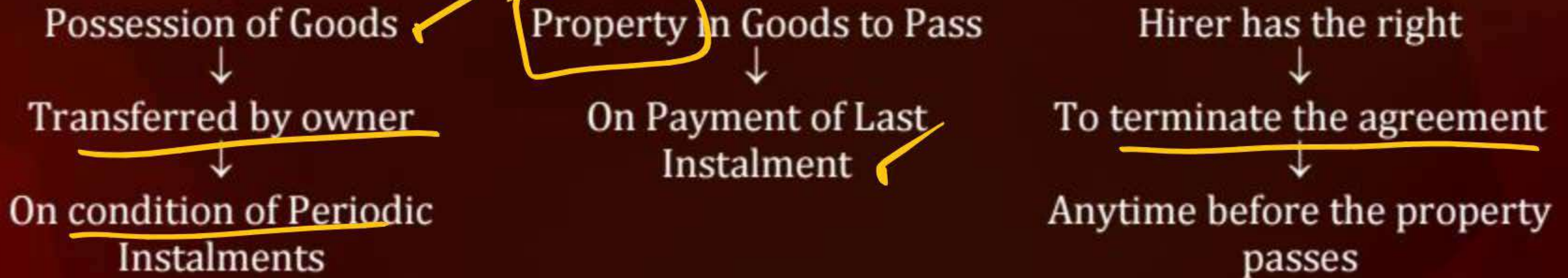
Topic: Audit of Hire Purchase & Leasing Companies



Hire Purchase:

Goods are let-out on Hire → Hirer has the option to purchase them

In accordance with T & C of agreement



→ Audit Procedure

(1) Agreement in Writing + Signed by all parties



(2) Specifies

HP Price

Cash price
of Goods

Date of
Agreement

Instalments

Identification of Goods

Number

Amount

Date of Payment

Where Payable

(3) Ensure → Instalments are regularly received

Leasing

Lesser acquires the right to use assets → for an agreed period



In consideration of payment of rent

Finance Lease



Like loan Agreement ✓

Operating Lease



Like Rent Agreement

Imp.





→ Audit Procedure

- (1) Check object clause → of leasing Co. → Ensure that they can take a financial activity
- (2) Procedure → for credit analysis of the lessee
- (3) Lease Agreement includes

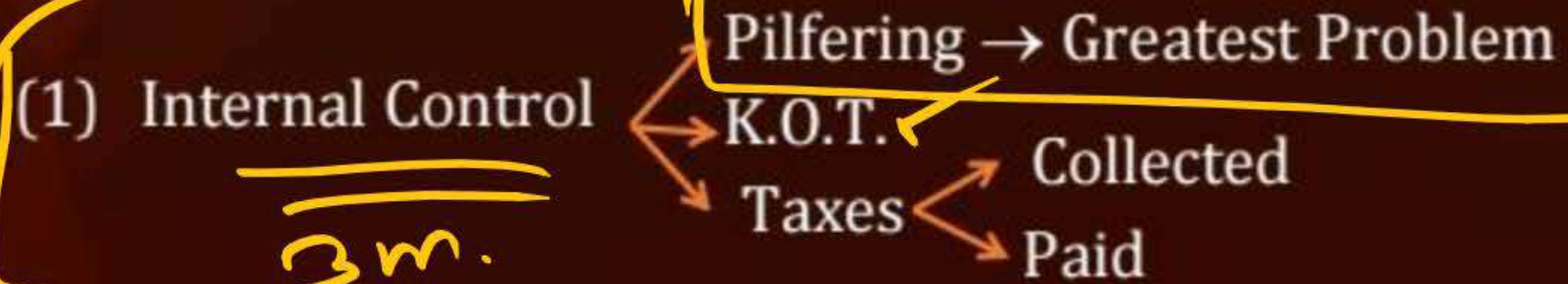


- (4) Examine → Lease Proposal form ✓
- (5) Ensure → Invoices of Equipment are retained safely
- (6) Examine → Acceptance letter of lessee
- (7) Any Board Resolution regarding lease
- (8) Copies of Insurance Policy

	Operating Lease	Financial Lease
<u>Ownership</u>	Remains with the <u>lessor</u>	<u>Transfer option</u>
Accounting Treatment	Renting arrangement. Treated as <u>operating expenses</u>	Loan arrangement. Appears on the <u>balance sheet of the lessee</u>
<u>Purchase Option</u>	Lessee <u>does not have any option</u>	Lessee to have <u>a purchase option</u>
<u>Lease Term</u>	Generally <u>< 75 % → useful life</u>	Generally \geq estimated economic life



Topic: Audit of Hotels



(2) Room sales + Hall Booking Inventories

(3) Inventories ✓

(4) Fixed Assets ✓

(5) Casual Labours ✓

(6) Shops ✓

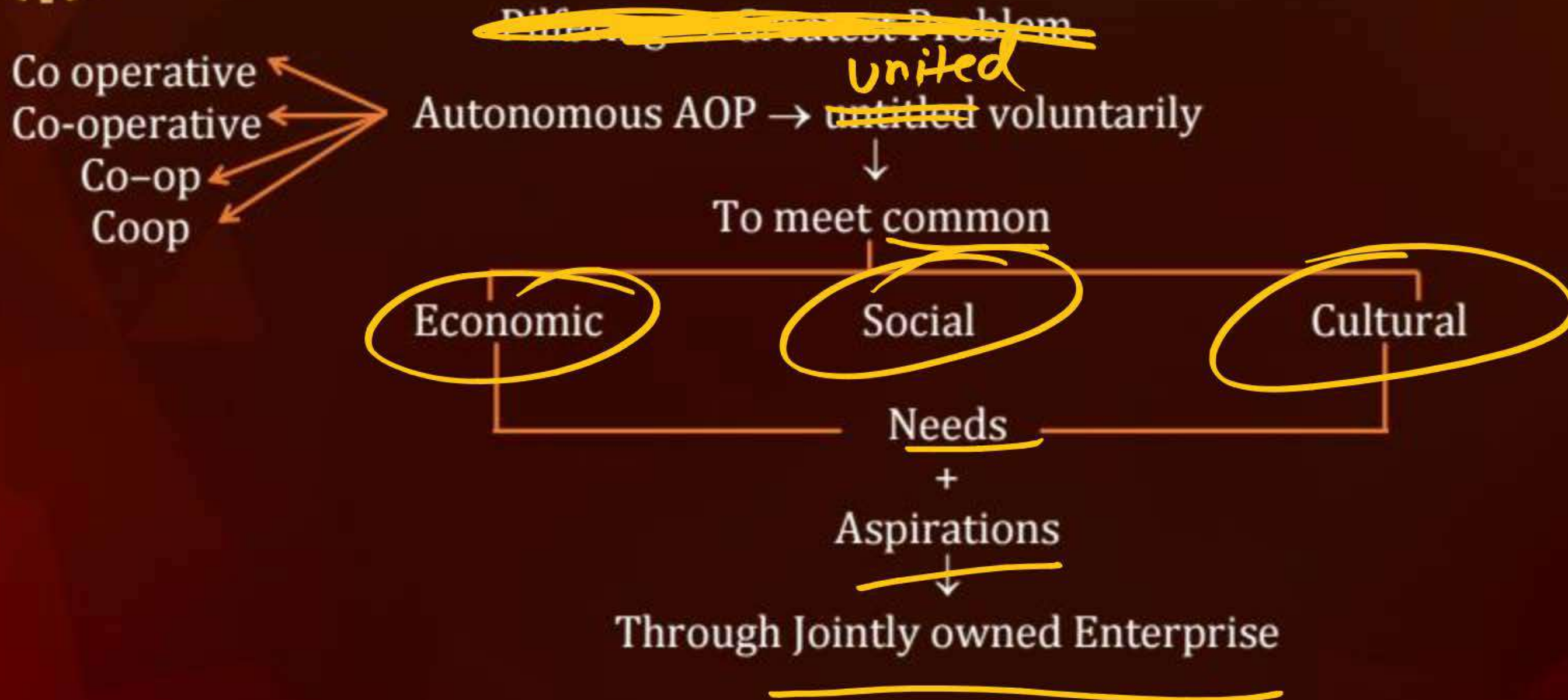


Topic: Audit of Co-operative Societies

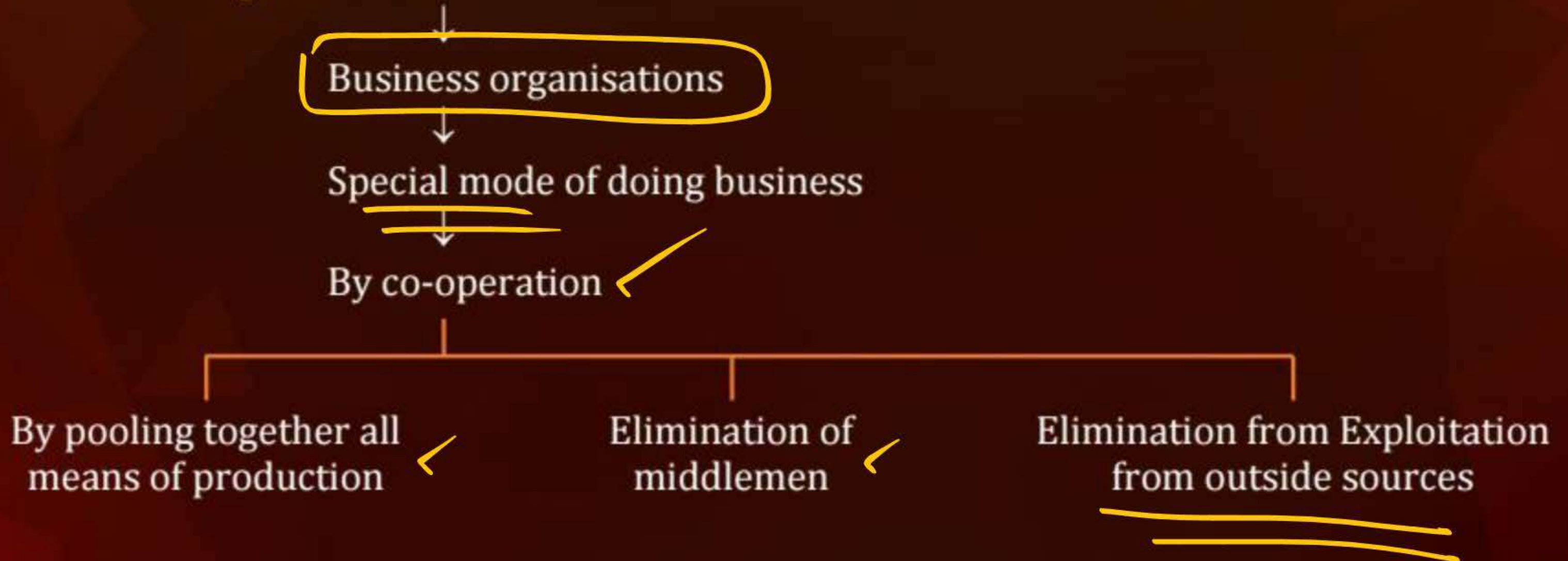




Topic: Background



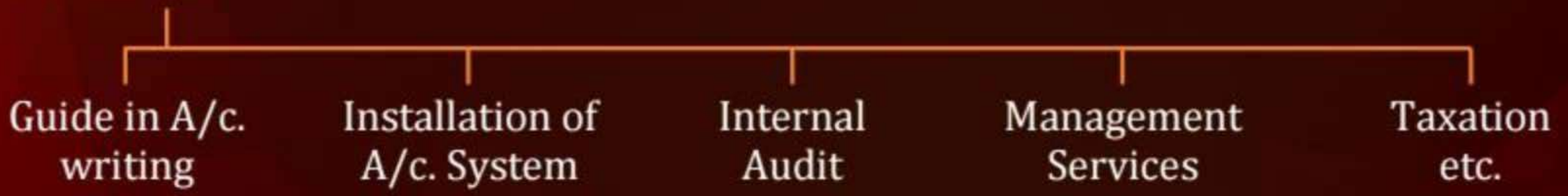
Audit of Cooperative Societies



→ Acts applicable to societies



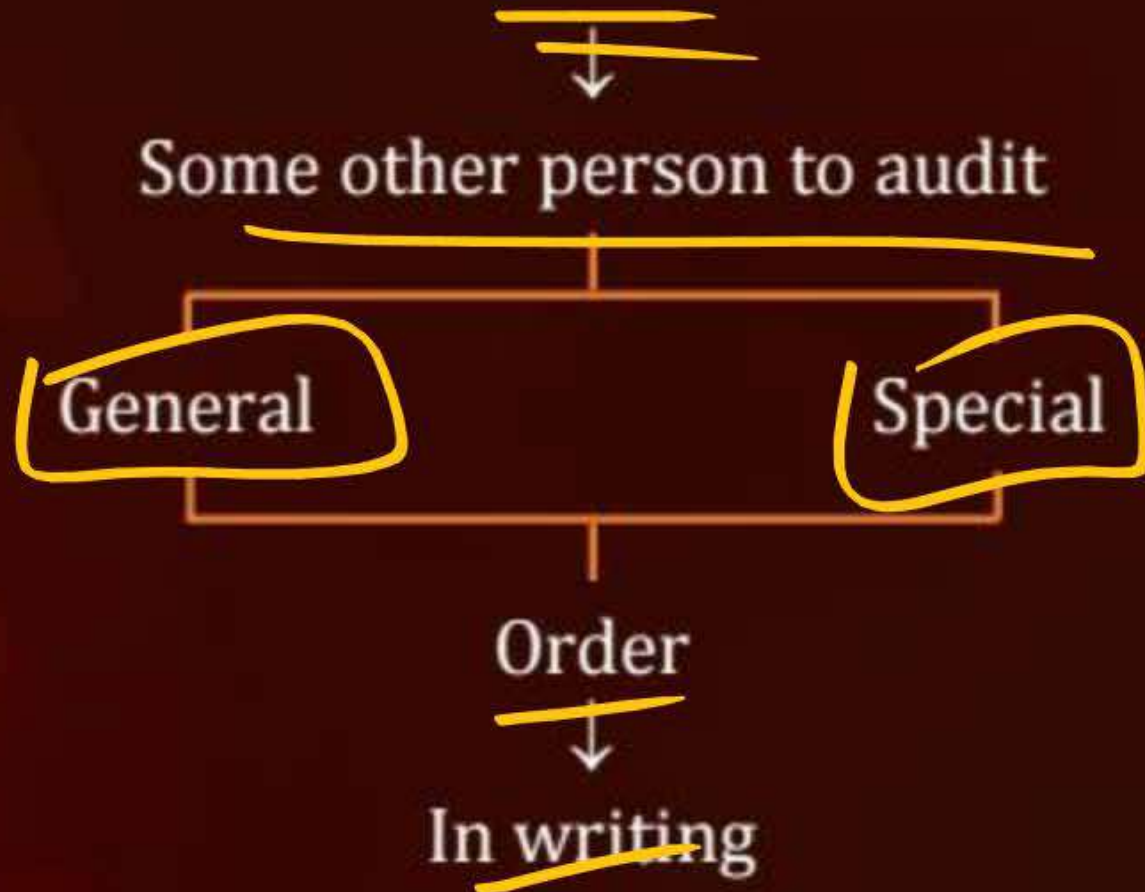
→ A CA Can





Topic: Audit as per Section 17 of the Co-Operative Societies Act, 1912

(1) Registrar Shall [
Audit
—
Authorize
] A/c's of society → Once at least every year



(2) Audit Includes [
Examination → of overdue debts
—
Verification → of Assets & Liabilities
]

(3) Auditor shall have access → at all times → to

Books of
A/c.

Papers

Securities of
Society

Every officer shall
furnish info.

Points to be kept in mind for appointing Auditor

(1) Qualification of Auditor → A CA or Some state acts allow persons having

Govt. Diploma in Co-operative Accounting

Govt. Diploma in Co-operation & Accountancy

Served as an Auditor in Co-operative Dept. of Govt.

(2) Appointment of Auditor → By Registrar of Co-operative Societies

Audit Report to be submitted to him

→ Audit fee → paid by society

Prescribed by Registrar

(3) Books, A/c's & Other Records → of Co-operative Society (Sec. 43(h) of Central Act)

Generally →

- (i) Daily cash sales summary Register
- (ii) Register for collection from Debtor
- (iii) Register for Recovery of Loans
- (iv) Register for Loan Disbursements
- (v) Any other Columnar Register

(4) Restriction on share Holdings (Sec. 5)

on each member to be $\leq 20\%$ of paid up share capital or $\leq ₹ 1000/-$

Prov. of By-Laws → Not Contradictory

Limits in State acts may be different

(5) Restrictions on Loans (Sec.29)

Only to members are
allowed

Can be given to another society

With special sanction of Registrar

(6) Restriction on Borrowings (Sec.30)

Allowed up to limits mentioned in By-laws of society

(7) Investment of funds (Sec.32)

Allowed in

Central or state
Cooperative Bank Or
Co-operative or other
banks approved by
Registrar

Securities
specified in Sec.
20 of the Indian
Trust Act, 1882

4m

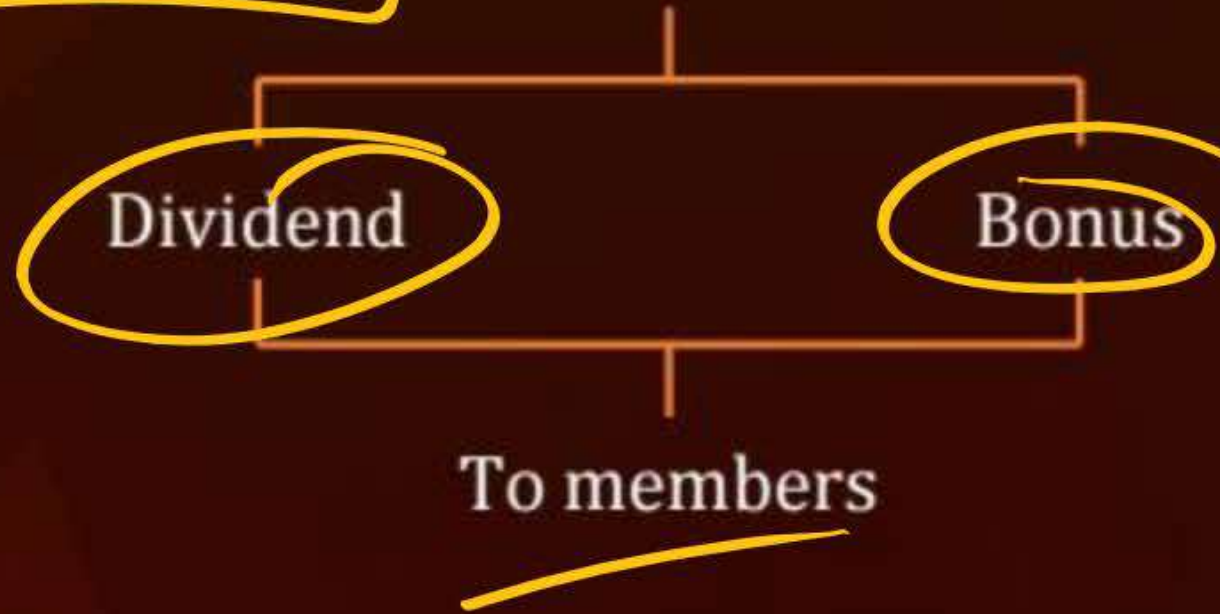
Securities of
Other Societies
↓
With Limited
Liability

Permitted by

CG

SG

(8) Appropriation of profits (Sec.33) → % age of profits should be transferred to
→ Reserve Fund → Before Distribution as



- (9) Contribution to charitable Purpose (Sec.34)
 Registered Societies May transfer $\rightarrow \leq 10\%$ of NP
- With sanction of Registrar
 For any charitable purpose
- ↓
- After transfer to Reserve fund
- (10) Reserve fund — [Investment Outside business
 Promote Object of Society
 Utilization as W.C.] — Only if state Act provides
- (11) Contribution to Education fund \rightarrow only if state Act Provides



Topic: Special Features of Co-Operative Audit



→ Special features for conducting an audit : (10 points)

(1) Examination of overdue debts

6 months to 5 years

> 5 years

Affecting working capital

Proper

Provision

Classification

(2) Overdue Interest → Interest

accrued

accruing

On A/c's → where even principal amount is overdue

Should not be included in calculation of Interest O/s

In practice, Overdue Interest Reserve A/c. is created → Any credit of overdue Interest → credited to Interest A/c. → is Reduced

- (3) Certification of Bad Debts by → Managing Committee → Auditor
- (4) Valuation of Assets & Liabilities ✓
- (5) Adherence to Co-operative principles → Objectives have been achieved?
- (6) Observation of the provisions of → Laws → Regulations
- (7) Verification of Members register + Examining their Pass Books



Regarding Loans Given

- (8) Special Report to Registrar → In case of irregularities

3m

Personal
Profiteering ✓

Fraud
Mismanagement ✓

Disproportionate advance to
vested Interest Groups ✓

(9) Audit classification of society → Auditor awards a class to society



After Judgement → Based on criteria specified by Registrar

If management is not satisfied
by classification



If can appeal to Registrar → may
direct review of Audit
classification

(10) Discussion of Draft Audit Report → with Managing Committee



Topic: Audit, Inquiry and Inspection of Multi-State Co-Operative Societies

Audit, Inquiry & Inspection of Multi State Cooperative Society

Funds of MSCoS → Cannot be utilized (MSCoS)



for any Political Purpose

→ Books of A/c.

- (1) All sum of Money —
 - Received
 - Expended
- (2) Sale —
 - Purchase — of goods
- (3) Assets + Liabilities —
 - Production
 - Processing
 - Manufacturing
- (4) If engaged in —
 - Particulars of material & Labour

Audit of MSCOS (Sec.72 of the MSCOS Act, 2002)

(1) Qualification of Auditor → Only a practicing CA can be appointed

(2) Disqualification of Auditor →

- (i) A body Corporate ✓
 - (ii) Officer / Employee of MSCOS ✓
 - (iii) Person who is
 - a member
 - in employment of officer / employee of MSCOS
 - Indebted to MSCOS ✓
 - given guarantee
 - Provided security
- 4m
-] — of a 3rd party to MSCOS > ₹ 1,000/- ✓

(3) Vacation of office → If auditor attracts Disqualifications

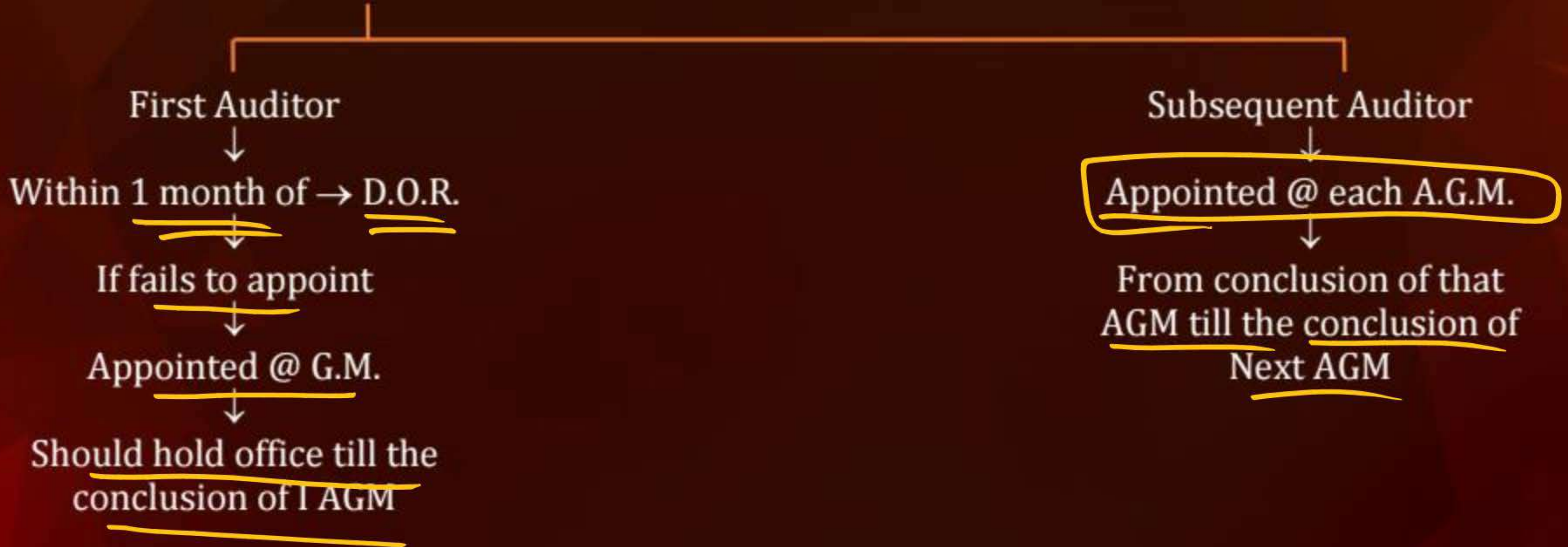


After appointment

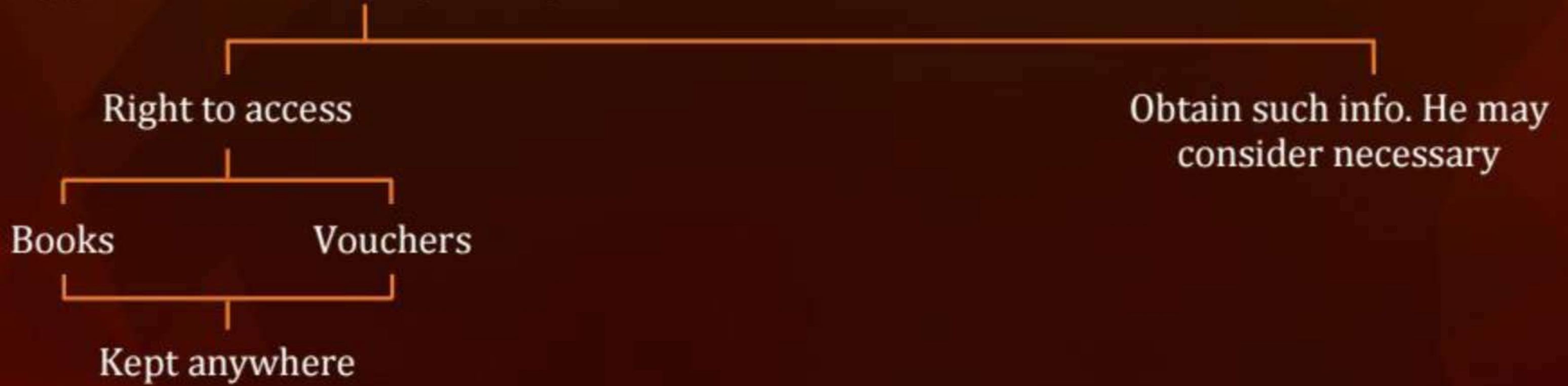


Deemed to have vacated his office

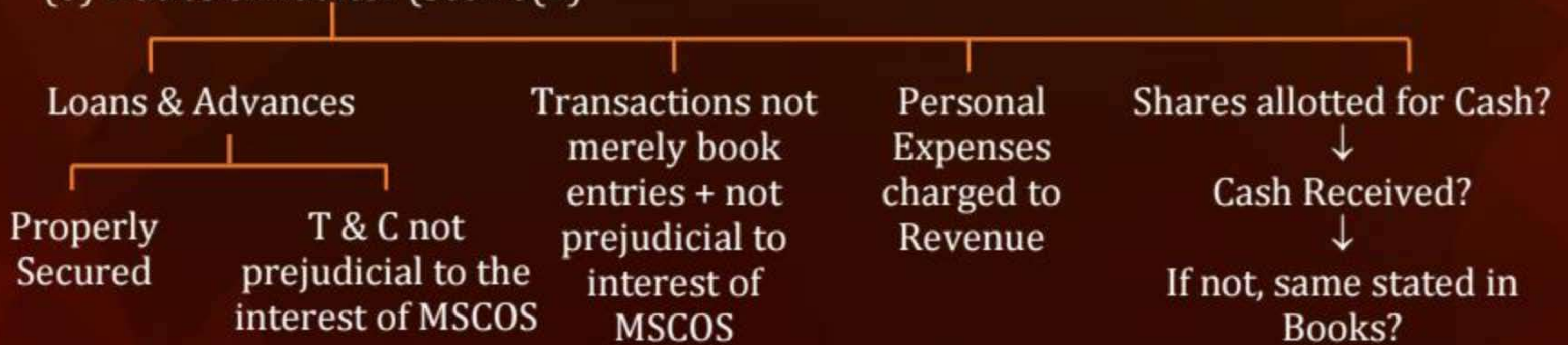
(4) Appointment of Auditor (Sec.70)



(5) Powers of Auditor (Sec. 73)



(6) Duties of Auditor (Sec.73(2))



(7) Content of Audit (Sec. 73(3) & 73(4)) Like General Audit Report (Chapter 8)

(8) Powers of CG to direct special Audit (Sec. 77)

v. imp.

Affairs not managed in accordance with prudent Commercial practices

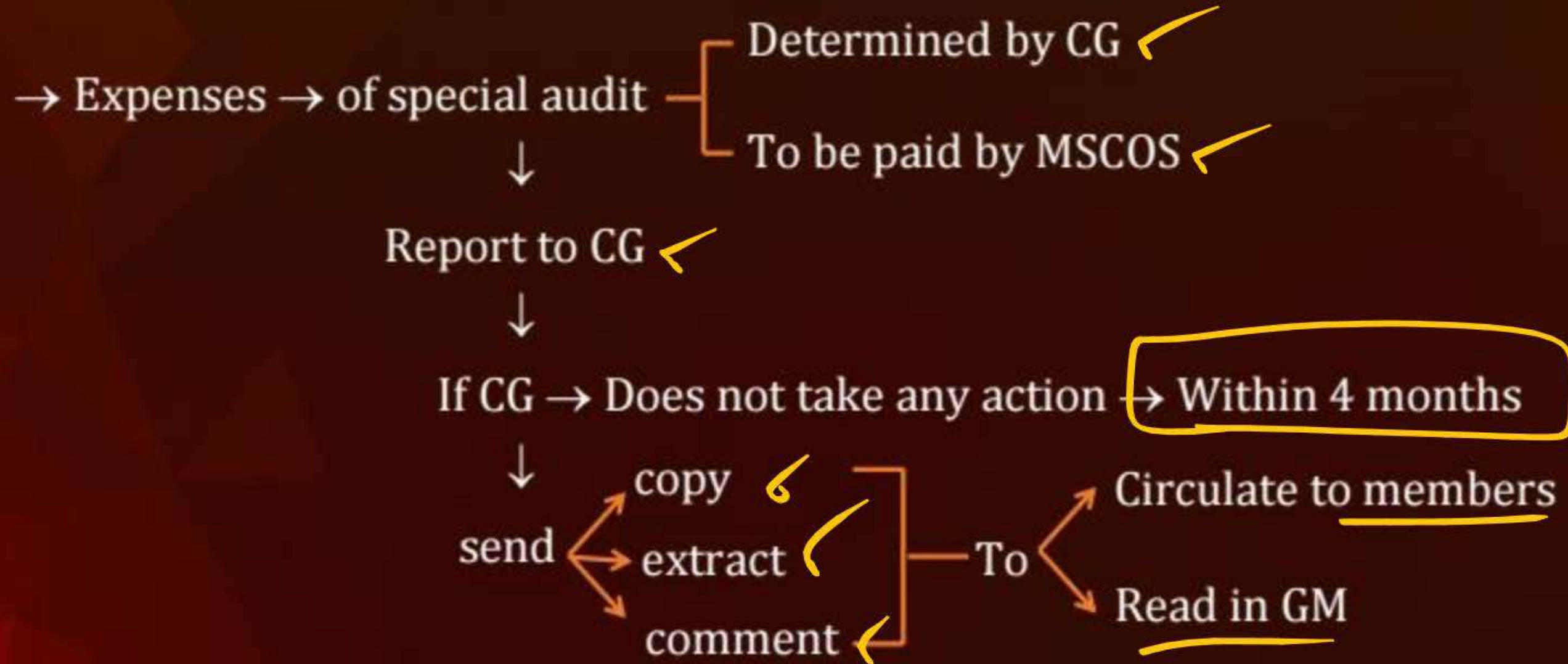
Managed as it would cause injury to interest of Trade / Industry / Business

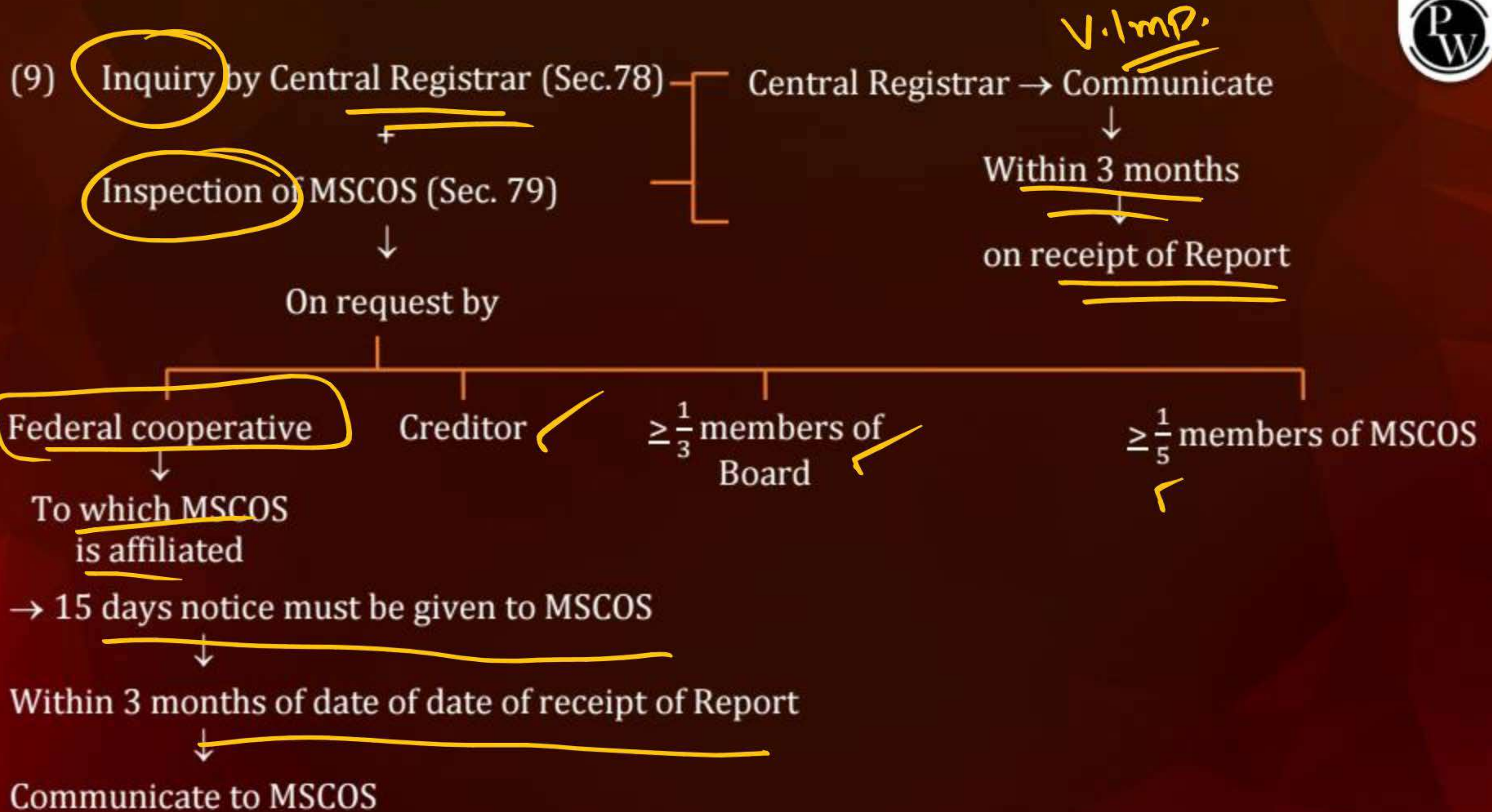
Financial Position would endanger its solvency

→ Special Audit only if

CG
SG
Both

Holds > 51% paid up share capital in MSCOS







Topic: Audit of Trust & Societies

② Imp.

Charitable entities → Legal Form

Trust

Society

Sec. 8 Co.

Governed By

Public Trust Act → Status

The Indian Trust Act,

1882



State Act not exist

The society
Registration Act,
1860

The companies
Act, 2013

+

The Income Tax Act, 1961

+

The foreign Contribution (Regulation) Act, 2010

❖ Books of A/cs →

- i. Cash Book ✓
- ii. Ledger ✓
- iii. Journal ✓
- iv. Copies of Bills ✓
- v. Original Bills ✓

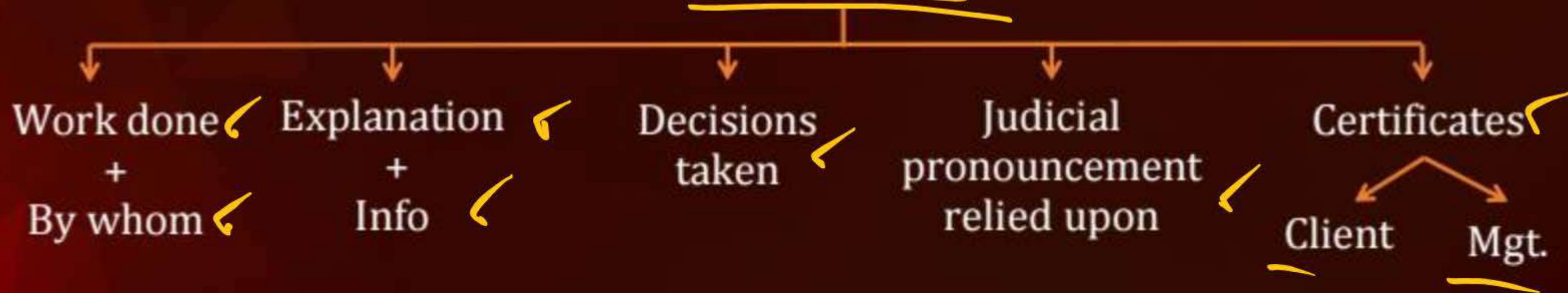


❖ Auditor's Responsibility →

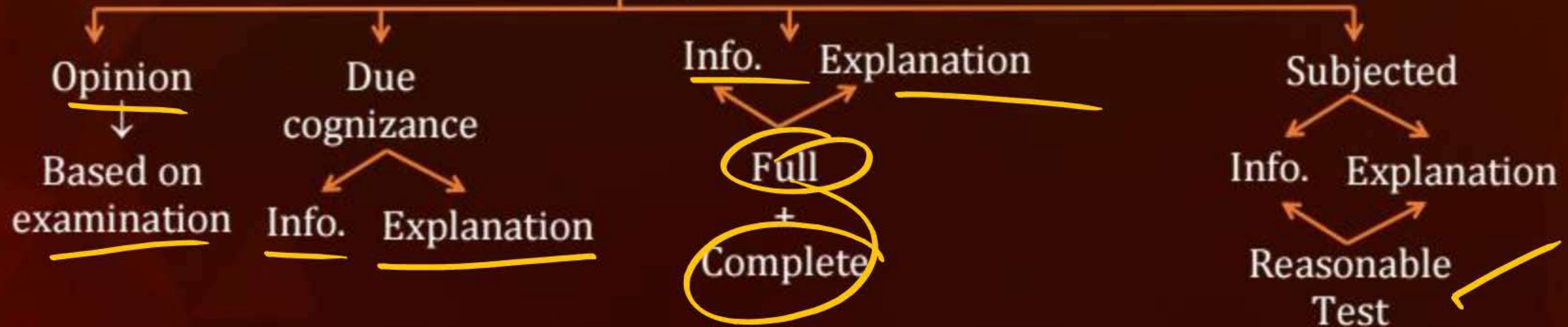
- responsibility →
 - i. Obtain
 - Books
 - Records
 - ii. Company
 - AS
 - SA
 - iii. Test check
 - iv. Keep Audit working papers

V.I.M.P.

LM



❖ Working Papers → Provide A.E.

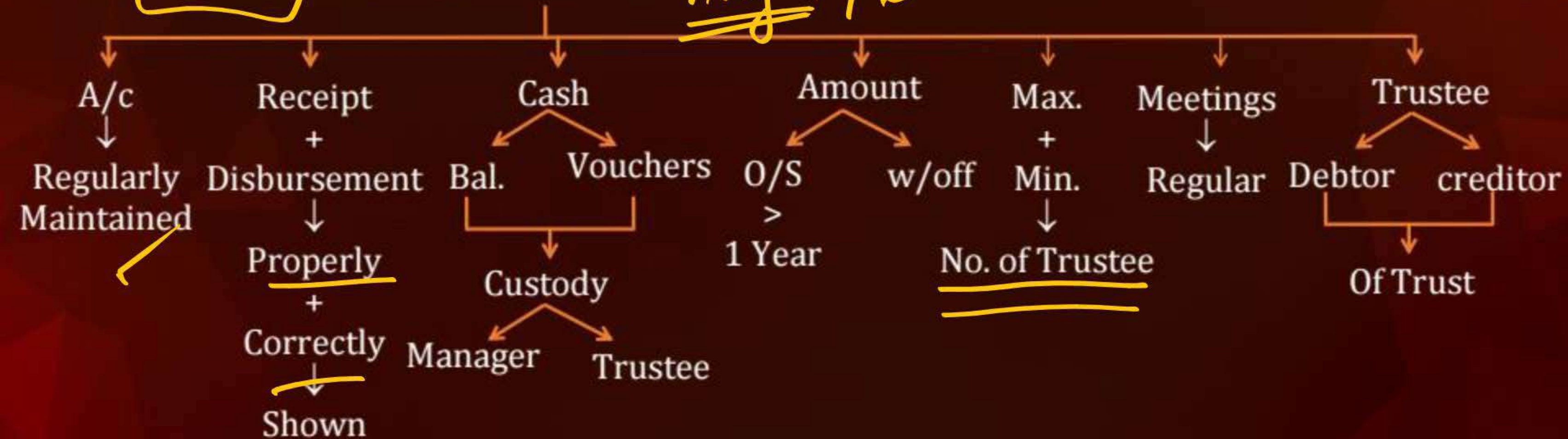


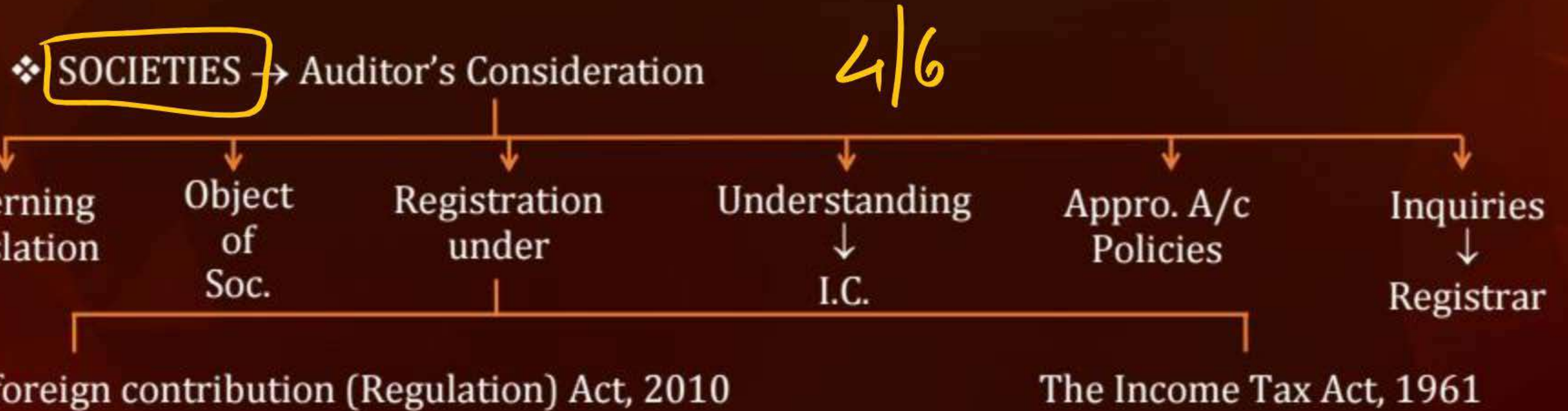


Topic: Audit of Trust & Societies

❖ **TRUSTS** → Auditor to ascertain

Any 4/6





thank you