Fundamentals of Audit

Origination

- The word "Audit" is originated from the word "Audire" which means "to hear".
- In the Olden days, Auditor use to hear the Accounts prepared by the Accountant and form their opinion.

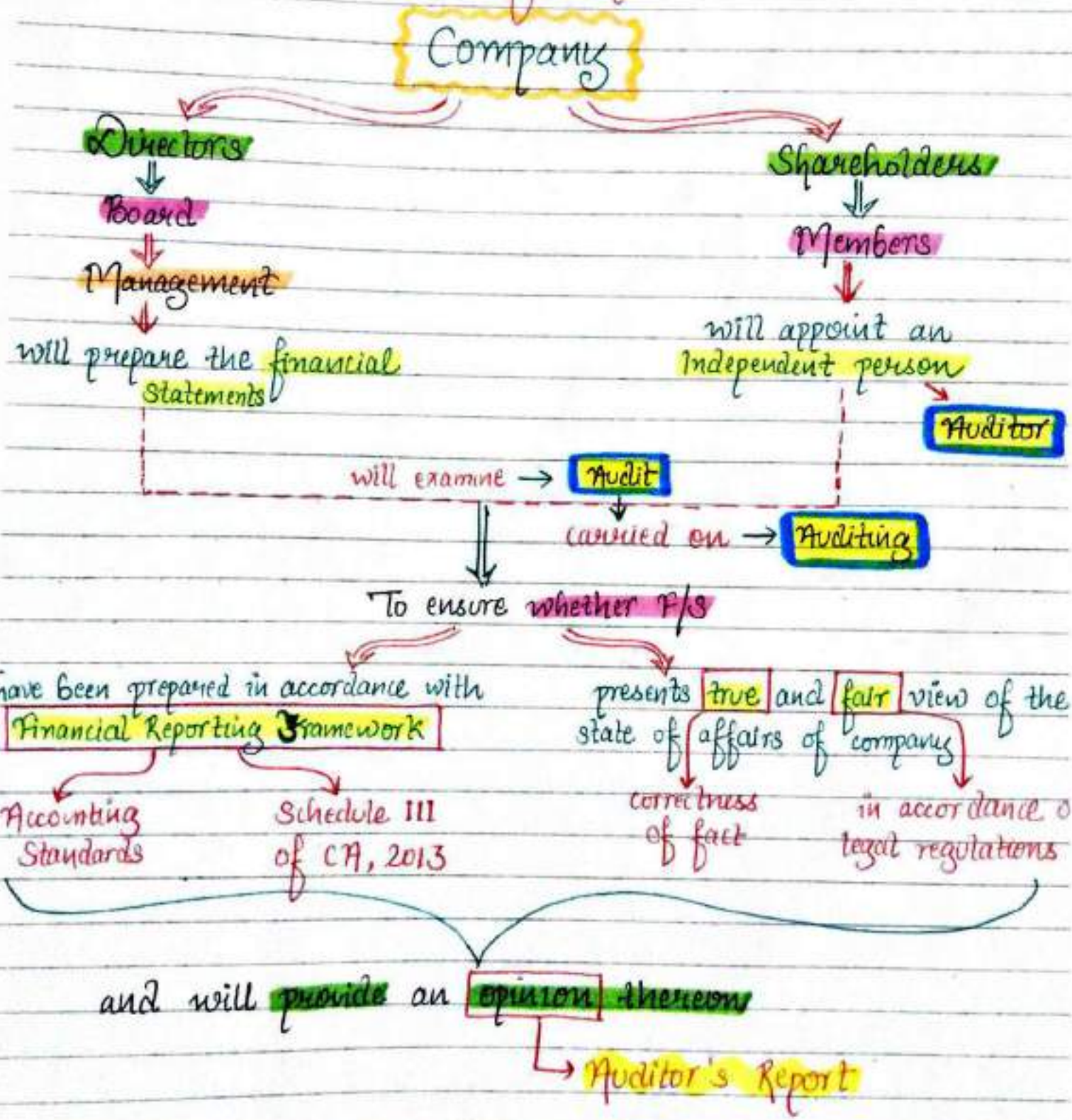
Emergence of Audit in world

- ★ In 1844, Audit was made compulsory in England
- ★ Later, in the year 1888, The Institute of Chartered Accountants of England and Wales (ICAEW) was set up in England to prepare Qualified auditors.

Emergence of Audit in India

- ★ In the year 1914, Audit was made mandatory in India under Companies Act, 1913.
- ★ At that time, Govt. of Bombay was providing "Diploma in Accountancy" which was considered as Qualification for the Auditor.
- ★ On 1st July 1949, ICAI was established in India under CA Act, 1949 to prepare Qualified Auditors in India.

Framework of Audit



Definition of Audit (As per SA 200)

Audit is an independent examination of Financial Information of any entity, whether Profit oriented or not, and irrespective of its size or legal form when such an examination is conducted with a view to expressing an opinion thereon.

Analysis of Definition

What ? → An independent examination
Of which ? → Financial information
Of whom ? → Any entity
Why ? → Independent person (Auditor)
Where ? → To provide an opinion thereon
How ? → Audit will be conducted by complying with SAs.
When ? → On preparation of Financial Statement.

To comply with AS is the responsibility of management, and Audit is bound to comply with the SAs.

Voucher ⇒ Documentary evidence in support of any transaction is known as Voucher.

Vouching ⇒ It means examination of the transactions to check their authenticity and reliability.

Objectives of Audit

Primary Objective (SA 200)

* As per SA 200, the Primary objective of the Audit is to examine the Financial Statements and to provide an opinion thereon.
* Primarily, Auditor is not bound to detect the frauds and errors in the entity.

Secondary Objective (Kingston Cotton Mills case)

* It is the Management who is responsible to detect and correct the frauds and errors.
* But, if Auditor comes to know abou suspicious circumstances, then he should extend his procedures to detect the fraud.
* Once detected, fraud will be communicat to the members, management and Central Government
  ↳ if amt. is 1 crore or more

Ques "Auditor is a watchdog not a bloodhound". Explain.

Sol. Referring to the definition of Audit provided under SA 200 where it has been stated that the Primary Duty of the Auditor is to examine the financial statements and to provide an opinion thereon. To detect frauds and errors is the basic responsibility of the Management not the Auditor. But it was held in the landmark case of Kingston Cotton Mills Company that if Auditor becomes aware about suspicious circumstances, he should extend his procedures to detect the fraud prevailing in the entity.

On the basis of above mentioned provisions and facts on the decided case, we can conclude that the primary job of the Auditor is not to detect the frauds and errors which are in the existence of the entity. Therefore, the statement provided in the question is appropriate.

Who can conduct Audit ?

An Independent Person can conduct Audit known as Auditor.

The Auditor should be a Chartered Accountant who holds a valid certificate of practice.

Types of Audit

(under Companies Act, 2013)

Appointment, Removal Qualification, and Disqualification of Auditors

Section 141

Section 141 (1 & 2) → Qualification of Statutory Auditor

A person will be eligible to appointed as Statutory Auditor only if he is a "Chartered Accountant"
↳ as defined u/s [redacted] of [redacted]

- person should be a Chartered Accountant as per CA Act, 1949
- who holds a valid Certificate of Practice

Member of ICAI
- final exam
- 3 years articleship
- IT training
- QMCS
- OP
- Membership fees

141(1) ⇒ Persons qualified to be appointed as Auditor

- Individual
- Firm
  - Partnership firm
  - LLP

Majority of the partners must be qualified

141(2) { Only qualified partners can act and sign on the Auditor's Report
act → can conduct audit

Illustration

ABC & Co. → 7 Partners

Mr. A	Mr. B	Mr. C	Mr. D	Mr. E	Mr. F	Mr. G
CA	CS	Advocate	CA + CoP	CA + CoP	CA + CoP	CA + CoP

4 partners are qualified out of 7 partners

Majority is qualified

ABC & Co. can be appointed as Auditor

Disqualifications [Sec 141(3)]

∴ A body corporate other than LLP formed under LLP Act, 2008
- body corporate → Indian company, Foreign company, Foreign LLP
- LLP → Indian LLP

Auditor ?

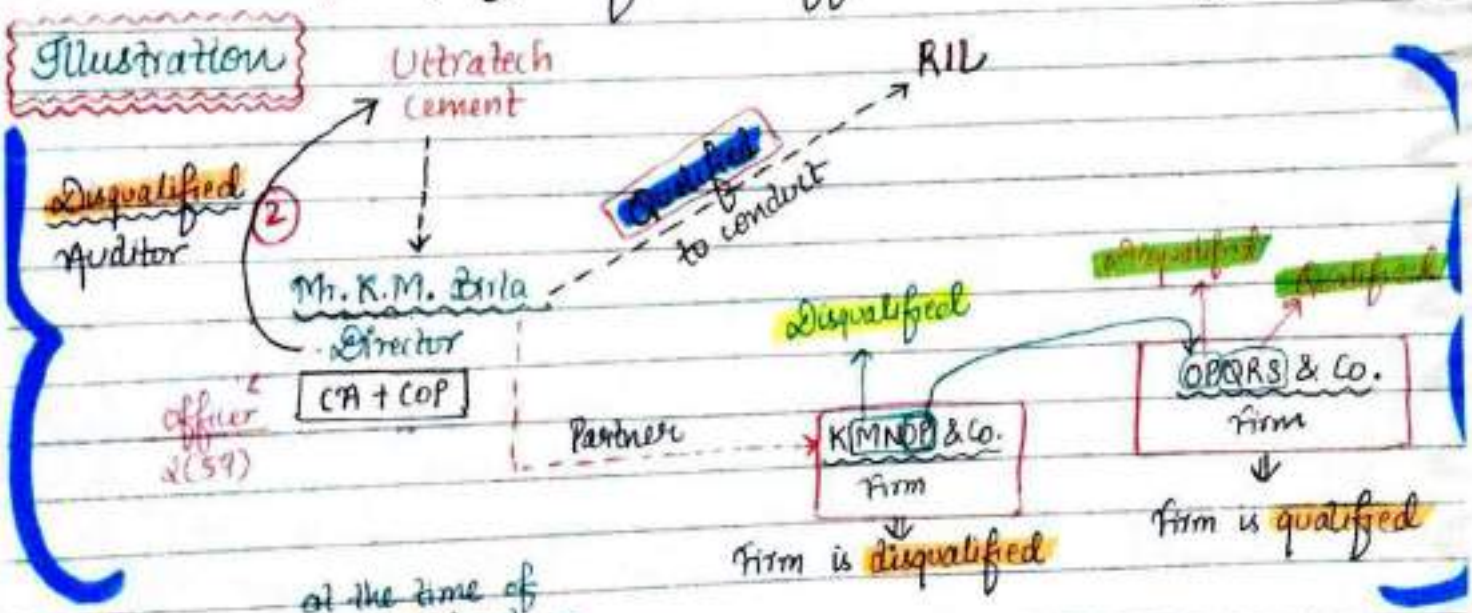
(+)
- Individual
- Partnership firm
- Indian LLP

(−)
- Indian Company
- Foreign Company
- Foreign LLP

2. Officer and Employee of the company

- Officer: as defined u/s 2(59) of CA, 2013
  1) Director
  2) Manager
  3) KMP
  4) ~~Any other person by whose instructions the Board is accustomed to act~~
- Employee: • Part time / full time • Temporary / Permanent
- the company: of which accounts is to be audited

3. Partner / Employee of the Officer / employee of the compan



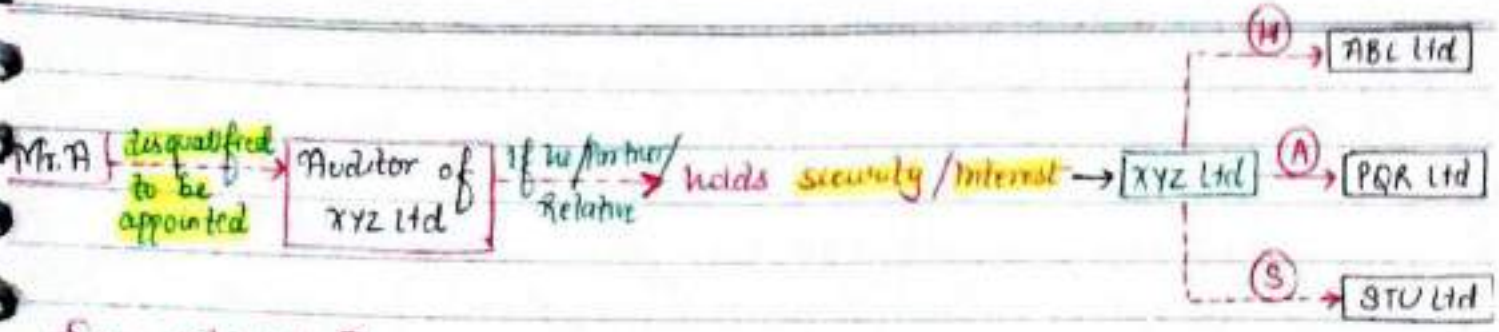
4. If any Person / Partner / Relative is holding securities / interest in the compa holding company, its Subsidiary Company or Associate Company

at the time of appointment

as defined u/s 2(77) of CA, 2013

1) Spouse 2) Father (+SF) 3) Mother (+SM)
4) Daughter (+SD) 5) Daughter's husband 6) Son (+SS)
7) Son's wife 8) Brother (+SB) 9) Sister (+SS)
10) Member of HUF

- Shares, Debentures, Bonds, etc
- (1) Membership right in a company having no share capital
- (2) Beneficial interest



Exemptions ⇒

(1) Relative can hold Share/Interest in the company of face value not exceeding ₹ 1 lac.

2) If relative holds shares/interest after appointment of Auditor, then he will be provided an opportunity to take corrective action within 60 days.

5. If any Person/Partner/Relative is indebted to the Company, Holding Company, its Subsidiary Company, its Associate Company or Subsidiary of the Holding Company in excess of ₹ 5 lacs.

Notes ⇒

(a) If Auditor has received fees on Progressive basis, he will not be disqualified.

(b) If debt is in the ordinary course of business, he will be disqualified.

Q37 By Sir

Referring to the provisions contained in Section 141(3) of Companies Act, 2013. A person will be disqualified to be appointed as an auditor of the company if he/relative/partner is indebted to the company, associate company, its holding Company, its subsidiary company or any other subsidiary of its holding company in excess of ₹ 5 lacs. Further, 141(4) provides that if the disqualificatio is applicable on the auditor after his appointment, then he shall vacate office as such auditor and the vacancy shall be deemed to be a casual vacancy.

The Situation mentioned in the Question provides that

Mr. Amar, a Statutory Auditor of Das Ltd has obtained loan from Chaudhary Finance Ltd. which is a holding company of Das Ltd and the amount of loan is ₹7 lacs.

On the basis of the above mentioned provisions, we can conclude that Mr. Amar is disqualified to be appointed as Statutory Auditor of Das Ltd. Therefore, he shall vacate his office as Statutory Auditor

May 2010 Q32 (By idiot person) Pg. 17

Referring to the provisions laid down in Section 141(3) of the Companies Act, 2013, it has been provided that a person will be disqualific to be appointed as an Auditor if he/relative/partner is indebted to th company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company in excess of rupees 5 lakhs, at the time of appointment.

The situation provided in the question states that Mr. Y was appointed as an auditor at AGM held on 16.08.2013. Before that, he has been indebted to the company for sum of ₹5,05,000 as on 1.4.2013 and repaid the amount on 10.8.2013.

On the Basis of above mentioned provisions, we can conclude that Mr. Y is qualified to become the auditor as he repaid the debt amount before the date of Annual General Meeting.

Q 35 Pg. 11 (By idiot person)

Referring to the provisions contained in Section 141(3) of the Companies Act, 2013, it has been provided that if a person will be disqualified to be appointed as an Auditor if he/relative/partner is holding any security of or interest in the company or its subsidiary,

or its holding or associate company or a subsidiary of such holding company of face value not exceeding one lakh rupees.

On the basis of above mentioned provisions, we can conclude that Mr. A is disqualified to be appointed as an Auditor since the limit of ₹ 1 lakh will satisfied only when he/relative/partner (i.e., Mrs A) holds security or interest in XY Ltd

Q36 Pg. 18 (By Idiot person)

Referring to the provisions contained in Section 141(3) of the Companies Act, 2013, it has been provided that a person/firm is disqualified ~~to~~ be appointed as an Auditor if he/relative/partner is holding any security or interest of the company, or its subsidiary, or its holding or associate company or subsidiary of such holding company of face value not exceeding one lakh rupees.

The situation mentioned in the question states that Ram and Hanuman Associates, Chartered Accountants in practice have been appointed as Statutory Auditor of Krishna Ltd. Mr. Hanuman holds 100 equity shares of Shiva Ltd., a subsidiary company of Krishna Ltd.

On the basis of above mentioned provisions, we can conclude that Ram and Hanuman Associates is disqualified to be appointed as an Auditor since the limit of ₹ 1 lakh is applied only when he/partner holds security or interest in the company.

Disqualifications [141(3)] (continue)

6. If any person / partner / relative has obtained guarantee for any loan in excess of ₹1 lac.

Guarantee has been provided by company, its subsidiary Co, its Associate Co. or Holding Co.

7. If any Person is in Business Relationship with
- The Company
- Holding Co.
- Subsidiary Co.
- Any other subsidiary of Holding Co.
- Any other associate of Holding Co
- Associate Co.

Directly → Himself

Indirectly → through Partner / Relative

Any transaction for commercial purpose will constitute Business Relationship

↓ excludes

Transactions in ordinary course of business

↓

eg- Using the network of Vodafone

Committees formed (Professional services) under CA Act, 1949 and CA, 2013 → Not prohibited u/s 14

↓

eg GST Council

8. If the Relative of person is a Director or KMP

Director → Executive → Director + Employee → eg. MD, WTD

Director → Non-executive → only director not employees

KMP as defined u/s 2(51)
(1) CEO (2) CFO
(3) CS (4) MD
(5) WTD
(6) Manager

9. • A person who is in full time employment elsewhere.
• A person who will be holding more than Audit of 20 companies

* While calculating the number of 20, the following audits will be.

included	excluded
(i) Public Company	(i) OPC
(ii) Non-Profit Co.	(ii) Small Company
(iii) Company having no Sh. Cap.	(iii) Dormant Co.
(iv) Unlimited Co.	(iv) Private Co. having Capital less than 100 cr.
(v) Private Co. having Capital 100 cr or more	(v) Company incorporated outside
	(vi) Branch

{Illustration}

ABCD & Co } 16 companies

- A
  - Ind. → 9 Audits
  - MNA & Co. → 7 Audits
- B → Full time employee in Vibracement → (X)
- C
  - Ind → 2 Audits
  - PQR & Co → 4 Audits
- D → CA → Ind. → 20 Audits

(9) (X) (14)

23 Audits

Proposed applications

(1) RIL & 52 Branches → 1 Audit will be included
(2) 5 Foreign companies → excluded
(3) Non-Profit Co → included
(4) Pvt. Co → Capital → 105 cr → included
(5) Dormant Co → excluded
(6) Listed Co. → included
(7) Unlimited Co. → included
(8) Co. → Cap → 50 lacs (Paid up) Turnover → 2 cr → included
(9) OPC → excluded

1 Audit → 16+6 = 22 Audits (less than 23)

[May 2014] (By Sir) Pg. 19

The provisions mentioned in Section 141(3) of Companies Act, 2013 states that a person will be disqualified to be appointed as Auditor of any Company if he is in full time employment elsewhere or holding Audits of more than 20 Companies after acceptance of the Auditor Statement. Further, it is also provided that while computing the no. of twenty, the audit of foreign Company and Branch ~~Com~~ Audit will be excluded as it falls outside the perview of the term Company as defined in Section 2(20) of the Act.

After applying the above mentioned provisions on the situation given in ~~qs~~ question, we can conclude that PQR & Co is eligible to accept the audit of Z Ltd and its 20 Branches as it is currently holding audit of 39 companies (40 - 1 foreign company's audit).

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10. If Person has been convicted for an offence involving fraud and a period of 10 years is not elapsed from the date of such conviction

↓ declared ineligible

↓ Under this Act or Any other law.

Question ABC Ltd is holding shares of ₹26 crores of PQR Ltd whose total capital is ₹90 crores. Mr. X is providing accounting services to PQR Ltd. State, whether he is qualify to be appointed as an auditer of ABC Ltd.

Referring to the provisions contained in Section 141(3) of the Companies Act, 2013, it has been provided that a person will be disqualified to be appointed as an Auditor if he directly or indirectly renders any services referred to in Section 144 to the Company or its holding company or its subsidiary company. The provisions has not covered the audit of associate company.

The sibuation mentioned in the question states that ABC Ltd is holding shares of ₹26 crores of PQR Ltd whose total capital is ₹90 crores. It means ABC Ltd is associate Company of PQR Ltd as it holders more than 20% of total paid-up share capital of PQR Ltd. Mr. X is providing accounting services to PQR Ltd.

On the basis of above mentioned provisions, we can conclude that ABC Ltd is qualified to be appointed as an Auditor of ABC Ltd as the provision does not state the rendering of services to an associate company.

Summary of Disqualifications

BIG IIERIC ROPE

- **B** → Body Corporate (except Indian LLP)
- **I** → Indebtness (in excess of ₹5 lacs)
- **G** → Guarantee / Security (in excess of ₹1lac)
- **F** → Full time employment
- **A** → An employee or Partner of Officer / employee of the Company
- **B** → Business Relationship (i.e., commercial transactions)
- **R** → Relative holding security more than 1 lac
- **I** → If holding more than 20 audits
- **C** → Convicted of an offence involving fraud
- **R** → Relative is a Director or KMP
- **O** → Officer / Employee of the Company
- **P** → Person holding Security in Company
- **E** → Engaged in providing prohibited services (u/s 144)

Section 144

Auditor cannot render directly or indirectly the services prescribed u/s 144 to the company, holding company or its subsidiary company

Individual	Firm	Individual	Firm
↓	↓	↓	↓
Himself	Itself	(1) Relative	(1) Partners
		(2) Person associated (Partner)	(2) Parent, Subsidiary, Associate entity
		(3) Entity upon which Auditor is having significant influence	(3) Entity upon which firm/partners is having significant influence
		(4) Entity whose brand name is used by the Auditor	(4) Entity whose brand name is used by firm/individuals

* Services provided → "ACADEMIC"
- Accounting and Book Keeping services
- Carry out outsourced financial services
- Actuarial services
- Design and implementation of FIS
- Engaged in investment ~~Audit~~ Advisory & Banking Services
- Management services
- Internal Audit
- Carry out any other services as may be prescribed

Nov 006 | Q43 Pg. 19 (By Idiot Person)

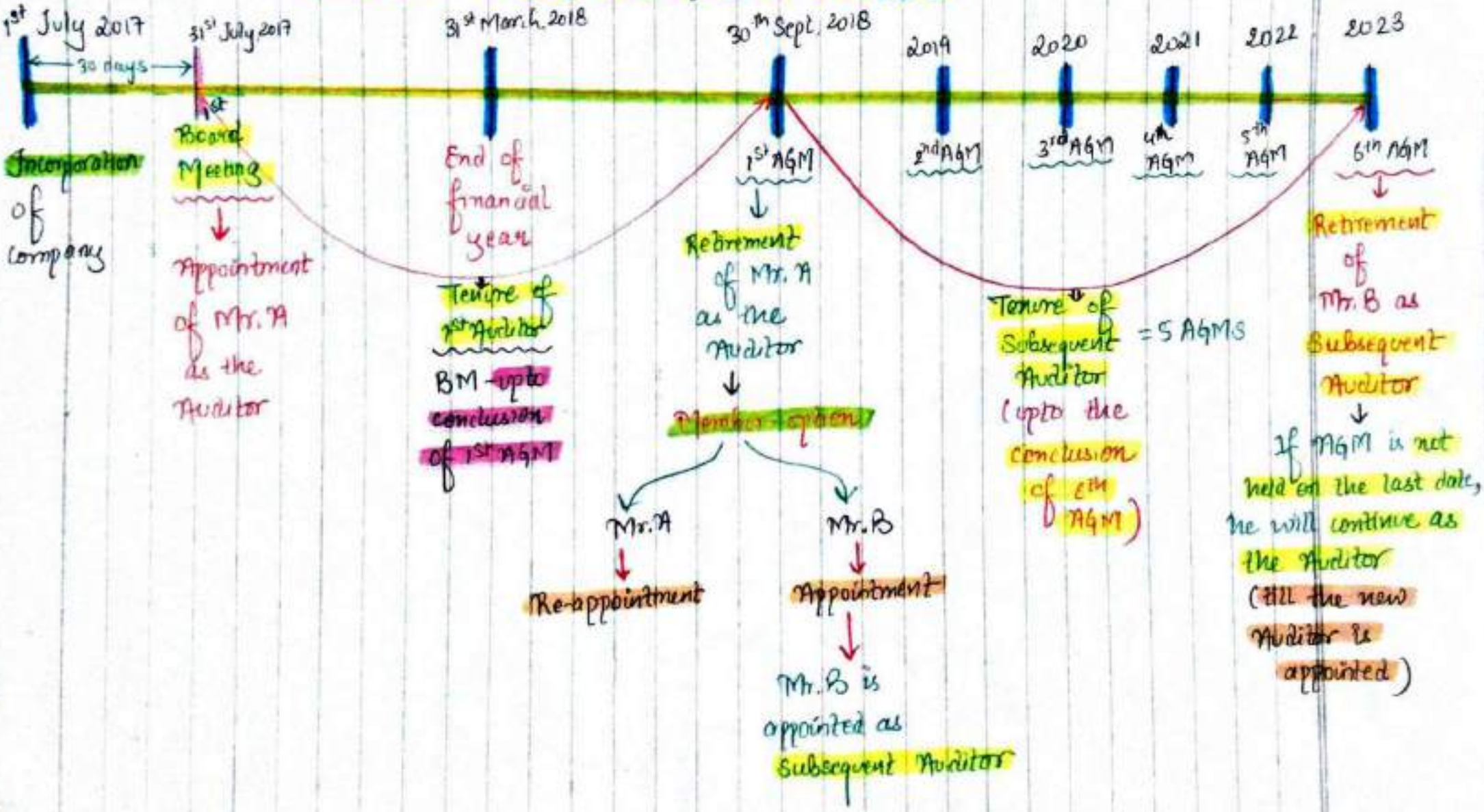
The provisions laid down in Section 141(3) of the Companies Act, 2013, it has been provided that a person will be disqualified to be appointed as Auditor of any company if he is in full time employment elsewhere or having Audits of more than 20 companies after acceptance of the Audit Statement. Further, it is also provided that while computing the number of twenty, the audit of foreign company, Branch Audit and Audit of Private Company having share

capital less than 100 crore are excluded as it falls outside of the purview of the term Company as defined in Section 2(20) of the Act.

The situation mentioned in the question states that PBS & Associates has three partners P, B and S. The firm is already having audit of 60 companies, which includes 2 branch audits. Now, the firm is offered 3 company audit, of which one is a private company, foreign company and the third one is a public company.

On the basis of above mentioned provisions, we can conclude that PBS and Associates is eligible to accept audits of 3 companies since the firm is currently holding audit of 58 companies (60 - 2 branch audits) and foreign company and Private Company assuming share capital less than 100 crores are ~~outside~~ excluded.

Basis Illustration of Section 139



Section 139

Appointment of Auditors

Appointment of Subsequent Auditor of Non-Govt Company [Sec 139(1)]

- The Subsequent Auditor is appointed at the first AGM.
- He will retire on the conclusion of sixth AGM.
- Individual or firm is eligible to be appointed as Auditor
- Procedure of Appointment of Auditor (Rule 3).

Rule 3

If required to constitute Audit committee

Audit committee will consider the Qualification / Experience of Auditor

If not required to constitute Audit Committee

Board will consider the Qualification / experience of Auditor

shall also consider the pending matters of professional misconduct

Audit Committee / Board can demand any Additional Information

Audit committee will recommend name to Board

Board will recommend to members

Audit Committee will recommend name to Board

Board will recommend to members

Board can reject the name

Board can accept the name

Refer back the matter to committee

Will recommend the name to members

Committee does not reconsider its original recommendation

Board can accept its new recommendation

Board can reject the new recommendation

And recommend to Members

Board can itself recommend the name

Conditions for Appointment (includes Re-appointment)

Pre Appointment

Company should obtain **written consent** and **certificate** from the auditor

Post Appointment

Company should **intimate Auditor** and **ROC**

- in form ADT-1
- within 15 days

Certificate* →

(1) Qualified + Not disqualified
141(1) 141(3)

(2) Appointment is as per tenure provided in the Act

(3) Appointment is within the limits

(4) Pending matters of Professional misconduct

Summarised Chart of Sec 139(1)(5)(6)(7)

Appointment of Auditor

Non Govt Company

1st Auditor — 139(6)

(1) Appointment at BM (within [illegible] from incorporation)
↓ If fails
(2) Board will inform members
↓
will make appointment at EGM ([illegible])

(3) Tenure :- upto [illegible] of [illegible]

Subsequent Auditor — 139(1)

(1) Appointment at BM

(2) Tenure :- upto [illegible] of [illegible]

Government Co.

1st Auditor — 139(7)

(1) Appointment by C&AG (within [illegible] from incorporation)
↓ If fails
(2) Appointment at BM (next [illegible])
↓ If fails
(3) Board will inform members
↓
will make appointment at EGM (within [illegible])

Subsequent Auditor — 139(5)

(1) Appointment by C & AG

(2) For a [illegible] year

(3) Tenure upto conclusion of AGM

(4) Time limit :- within [illegible] from [illegible] end of [illegible]

Q10 Pg.8 (By Me)

Referring to the provisions laid down in Section 139(5) of the Companies Act, 2013, it has been stated that the Comptroller and Auditor-General of India shall, in respect of a financial year, appoint an auditor duly qualified to be appointed as an auditor of companies under this act within a period of 180 days from the commencement of the financial year.

The situation mentioned in question states that Nickson Ltd, subsidiary of Ajanta Ltd, whose more than 51% shares have been held by partly Central Government and State Governments. Nickson Ltd appointed Mr. P as Statutory Auditor for the year.

On the basis of above mentioned provisions, we can conclude that Nickson Ltd is a Government Company since it is subsidiary of Government Company, and the auditor shall be appointed by Comptroller and Auditor-General of India. Thus, the appointment of Mr. P as statutory Auditor by Nickson Ltd shall be considered invalid.

Nov 2006) Q14 Pg.9 (By me)

Referring to the provisions laid down in Section 139(10) of the Companies Act, 2013, it has been provided that where AGM does not held within the last date, then existing auditor will continue his office, or where at any annual general meeting, no auditor is appointed or re-appointed, the existing auditor shall continue to be the auditor of the company It is further provided in this section that, in case AGM which is to be held on the last date, adjourned without considering the business of appointment or re-appointment of auditor, the tenure of auditor will continue.

The situation provided in the question states that Ram & Company

was appointed as auditor of ABC Ltd at the annual General Meeting held on 30th September, 2014?

On the basis of above mentioned provisions, we can conclude that Ram & Co. can continue as auditor in case the next annual general meeting has not been held in time. In case, the next AGM adjourned without considering the business of appointment or re-appointment of auditor, then also Ram & Co. can continue as auditor till the new auditor's appointment

Nov 2013 Q18 Pg. 10 (By Me)

Referring to the provisions contained in Section 139(1) of the Companies Act, 2013, it has been provided that the Auditor shall be appointed by the members at the annual General Meeting in case of Non-Government Company.

The situation mentioned in the question states that One-four of subscribed capital of AMC Ltd was held by the Govt. of Rajasthan, i.e., AMC Ltd will not be considered as a Govt. company. Mr. Neeraj was appointed as an auditor of the company at the AGM by an Ordinary Resolution. Mr. Sanjay objects to the manner of appointment of Mr. Neeraj on the ground of violation of this act.

On the basis of above mentioned provisions, we can conclude that the appointment of auditors shall be made in same manner like auditor of any non-Government Company is appointed. Thus, the appointment made in AGM will be considered valid and the Objection of Mr. Sanjay is not tenable as per Companies Act, 2013.

Nov 2006 | Q14 (By Sir) Pg. 9

The Provisions laid down in Section 139(1) of the Companies Act, 2013 provides that the auditor will be appointed at the Annual General Meeting of the Company and he shall hold office upto the conclusion of 6th AGM. Further, Section 139(10) States that in case AGM is not held within the due time or the Auditor is not appointed at the AGM, then the retiring Auditor shall continue to hold office until any new auditor is appointed.

On the basis of the above mentioned provisions, we can conclude that Ram & Co. shall continue as auditor of ABC Ltd in case the AGM has not been held at time. Moreover, If AGM was held on 30th Sept, 2014 but adjourned without considering the business of appointment or re-appointment of auditor, even in that case, Ram & Co. shall continue to hold office as auditor of ABC Ltd.

Section 139(2) 139(4) Rule 6

Principle of "Rotation of Auditors"

1. Applicability :-

(1) Listed Companies
(2) Unlisted Companies (Public) having paid up capital of ₹10 crores
(3) Private Company having paid-up capital of ₹50 crores
(4) Any other company having borrowing or public deposits of 50 crore (from bank/FI) from individuals

2. Restriction on terms

(a) Individual can serve a term of 5 consecutive years
(b) Firm can serve two terms of five consecutive years.

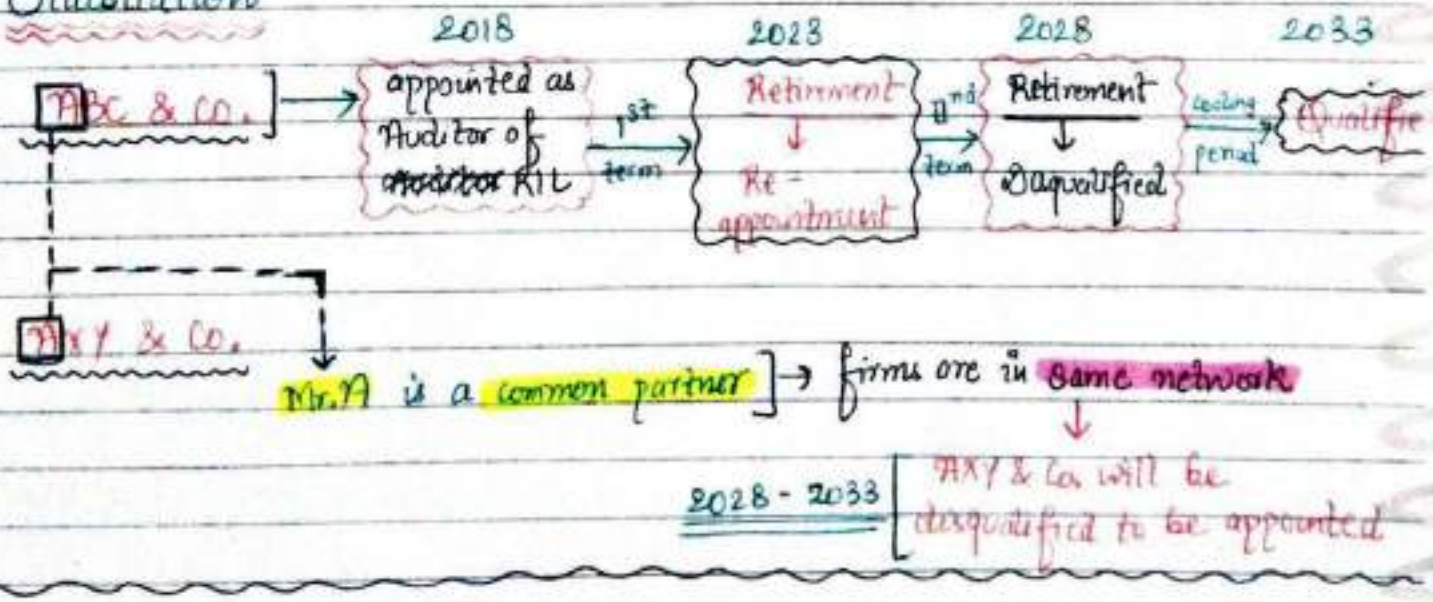
On completion of the above mentioned terms, the Auditor will be disqualified to be ~~off~~ re-appointed as the auditor of the same Co. for the period of 5 years

Cooling Period

3. The firms operating within the same network shall also be disqualified to be appointed as Auditor of the same company for the next 5 years.

- includes individuals also
- same brand name
- same trade name
- common control (common partners)

Illustration



4. Transitional period

Existing companies shall also comply with these provisions within 3 years from the commencement of this section.

5. The tenure served under Companies Act, 1956 shall also be included in this tenure while applying the provisions of Rotation.

6. Appointment of New Auditor

On retirement, the Audit Committee or Board will recommend the name of the Auditor who will be appointed by members at AGM.

↓ where constitution of Audit committee is necessary under section 177.

7. If any [partner] of the Audit firm joins another Audit firm, then that other Audit firm shall also be disqualified for the period of next 5 years.

↓ also certifies the F/S

NOTE

(1) Auditor appointed at the BM will not be covered under these provisions. &

It means the term of 1st Auditor will not be counted in the tenure for the purpose of Rotation.

Filling of Casual Vacancy [139(8)]

Govt. Co.

↓

BOD & AG shall fill the vacancy (within 30 days)

↓ If not

Board will fill the vacancy (next 30 days)

Non Govt. Co.

Reason is Resignation

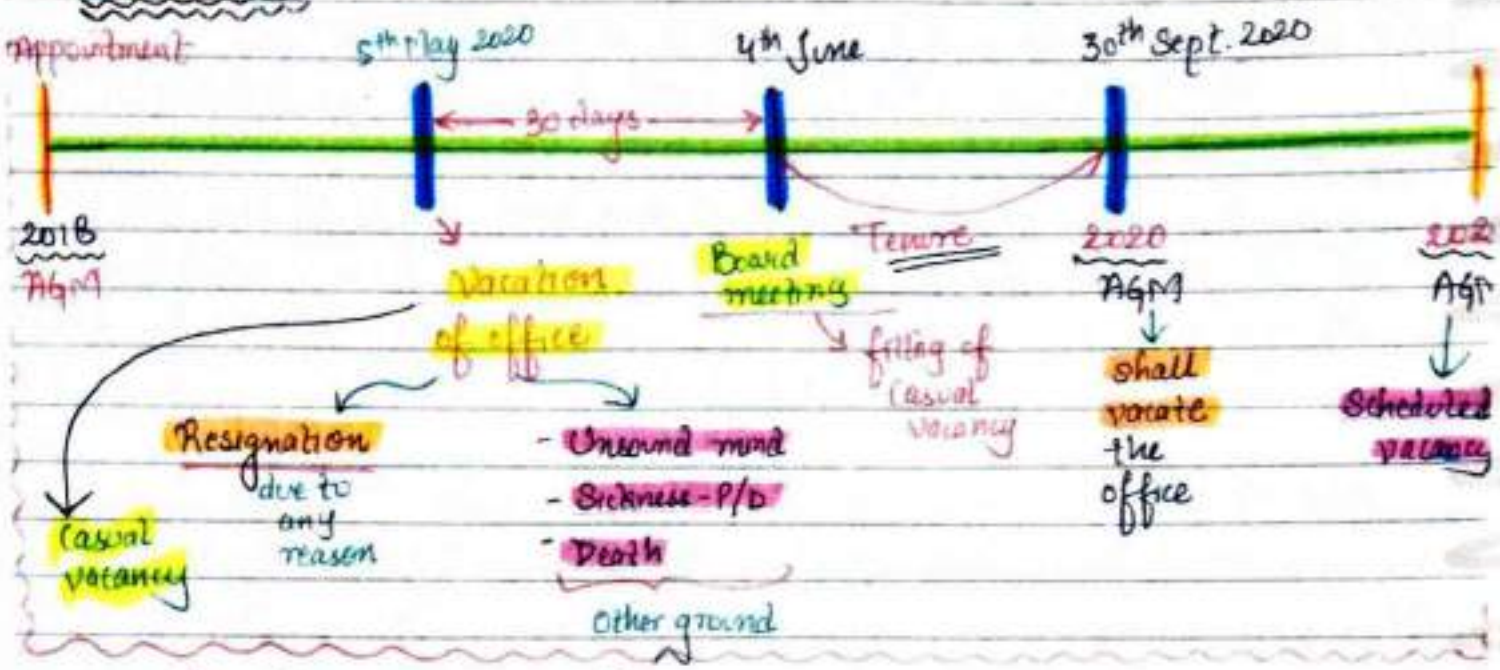
1) Board meeting → BR (within 30 days) &
2) General meeting → OR (next 3 months)

↓ from BM

Any other reason

Board meeting → BR (within 30 days)

Illustration



Section 139(9)

Retiring ~~Partner~~ Auditor cannot be reappointed if

(a) He is disqualified for re-appointment

(b) He has provided his unwillingness (in writing) to continue as the Auditor

(c) Special Resolution has been passed.

to appoint any other person as Auditor (or) not to appoint the retiring Auditor

Section 139(10)

- If AGM has not been convened on due time, Retiring Auditor shall continue the office.
- If AGM has been held but auditor is neither appointed nor re-appointed and it is adjourned, then the retiring Auditor shall continue the office.

Section 139 (11)

If constitution of Audit Committee is necessary, then Board shall consider the recommendations of Audit Committee w.r.t. Appointment of Auditors.

Q9 Pg. 8 (By me)

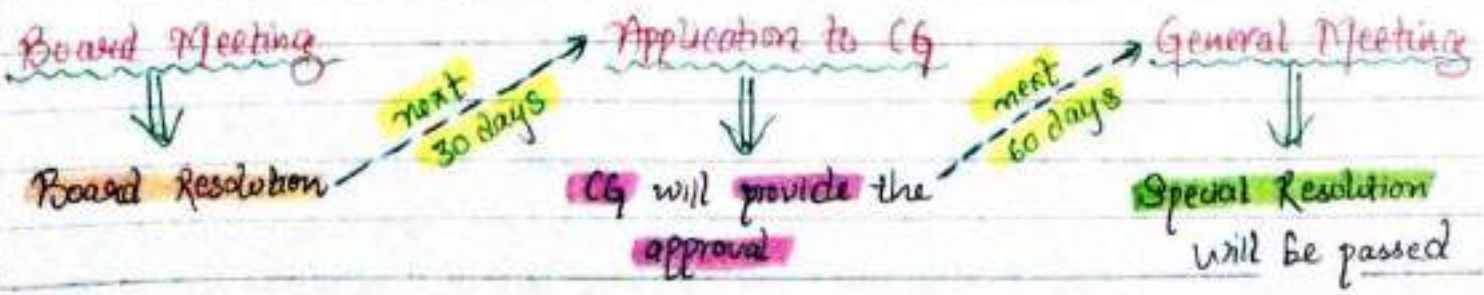
Referring to the provisions contained in Section 139 (8) of the Companies Act, 2013, it has been provided that Board of Directors shall fill any casual vacancy in the office of an auditor due to any reason other than resignation in case of Non-Govt. company, ~~in case of~~ within 30 days.

The situation mentioned in the question states that M/s Young & Co Statutory Auditors of Old Ltd is dissolved on 1.4.2015 due to differences of opinion among the partners. Another firm M/s Sharp & Co. was appointed on 6.4.2015 in the Board meeting as their new auditors.

On the basis of above mentioned provisions, we can conclude that the appointment of M/s Sharp & Co. as new auditors of Old Ltd is valid.

Section 140

Section 140 (1)
Removal of Auditor



- {Members cannot remove the Auditor before the expiry of the term}

Before removal, Auditor shall be provided an opportunity of being heard.

Ques Mr. A has agreed on a remuneration of ₹40,000 to act Auditor of XYZ Ltd. Due to some reasons, Mr. A resigned as a auditor on 10th July but filed his resignation on 15th October. Is there any penalty which will apply on him? If Yes, state the amt. [Section 140(3)]

Sol:- 40,000 or 50,000 } lower ₹ 40,000
+ Delay → 67 days x 500 33,500
73,500

Hint...

Section 140(2)

Resignation by Auditor

- Auditor shall file a statement of Resignation with company as well as RoC and C&AG → ADT-3
  - within 30 days from resignation
  - only in case of Govt. Co.
- If he fails to file the statement within 30 days, Penalty u/s 140(3) shall apply.
  - lower ← • Remuneration of Auditor • ₹50,000/-
  - + ₹500 per day during default continues
  - Max. Penalty → 5 lacs

Section 140(5)

Removal on order of Tribunal

Tribunal

~~on~~ ~~salt~~

~~On an application made by~~
- ~~CG~~
- ~~Any concerned person~~

can direct the company to change its ~~fraur~~ Auditors

If Auditor
- has done fraud or
- is involved in fraud
  - By company
  - in relation to compan

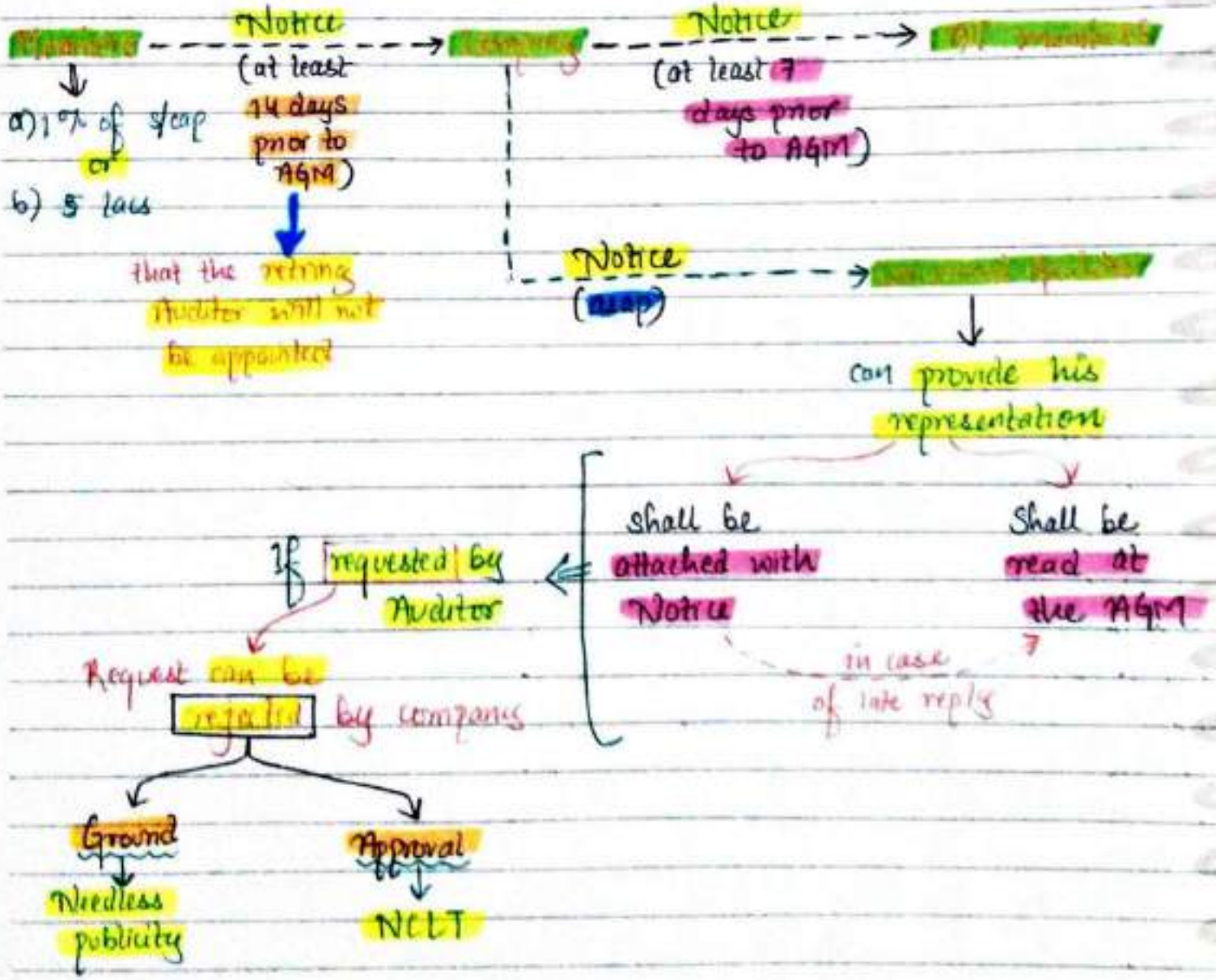
If directed

(a) Auditor will be disqualified to be appointed as Auditor of any company for the period of 5 years

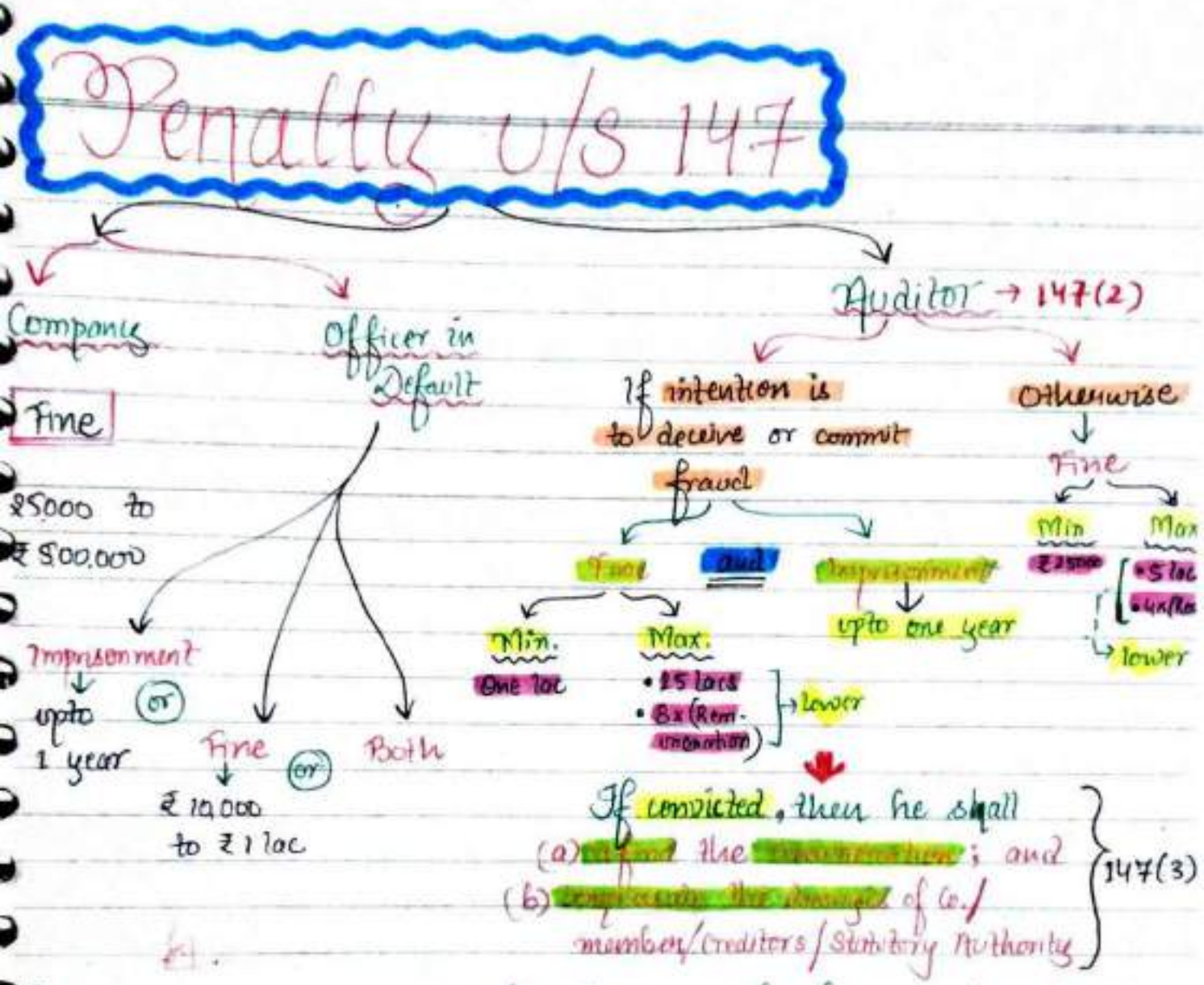
(b) Auditor shall be liable U/s 447

Section 140(4) ⇒

Non Re-appointment of the Retiring Auditor



Penalty u/s 147



Consequences or implications of fraud by Auditor

1) Sec 140(5) → NCLT can direct the company to change its Auditors, if auditor has committed fraud or is involved in fraud.

2) Sec 140(5) → If Order has been passed by NCLT u/s 140(5), then the Audit will be disqualified to be appointed as Auditor of any Company for five years.

3) Sec 140(3) → If an order has been passed u/s 140(5), then the Auditor shall be liable for fraud u/s 447.

4) Sec 141(3) ⇒ If court has declared guilty of fraud, then the perso will be disqualified to be appointed as Auditor of any Company for the period of ten years.

5) Sec 147(2) ⇒ If Auditor's intention was to deceive, then he shall be liable for

a) imprisonment → upto 1 year

+

(b) fine → min. → one lac
→ max → 8x (Remuneration)
→ Lower.

6) Sec 147(3) ⇒ If Auditor is convicted u/s 147(2), then he shal.

a) refund the remuneration

b) compensate the loss of Co./member/creditor/statutory authority.

7) Any other law ⇒ If Auditor has committed, then the penal provisions of companies Act, 2013 will apply without causing any harm to the provisions of any other law (Eg. Sec 420 of IPC)

Section 143(1)

Unit-1

Powers & Duties of Auditors

Sec 143 Power of Auditors

1. Every Auditor shall have a **right of access** at all time to **Books of Accounts** and **Vouchers** of the **company**, whether **Kept** at the **Registered office** or **at any other place**.

- Records w.r.t
  a) Sale and purchase
  b) Income & expenditure
  c) Assets & liabilities
  d) Cost (material/labour/overhead)
- Branch/Department whether situated in India/Outside India.
- whose A/cs are audited
- Documentary evidence in support of a transaction is known as voucher
- demand & inspect

2. The Auditor of Holding Company shall **also** have a right of access to the **records** of **Subsidiary** and **Associate companies**

- which are related with Consolidation of Accounts
- along with records of the company.

3. Auditor **shall be entitled** to require from the **officers** of the Company such **information** and explanation as he may consider **necessary** for the performance of his duties as the Auditor.

- Auditor will be entitled
- information should be related to Audit
- officers are bound to provide the information required otherwise, they will be liable u/s 148
  - Imprisonment upto 1 year
  - or
  - Fine 50K to 3 lac
  - or
  - Both

i.e. if
1) Affirmative resolution has been passed by majority in the meeting
→ NEWTON VS BIRMINGHAM SMALL ARMS COMPANY]

Section 143(8) : Branch Audit

Qualification of Branch Auditor

If Branch is situated in India
- a) Company Auditor
- b) Person qualified in India (CA + CoP)

If Branch is situated outside India
- a) Company Auditor
- b) Person qualified in that country in which Branch is situated

Illustration

ABC Ltd
RO - Mumbai
Mr. X
Company Auditor } office → Mumbai

Pune ✓ → Mr. X, Branch Auditor + Company Auditor

Bangalore ✓ → Mr. X, Branch Auditor
- can visit the Branch and access the records

Srinagar ✗ → Mr. Z, CA + CoP, Branch Auditor

Sydney ✗ → Mr. Ponting, Branch Auditor

They shall prepare and send Branch Audit Report to the Company Auditor

May 2006) Q6 "By Sir" Pg 25

According to the provisions contained in Section 143(1), the Auditor should inquire that Personal expenditure of the Director or Officer should not be treated as business expenditure of the company. If it is so, ~~Comp~~ Auditor shall disclose the same in the auditor's Report.

On the basis of the above mentioned provisions, we can conclude that expenditure of ₹1.10 lakhs spent by Director on his foreign travel on company's business accompanied by his mother for medical treatment shall not be considered wholly as a business expenditure. The amount spent specifically on the mother and her treatment is not the part of Business expenditure. Therefore, Auditor should disclose this in the Auditor's Report.

Q10) Pg 26 "By Me"

Referring to the provisions contained in Section 143(1) of the Companies Act. 2013, it has been provided that every auditor shall have a right to access to books of account and vouchers of the company, whether kept at the registered office or at any other place. It means, if Company Auditor wants to visit any branch to access records where ~~audit~~ records are audited by another auditor, then he can.

On the basis of above mentioned provisions, we can conclude that Company Auditor can visit to Mumbai Branch and access to the inventory records maintained at the branch, and the objection of management should be considered invalid.

Section 143 (1) (2) (3)

Section 143(1)

Auditor shall make inquiry that :

a) Loans and advances
(i) ~~are~~ not recovered
(ii) should not be prejudicial to the interest of company
(eg: Rate of Int ↓
Repayment period ↑)
Prejudicial (harmful)
(iii) shall not be ~~made~~ as reported

b) Book entries ~~shall not be~~ against interest of company

(c) Personal expenses have been disclosed as Revenue exp.

(d) Sale price of investments is less than purchase price
(NA → Banking / Investment Co.)

(e) If ~~shares~~ have been issued in ~~cash~~, ~~whether~~ ~~the~~ ~~consideration~~ has been received

Section 143(2)

Auditor shall prepare Auditor's Report on the Basis of Annual financial statement

shall present ~~true &~~ ~~fair~~ view of
- Statement of affairs
- Profit/loss

Section 143(3

Auditor's report shall ~~include~~ the following :

(a) whether Co. has complied with Accounting standards

(b) whether Co. has kept proper Books of Accounts

(c) Whether Branch Audit has sent its report to Company Auditor

(d) whether Company is having ~~consistent~~ & ~~adequate~~ ~~internal~~ financial ~~control~~ system

(e) whether Director is disqualified u/s 164(2)*

(f) whether information & explanation has been received

(g) whether financial statements are in agreement with Books of Account

(h) ~~financial statements~~ having ~~adverse~~ effect on functioning of the company.

ABCDEF ← Mnemonic

* Disqualification of Director [164(2)]

A person is disqualified to be appointed as director of any company in India for the period of five years, if the company in which he is a director ⇒

(a) has defaulted in filing f/s or A/R
(Default period → 3 consecutive f/Ys)

(b) has defaulted in payment of
(i) Deposit & interest thereon
(ii) Debenture & interest thereon } Default period → 1 year
(iii) Dividend

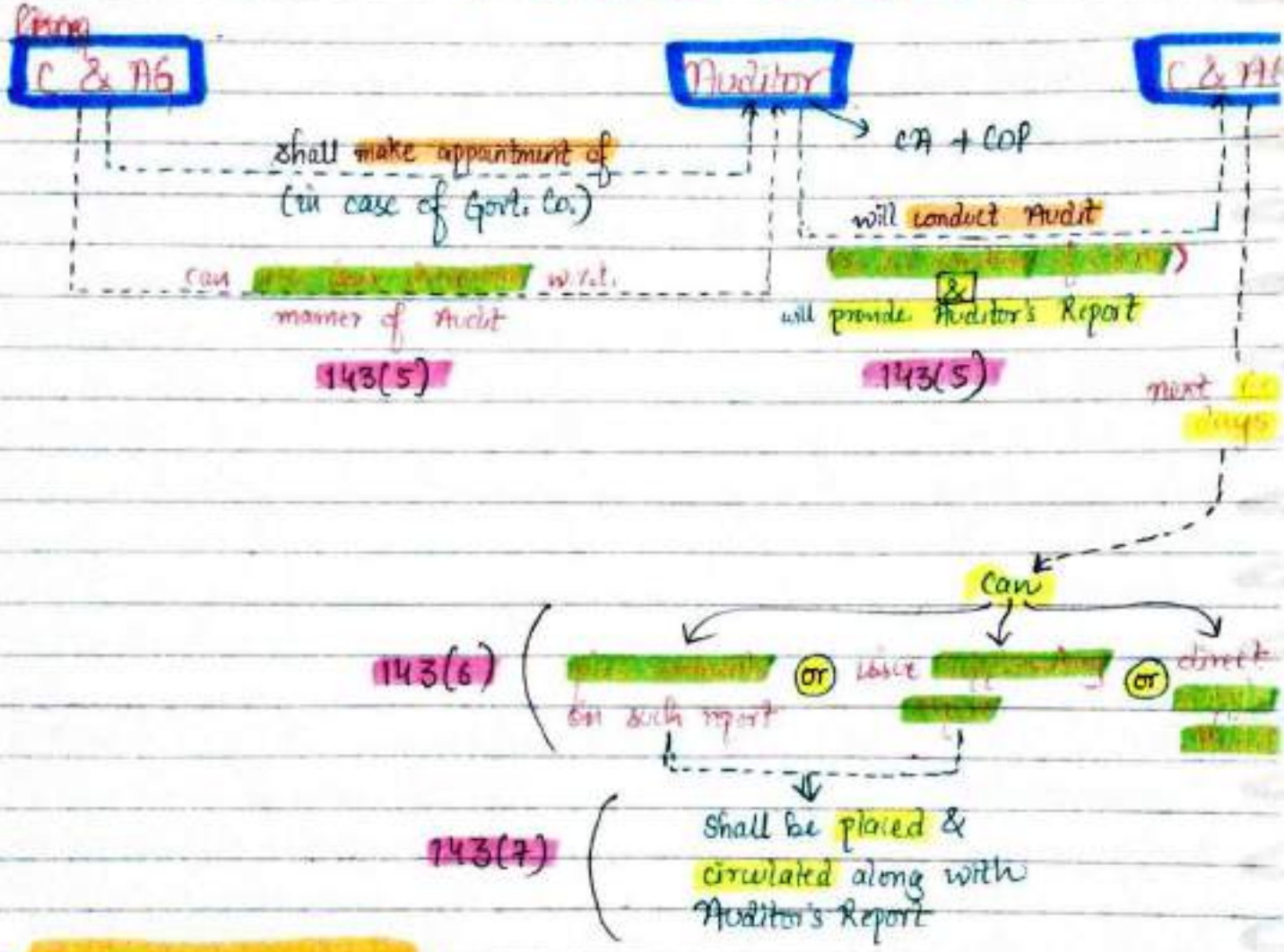
Section 143(4)

If Auditor is giving any negative comment in the Report, then, he shall state the reasons for it.

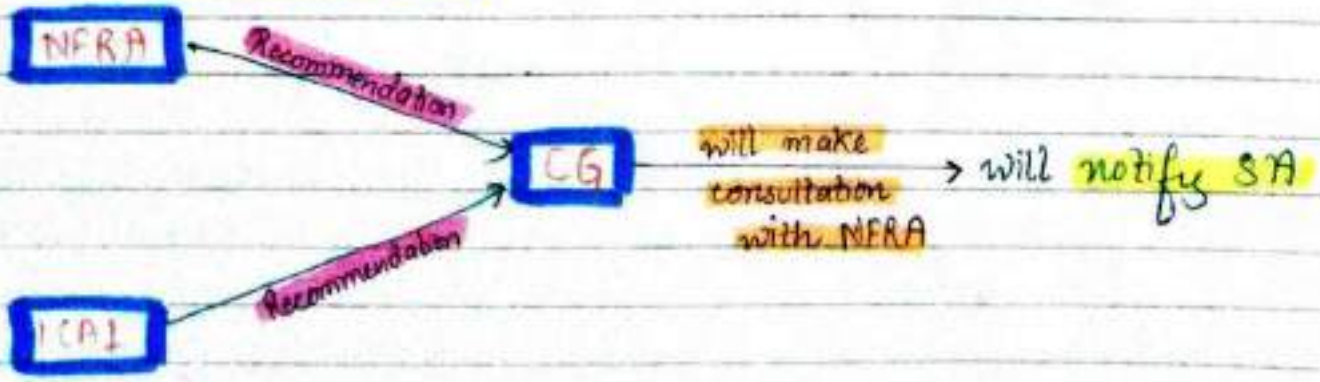
Case Study ⇒ 143(7)

ABC Ltd., whose 30% capital is held by Central Government and 25% by State Government of Rajasthan, is having Mr. X as the auditor who is appointed by C&AG. On completion of the Audit, Mr. X has submitted the Audit Report to C&AG and C&AG has commented w.r.t. discrepancies in stores and stock of ABC ltd. At the AGM of the company, the Audit report was presented before the members but the comments have been excluded. Comment, whether the act of the company is justified.

Section 143(5), (6), (7)



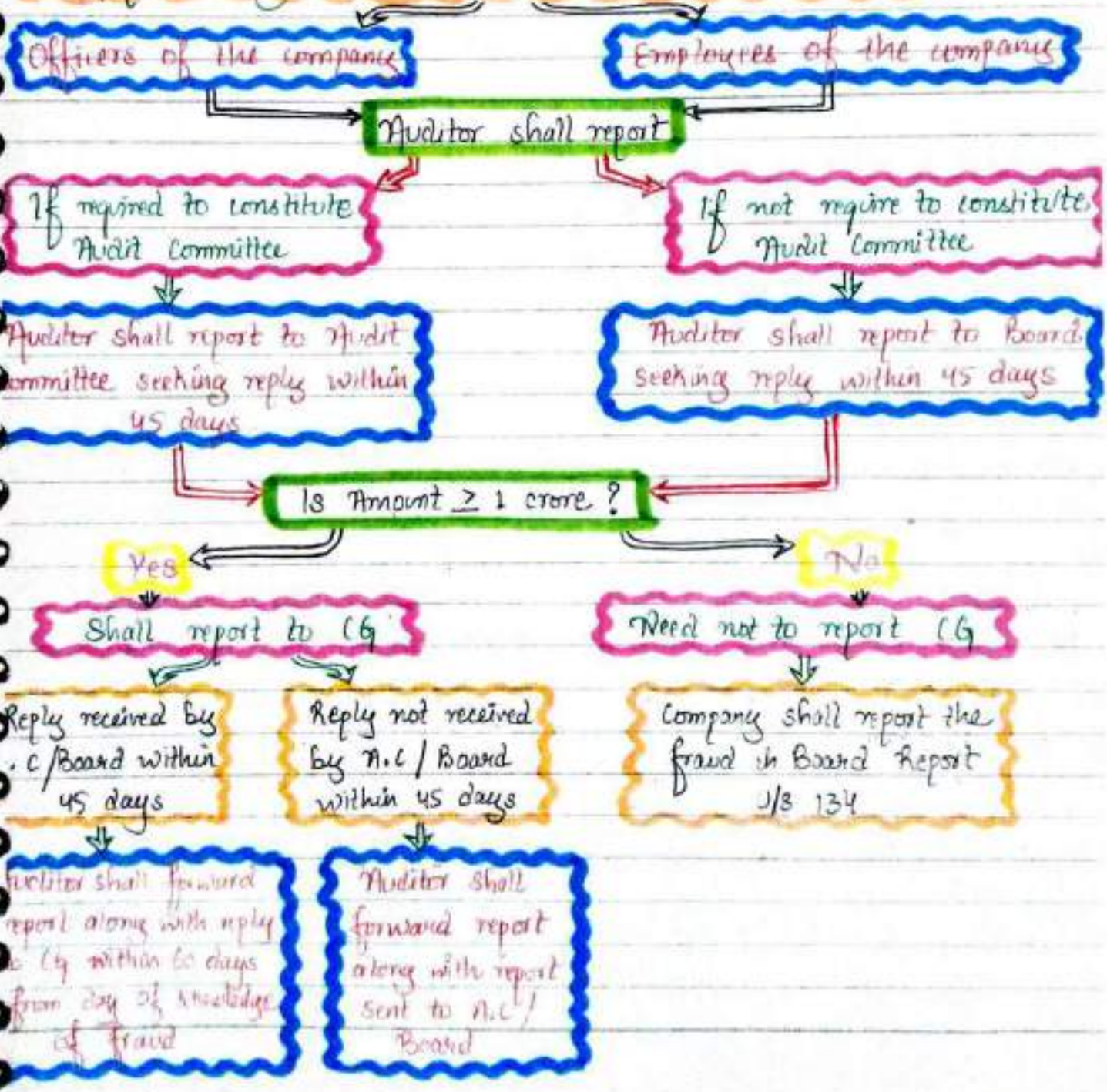
Section 143(9)



Section 143 (10)

Until any new standard is notified, the SA notified on recommendation of ICAI will continue to apply.

Reporting on Fraud [143(12)]



Section 143(13)

Even if the Auditor discloses fraud to the Central Govt., his duty to maintain the matters confidential will not be contravened.

Section 143(14)(15)

The provisions of Section 143 shall apply on Chartered Accountant, Company Secretary & Cost Accountant conducting Statutory, Secretarial, & Cost Audit Respectively

↓

Otherwise, fine will apply → (₹ 1 lac to ₹ 25 lacs)

Section 145

Duty of Auditor

Shall sign Auditor's Report or any other document

Duty of Company

1) Shall read the comments of Auditor on financial matters of having adverse effect
2) Shall provide members a right to inspect the Auditor's Report

Section 146

1) Duty of company → To send notice & other communication to Aud.
2) Duty of Auditor → To attend every GM
   - himself
   - Authorised Representative (CA + CS)
3) Right of Auditor → Can take part in the discussion (only those matters which are related with Audit)

Internal Audit

Sec 138

Applicability

- **Listed Co.**
- **Unlisted Co. (Public)**
  - (a) Paid up share cap - 50 cr or more /
  - (b) turnover - 200 cr or more /
  - (c) loan (o/s) - exceeding 100 cr /
  - (d) o/s deposits - 25 cr or more
- **Private Co**
  - (a) turnover - 200 cr or more /
  - (b) o/s loans or borrowings - Exceeds ₹100 cr

Qualification of Internal Auditor

- **CA**
  - practising CA
  - Non-practising CA
- **Cost Accountant**
- **Other Profession decided by board**

* Employee can also become Internal Auditor of the company.

Question ⇒

Comment whether the following companies are bound to conduct Internal Audit ⇒

(a) Listed Company
(b) Public Co. having capital 40 lacs
(c) Public Co. having capital 40 crores but turnover 205 crores
(d) Public Co. having capital 20 crores, turnover 190 crores & loan 99 cr
(e) Public Co. having o/s loan 100 cr
(f) Private Co. having turnover 199 cr but loan of 100 cr
(g) Private Co. capital 55 cr, turnover 180 cr and o/s loan of 99 cr
(h) OPC

Answers ⇒

(a) Yes, since the company is listed.
(b) No
(c) Yes, since turnover more than 205 crores
(d) No
(e) No
(f) No
(g) No
(h) No.

Cost Audit

Rule 3

Application of cost records

Every Company (including foreign Co.)

engaged in production of goods or rendering of services

(as provided in Table of Rule 3)

having turnover of 35 cr or more in IPFY

(overall T/o from all its U/Ts & S)

shall maintain cost records (w.r.t. material / labour / cost)

considered as part of Books of Accounts

[illegible] (irrespective of turnover)

MSME Act

Small enterprise

Manufacturing Sector

investment → more than 25 lacs upto 5 crores

Service Sector

Investment in equipments → more than 10 lacs upto 2 crores

Micro enterprise

Manufacturing Sector

Investment in P & M → upto 25 lacs

Service Sector

Investment in equipments → upto 10 lacs

CASE STUDY 7

TATA Telecommunication services is having 4 Products Tata Photon, Tata Indicom, Tata Walky, Tata Docomo from which company has earned ₹15 crores each in the Immediately preceding financial year. Comment

(a) Whether company is required to prepare cost records

(b) if yes, whether it should get itscost records audited

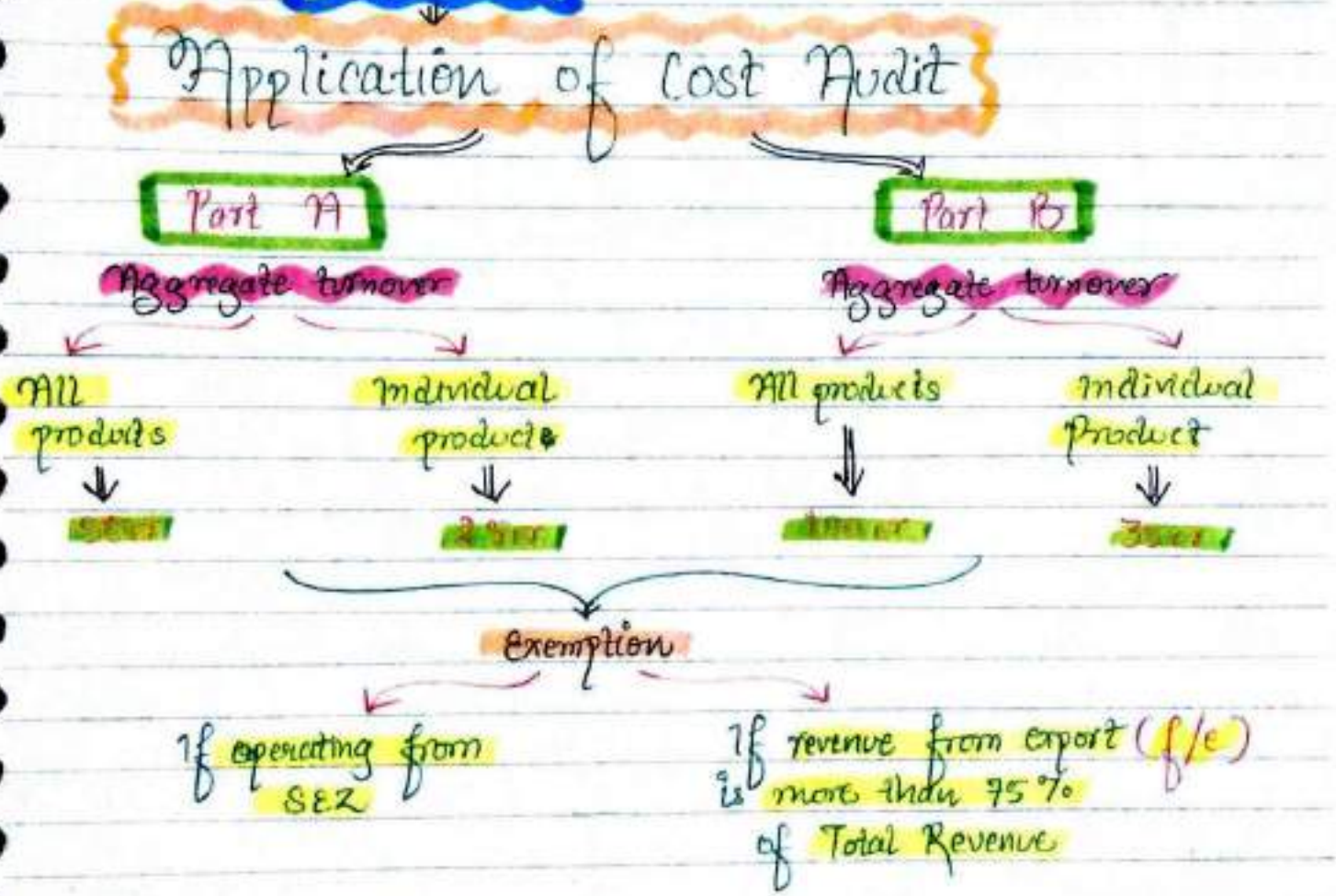
sol: Referring to the provisions contained in Section 148 of CA, 2013, it has been provided that all the companies engaged in production of goods and services having overall turnover of ₹35 crores or more shall maintain cost records. Further Rule 4 provides that Regulated Sectors shall get its cost records ~~of the~~ audited if overall turnover from all products and services during the immediately preceding financial year is ₹50 crores or more and the aggregate turnover of individual products is ₹25 crores or more.

The situation mentioned in the question states that TATA Telecommunication (Regulated Sector) have 4 Products., Tata Photon, Tata Indicom, Tata Walky, and Tata Docomo from which company has earned ₹15 crores each (₹60 crores overall) in the immediately preceding financial y

On the basis of above mentioned provisions, it ~~has been~~ can be concluded that the company is required to prepare cost records since its overall turnover is more than ₹35 crores. But it should not get its cost records audited because the aggregate turnover of Individual products is less than ₹25 crores although the overall turnover is more than ₹50 crores.

Rule 4

Application of Cost Audit



Ques Mr. X, has been appointed as Cost Auditor of ABC Ltd in the Board meeting held on 15.09.2019. State,

(a) appointment is as per the time prescribed under CA, 2013
(b) the last day of intimating the CG regarding appointment
(c) the last day of office of Mr. X if he has submitted the Cost Audit Report on 10.08.2020.
(d) the last day of forwarding of Cost Audit Report to CG.

(a) Yes
(b) 29th Sept, 2019
(c) 27th Sept, 2020
(d) 9th Sept, 2020

~~(d)~~ 10th Aug, 2020 → vacate

Rule 6 along with Section 148

Company → shall appoint (within 180 days from commencement of f/y) → Cost Auditor → Co. shall intimate Auditor & CG within a) 30 days of BM b) 182 days from comm. of f/y

Cost Auditor:

- Qualification → Cost Accountant
- Disqualifications and Penalties → Same as of Statutory Auditor
- Shall conduct Cost Audit (By [illegible])

↓

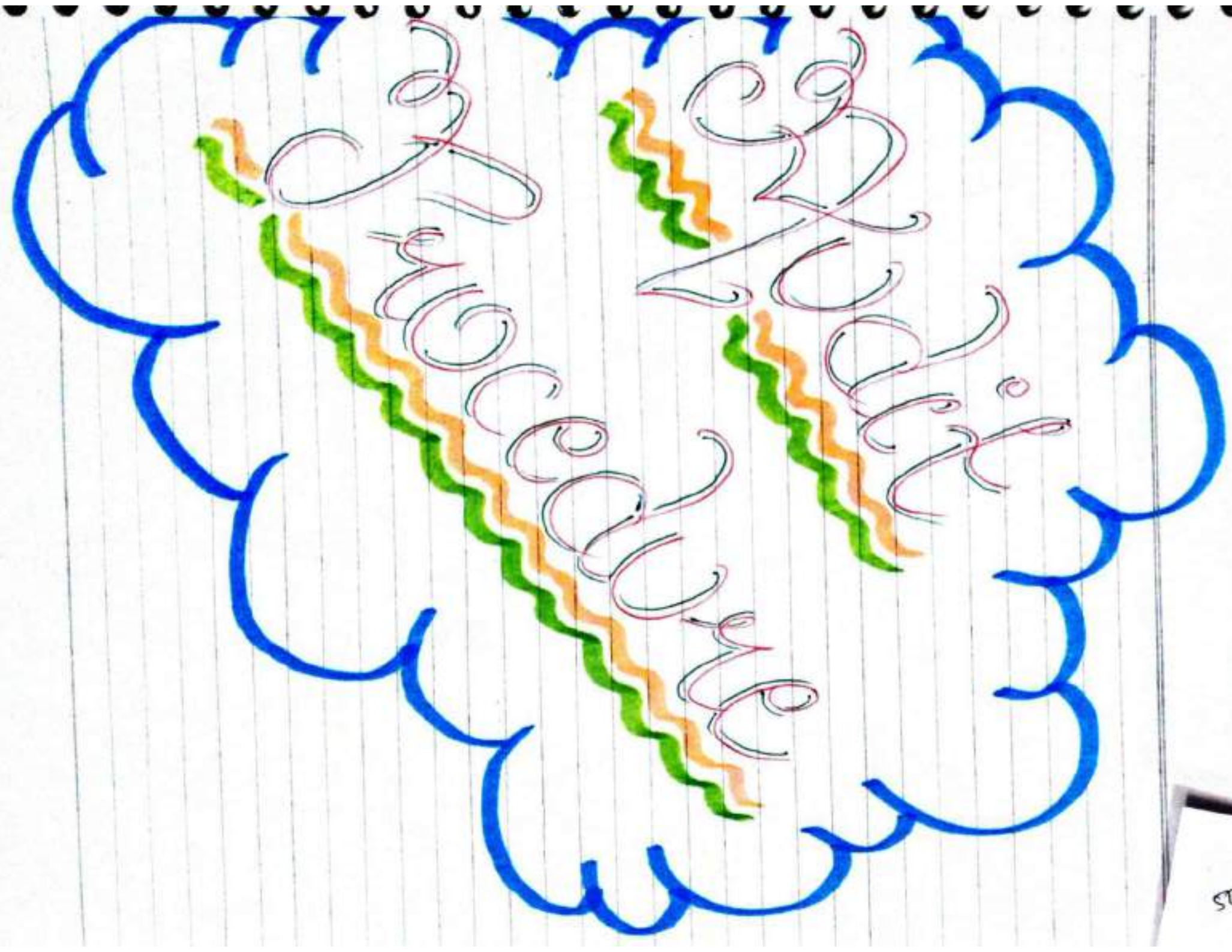
shall provide cost Audit Report (within 180 days from end of f/y) to company → will be the last day of his office

If not → Then he shall vacate office on 180th da

↓

Company shall forward it to CG along with explanations on Qualifications by Auditor (next 30 days)

CG can demand Addⁿˡ information



Audit Process

Preparation for an Audit

1) Obtain knowledge of client's business
2) Understand accounting policies adopted by client

(a) Studying previous year f/s
(b) Communicate with previous Auditor
(c) Experience gained
(i) Previous Audit
(ii) Similar Audit

Performing the Audit

Compliance Procedures (Test of Controls)

Auditor will check the Design, Implementation and effectiveness of [illegible]

Substantive procedures

Test of Details

[illegible] | [illegible]

[illegible] | [illegible] | [illegible] | [illegible]

Vouching | verification

ARP (Analytical Review Procedures)

Comparison of
(a) [illegible] with that of [illegible]
(b) [illegible] with that of [illegible]
(c) [illegible] with that of [illegible]

To observe the trend and trace the abnormal fluctuation

Concluding the Audit *

Concluding the Audit

Auditor shall [illegible] w.r.t. [illegible] and fairness of f/s.

Audit of Financial Statements

PART-A

Assets
1) Fixed Assets (PPE) (tangible)
2) Investments
3) Trade Receivables
4) Inventories
5) Intangible Assets
6) Cash in hand
7) Cash at Bank

Liabilities
(1) Reserves & Surplus
(2) Share Capital
(3) Borrowings
(4) Trade Payables
(5) Provisions
(6) Contingent liab.
(7) Other Liabilities (eg. O/s exp.)

PART-B

Receipts
(1) Sale of products
(2) Sale of Assets
(3) Income from Investments
(4) Other Incomes (eg. rent received)

Payments
(1) Purchase of Itm
(2) Employee benefit expense
(3) Depreciation & Amortisatio
(4) Other expenses (misc.) (power, fuel etc)

Assertions

Definition
SA 315

Representation by Management explicit or otherwise that are embedded in the f/s

Types of Assertions
Next page

'as used by the Auditor to consider the different types of possible 'mis-statements that may occur

Types of Assertions

INCOME STATEMENT

1) **Occurrence**
Transactions have occured and related to the entity.
Eg: Traveling exp → 10 lakhs exp is related with co.

2) **Completeness**
- All transactions are recorded.
- Transaction is recorded in correct accounting period.

Eg: Sale → 25.03.2019
Delivery → 02.04.2020
Sale → FY 2018-19

3) **Measurement**
- Transactions have been classified and presented fairly in F/S.
- Transactions have been recorded appropriately at their proper amount.

Political contribution to BJP → 25 lakhs
Disclosure is as per Sec 182 of CA, 2013.

5) **Presentation & disclosure**
That balances have been properly disclosed.

BALANCE SHEET

1) **Existence**
That A & L exist at the year end

2) **Completeness**
All balances have been recorded

3) **Valuation**
A & L have been properly valued

4) **Rights & obligations**
- Entity has right to ownership & user over asset
- Entity have obligations related to liabilities

(5)

Question: What are the obvious assertions?

(i) Statement of P&L

Travelling exp. → ₹ 50,000

(ii) Balance Sheet

Trade Receivable → ₹2,00,000

Solution:

Travelling expenses	Trade Receivables
a) Expenses have been incurred	a) That the balance of Debtors is ₹2,00,000 at the year end
b) Total expenses was ₹50,000/- during the year	b) That all credit sales have been recorded
c) That expenses is related to the entity	c) That Debtors have been disclosed at proper value i.e., after deducting the provision for Doubtful Debts
d) All travelling expenses have been recorded	d) That entity is having right to recover ₹2,00,000 from Debtor
e) That exp. is revenue in nature	e) That Debtors can be short term or long term.
f) That exp. is as per rules and regulations.	

Question: Balance Sheet of ABC Ltd.

Cash in hand	₹10,000
Investments	₹1,00,000
Secured loans	₹10,00,000
Machinery	
Opening cost 13,00,000	
(-) Depreciation	
current dep 1,30,000	₹ 11,70,000

Assertions?

Solution

Assertions

Cash in hand

1) That Entity is having a balance of ₹10000 at year end
2) That entity is having ₹10000 as currency notes & coins
3) This balance includes all forms of cash i.e., petty cash etc.
4) All cash transactions have been properly recorded in cash book
5) That Company is having right over cash balance and it can use it freely.

Investments

1) That Co. is having Investments of ₹1 lac at the year end
2) That all the investments have been included (i.e., FD, shares, Deb.)
3) That value of investment is ₹1 lac.
4) That entity is having right over investments
5) That Investment may be current or non current

Secured loans

1) That Co. has borrowed the money (existence)
2) That all the loans have been recorded (completeness)
3) Borrowings are having a value of ₹10 lakhs (valuation)
4) That Co. is having an obligation to pay the amount (obligations)
5) That loan can be short-term or long-term (presentation)
6) That Co. has kept any Asset as security.

Machinery

1) That Co. is havin a certain Plant & Machinery in existence
2) That Co. is having proper recording of the balances
3) That the value of Machinery is ₹ 11,70,000
4) That Co. is having a right over the machinery
5) That Dep. for the year is ₹1,30,000
6) That Rate of Dep. is 10%
7) That method of dep. can be WDV or SLM.

Ques state the assertions ⇒ (self)
(1) Advertisement expenses → ₹ 12 lacs

(ii) Rent received → ₹ 20 Lacs
(iii) Inventory → ₹ 50,00,000

Solution 1) Advertisement expenses ⇒
(a) That expenses have been incurred.

2) Rent received ⇒
(a) That rent has been received.
(b) That income is related to the entity.
(c) Total rent received is ₹ 20 lacs during the year.
(d) That all incomes related to rent have been recorded
(e) That income is revenue in nature
(f) That income has been recorded appropriately and presented fairly in f/s

3) Inventory ⇒
(a) The company is having inventory of ₹ 50 lacs at the year end
(b) That all the inventories have been included (RM, WIP, FG)
(c) Inventory having a value of ₹ 50 lacs.
(d) That company is having a right over Inventory
(e) That Inventory have been valued as per AS-2.

1) Advertisement expenses ⇒
(a) That the amount of advertisement expenditure was ₹ 12,00,000.
(b) That the expenses have been recorded in the ~~same~~ appropriate accounting period i.e, after adjustment of O/s & prepaid expenses
(c) That all the expenses w.r.t. advertisement have been properly recorded.
(d) That the expenses is related to the entity.
(e) That the expenses is revenue in nature.

VERIFICATION OF LIABILITIES

Share Capital
(What to study)

- General Aspects
- Special Aspects
  1. Premium (Sec 52)
  2. Discount (Sec 53)
  3. Sweat Equity Shares (Sec 54)
  4. Reduction of S/capital (Sec 56)

Shares Issued at Premium (Sec 52)

Sec 52

The amount of premium shall be transferred to the Securities Premium A/c.

Sec 53

The money standing in the securities Prem A/c shall be only utilised in

(a) Issue of fully paid-up bonus shares
(b) writing-off the preliminary expenses
(c) writing-off the discount, expenses or commission on issue of shares/debentures
(d) Premium on redemption of P/s or Debentures
(e) Buy-back of securities.

H.W [Imp]

Ques ABC Ltd has issued shares to some of its members at discount As an auditor, comment whether the said allotment is valid under the provisions of CA. 2013? And the consequences of such issue

Sol. Referring to the provisions of Section 53 of the Companies Act. 2013, it has been provided that issue of shares at discount is prohibited except as provided ~~to~~ as Sweat Equity Shares to employees and to Creditors as per Debt Restructuring Scheme. If any company fails to comply with the provisions of this section, such company and ~~eff~~ every officer in default shall be liable to a penalty equal to amount raised through issue of shares at discount or five lakh rupees, whichever is less. Moreover, the Company shall also be liable to refund all monies received with interest at the rate of twelve per cent per annum to whom such shares have been issued.

The situation mentioned in the question provides that ABC Ltd has issued shares to some of its members at discount.

On the basis of above mentioned provisions, we as an auditor can state that the said allotment is invalid, and further company and every officer in default ~~=~~ shall be liable ~~for the~~ according to the provisions mentioned above.

Shares at Discount (Sec 53)

General Rule

- Shares cannot be issued at discount.
- If issued then

fail + officer in default → liable to penalty
- whichever is lower:
  - Amt. of shares issued
  - 5 lacs

company → liable to pay Interest @ 12% p.a

Exceptions

- Sweat equity shares can be issued at discount.
- Shares at discount can be issued to creditors as per Debt Restructuring Scheme.

Sweat Equity Shares (Sec 54)

Conditions for issuing Sweat Equity Shares ⇒

1. Special Resolution must be passed at General meeting of the company.
2. SR is valid for one year i.e., Sweat equity shares shall be issued within one year (12 months) from the day of passing of resolution
3. Maximum Limit of sweat equity shares :-
   a) 15% of paid-up equity share capital
   b) ₹ 5 crores

   whichever is higher

Exception ⇒ Start up company can issue maximum upto 50% of equity share capital in the starting 5 years.

4. Sweat Equity shares issued to the employees or Directors of the company, its subsidiary company, its holding company.

- Employees should be permanent employee
- Employees of the company or subsidiary company are working in/outside India.

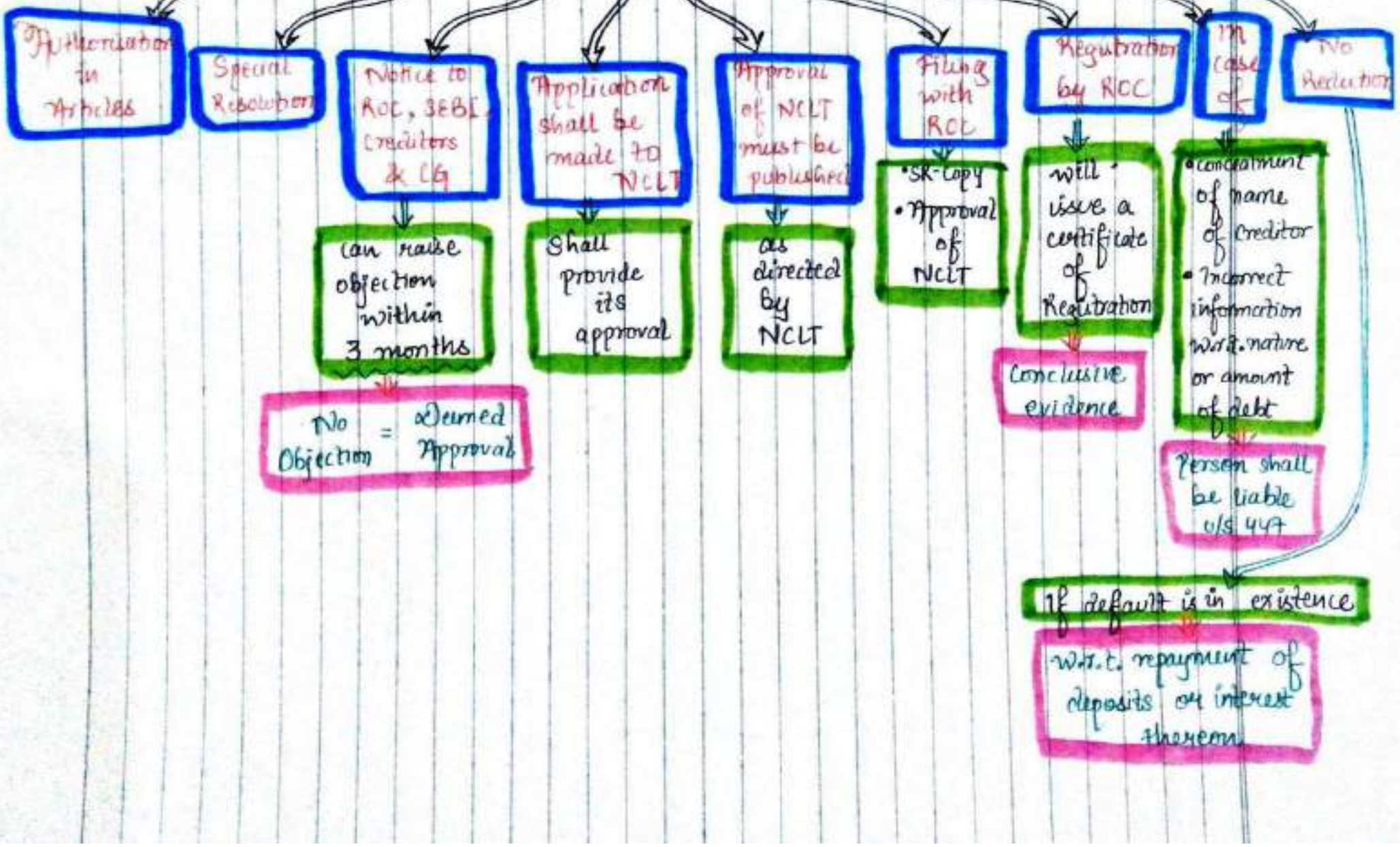
5. Listed companies shall comply with SEBI guidelines.

6. The person to whom Sweat Equity shares have been issued cannot transfer it upto 3 years from Allotment (lock-in period)

7. Shares must be valued by a registered valuer.

8. IPR shall also be valued by a registered valuer.
Patent

Reduction Of Share Capital (Sec 66)



Ques As an auditor, how will you check reduction of share capital?

Sol. According to the provisions of Section 66 of CA, 2013, Auditor will check the following ⇒

a) whether the articles has authorised the reduction of share capital
b) whether special resolution has been passed by the members.
c) whether notice has been served by the company to ROC, creditors CG and SEBI
d) whether approval has been obtained from the National Company law tribunal (NCLT).
e) whether the interest of the creditors has been secured
f) whether the order of NCLT has been published as per the manner directed by the NCLT.
g) Whether the copy of SR along with approval of NCLT has been filed with the ROC.
h) whether ROC has provided the certificate of Registration to the company.
i) there should be no default existing w.r.t. repayment of deposits or payment of interest thereon.
j) In case of listed company, check compliance of SEBI guidelines.
k) check proper accounting treatment as per the relevant accounting standard

Audit Procedures w.r.t. Share Capital

(General Aspects)

1) Compare the year end balance with previous year balance.
2) If there is any change in the Share Capital, obtained certified copies of resolutions. (ordinary Resolution) (Sec 61)
3) Obtain a copy of SH 7 w.r.t. increase of share capital. (Sec-64)
4) Obtain a copy of PAS 3 w.r.t. allotment of securities (30 days - public issue) (15 days - private placement)
5) Check whether paid-up capital is within the limits of Authorised Capital
6) If there is no change, obtain written representation from Management.
7) In case of change in authorise share Capital check wether MoA is properly altered.

Reserves & Surplus

Reserves & Surplus

These are amounts appropriated out of profits which are not intended to meet any liability or contingency.

Provisions

These are amounts charged against profit or income to provide for depreciation, diminition in value of Asset, taxation etc.

Difference b/w Reserves & Provisions

Reserves

1) Appropriation out of Profits
2) They are not intended to meet any liability or contingency
3) Reserves cannot be created in absence of profits
4) Generally, Reserves are optional for the companies.
But in some cases, Reserves are mandatory
Eg: CRR, ORR etc.

Provisions

(1) Charge against Profits
(2) Provisions are made to meet liability or contingency or diminution in value of Assets
(3) They must be created whether or not there are profits
(4) Provisions are mandatory in nature and have to be made as per Generally Accepted Accounting Principles

Types of Reserves

Revenue Reserves

Profits that are available for distribution to Shareholders as dividend
Revenue reserves are created out of profits earned in the ordinary course of business.

Capital Reserves

- It represents surplus on Profits earned in respect of certain type of transactions
  eg: 1) Sale of fixed Assets at a price in excess of cost
  2) Profits in issue of forfeited shares
- Capital Reserves

(1) Share Premium
(2) CRR

(1) Surplus in P&L A/c

Assertions (w.r.t. Reserves & Surplus)

1) Existence : The balance of R&S existed in the year end
2) Completeness : That all the balances of R&S have been included.
3) Valuation : That R&S have been valued at its appropriate amount
4) ~~Obj~~ Obligations : It is the obligation of the company.
5) Presentation & Disclosure : That the R&S balance have been properly presented & disclosed.

Borrowings

Audit Procedures

(1) Obtain and study MoA of the company and check whether comp is entitled to obtain loan / borrowings.

(2) In case amount of loan exceeds the limit mentioned u/s 180 of CA, 2013, check whether Special Resolution has been passed by the means of Postal Ballot.

(3) Obtain and study the loan agreement between lenders and entity and ensure the principal & interest amount as well as due dates.

(4) Ensure whether company is regularly paying principal & interest amo
(In case of O/s Dues, Auditor shall make disclosure in Auditor's Rep as per CARO, 2016)

(5) In case of secured loan, check whether charge has been registe with the ROC u/s 77 of Companies Act, 2013.

Whenever confirmation is made by 3rd party is inconsistent with disclosures made by management, then 'exception' will be created.

* External confirmations are supportive evidences not the sufficient and appropriate evidences

(6) Make Direct confirmation from the bank or financial institutions from which client has obtained the loan. (External confirmations)

(7) In case of special purpose loans, check whether loan has been utilised in the special purpose or not.

Direct Confirmation from third parties

(1) Select the third party to whom request will be made.

(2) Design the Request
(a) Positive: Auditor will demand the reply in both cases i.e., in case of exception and otherwise.
(b) Negative: Auditor will demand the reply from third party only if any exception is there.

(3) Send the request to third parties

(4) In case of non-reply, send reminders to third parties

(5) Compare the reply with that of requests.

(6) In case of exceptions, inquire with management and identify mis-statements.

Trade Payables

Compliance procedures

1) Check proper system for preparation of schedules of trade payables

2) Check authorisation for commission paid on purchase

3) In case of high value items, check authorisation

4) Check whether payment is as per the policies

5) Statement of A/cs should be reviewed at periodic intervals.

6) Check the aging schedule of creditors.

Substantive Procedures

Examination of Records

(1) Check correspondence with the creditor

(2) Check agreement (if any) with the creditor

(3) Check [illegible] ledger

(4) Check cash/pass book in order to form reliability over ledger

(5) Check unusual payments at year end.

Direct (confirmation) Procedure

(1) Select the 3rd party to whom request will be made.

(2) Design the request
(a) Positive
(b) Negative

(3) Send the request to third parties

(4) In case of non-reply, send reminders to third parties

(5) Compare the reply with that of requests

(6) If mgmt. refuses to send the request, inquire reasons.

(7) In case of [illegible]

ARP

(1) Compare curr year fig. wit that of PY f

(2) Compare act fig. with tha of Budgetary

(3) Compare [illegible] ratio with t of [illegible]

(4) Compare cu ratio with re of similar fi

(5) Compare CY aging schedu with PY agin schedule

Contingent Liability

General Procedure (for litigation and claim & other contingent liabilities)

1) Obtain the list of all the contingent liabilities
2) Review minutes of Board meeting
3) Obtain written representation from management w.r.t. completeness
4) Ensure accounting treatment as per AS-29
5) Ensure disclosures as per Schedule III
6) Review legal expense A/c
7) Seek direct confirmation from the lawyers.

Special Procedure w.r.t. litigations and claims

[V. V. Imp]

Direct communication with Entity's External legal Counsel

1) In case of Risk of Material Misstatement regarding litigations & claims
2) Audit procedures indicate that other material litigation exist (Heavy legal expenditure)

Through letter of inquiries

Meet the Entity's External legal Counsel

(1) The Auditor determines that the matter is significant risk.
(2) The matter is complex
(3) There is dis-agreement (except between Management & entity's external legal counsel.

Ordinarily, such meeting require mgmt.'s permission and are held with a representative of mgmt in attendance

Inventories

(1) Assertions (Brief)
(2) Examination of Records
(3) Physical verification
(4) Confirmation from third party
(5) Examination of Valuation
(6) ARP
(7) Assertions (Detail)

Basic assertions w.r.t. inventories

- **Existence** → To establish the existence of inventories
- **Completeness** → • That all stocks have been recorded. • That stock of third party have not been included.
- **Valuation** → That inventory is properly valued as per AS 2
- **Rights** → That client is having right over the inventory
- **Presentation & Disclosure** → That inventory has been presented as per AS 2 Schedule III

Examination of Records

(1) Auditor shall check the records maintained by the Management w.r.t. inventories. For instance, Stock ledger, Store Register, Bin card etc.

(2) If Management has not prepared complete records w.r.t. inventory, then Auditor shall extend his procedures and should perform additional procedures in order to form reliability over inventory. Eg: Auditor should check Purchase bills, External confirmations

Physical Verification of Inventories

General Points

(1) Physical verification is the primary responsibility of Mgmt.
The Auditor can attend the P/V conducted by the management.

(2) Extent of reliance upon the internal control system
(ICS weak - Parti. high)
(ICS strong - Parti. less)

(3) He should test check few items by himself.

(4) He must check the high value items with due care.

(5) Physical conditions must be noticed by the Auditor.
Eg: Age, Deterioration of Inventory

Consideration while planning P.V. of Inventories

(1) Nature of Inventory
(2) Stages of completion of WIP
(3) ICS
(4) Location of Inventory
(5) Timing of physical counting
(6) Whether assistance is required.

Physical counting other than date of F/S

Perform Audit procedures to obtain Audit evidence about whether changes in inventory between count date and date of f/s.

Intervening transaction

Audit Procedures

10th Oct. — P.V. + Mgmt.

10th Nov — P.V.

Auditor - ~~Attend~~

Unable to attend P.V due to unforeseen circumstances

Auditor shall make or observe some physical counts on alternate date and perform Audit procedures on intervening transactions.

If attending PV becomes impracticable

(Reason →
- Limitation imposed by mgmt.
- Seizure by Govt. Authority)

(1) Auditor shall perform alternative procedures to obtain sufficient & appropriate evidence w.r.t. inventory

↓ If not possible

Then, he shall disclaim the report ~~report~~ as per SA 705 for the limitation on scope

Question

Mr. X, is the auditor of BBC Ltd. attends Physical Verificati of Inventory conducted by the Management on 5 Jan, 2019. The financial year of the company on 31 Mar, 2019. The Auditor is discharged from any further duty w.r.t verification of Inventory.

Question The management of PQR Ltd. makes physical counting of Inventory on 15. September. But the Auditor Mr. X could not attend it due to ill health. Later on, Auditor counts the stock on 15 Oct. State, whether Auditor has performed his duty.

Question The management of JKL Ltd has restricted his Auditor Mr from attending the physical verification conducted by the management. Comment, whether Auditor will be discharged from his further duties in this case?

Confirmation of stock held by Third Parties

↓

Auditor shall perform one or both of the following procedure

- Request confirmation from third party (w.r.t. Quantities and conditions of Inventory)
- Perform inspection or other procedures

ARP (Inventories)

(1) Comparision of CY closing stock with that of PY closing st

(2) Comparison of GPR of CY with that of Gross Profit ratio of PY
(3) Comparison of Actual fig. with that of Budgetary fig.
(4) Comparison of Client's ratio with that of Industry Average Ratios.
(5) Comparison of Client's ratio with that of ratio of of similar firms.
(6) Comparison of CY relationship of profit with sales with that of PY.

Assertions in Detail

Existence
- Perform Inv. test count
- Participate in the Mgmt's RK verification
- Confirmation from third party w.r.t. RM held by them.

Completeness
- (1) Check Inventory Register
- (2) NRP
- (3) (+) Check RM held by third party (−) Check RM held by them of third party
- (4) Check arithmetical accuracy.

Valuation
- (1) Ensure valuation as per AS-2
- (2) Examine method of valuation
  - (a) FIFO
  - (b) LIFO
  - (c) Weighted Avg.

Rights
- (1) Examine Purchase invoice
- (2) Check that goods have been kept as Pledge
- (3) Obtain confirmation from third party

Presentation & Disclosure
- (1) Examine proper disclosis as per Schedule III of CA, 2013

Verification of WIP

- Examine the cost records (cost sheets)
  - Ascertain that cost sheets are duly attested by the works Manager
  - Test the correctness of cost of verification of Mfg and cost of RM
- Hold discussion with persons inside the entity
- Obtain Expert Opinion

3) Compare with the unit cost with estimated cost
(4) Compare CY cost with that of PY
(5) Ensure proper disclosure as per Schedule III in the B/S

Verification of Goods sent in Consignment

(1) Check the Agreement formed between Consignor and Consignee to ensure rate of commission etc.

(2) Check the Proforma Invoice to examine the Quantities and rate of goods

(3) Check whether unsold goods are disclosed as closing stock.

(4) Examine freight enclosures. Eg: Bill, challan etc.

(5) Confirmation from Consignee

(6) Examination of accounting treatment by verifying Journal Entries

Audit of PPE

(Tangible fixed assets)

↓

Expenditure

BASIS	REVENUE	CAPITAL
Meaning	It is a routine expenditure incurred in the normal course of business.	It is incurred in acquiring or improving permanent asse which are not meant for re-sale.
Purpose	To maintain the earning capacity.	To improve the earning capacity.
Nature	It is usually a recurring item.	It is not a recurring item
Period	It is consumed within an accounting year.	It produces benefits for several years.
Treatment in Income Statement	Entire amount is charged to Income Statement.	Only a small part is charged as Depreciation.
Example	(a) Salary (b) Cost of RM	(a) Purchase of land, Building, etc (b) Of Revenue nature but done for higher productivity (i) Interest paid as per AS-16 befo Asset is constructed (Borrowing cost (ii) Wages on Installation of P&M (iii) Wages/material on cost of building

Audit of PPE

Existence

(1) Review client's plan for performing physical verification

(2) Attend PV conducted by Management

(3) [illegible] Verification [illegible]

(4) Compare Verification Report with fixed asset Register

(5) Verify the discrepancies noted and manner of dealing

Completeness

(1) Ensure that all additions have been included

(2) Check that [illegible] have been [illegible]

(3) ⊕ Asset of client held by T.P.

⊖ Asset of T.P held by client

(4) Ensure whether capital expense have been included in

(5) Check Arithmetical Accuracy

Valuation

(1) Ensure [illegible] as per Accounting Principles

(2) Verify that entity has charged Depreciation

(3) Method of Depreciation WDV/SLM

(4) Ensure that method & rate is consistent

(5) Check whether client has been [illegible] of PPE

Rights

(1) Movable property Check - Invoice

(2) [illegible] Check - Title deed

(3) Verify Register of charges

(4) In case of pledge, communicate with T.P.

Presentation & Disclosures

Check Proper disclosure as per Schedule III of CA 2013

(d) Legal expense in purchase of L&B

(e) Freight on P&M

(f) Major Repair

Audit of Intangible Assets

General Audit Procedures

Goodwill

1) If acquired, then check agreement with the seller
2) If acquired, check Board Resolution
3) If Self-assessed created, check proper valuation
4) Check compliance of AS-26
5) Check proper disclosure as per Schedule III of CA, 2013
6) Check amortisation over a reasonable period.

Trademark & Copyright

* Obtain schedule of TM & CR

(1) If acquired, check agreement
(2) If acquired, check Board Resolution
(3) Check whether it is registered under respective laws
(4) Check the life of TM&CR
(5) If renewal is necessary, check whether renewed or not
(6) Check the valuation certificate
(7) Check compliance of AS-26
(8) Check Proper disclosure as per Schedule III

Patent

→ Same

Intangible Assets (Assertions)

Existence

(1) Check whether intangible asset is in existence or not
- By active use of asset
- By life of an asset

(2) Check [illegible]

(3) Obtain confirmation from management

(4) In case of [illegible], obtain expert advice

Completeness

(1) Obtain schedule from Management

(2) Ensure additions are included

(3) Ensure deletions are excluded.

(4) In case of [illegible], check [illegible]

Valuation

(1) Check Amortisation over period

(2) Check method of Amortisation

(3) Check whether management has made [illegible]

↓

Check compliance of Ind AS 36

Rights

(1) Check certificates issued by the Appropriate Authority

(2) Check Register of charges

Presentation & Disclosure

Ensure compliance of Schedule III of Companies Act, 2013

Audit of Cash and its equivalents

Cash in hand

1) Check cash book and trace relevant entries in ledger
2) Physically verify the cash at the year end
   ↓
   If not possible, then verify it before or after B/S date
   &
   perform audit procedures for intervening transactions
3) Verify the cash in presence of the cashier
4) After verification, prepare a report duly signed by them & cashier
5) Make suprise check at reasonable intervals
6) Check all balances have been included
7) If postal stamps are in substantial ~~sub~~ number, check whether it is disclosed separately.

Cash at Bank

(1) Check Schedule of Bank Alcs of client
(2) Check Pass Book and trace relevant entry in ledger
(3) In case of FD, RD, check certificates provided by bank.
(4) In case of overdraft, check rules and regulations of Bank and Management authority.
(5) Check BRS and replace it (If necessary)
(6) Obtain confirmation from bank.

Trade Receivables

(1) Compliance procedure → Internal Control System
(2) Assertions
(3) Direct confirmation from Debtor
(4) ARP

Audit procedure to verify Internal Control System w.r.t Trade Receivables

(1) Check that all sales have been recorded.
(2) Ensure that sales are only to approved customers.
(3) Check that Debts are collected promptly.
(4) Check Proper Aging Schedule made by client
(5) Once recorded, sales cannot be terminated unless cash
   (a) Cash is received
   (b) Approval by Authorised person

Assertions w.r.t. Trade Receivables

Existence

(1) Examine the Debtor's ledger

(2) Calculate the receivable report

(3) Check aging report

(4) Obtain confirmation from debtor

Completeness

(1) Ensure whether all balances have been recorded.

(2) Examine ~~Invoices~~ Copies of Sales Invoice.

(3) Ensure whether discount is properly deducted.

(a) Discount

- as per Rules & regulations
- Authorisation
- Cash Discount

Check whether cash is received

(4) Implement cut off procedure (i.e., to confirm that transactions are in the correct accounting period)

Valuation

(1) Identify Doubtful debts.

(2) Ensure that provision for doubtful debt is made.

(3) Ensure that rate of provision is reasonable

(4) In case of no provision, obtain written representation

(5) If Bad Debts written off

Check Authorisation

Rights

Company have right to recover amount from Debtors

Presentation & Disclosure

(1) Split

(a) less than 6 months

(b) 6 months or more

(2) Classification

(a) Secured, consider good

(b) Unsecured, consider good

(c) Doubtful

(3) Disclosure

Amt. due from

(a) Director

(b) Officer

(c) Pvt. Co. → (2) → Director/ Manager

(d) Firm → (2) → Partner

Direct confirmation from Debtor

(1) Select the Debtor to whom request will be made
(2) Design the request
    (a) Positive
    (b) Negative
(3) Send the request to third parties
(4) In case of non-reply, send ~~notification~~ reminders to third parties
(5) Compare the reply with that of requests
(6) If management refuses to send request, inquire reasons
(7) In case of exception, inquire management.

PYBP

(1) Compare current year figure with that of Previous year figure.
(2) Compare Actual fig. with that of Budgetary figure.
(3) Compare Client's ratio with that of Industry Average Ratio.
(4) Compare client's ratio with the ratio of similar firms
(5) Compare current year aging schedule with Previous year aging schedu

Audit of Transactions

- **Receipts**
  - **Sales**
    - (1) Sales
    - (2) Consignment Sales
    - (3) Sales on approval basis
  - **Other Income**
    - (1) Rent received
    - (2) Int. on FD
    - (3) Dividend
    - (4) Sale of Investments
- **Payments**
  - **Purchases**
    - (1) Purchase
  - **Other expenses**
    - (1) Rent
    - (2) Employee Benefit expenses (Salary, Gratuity, PF)
    - (3) Power and fuel exp.
    - (4) Stationery & Printing exp.
    - (5) Adv. expenses
    - (6) Legal & Prof. fees
    - (7) Travelling expenses
    - (8) Dep. & Amortisation exp

Audit of Receipts

Sales

(1) Check the **Internal Control System** over sale of items (for eg: Proper recording, proper Authorisation)

(2) In case of special discount, **check authorisations** from the higher management.

(3) Check **proper adjustment of discount** provided to the customers.

When there is a risk w.r.t. Related Party, then that risk is term as "Risk of fraud"

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(4) Check Proper Adjustment of Sales Returns from the customer.

(5) In case of Sales on Approval Basis, check proper recording of sale.

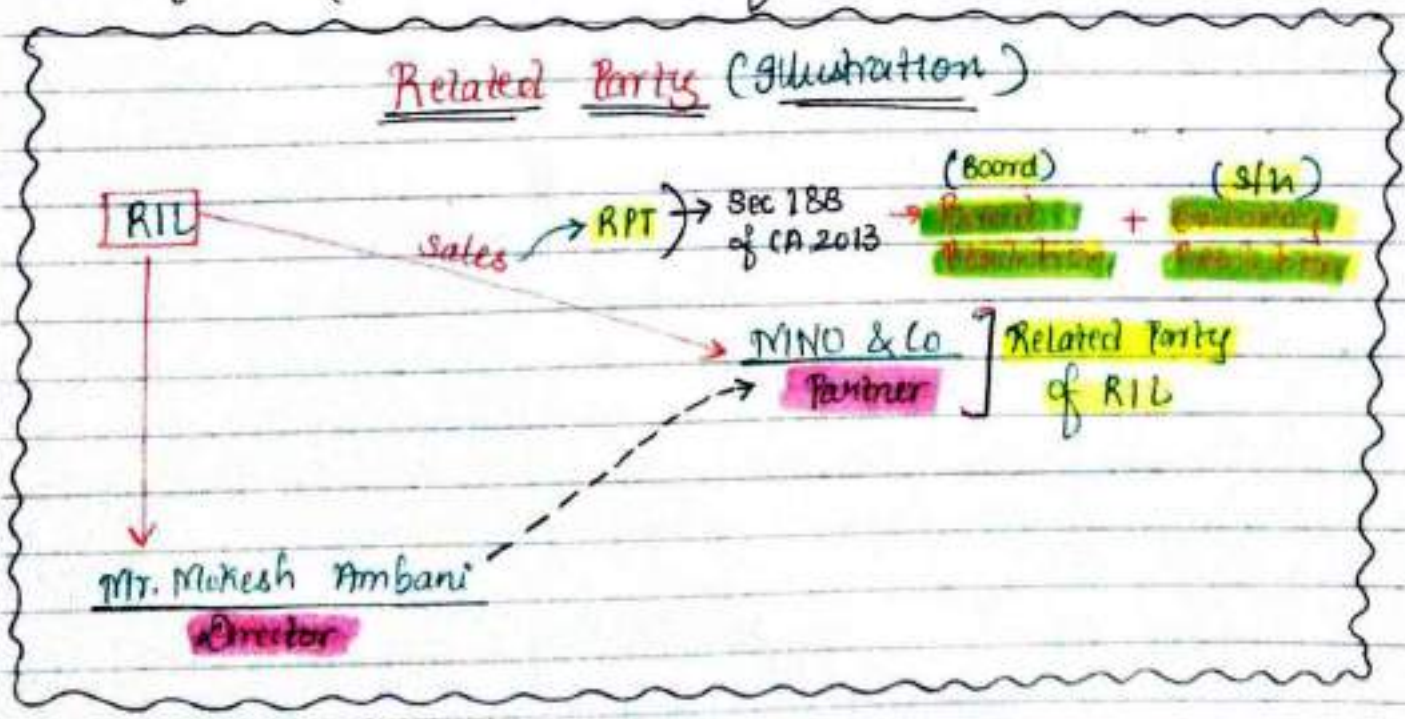
(6) In case of Cash Sales, Check Cash Book / Pass Book

(7) In case of credit sales, check Debtor's Ledger

(8) Check copies of Sales invoice.

9) In case of sale with related party, check compliance of Sec 188 of CA, 2013 i.e., Board Resolution and Ordinary Resolution is passe

(10) Compare CY sales with that of PY (Analytical Review Procedure)



2) **Rent Received** ⇒

(1) Obtain and study the Rent Agreement formed between client and Tenant

(2) Check computation of Rent as per Agreement.

(3) Ensure Proper deduction of TDS

(4) Check the due dates of Rent

(5) In case of Outstanding rent, check whether shown as an asset

(6) Check Cash Book / Pass Book

7) Check the nominal a/c (Rent received a/c)

3) **Interest on Fixed Deposits** ⇒

(1) Obtain list of FDs made in the name of client

(2) Check the FD certificate

(3) Check computation of Interest as per rates prescribed in the FD certificate

(4) Check due dates

5) Check entry in the pass book

6) Check entry in the Nominal A/c

(7) In case of o/s Interest, check whether shown as an asset

(8) Check compliance of AS-9

(9) Check arithmatical accuracy.

(4) Dividend Received

(1) Obtain the list of shares hold by client

(2) Examine the Share certificate

(3) Check the confirmation mail received from the company and depository.

(4) Check entry in Pass Book

(5) In case of pref. shares, check whether rate of dividend is as per rate prescribed.

(6) In case of delay, check whether client has received dividend along with interest @ 18% p.a.

(7) Check compliance of AS-9.

(5) Sale of Investments (Shares, Debentures, Bonds, Mutual finds)

(1) Check Proper authorisation for sale of Investments.

(2) Check that Sales Price of Investment is not less than Purchase price of Investment. If it is so, then inquiry

Travelling expenses

(1) Check the internal rules and regulations of the client.

(2) Vouch the bills and invoices of flights, Hotels etc.

(3) Ensure whether the expenditure is for business purpose

(4) Check Cash Book / Pass Book

(5) Check entry in nominal a/c

(6) Check whether amount paid is reasonable or not

(7) Compare CY expenditure with that of PY (ARP)

Printing and Stationary

(1) Vouch the bills and invoices of Stationary.

(2) °

(3) Ensure whether the expenditure is for business purpose

(3) Check Cash Book / Pass Book

(4) Check entry in nominal A/c

(5) Check whether amount paid is reasonable or not

(6) Compare CY expenditure with that of PY (ARP)

(7) In case of o/s payments, check whether shown as a liability.

(8) In case of prepaid payments, check whether shown as an asset.

Legal and Professional fees

(1) Obtain the list of lawyers and professionals engaged by the client

(2) Obtain list of pending cases by/against the client

(3) Check whether payment made is reasonable or not.

(4) Obtain confirmation from lawyer or expert

(5) Check entry in Pass Book

(6) Check entry in Nominal A/c

(7) In case of O/s fees, check whether shown as a liability.

(8) In case of Prepaid fees, check whether shown as an asset.

Insurance

(1) Obtain and study Insurance Policy to examine the terms of insurance

(2) Check Proper computation of premium as provided in the policy.

(3) Examine Proper communication between Client and Insurance Compan

(4) In case of expiry of Insurance Policy, check whether it is renewed or not.

(5) Check entry in the Pass Book.

(6) Check entry in Nominal A/c

Depreciation and Amortisation expenses

(1) Check the accounting policies of the client.

(2) Check whether rate of Depreciation is consistent.

(3) Check method of Depreciation.

(4) Check that Depreciation is for proper accounting period

(5) Check compliance of AS-10

(6) Check compliance of the Provisions of Section 123 of CA, 2013

Advertisement expenses

(1) Check authorisation in case of heavy advertisement expenses

(2) Ensure whether the expenditure is for business purpose.

(3) Check the terms and conditions for advertisement

(4) Check Pass Book

(5) Check entry in Nominal A/c

(6) Check whether amount paid is reasonable or not

(7) Compare CY expenditure with that of PY (ARP)

(8) In case of [redacted] payments, check whether shown as a liability.

(9) In case of [redacted] payments, check whether [redacted]

Special Audit

Educational Institution

Preliminary

Review the legal status of the entity

Obtain and study fundamental documents (e.g. → MoA, AoA)

Review the internal control system

Study the minutes of BOM

Obtain the knowledge Accounting policy

Obtain counting records (Cash Books, ledgers, etc.)

Receipts

(1) Fees

* Admission fees
  Refundable → Liability
* Discount
  Authorisation
* Fee waiver → Economically weaker students
  Check proper documents
* Long term fees o/s
  Ensure proper steps by Mgmt.
* Entry in Pass Book / Cash Book
* Entry in Nominal A/c

Payments

(1) Salary

* Check Staff Register
* Check Proper deductions (TDS, PF, ESI)
* Check Ethical Judgment
* CY Salary ↔ PY Salary
  ARP
* No Dummy Workers
* Pass Book
* Entry in Nominal A/c
* Check compliance of AS-15

Assets

(1) Fixed Assets

* Ownership → Title Deed
* Existence → Phy. Verification
* Proper Depreciation
* Proper valuation
* Proper disclosure as per Schedule III
* Whether any charge has been created
* Compliance → AS-10

Liabilities

(1) Capital

* Proper Adjustment
* Proper disclosure

(2) Loan

* Check MoA to ensure powe of the Co.
* Check compliance of Sec 180 of CA, 2013
* Check whether secured or unsecured
* Loan Agreemen
* Check [illegible] of Int. & Principal as per loan agreement

* O/s → Asset
* Prepaid fees → Liability

(2) Donations

(1) Govt Donations
Check → Sanction letter

(2) Special purpose
Check → Utilised in same purpose?

(3) Check Pass Book

(3) Rent received (canteens, Halls)
* Examine rent agreement
* check calculation of Rent
* entry in Pass Book
* O/s rent → Asset

(4) Income from Investment (Dividend on Share, Interest on F.D)
* Obtain list of Investment
* check share certificate, F/D certificate
* Check compliance of AS 9
* Check Pass Book

(2) Towards Students (Prizes, Scholarship, Books)
* Check ICS
* Heavy exp. → Authorisation
* Check Cash/Pass Book
* Entry in Nominal A/c

(3) Common exp. (Electricity, Telephone, Water, Repair & Maintenance)
* Heavy exp → Authorisation
* Heavy exp → Capitalisation
* Check Cash/Pass Book
* ARP

Hospital

Preliminary

same

Receipts

(1) From Patients
- ★ Check copies of invoices
- ★ Check Proper Segregation of lodging, fees, medicines etc.
- ★ Check rates of rooms occupied
- ★ Check Patient register
- ★ Examine cash/Pass book
- ★ Trace entry in Relevant A/c

(2) Donations
same

(3) ~~Donat~~ Rent received
same

(4) Income from Investment
same

Payments

(1) Salary
same

(2) Purchase of Medicines, Equipments
- ★ Examine invoices
- ★ Check ICS
- ★ Costly Equip → check authorisation
- ★ Entry in Cash Book / Pass Book
- ★

(3) Common expenditure
same

Assets

(1) FA
same

(2) Inventory
- ★ Stock register
- ★ Physical Verification
- ★ Check valuation
- ★ Ensure compliance of AS-2

Liabilities

(1) Capital
same

(2) Loan
same

Hotels

Preliminary

Same

Receipts

(1) Lodging

* Check daily occupancy report
* In case of money received in foreign currency, check compliance of [illegible].
* Check the rates of tariffs of the hotel
* In case of booking through agent, check agreement with firm
* Check Cash / Pass Book
* Check entry in [illegible]

(2) From Restaurant

* Check Proper KOT
* check [illegible]
* Ensure that the revenue received in Restaurant should not be utilised elsewhere
* ~~cheque~~ Check Cash / Pass Book
* In case of discount provided on booking through Agent, check agreement with Agent

Payments

(1) Salary
Same

(2) Purchase of Items
same

(3) Common expenditure
same

Assets

(1) FA
Same

(2) Inventories
Same

Liabilities

(1) Capital
Same

(2) Loan
Same

(3) Rent received
same

(4) Income from investments
same

Cinema Hall

Preliminaries
same

Receipts
(1) From Tickets
* Obtain and study Daily Occupancy Report
* In case of free passes, check authorisation
* In case of [illegible] check [illegible]
* In case of booking through agents, check agreement
* In case of entertainment tax, check whether
(a) ~~proposity~~ properly disclosed in tickets
(b) deposited or not
* check copies of Tickets
* check cash / Pass Book

Payments
(1) To distributors
* Obtain and study the agreement between cinema Hall and distributor
* Check the rate of commission
* Ensure Proper Calculation of commission
* Check Pass Book
* In case of O/s payment, check whether shown as a liability

(2) Salaries
same

(3) Common expenditure
same

Assets
(1) Fixed assets
same

(2) Investories
same

Liabilities
(1) Capital
same

(2) Loan
same

(2) From Advertisement

* Check Rates of Advertisement prevailing in the entity
* Check Agreement
* Cash / Pass Book

(3) Income from Investment

Same

(4) Rent Received

Same

(4) Repair & Maintenance

* Check copies of Bills & Invoices
* Check Cash Book
* In case of heavy expenditure, Check authorisation
* In case of heavy expenditure, check whether capitalised or not
* Compare CY exp. with that of PY exp. (ARP)

(2) Donations
Same

(3) Income from Investment
Same

(4) From sale of drinks and food items
* Check internal control System
* Check rates prevailing
* Check copies of bills
* Check cash/Pass book

NGO

(Being Human, CRY)

Preliminary
Same

Receipts
(1) Sale of Products, Items
* Examine ICS
* Check copies of Bills
* In case of sales through third parties, check Agreement
* Examine Cash / Bank Book
* In case of discount, check T&C

(2) From Programmes (fund raising)
* Examine ICS
* Make an inquiry with the volunteers of NGO
* Examine copies of tickets/receipts
* Check Cash Book
* Ensure whether money is allocated in the specific projects

(3) Income from Investments
same

(4) From Donations
Same

Payments
(1) Towards Programmes
* Check copies of invoices
* Examine Cash Book
* In case of heavy expenditure, examine authorisation

(2) Staff / Volunteers
same

(3) Common expenditures
Same

Assets
(1) FA
same

(2) Inventories
same

(3) Investment
* Obtain list of investments
* Check certificates
* Check compliance of AS-13
* Check proper classification Short Term / Long Term

Liabilities
(1) Capital
same

Local Bodies

(Municipal Corporations)

Preliminary

Same

Receipts

(1) Taxes
* Check the slab rates
* In case of o/s dues, ensure whether management has taken proper steps
* Check due dates
* In case of late payment, check whether interest and penalty has been received
* In case of online payment, check ICS
* In case of payment received through agent, check agreement
* Check copies of receipts
* Check Cash/Pass Book

(2) Donations
same

(3) Rent received
(hoardings, parkings)
* Ensure whether the Allotment is on tender basis
* Check that the procedure carried out in Auction is appropriate
* Check Cash Book
* Examine Property entry in Nominal A/c

(4) Advertisement
(hoardings)

Payments

(1) Salary
same

(2) Common exp.
same

(3) Public Welfare
* Compare Actual figures with that of Budgeted figures
* Check whether payment is reasonable or not
* Check that payment is towards specific purpose
* Examine Pass/Cash Book
* In case of heavy expenditure, check authorisation

Assets

same

Liabilities

same

Publishers

Preliminary
Same

Receipts
(1) From Sale of Books
* Check copies of invoices
* In case of sample copies, check authorisation
* In case of Discount, check I & C
* In case of Sales on Approval basis, check Proper Accounting Treatment
* Check Proper adjustment of Sales returns
* Examine Cash/Pass Book

(2) Income on Investments
same

(3) Income from Advertisements
same

Payments
(1) To Authors
* Check Agreement and ensure the terms
* Check Proper computation of Royalty
* Check Periodical Statement sent by publisher
* Check Pass Book
* Make Direct communication with Author

(2) Salary
same

(3) Common expenditure
same

Assets
(1) FA
same

(2) Inventories
same

Liabilities
(1) Capital
same

(2) Loan
same

Leasing Company

(1) Check the legal status of the leasing entity.
(2) Obtain fundamental documents like MOA/AOA of the leasing Co.
(3) Obtain and Study the lease agreements formed between the leasing Co. and lessee.
(4) Check proper computation of lease rent as per lease agreement.
(5) Check compliance of AS-19.
(6) Examine the proper accounting treatment of lease rent received and verify the Cash/Pass Book.
(7) Examine the invoices w.r.t the Assets purchased by the company.
(8) Ensure that Installation expenses have been added to the cost of Asset.
(9) Examine the existence of Assets by physically verifying it.
(10) Ensure that Depreciation has been properly charged.
(11) In case leasing company is having loans, then examine the loan agreement and ensure timely payment of Principal and Interest Amount

Audit of Incomplete Records

When?

When records ave been epared on ingle entry basis

udit Procedure nvert it into ubly entry basis

Not available with the client

(a) Natural calamity
(b) Seizure of records by Govt. Authority

figures of Salary

Audit Procedure

Receipts and Payments

(1) Obtain Bank Statement and examine Bank transactions
(2) Compare previous year f/s. to observe trend in the receipts & payments (ARP)

Assets and Liabilities

(1) Study the PY f/s and extract Opening balances for this year
(2) To examine fixed assets/Inventory, physically verify it.

Audit Opinion

(1) Auditor obtained sufficient & appropriate audit evidence → clean evidence

Debtors
Sale transactions ← (3) Obtain confirmation from third parties (e.c)

(4) Examine [illegible] from [illegible] to assess cash expenditure & revenue

(3) To examine cash at Bank, loans, [illegible]

(4) To ensure cash balance, obtain confirmation from cashier

(5) Obtain loan statement from bank.

(5) Otherwise is → Qualified disclaimer of opinion

Audit of Partnership firm

Benefits

(1) Bankers / Mgmt
* ICS is strong or not?
* Financial position

(2) Bank / FI
* Whether to provide loan or not? (credit worthiness)

(3) Employees
* Moral check
* Can expect better remuneration
* On the basis of [illegible]

(4) Government
To improve taxation burden

Audit Procedures

(1) Obtain and study the terms of Partnership deed.

(2) Ensure compliance of Partnership deed and Partnership Act 1932.

(3) Check whether profit is distributed in specified ratio or equal ratio (if no ratio has been specified)

(4) Check whether [illegible] (m by partner) is paid at [illegible]

(5) Ensure whether interest on capital is paid only if agreement provides so and in case of profits.

(6) Ensure that admission of partner has been consented by all the partners

(7) Ensure that in case of retirement of a partner, public notice is provided.

(8) In case of dispute among partners, check whether it has been referred towards Arbitration as agreed in the Agreement.

(9) Check whether the Books of have been prepared as per General principles of Accounting (eg. Accrual basis, Double entry system)

Chapter 17

Government Audit

C & AG

* Application
* Removal
* Resignature
* Tenure
* Rights
* Duties

Types of Government Audit

* Audit of expenditure
* Audit of Receipts
* Audit of stores and stock

C & AG

Appointment
- President of India

Salary
- Equal to Judge of Supreme Court

Removal
(a) Ground
* Proved misbehaviour
* Incapability
(b) Approval
By 2/3rd majority in both houses of Parliament

Tenure
- 6 years
- Max. Age 65 years

Resignation
- In writing (addressed to President of India)

Duties
* To comply Acts of consolidated fund of India/State/UT
* To [illegible] of CFI/CFS/CFUT
(a) Receipts
(b) Expenditure
(c) Loans
(d) Stores & stock
* To Audit the Accs of any entity which has been substantially financed from CFI / CFUT / CFS.
* To prepare & Submit Audit Report
* To appoint Auditor in Govt. companies

Rights
* He can [illegible] into [illegible] dept
* He can [illegible] information relevant for Audit
* He can require [illegible] production Books, regd records etc.
* He can [illegible] the Govt of
* He can [illegible]
(a) can be [illegible] within 60
(b) can be audited by same Auditor or any other person

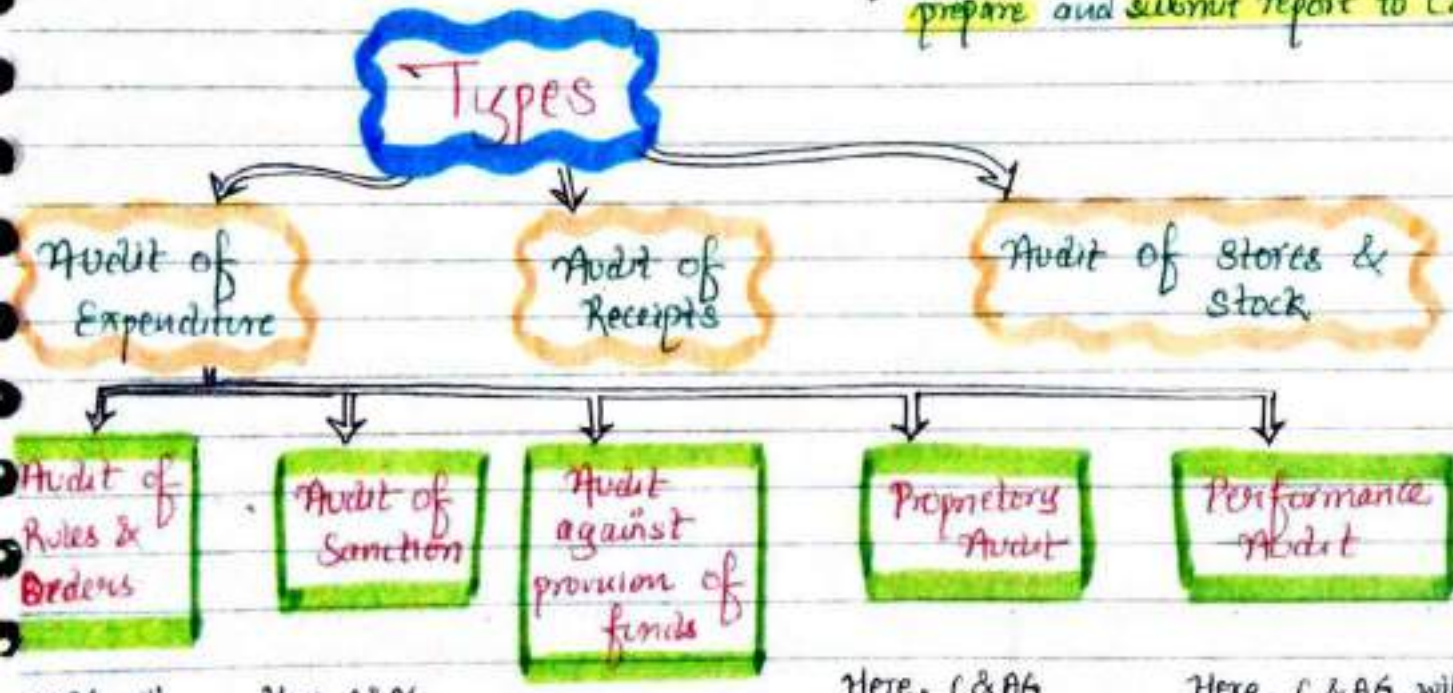
To which [illegible] has been [illegible]
- ₹25 lacs and
- 25% of expenditure of that entity

(c) Auditors must be a CA (+ CoP)

(d) Auditor shall comply with directions of C&AG

(e) Supplementary Auditor will have same rights as of main Auditor

(f) Supplementary Auditor will prepare and submit report to C&AG



C&AG will check expenditure as per provisions of Constitution of India, Act and Rules made C&AG

Here C&AG will check that expenditure is
→ Properly Sanctioned by the Appropriate Authority

Here C&AG will check that expenditure is as per
→ purpose for which it was programmed
→ The Budget

Here, C&AG will examine the cases of wasteful exp. which is against the rules & orders and has been properly sanctioned

Here, C&AG will ensure that government program has achieved the desired objectives at the lowest cost and given the intended benefits

Proprietory and Performance Audit in detail

(1) Proprietory Audit

(a) Same as mentioned above.

(b) Eg: A vehicle stand constructed in a govt. school, which has been as per rules and orders and properly sanctioned but is not used by the students and staff members. This will result into wasteful expenditure

(c) Here, Auditor should try to examine public financial morality by looking into wisdom and faithfulness.

(d) The Auditor should confirm that expenditure has not incurred for the benefit of particular person/community.

(e) Auditor should ensure that the money has been expended in the same manner as a man of Ordinary prudence would do in same circumstances.

(2) Performance Audit

(a) Same

(b) It includes

(i) Efficiency Audit ⇒ It examines the
→ proper execution of program
→ Design and timing of program

(ii) Economy Audit ⇒ The Auditor same examine
→ Expenditure has been done in an economical manner
→ Resources should have been utilised properly with minimum wastage.

(iii) ~~Efficiency~~ & Effectiveness Audit ⇒ The Audit shall examine

→ programmes are performing well
→ objectives have been achieved.

Other types ⇒

2) Audit of Receipts

(a) Check that proper Internal Control is in existence w.r.t. receipts of money.
(b) In case of deficiency, should communicate to Govt.
(c) Check that money received is properly credited in the govt's A/c.
(d) Ensure that there is no leakage of revenue
(e) Ensure proper accounting treatment in Books of Accounts
(f) Check the proper effect in Cash / Pass Book.
(g) If money received is for special purpose, then check whether utilised or not.

3) Audit of Stores and Stock

(a) Check that Proper Internal Control is in existence
(b) In case of deficiency, should communicate to Govt.
(c) Check the Stores & Stock Register
(d) Ensure that stocks are properly valued
(e) Check that prices paid for purchase of stock are reasonable
(f) Auditor should perform physical verification to ensure existence of stock

Auditor's Report

SA 700 : Forming an Opinion and Reporting on the financial Statements

What we have to study ?

1) Duty / Responsibility of Auditor
2) Forms of Opinion (SA 705)
3) Elements of Audit Report (format)

Responsibility of Auditor

To form an opinion on the financial statements examined by him :

(a) Auditor shall form an opinion as to whether financial statements are prepared in accordance with Financial Reporting Framework.

- Financial Reporting Framework
  - Accounting Standards → for preparation
  - Schedule III of CA, 2013 → for Presentation

Audit Evidence ⇒ The information obtained by the Auditor on the basis of Audit procedure performed, is known as Audit Evidence.

* Form an opinion

→ To form an opinion, he shall obtain reasonable assurance as to whether financial statements are free from material Mis-statements

An item is said to be material if it changes economic decision of the User

level of confidence that Auditor should obtain on the basis of which he can state that f/s audited by him presents true & fair view

- Disclosure of false information
- Omission of material information

→ Auditor shall also consider the following ⇒ (factors)

* sufficiency (proper quantity) and appropriateness (proper quality) of Audit Evidence (information on the basis of audit procedures)

* Proper disclosure in financial statements
  - proper period
  - proper amount
  - proper account
* Consistency of Accounting policies as per FRF. (eg: Rate & method of Dep.)
  - If not → Disclosure must be in the f/s
* Reasonableness of Accounting estimates
  - Eg: (1) Provision for D/D (2) Useful life of asset
* Reliability of financial information
  - should be supporting evidences
* Appropriateness of terminologies used in f/s
  - Eg: 1) Contingent liability
    2) Borrowing cost

11D

Forms of Opinion

Clean Opinion

When financial statements are prepared in accordance with FRF

↓

f/s → free from Material Mis-statements

(Auditor is true & fair view)

Modified Opinion

When f/s are not free from Material Mis-statement

↓

Auditor has concluded it

If Auditor is unable to conclude that

↓

whether f/s are free from materia mis-statements

Elements of Audit Report (Forma

S.No.	Heading	Description
1.	Title	Clearly stating that it is "Independent Auditor's Report" so that it can be distinguished from other report
2.	Addressee	* As per circumstances * To members / Those charged with Governance (TCWG) Company → Board Firm → Partners
3.	Opinion	* It shall state (a) Name of entity (b) Components of f/s

(c) Date and period of fls
(d) fact that fls have been audited
* Further, Auditor shall provide his opinion on fls (eg: in best of my knowledge, the fls of Infosys Ltd presents True & fair view of State of Affairs of Co.) — clean / modified

1. Basis for Opinion
(1) Audit has been conducted in accordance with SAs
(2) Auditor has obtained Reasonable Assurance that fls are free from Material mis-statements.
(3) Auditor has complied with Ethical Requirements prescribed by ICAI.
(4) Auditor has obtained Sufficient & appropriate Audit Evidence

5. Going Concern
That Report is in accordance with SA 570

6. Key Audit Matters
That Report is in accordance with SA 701

7. Management's Responsibility
This para shall state
(a) It is the responsibility of the Mgmt. to prepare fls in accordance with FRF
(b) To design and implement internal control which is free from mis-statement
(c) To prevent and detect frauds and errors
(d) To safeguards assets of the entity
(e) To assess the going concern status

8.	Auditor's Responsibility	(a) State the objectives of Auditor (i) To obtain reasonable assurance (ii) To issue an Auditor's Report (b) States that Reasonable assurance is a high level of assurance but not a guarantee that Auditor will detect a material mis-statement. (c) State the responsibilities (i) Professional Judgement (ii) Professional Skepticism (iii) Compliance of SAs (iv) Compliance of ethical requirements (v) To check appropriateness of accounting policies (vi) To identify risk of material mis-statement (RMM) (vii) To ensure compliance of CARO (viii) To examine the effectiveness of ICS
9.	Other Reporting Responsibilities	Heading → Report on Other Legal and Regulatory Requirements Eg: • Sec 143(3) of CA, 2013 • CARO, 2016.
10.	Signature of Auditor	If Individual → • Name of Auditor • Membership No. Firm → • Name & Reg. No. of Firm • Name of Partner • Membership No. of Partner

11.	Place of Audit Report	Auditor should mention the place at which Auditor's Report has been signed.
12.	Date of Audit Report	Auditor shall mention the date on which Auditor's Report has been signed, not any earlier date.

SA 701 (Applicable on Listed Entities)

Communicating & Determining "Key Audit Matters" in the Independent Auditor's Report

Meaning of Key Audit Matters ⇒

Those matters that in Auditor's Judgement were of most significan in Audit of Financial ~~m~~statement.

Purpose of communicating 'KAM' ⇒

(i) To improve the communicative value of Auditor's Report
(ii) To provide additional information to the users of financial statement.
(iii) to assist item in understanding same.
(iii) To assist users in understanding the entity and Judgement of Management.

Factors determining 'KAM' ⇒

(i) Areas of ~~High Assist~~ assessed, high risk of misstatement

(or)

Significant risk

↓

SA 315

(The risk that require significant attention of Auditor)

(Eg: RPT, Risk of fraud)

(ii) Area which involves significant management Judgement

Eg: Accounting Estimates identified as having high estimation uncertainty.

↓

(Management estimate about tax liabilities or liabilities in a dispute)

Communicating 'KAM' ⇒

(i) Auditor need not to communicate those matters due to which he has modified the opinion.

(ii) ~~Each~~ Separate opinion on Individual matters (along with reasone)

+

Response of the Auditor

(iii) Disclosure is not permissible

(a) prohibited by law

(b) Affect public interest

(iv) Disclosure is not required

(a) in respect of matters covered under SA 705 (modified opinion)

(b) in respect of matters covered under SA 510

(which he has having emerging new going concern status)

Eg: Shortage of supplies, labour unrest

Communicating TCWG

(i) Key Audit Matters specified in Report

(ii) If auditor considers that there is no KAM, then determination by him in the report.

Ques When does an Auditor issue unqualified opinion and what does it indicate.

Ques ABC & Co., a chartered Accountant firm situated in Mumbai audited the financial statement of XYZ ltd & signed the audit report in Delhi. The partner of the firm has mentioned Mumbai as the place of auditor's report. State ~~whether~~ whether the action of partner is appropriate.

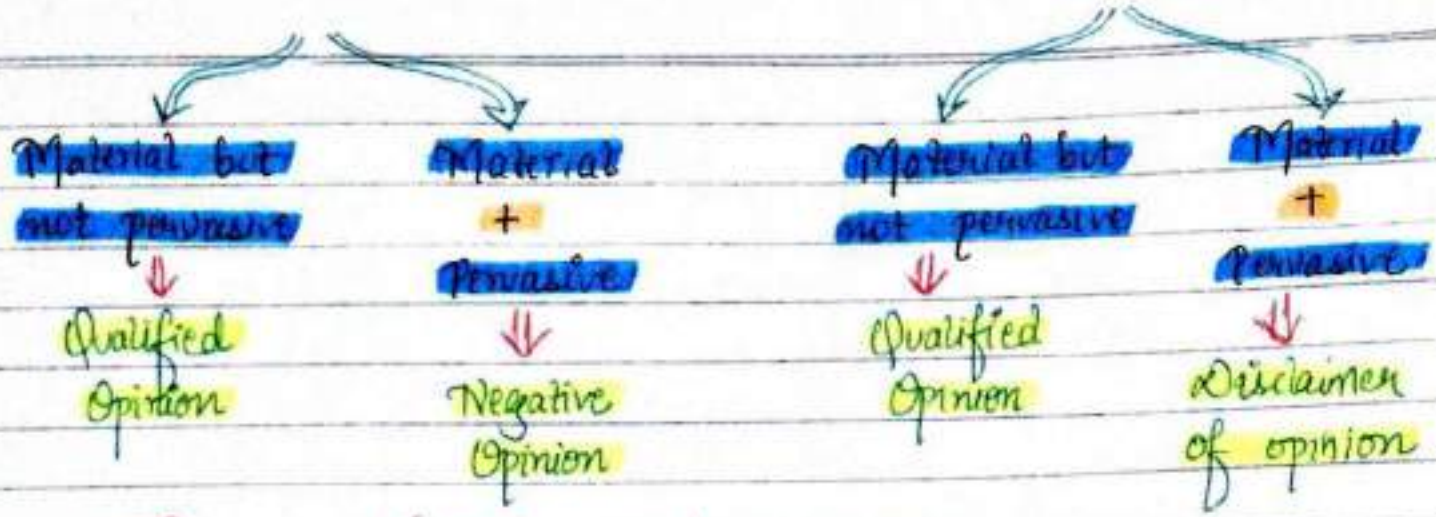
SA 705

Modification to opinion in Independent Auditor's Report

Types of Modification

If he has evidence that fls are mis-stated (Effects of Detected Mis-Statements) ↓

If he is unable to obtain sufficient & appropriate Audit evidence (Possible effects of Undetected Mis-statements) ↓



Types of Report

(1) Modified Report

When, financial statements have not been prepared in accordance with FRF

Auditor is of opinion that

Reasons behind providing modified opinion

(a) [illegible] M-S

(b) When Auditor is unable to obtain S & A Audit evidence due to which he is not in a position to conclude whether financial is / are [illegible]

Types

(a) Qualified Opinion

(i) Effect of detected mis-statement ⇒ Material but not pervasi

(ii) possible effect of undetected M-S ⇒ Material but not pervasive

(b) Negative opinion

Effect of detected mis-statement ⇒ Material + Pervasive

(c) Disclaimer of opinion

Possible effect of undetected M-S ⇒ Material + pervasive

Limitation on Scope by Management

(1) Qualified Opinion

(a) Qualified opinion is one where an Auditor gives an opinion of on truth and fairness of financial statements subject to certain qualifications.

The overall impact of Qualification is not pervasive enough to vitiate the overall true and fair view of f/s, but it is important that such matters should be disclosed in Auditor's Report.

(b) Auditor will issue a Qualified opinion when

- ★ clean opinion will not be appropriate
- ★ Detected m-s are not so pervasive that issuing negative opinion will be appropriate

Possible effects of undetected m-s are not so pervasive that issuing disclaimer will be appropriate.

(2) Negative Opinion

(a) The effect of detected mis-statements is material and so pervasive that Qualified Opinion will not be enough, then Auditor will issue negative opinion

(b) In this case, f/s do not provide true and fair view of the State of affairs of Co.

(c) It is also known as Adverse opinion

(d) In this case, Auditor shall provide reasons for issuing negative opinion.

(3) Disclaimer of Opinion

(1) Disclaimer will be issued by the Auditor when possible effects of undected mis-statements is so material and pervasive, that Qualified opinion would not be enough.

(2) In this case, Auditor is not in a position to coment whether there is truth & fairness in the financial statements or not.

(3) Reasons for lack of evidences
- (a) Limitations imposed by Mgmt.
- (b) Natural Calamity
- (c) Seizure by Govt. departments

SA-706

"Emphasis of matter" Paragraph and "other matter" Paragraph in Independent Auditor's Report

EOM

Meaning ⇒ It refers to those matters which are the part of Financial Statements

Situations ⇒ (a) No need to modify the report
(b) The matter is not a Key Audit Matter.

Classifications ⇒ After "Basis for Opinion" para

But before KAM para

Clarifications ⇒ That adding EOM would not modify the report

Example ⇒ (1) Material change in Accounting policies
(2) Pending Litigations and cases

OM

Meaning ⇒ It refers to those matters which are not the part of financial statements.

Classifications ⇒ After EOM para (If any)

Examples ⇒ (1) Child labour employed in an established covered under Child labour Prohibition and Regulation Act, 198
(2) Non-compliance of the provisions of Factories Act, 1948
(3) Delay in payment of wages of employees as per Payment of wages Act, 1936.

Difference

Qualified Report	Negative Report
(1) Detected M/s is only Material	(1) Material + Pervasive.
(2) True & fair view → certain limitations	(2) No true and fair view
(3) It can be issued if Auditor fails to obtain sufficient & appropriate audit evidence	(3) Auditor has concluded that there is a mis-statement
(4) When clean Report is not enough and issuing negative will not be appropriate	(4) When Qualified report would not be enough as M/s are material as well as pervasive.

SA 700, 701

SA 700

Clean Report →

→ If fls are prepared
(a) in accordance with FRF
(b) It presents true and fair view

→ Auditor has obtained sufficient audit evidence

True and fair view

SA 701

"Key Audit Matter" para

(1) Significant Risk
(2) Material uncertainty over Significant Judgement of Management

The report will not be modified

705, 706

SA 705

- **Qualified** ⇓
  - Effect of Detected mis-statements
  - Possible effects of Undetected mis-statements
  - ⇓ Material
  - True and fair view subject to certain qualifications
- **Negative** ⇓
  - Effects of Detected mis-Statements ⇓ Material + Pervasive
  - ⇓ No True and fair view
- **Disclaimer** ⇓
  - Possible effects of undected mis-Statements ⇓ Material + Pervasive
  - ⇓ Not in a position to state whether true & fair view

SA 706

- **EOM** ⇓
  - Matters which are part of f/s
- **OM** ⇓
  - Matters which are not the part of f/s

CARO, 2016

(Company (Auditor's Report) Order, 2016

Para 1
Applicability of CARO, 2016

(+)

(1) Company incorporated in India.

(2) Foreign company

[illegible] of CA, 2013

a company which is incorporated outside India but having a place of Business in India

(−)

(1) Banking Company
(2) Insurance Company
(3) Section 8 Company (Non Profit Co
(4) One Person company
(5) Small Co.
(6) Private company
  (a) Not being a subsidiary / holding of Public Co. (+)
  (b) Paid up capital and R & S should not exceed 1 cr (+)
  (c) Total borrowings should not exceed 1 cr (+)
  (d) Total Revenue should not exceed 10 cr +

Explanatory Notes ⇒

(1) Paid-up share capital includes Equity share Capital and Preference share Capital

(2) Reserves and surplus includes all types of reserves i.e., Revenue Reserves, Capital Reserve, Revaluation Reserve, Credit balance in P&L A/c

(3) Total borrowings includes all types of loan i.e., it includes
   (a) long term borrowings
   (b) Short term borrowings
   (c) ~~Dom~~ Discounting of bills
   (d) Bank Overdraft
   (e) Cash credit Arrangements

(4) Only such borrowings will be considered which have been obtained from Bank or Financial Institutions.

(5) While computing amount of borrowings, only outstanding balance will be considered.

(6) The amount of loan should be considered at any point of time during FY, not merely the Balance Sheet date.

(7) Total Revenue includes
   (a) Turnover ⇒ It means amt. realised from Sale of goods, rendering & services or both.
   (b) Other Incomes ⇒ Eg: Income from Investment, Rental Income et

Para 3
Matters to be included in Auditor's Report

Sub para	w.r.t.	Matters
3(i)	Fixed Assets	(1) Proper records → maintained by company? (w.r.t. Quantity & situation) (2) Physical verification → by mgmt. at reasonable intervals ↳ discrepancies (material) Dealt by Mgmt ? (3) Title deed → in the name of company? (If not, provide the details)
3(ii)	Inventories	---- ① ----→ Same
3(iii)	Granting of loans	If Co. has provided loan to persons covered in Registers u/s 189 MBP 4 U/S 184 → person in which Director is interested U/S 188 → Related parties Ensure that : (a) T & C should not be harmful to interest of (b) Receipts are regular (Receipts → Int., Repayment → Prin.) (c) Reasonable steps have been performed to recover → overdue for more than 90 da ↳ Also state the amount of dues in Auditor's Receipts
3(iv)	Loans, Guarantees, Securities	Check compliance of Sec 185 and 186 of CA, 2013 ↳ If not ↳ provide the details

Sec 185 provides that loans cannot be provided to Director, Partner, Relative.

Sec 186 provides that company can provide loan, ~~goes~~ guarantees, securities or investment upto (a) 100 % of F/R
(b) 60 % (paid up cap. + F/R + S/P)
whichever is higher
If it exceeds the limit, then company should Pass SR

3(v) Deposits — Check compliance
1. Sec 73-76 of CA, 2013 + Rules
2. Directions of RBI
3. Order passed by court, NCLT, RBI, LLB, other tribunals
→ If not → State nature of contravention

3(vi) Cost records — Check whether company has prepared cost records.
covered u/s 148
Aggregate turnover in IPFY is 35 cr or more

3(vii) Statutory dues — If Company regular in depositing dues (PF, IT, ST, WT, Cess)
↳ If not → Auditor shall indicate amts which are o/s for more than 6 months (B/S date)

If there is any dispute
↳ Auditor shall indicate name of forum & amt. involved

Whether repayment is regular w.r.t. loans & debentures
↳ If not →

3(viii)	Loans	Whether repayment is regular w.r.t. loan & debe ↳ If not → indicate the amt. & period (lender wise) → except in Debenture
3(ix)	Utilisation of money obtained through Public offers	Money raised from Public offer / Term loan is utilised towards the particular purpose Auditor shall indicate ← if not ← the default & rectification (if any)
3(x)	Fraud	Fraud → By company / On company → Noticed / Reported → Auditor shall disclos nature & amt. of frau
3(xi)	Managerial Remuneration	Check compliance of Sec 197 along with Schedule V (approval has been obtained in accordance) ↳ (Special Resolution) by Members ↳ If not → State the and provided & steps taken by company to recover the same
3(xii)	Nidhi Companies	Check (a) Net Owned funds / Deposits = 1/20 (b) Unencumbered deposit → 10% of total deposit
3(xiii)	Related party transactions	Check • Compliance of Sec 177 & 188 of CA. 2013 • Accounting treatment as per AS
3(xiv)	Preferential Allotment	• Check compliance of Sec 42 of CA. 2013 • Check utilisation towards special purpose.
3(xv)	Non cash transactions	Check compliance of Section 192 of CA, 2013 i/e : Acquisition of assets

3(xvi)	Registration under RBI Act	Check whether Registered or not. (with RBI)

Ques ABC Ltd has raised ₹ 1000 crores from Initial Public Offer which will be utilised towards the objects stated in the Prospectus i.e., manufacturing of all phones. But, out of the proceeds, company utilised ₹300 crores towards the manufacturing of Mike sets. State the reporting responsibilities of Auditor in this regard?

Sol. Referring to the provisions contained in sub-para(ix) of Paragraph 3 of CARO, 2016, where it has been provided that Auditor should check that money raised by way of IPO or FPO were applied for the purposes for which those are raised and if company mis-appropriates the money raised towards any other object, then, he shall report the same in the Auditor's Report.

On the basis of above mentioned provisions, the Auditor shall report the mis-appropriations of the company towards the manufacturing of Mike sets, in the Auditor's report.

Introduction to Auditing

Definition of Audit (SA 200)

Audit is an **independent examination** of **financial information**
- independent: without any influence / limitation
- financial information: contained in financial statements
  - B/S
  - P&L
  - CFS
  - Notes to Accounts
  - shall be prepared annually

of **any entity**, whether **profit oriented or not**, irrespective of **its size** or **legal form** when such an examination is conducted with a **view to expressing an opinion thereon**.
- legal form: Partnership / Co/society

Primary objectives of Audit

Primary
SA 200

The primary objective is to examine the financial statements and to provide thereon an opinion
- opinion: w.r.t. ~~true & fair view~~* of state of affairs of the company

Secondary
Kingston cotton Mills case

* It is the primary objective of the Management to prevent, detect & correct frauds & errors
  - frauds: intentional misstatement
* If there are suspicious circumstances, Auditor should extend his Audit procedures to detect the fraud. If detected, he will report it.
  - Management
  - TCWG
  - Members
  - CG

  report it → 143(12) CA 2013 | Para 3(x) CARO 2016 | SA 24

* True & fair view

↓

when ?

↓

(a) No undervaluation/over-valuation of assets
(b) No omission of material assets
(c) No omission of material liabilities
(d) Proper disclosure of charge
(e) Compliance of Schedule III of CA, 2013
(f) No material mis-statements

Explain Significance of Independent Audit.

(1) On the basis of Audit Financial Statements, Management can ensure performance of the entity and be aware about the reasons for deficiency.

(2) On the basis of Audit Financial Statements, Banks or Financial Institutions can judge the credit worthiness of the Borrower.

(3) Employees can expect fair remuneration, Incentives on the basis of Audited Financial Statements.

(4) Existing Shareholder can demand returns and dividends on the fair basis on the basis of ~~f~~ Audited financial Statements.

(5) ~~Every~~ Prospective Investors can form a decision on the basis of Audited financial Statements and Audit Report that whether to make investment in the co. or not.

(6) Govt. can impose taxation burden on the basis of Audited financial statements.

~~Statements~~ Responsibilities

Of Management

(1) Design, Implementation of ICS
(2) Preparation of ICS
(3) Compliance of FRF
(4) Compliance of laws applicable on entity
(5) Maintenance of ~~a~~ecing records
(6) Safeguards of Assets
(7) Prevent, ~~M~~detect & correct frauds & errors
(8) Selection & consistency of Accounting policies
9) Adoption of Accounting estimates
(10) Assistance to Auditor

Basic Principles governing an Audit (SA 200)

(1) Integrity, Objectivity and Independence
↳ honest, sincere ↳ Free, not biased

(2) Confidentiality: Auditor shall not disclose information of client unless
• Permitted by client • legally bound

(3) Skill and competence of Auditor
• Training • Experience • Education & Qualificati

(4) Work Performed by Others: Auditor can delegate work to assistant, but responsible for
Auditor should rely in work iff:
• Exercises his skill • There is nothing to d

(5) Documentation: Maintain Working Papers
(SA 230)

(6) Planning: • Based on business
• further developed & revised

(7) Obtain Sufficient & appropriate Audit evidence
• Compliance Procedure - Design, implementation, Effect
(~~tests of controls~~) - Test of transactions (Receipts & Pay
• Substantive Procedure - Test of details & ~~Test~~ ver
(assets & liability) verification

(8) Accounting System & Internal Control
• Accounting System is adequate + Information → recorded

(9) Audit Conclusion & Reporting
• Express opinion of f/s • Represents T&F view

Mnemonic → DISCO PAIR

Threats to independence

Types of Threats

1) Self Interest threat ⇒
When Auditor is having any personal benefit from client
Eg: Use of facilities, Assets of Entities

2) Self Review threat ⇒
Where Auditor have to review his own work, then independence can be compromised.
Eg: If Auditor is reviewing GST consultancy provided by him only.

3) Advocacy threat ⇒
Where Auditor promotes his position

4) Familarity threat ⇒
Where Auditor is having familier relations with Management.

5) Intimidation threat ⇒
When Auditor is actually threatened by Mgmt.
Eg: Mgmt. threatens auditor that a suit will be filed against him in case of modified Opinion

Safeguards

Implement the Principles of
- → Independence
- → Integrity
- → Objectivity
- → Professional Skepticism

⇓

Before acceptance of engagement

⇓

Check Threats exist or not

- No ⇓ Accept the Audit
- Yes
  - Reject the Audit
  - Apply the safeguards
    - If possible ⇓ Accept the Audit
    - Not possible ⇓ Do not accept the Audit

Basis	Audit	Accounting
Meaning	Independent examination of fls of any entity	Art of Recording, Classifying, Summarising of financial Informations
Standards	SA	AS
Who will conduct? (Qualification)	CA + COP	Any Person
Expertise	Accounting, Taxation, Auditing, law etc.	Accounting
When?	After Accounting	Before Auditing
Objective	To express an opinion	To record the financial position.

Basis	Audit	Investigation
Meaning	Independent examination of FIs of any entity.	Critical & Indepth examination of any information & fact
Qualification	CA + COP	Not Prescribed
Who will order?	Members / BoD	Government / Management
Orientation	Members	Who has appointed
Standards	SA	Not Prescribed
Format of Report	SA-700	Not Prescribed
Aspect	Financial Aspect	Non-financial / financial aspect
Duration	for FIs of a financial year	Any duration
Voluntary	Mandatory	If Voluntary
Objective	To express an opinion	To detect the fraud

Inherent Limitations of Audit

Study Material (Pg 67) By Sir

As per SA 700, the Auditor shall provide an opinion on the financial statements examined by him. To provide an opinion, he shall obtain reasonable assurance as to whether financial statements are free from Material misstatements. Further, SA 315 provides that there are some inherent limitations of Audit like sampling, involvement of judgement of Auditor etc. which restricts Auditor from obtaining absolute assuranc

On the basis of the above mentioned paragraph, we can conclude t CA. P is bound to obtain reasonable assurance that f/s are free from M Therefore, the contention of the company w.r.t. absolute assurance is not appropriate.

Sampling

- It means checking few transactions out of whole populations.
- Reasons?
  - → cost effective
  - → saves time & efforts
- When all the transactions are not verified, then there will always be a chance of mis-statement

Internal Control

- Substantive procedures always depends upon ICS.
- If it is defective & Auditor is unaware, then the procedures and opinion will be inappropriate

Judgement

- Audit is dependent upon judgement of the Auditor at various situations, Auditor's Judgement is used (eg: Materiality level, Examination of Mgmt. Judgement)

If Auditor's Judgement is wrong, then opinion will also be inappropriate

Nature of evidence

The evidences provided by Mg are persuasive rather than con Auditor's proced is dependent u Evidences provide by Mgmt.

If evidences are then opinion w also be inappropr

Scope of Audit

1) Auditor shall consider the following ⇒
   (a) Sufficiency & Appropriateness of Audit Evidences
   (b) Proper disclosure in the financial statements
   (c) Consistency of Accounting policies as per FRF
   (d) Reasonableness of Accounting estimates
   (e) Reliability of financial information
   (f) Appropriateness of terminologies used in f/s

(2) In case of any matters which falls outside the Professional expertise of the Auditor, he shall obtain assistance from expert.

3) Finally, the Auditor shall provide an opinion on the ~~truth &~~ fairness ~~faithi~~ of the f/s. If any limitation is imposed on his scope of Audit, he shall provide a qualified opinion.

Aspects to be covered in Audit

(1) Checking the authenticity and validity of the transactions (receipts & payments)
(2) Ensure whether capital & revenue expenditures are properly seggregated.
(3) Verify the existence, value and disclosure of Assets.
(4) Verify the liabilities of the entity.
(5) Examination of Internal Control System framed by Mgmt.
(6) Checking the arithmatical accuracy of the Books of A/c.

Audit Procedures

Compliance Procedures

(Test of Controls)

↓

Audit will check the design, implementation and effectiveness of Internal Control Systems

Substantive Procedures

Test of details

- Transactions → Income, Exp → Vouching
- Balances → Assets, Liabilities → Verification

ARP (Analytical Review Procedures)

↓

Comparison of

(a) PY fig. with that of CY fig.

(b) Actual fig. with that of Budgeted fig.

(c) Client's ratio with that of Industry Average Ratios.

↓

To observe the trend & trace the abnormal fluctuati

Basic Concept in Audit

Audit Risk and its Components

Meaning ⇒ It is the risk the auditor may give an inappropriate opinion when the financial statements are materially mis-stated.

Components

Inherent Risk

Risk where material misstatement may occur
Arises at level of Mgmt.
Auditor only can assess this risk.
Risk of system of Mgmt.
This is generally high

Control Risk

* Risk that internal control fail to operate as desired.
* Arises at level of Mgmt.
* Auditor can only assess this risk.
* Risk of I.C.S of Mgmt.
* This is evaluated in stages.

Detection Risk

* Risk that auditor's substantive procedures will not detect a material-mis-statement
* Arises at Auditors level
* Auditor can frame this risk.
* Risk of substantive procedure adopted by Auditor.
* DR should be inversely proportionate to combined assessment of IR & CR

$$DR \propto \frac{1}{CR + IR}$$

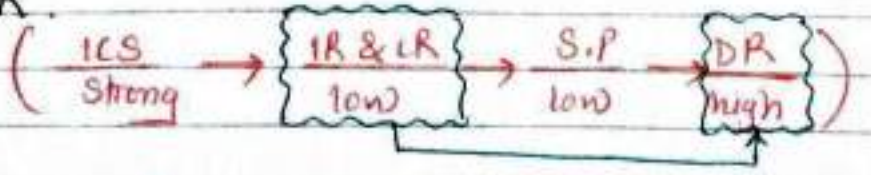
Relationship between Combined assessment of Inherent Risk and Control with Detection Ri

After Performing the compliance Procedures, If Auditor has concluded that the Internal control System is Operating and designed effectively and thereby the degree of Inherent and control Risk is low. Then, Auditor will frame the nature, time & extent of Substantive procedures and will keep the degree of Substantive procedures at a lower level as ICS is strong. This will lead to increament in the level of Detection Risk.

(IR & CR is hi

On the other side, where Auditor finds that the ICS is weak, he will perform the substantive ~~perform~~ procedures at a higher degree in order to reduce the audit risk to an appropriate low level. This will leads in the reduction of the level of Detection Risk.

Based on the above mentioned provisions, we can conclude that there is inverse relationship between DR & combined assessment of IR & CR.



Effect of the results of Compliance Procedures

The nature, time and extent of substantive procedures is dependent upo the results of compliance procedures

In case of weak ICS (Auditor should obtain external evidences in addition to internal evidences) → Third Party confirmation

In case of weak ICS (Auditor should check significant items at the year end)

In case of weak ICS (Auditor should obtain more evidences) → less sampling

Materiality :-

(1) Meaning ⇒

Information is considered to be material if its omission or mis-statement could influence the economic decision of any user of fi

(2) Responsibility of Auditor ⇒

- Auditor should set-up the materiality levels before performing the Audit procedures.
- Materiality is a subjective term and it depends upon situations/ circumstances. Judgement of Auditor plays a crucial role in fixing up the Mat-levels.

(3) Relationship between Materiality and Audit Risk

Auditor will fix the level of materiality before performing the Audit Procedures. During the course of audit, if Auditor finds an item more material, he will perform detailed examination that will leads towards the reduction in Audit risk.

On the other side, if any item is less material, Auditor will perform the Audit procedures to a limited level and will not involve in detailed examination and this will leads to an increment in Audit Risk.

Based on the above mentioned discussion, we can conclude that there is inverse relationship between Materiality and Audit Risk.

Designing and Performing Substantive Procedures

- Auditor have to design substantive procedure because ⇒
  - → The assessed risk of M/M may not be perfect as it involves judgement of Auditor.
  - → There are inherent limitations of internal control.

- Depending upon circumstances, Auditor will decide that:
  - → He will perform Test of Details
  - → ARP
  - → Combination of Test of Details and ARP.

- ARP is suitable when transaction are of large volume which are predictable over time.

- When result of test of controls is unsatisfactory, extent of test of Details will be high.

- In designing test of Details, Sample size will play the Key role.

External Confirmation as Substantive Procedures

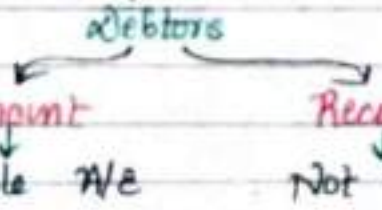
⇒ External confirmation will be obtained by the Auditor if the evidences provided by the Mgmt are not sufficient / appropriate.

⇒ E.C should not be restricted to the Account balance items. Rather Auditor should perform it in respect of contracts/Agreements of Mgmt. with third parties.

⇒ Situations

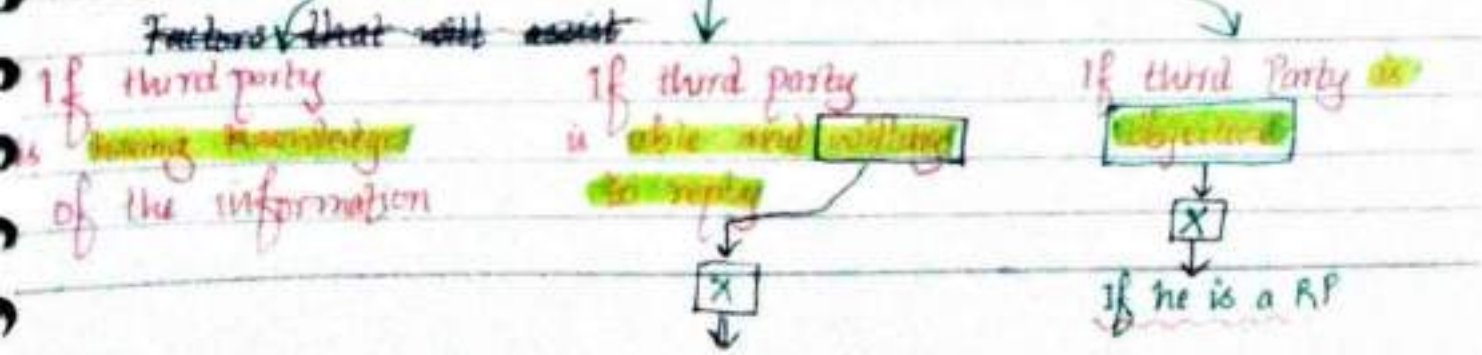
(a) Account Payable
(b) Account receivable
(c) Money due to lenders
(d) Bank Balances
(e) Inventory held by T/P
(f) Investments held by T/P

⇒ Sometimes, E.C provides ~~it~~ less reliable Audit evidences w.r.t an aspect of item



⇒ While performing E.C, Auditor will get an opportunity to obtain confirmations about other items also.

⇒ Factors that will assist Auditor in determining whether E.C. can be used as reliable Substantive Procedures.



1) Too costly / time consuming
2) Potential legal liability
3) Different currencies
4) Replying is not a day to day activity

⇒ If Risk is a Significant Risk, then external confirmations will assist the Auditor in obtaining Audit Evidence with high level of reliability.

Preparation for an Audit

Audit Process

- PART-I → Planning the Audit
  - 1) Selection of Assistants
  - 2) Providing of Instructions
  - ★ Auditor will decide the timing, Nature and extent of Audit Procedures
  - → Audit Strategy
- PART - II → Performing the Audit
  - Compliance Procedure
  - Substantive Procedure
- PART - III → Concluding and Reporting the Audit

Audit Program + Audit Strategy → Audit Plan

Audit Plan

A. Factors that decide Audit Plan ⇒

1) Nature of entity
2) Size of entity
3) Legal status of entity

4) Risk of MM
5) Nature of Internal Control System (manual / adopted)
6) Accounting policies adopted by client
7) Management structure
8) Involvement of Internal Auditor
9) Involvement of experts
10) Experience gained during previous Audit
11) Experience gained during similar Audit
12) Significant areas to be covered.

B. Importance of Audit Plan ⇒
1) It helps in completing Audit in timely manner
2) It assists in selection of capable assistants.
3) Important / significant areas can be covered through planning.
4) It helps in reduction of Audit Risk.
5) Auditor can supervise the work of the Assistants.
6) It will encourage proper coordination between engagement team.

Audit Program

⇒ Meaning ⇒ It means set of instructions provided by the Auditor to the assistants.

⇒ Factors affecting Audit Program ⇒ Same as of Audit Plan.

⇒ Advantages ⇒ same as of Audit Plan.

⇒ Disadvantages ⇒
(1) Mechanical Approach ⇒ Audit without understanding whole concept

(2) Lack of initiative
(3) Monotonous / boring ⇒ will reduce Audit efficiency
(4) Rigid ⇒ not flexible
(5) Shelter for Inefficient Assistants.

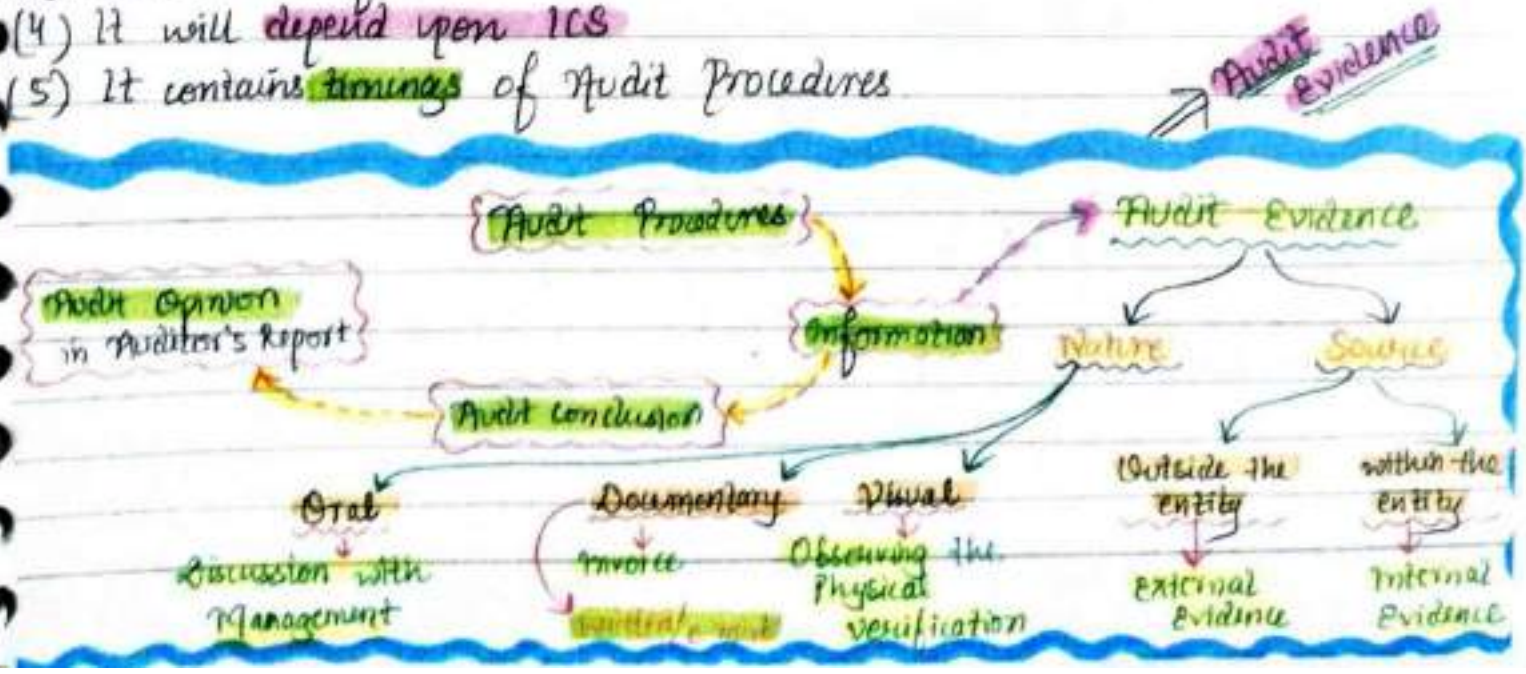
⇒ Periodic Review ⇒

* There should be periodic review of Audit Program by the Auditor to check whether it needs alteration.
  ↓
  Otherwise Audit will be carried on obsolete program & Auditor will face legal consequences

* Until changed by the Auditor, Article shall follow the Original Programme.
* In case of change in operations of client, then Auditor shall make review of Audit Program and alter it accordingly.

⇒ Features / Development of Audit Program ⇒

(1) It shall be in writing.
(2) It shall contain the instructions for Assistants
(3) It shall be flexible.
(4) It will depend upon ICS
(5) It contains timings of Audit Procedures



Types of Audit

Continuous Audit

Which is in continuous during the year

* Advantages ⇒
(1) Relevant for big enterprise
(2) Detailed examination
(3) Less pressure on auditor at year end.

* Limitations ⇒
(1) Risk of alteration by Management
(2) Interference in client's workflow
(3) Time Consuming
(4) Costly
(5) Not relevant for small enterprises

Final Audit

Which will be conducted on completion of financial year.

* Advantages ⇒
(1) Time saving
(2) Relevant for small enterprises
(3) No manipulations/alteration by management
(4) No interference in regular works of client
(5) Less costly

* Disadvantages ⇒
(1) Not suitable for big enterprise
(2) Excessive work load
(3) Less time for detailed examination

* Precautions to avoid disadvantages ⇒
1) Strict instructions to client's staff that alteration shall not be made.
2) Nominal Accounts should be verified at year end.
3) Frame proper intervals for examination
4) Complete the work at each visit so that it can be compared.

Audit Documentation

SQC-1

1) Assembling of Audit file
60 days from completion of engagement

2) Retention period
7 years

3) Proper system for creation, change or access of audit documentation
To protect its integrity

4) Sharing of documents via internet
protect the integrity
(not be accessible to public)

5) Working Papers are the sole property of the Auditor. Any person other than Auditor for inspection or taking copies.
Even, Management will have right over the working paper of Auditor.
In case working papers are in the custody of Management, Auditor can obtain it by using certain means.

Working Paper Files

Permanent Audit file

* It contains documents which are of continuing importance.
* Helpful in Recurring Audit assignments

Contents :-
(1) MoA (2) AoA
(3) Important legal Document (eg. License)
(4) Discussion with previous Auditor
(5) Significant Audit observation
(6) Significant Ratio Analysis
(7) Significant discussions with Mgmt.
(8) F/s.

Current Audit file

It contains documents which are relevants for one financial year

Contents :-
(1) Vouching & verification
(2) Discussion with Mgmt.
(3) Bank Statements
(4) Audit Note Book.

* It is a hand book which contains issues found during audit and work done.
* It helps to Auditor when
  a) Assistant is replaced
  b) Picking up link of work
* Part of working paper

But, if any law or regulation specifies, Auditor should provide it as per law.

Suprise Check

(1) As management is aware about the timing and areas of Audit, there is a need for element of suprise.

(2) Suprise check can be [illegible]
(a) Timing of Audit
(b) Area of examination

(3) The major areas in which suprise check can be implemented are
(a) Cash and Investments
(b) Inventories

(4) Through suprise check, Auditor can access the ICS.

(5) After completion of suprise check, auditor should communicate the results to management and will ensure that Mgmt. has properly dealt it.

Examination in Depth

It implies examination of a few selected transactions from the beginning to the end through the entire flow of the transactions.

This examination consists of studying the recording of transactions the various stages through which they have passed.

Example → If receipt from debtor is to be checked in depth. Following should be checked →

* The order received from customer.
* Copy of Sales invoice by appropriate authority
* Entry in Stock register regarding goods dispatch.
* Statement of account issued to him.
* Duplicate copy of receipt issued to him.
* Corresponding entry in Debtors A/c as well as in Cash Book.

Conclusion → * Enables Auditor to study recording of transactions at various stages.

* Auditor is able to understand over Internal Control over a specific item in an effective way.

Overall Audit Approach

→ Auditor must gather sufficient competent evidential matter as a basis for forming his opinion on →

* Truth and fairness of f/s and their compliance with statutory provisions, rules
* Proper maintenance of Accounting records & other records books & registers.

He will determine whether →

* All assets and liabilities → Properly stated and classified
* Securities of assets & liabilities → Proper disclosure
* Incomes & expenses → Properly classified and matched.
* All contingencies & commitments → Properly disclosed
* In f/s → No material omissions
* In reporting or disclosing income, expenses, assets & liabilities → No material error or Inaccuracy
* Books & Records have been kept → Accordance with requirements of client.

Internal Control

Preventive

- Proper Segregation of Duties
- Proper recording of transactions
- Proper Safeguarding of Assets
- Prevention of frauds and errors.
- Authorisation of Top Management
- Compliances of laws and regulations
- Appointment of Skilled and competent personnels

Detective

- Internal Check
- Internal Audit
- Establishment of Internal Audit Department within the entity.

Corrective

- Correction of frauds & errors

Types of Internal Control

- Internal Non-financial Control
- Internal financial System
  - Section 134
  - Section 143

Board Report → Declaration that Directors → In case of listed Co., IFC has been properly designed, implemented and operating effectively

Auditor's Report → Declaration by Auditors that → Same

Verification of Internal Control

Internal Check

→ Employee

Checking day to day transactions as a part of Routine System

whereby work carried out by one person is automatically checked by another.

Internal Audit

→ Internal Auditor

An independent management function, which involves a continuous appraisal of the functioning of an entity

to suggest improvements thereto

Internal Review

→ Statutory Auditor

It means examination of D, I, E of internal Control System to design the nature, timing and extent of substantive procedures

54

Steps to implement Internal Check in an entity

Q7 Pg 106

To Implement a Proper Internal Check System in the entity, the Mgmt. shall consider the following points ⇒

(a) There should be Proper Segregation of duties between the personn

(b) The work should be properly differentiated into various steps or proess so that Internal Check can be implemented.

(c) There should be proper system so as to enable the employees to examine the work of another employee.

(d) Management should implement the system of Job Rotation so that employee's work will be changed after a certain period of time and thereby examination can be done.

(e) Management should push the employees for leaves so that in their absence their work can be examined.

(f) Mgmt. should prepare Budgets so as to compare Actual figures with that of Budgeted figures.

Internal Audit

Meaning ⇒ Same (refer Previous Page)

Applicability ⇒ (Sec 138)
* Listed Company
* Unlisted Company ⇒ P/S/C - 50 crore or more
T/O - 200 crore or more.
Loans - more than 100 cr
Deposits - 25 cr or more

* Private company ⇒ T/o - 200 cr or more
Loans - more than 100 cr.

Qualification of Auditor ⇒ CA/CMA/Any other Professional prescribed by Board.

Activities relating to Internal Audit ⇒

(1) Auditor should review the ICS
(2) Auditor will provide assurance to the Mgmt. w.r.t design, implementation & effectiveness of ICS.
(3) Auditor should recommend improvements in the ICS, to the Mgmt.
(4) Auditor should check whether Mgmt. has complied with the laws and regulations
(5) Auditor should review the efficiency, economy & effectiveness of ICS (w.r.t. operating activities)

Internal Review

Narrative Record

Complete and exhaustive detail of system

Advantages →

* Suitable for small business (as it consumes comparatively less time)
* (useful) when properly formed IC is not found
* complete description is needed.

Limitations →

* Time consuming
* Detailed observation is needed.
* Not suitable for big enterprises (as it consumes a lot of time & efforts)

Check list

It contains series of questions to be asked by Audit staff and will be answered by Management.

Advantages →

* Weaknesses are easily located.
* Weakness can't be overlooked as it covers all the aspects.

Limitations →

* Requires intelligence → Preparation of check list is complex.
* Can be manipulated by the client.

I.C. Questionnaire

Comprehensive series of question on each aspect of Internal Control prepared by Auditor & filled by the client employees.

Advantages →

* Detailed questionnaire, thus no important aspect is overlooked.
* Weaknesses are easily located.
* Evaluating ICS becomes systematic and easy

Limitations →

* Time consuming
* Can be manipulated by client
* Preparation of I.C. Questionnaire is complex

Flow Chart

* Graphical presentation of company's ICS
* Considered to be the most concise way of recording auditor's review of the system.
* Minimises the amount of narrative explanation
* Gives bird's eye view of the System & the flow of transactions & integration and its documentation

Advantages →

* Concept presentation
* Easily understandable

Limitations →

* Time consuming
* Weakness can't be readily located.

Basis	Check list	I.C. Questionnaire
Answered by	Prepared by Auditor & issued by Audit staff.	Prepared by Auditor and filled by Management.
Timing	Provided by Auditor at the time of commencement of Audit. Check list will be returned by Audit Staff on completion of Audit	I.C. Questionnaire can be provi anytime during Audit. ICQ will be returned immediately.
Contents	Instructions (Auditor - Audit Staff)	Questions (Auditor - Mgmt.)
Objective	To provide Guideline to Audit Staff.	To obtain knowledge from Mgmt. about ICS

Inherent Limitation of Internal Control

- **Abuse of Authority** → Person responsible for exercising control can himself over-ride it.
- **Cost effectiveness** → Cost of implementation of control may be more than Benefits
- **Human error** → May occur while carrying ICS.
- **Manipulation by Mgmt.** → Manipulation by Top level Mgmt may not be detected by control system.
- **Unusual transactions** → These can't be controlled because control procedures generally made for usual transactions.
- **Change i condition** → Establish control procedure m become inadequate i a fast changing environment (dynamic
- **ble of man dgement** → n be lity in ision- king that akdowns I.C.

Basis	Internal Audit	External Audit
Definition	An independent Mgmt. function, which involves a continuous appraisal of the functioning of an entity to suggest improvements thereto.	An independent audit of financ or other quantative informatio of any entity with a view to express an opinion thereto.
Objective	Measure, evaluate & report upon the effectiveness of ICS	Express an opinion on the t and fair view of f/s.
Auditor	Can be employee of the organisation.	Outside the organisation
Appointment	By the Management.	By the members.
Neccessity	Voluntary	Compulsory
Scope of work	Determined by Mgmt.	Arises from responsibilities placed on him by the statute terms of engagement.
Submission of Report	To the management	To the shareholders
Format of Report	Not Prescribed	Prescribed by laws (SA 700).
Orientation	Mgmt. oriented	To the needs of users of f/ and also management

Automated Environment

Meaning

A business environment where the processes, operations, accounting and even decisions are carried out by using computer systems - also known as Information Systems (IS) or Information Technology (IT) systems

Key features

- Enables faster business operations
- Accuracy in data processing
- Ability to proess large volume of transactions
- Integration between business operations
- Less errors
- Better security
- Provide latest information
- connectivity

Situations in which IT is relevant to Audit

- Increased use systems and App Software in Business
- Complexity of transaction has increased
- Hi-tech Nature of Business
- Volume of transactions is high
- Company Policy
- Regulatory requirement
- Required by Indian and International Standard
- increases efficiency and effectiveness of Audit

Points to be considered by Auditor while understanding company's A/E

- IS being used
- The Purpose
- Location of IT systems (Local vs Global)
- Architecture (Desktop based, client-server, cloud)
- Version used
- Interfaces within systems
- Inhouse vs Packaged
- Outsourced Activities
- Key Persons

Risks in Automated Enviroment

Kinds of Risks

- * Inaccurate processing of data.
- * Unauthorised access to data. — due to lack of security
- * Direct data changes (backend changes)
- * Excessive access / Privileged access (super users) — due to misuse of powers
- * Lack of adequate segregation of duties.
- * Unauthorised changes to systems or programs. — due to lack of security
- * Failure to make necessary changes to systems or programs.
- * Loss of data. — due to Breach of Security

Impact of Risks

- * On substantive Procedures
  - cannot rely on the data obtained from systems.
  - There must be in-depth examination
  - more Audit Evidence is needed.
- * On Controls
  - cannot rely on automated controls, system calculations etc.
  - cannot rely on IT dependent manual controls
  - Systems data & reports must be thoroughly checked.
- * On Reporting
  - communicate to TCWG
  - Modified Audit Report.

Testing in Automated Environment

Testing of Automated controls

- Obtain an understanding of how an automated transaction is processed by doing a walkthrough of one end-to-end transaction using a combination of inquiry, observation & inspection.
- Observe how a user processes transactions under different scenarios.
- Inspect the configuration defined in an application.
- Inspect technical manual/user manual of systems & applications.
- Carry a test check (negative testing) and observe the error message displayed by the application.
- Conduct reperformance using raw source data and independently applying formulae, business rules or validations on the source data using CAATs.

Testing of Data (Data Analysis)

- Check completeness of data and population that is used in either test of controls or substantive ~~an~~ audit tests.
- Selection of audit samples - random sampling, systematic sampling.
- Re-computation of balances - reconstruction of trial balance from transaction data.
- Reperformance of mathematical calculations - depreciations, bank interest calculation.
- Analysis of formal entries as required by SA 240.
- Fraud investigation.
- Evaluating impact of control deficiencies.

Audit Approach to test Internal Financial Control

Risk Assessment

- ★ Identify significant disclosures
- ★ Identify likely sources of mis-statement
- ★ Consider risk arising from use of IT systems

Understand & Evaluate

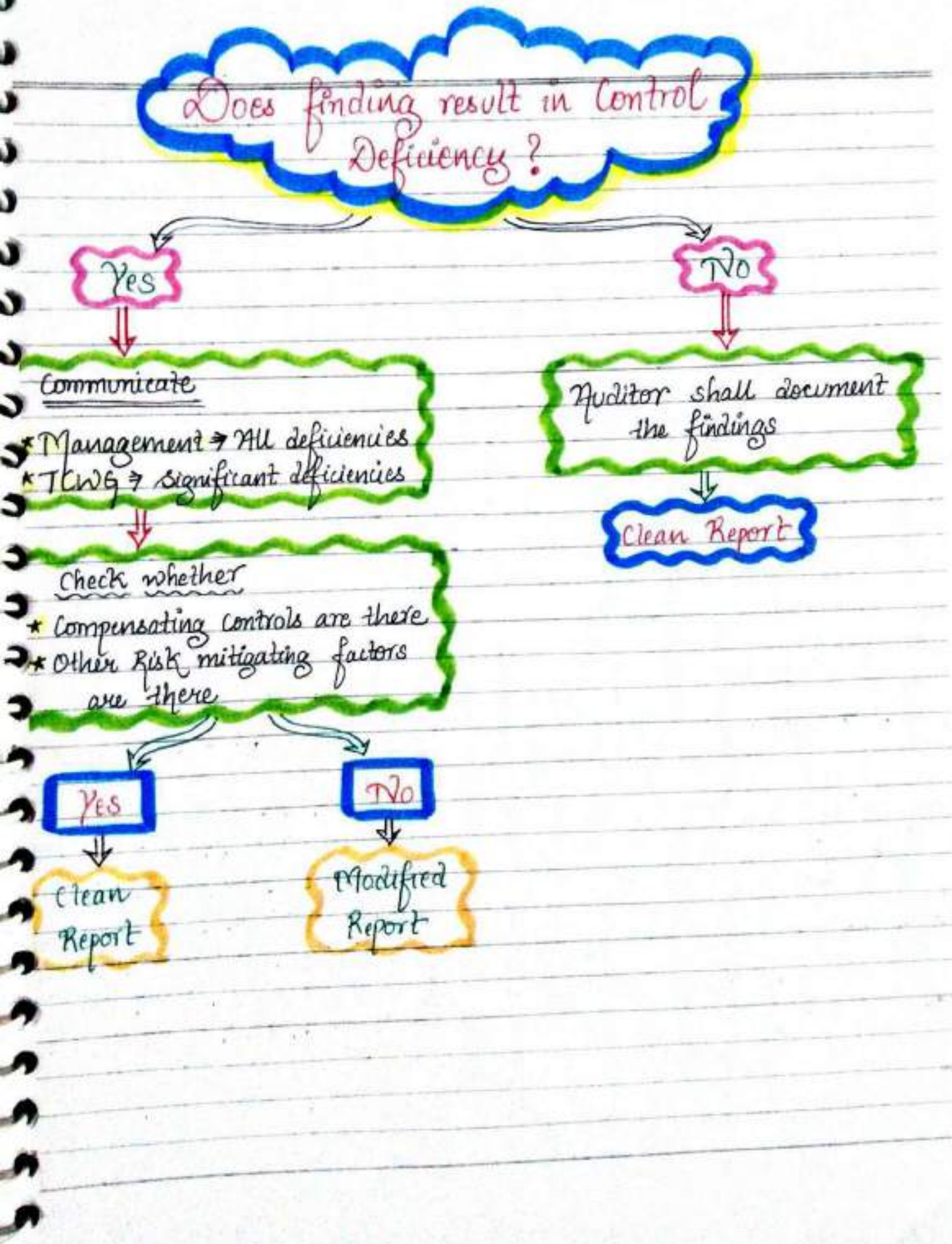
- ★ Understand Design of controls
- ★ Document the understanding formed.

Test for operating effectiveness

- ★ Assess NTE of Controls testing
- ★ Assess reliability of Source data
- ★ Testing of Key Reports
- ★ Sample Testing

Reporting

- ★ Evaluate Control Deficiencies
- ★ Remediation of Control weaknesses
- ★ Auditor's Report


Does finding result in Control Deficiency ?
Yes
No
Communicate
* Management → All deficiencies
* TCWG → significant deficiencies
Check whether
* Compensating controls are there
* Other Risk mitigating factors are there
Yes
No
Clean Report
Modified Report
Auditor shall document the findings
Clean Report

Co-Operative Societies

Audit as per Section 17

Auditor ?

⇓

Registrar or Person Authorised

Appointed by Registrar by order in writing.

Rights of Ar.?

⇓

Can Access BOA, Papers & Securities at all times.

Officers are bound to provide information

Qualification

⇓

* CA ; or
* Diploma Holder in Co-operative Accounts
* Served as Auditor in co-operative dept. of the govt.

Appointment

⇓

* By the Registrar
* Auditor will Send the A/R to Registrar
* Audit fees is paid by Society

Audit concerns

⇓

* Shareholding ⇒ Max 20% of Share capital or 1000/-
* Loan ⇒ Only to Member. However, it can be provided to another Society with Sanction of Registrar.
* Deposits and loans ⇒ Subject to the limit specified in bye-laws.
* Appropriation of Profits ⇒ A certain amount of Profits shall be c/fd to reserve fund before dividend or bonus to members.
* Charitable contribution ⇒ Not exceed 10% after transfer to reserve fond
* Contribution Education Fund ⇒ As per the rules prescribed

Investment

Of funds

* In the Central or State Co-operative Bank.
* In any of the securities specified in Section 20 of the Indian Trusts Act, 1882
* In the shares, securities, bonds or debentures of any other society with limited liability.
* In any co-operative bank, other than a central or state co-operative bank, as approved by the Registrar on specified terms and conditions.
* In any other moneys permitted by the Central Government.

Reserve funds

* In the business of a society, as working capital (subject to the rules made in this behalf)
* May invest as per provisions of the Act.
* May be used for some public purposes likely to promote the object to the society. The Auditor should ensure strict compliance with State Act and Rules in this regard.

Special Features of Audit

Overdue Debts

- Check Proper Classification
  - 6 months to 5 years
  - more than 5 years
- Check Proper provision for doubtful debt.

Written off Bad Debts

- If certified by Auditor
- If not, Managing Committee must authorise it

Valuation of Assets & Liab.

- As per general principles of Accounting
- Value of FA: Cost less provision for dep.
- Intangible expenses shall be capitalised
- CA :- Cost or market price, whichever is lower
- Contingent liab → Disclosed as note.

Adherence to Co-operative Principles

- Check whether objects have been achieved.
- Check benefits provided to members
- Check whether selling price can be reduced
- Check whether purchases are economical
- Check that there is no wastage of funds.
- Check middlemen commissions are avoided.

Member Register

- Shall check entries in the member register w.r.t. loans and its repayments

Special Reporting to Register

- Personal profiteering by members of managing committee
- Detection of fraud
- Specific examples of ~~red flags~~.
- Disproportionate advances to vested interest groups
- Cases of reckless advancing

Classification of Society

- After performing all the Procedures, Auditor shall award a class to the society.
- If Society is aggrieved, it can file an appeal with Registrar
- In that case, Registrar can direct for ~~audit~~.

Discussion of draft Audit Report with Managing Committee

- On conclusion, Auditor shall ask Secretary to convene meeting of Managing Committee to discuss draft Auditor's Report

Content of Audit Report

Content in Report

(a) Whether he has obtained all the necessary information and explanations which were necessary for the purpose of audit.

(b) Whether in his opinion, the said accounts give all the information required by the Act.

(c) Whether the Profit and Loss Account of the society gives a true and fair view of the Profit and loss made by the society.

(d) Whether the Balance Sheet drawn up as at the end of the year gives a true and fair view of the state of affairs

(e) Whether in his opinion, proper books of account have been properly maintained.

(f) Whether the Balance Sheet and the Profit and loss Account examined by him are in agreement with the Books of Account.

Content in Schedule to Report

(1) All transactions which appear to be contrary to the provisions of the Act, the rules and bye-laws of the society.

(2) All sums, which ought to have been, but have not been brought into account by the society.

(3) Any material, or property belonging to society which appears to the auditor to be bad or doubtful of recovery.

(4) Any material irregularity or impropriety in expenditure or in the realisation or monies due to society.

(5) Any other matters specified by the Registrar in this behalf.
In that case of Nil report in any of the above matters, the auditor will have to give a Nil report.

Audit of Multi-State Co-operative Societies

Qualification

Chartered Accountants as per CA Act, 1949

Disqualifications

* A body corporate
* An officer or employee of the MSCS
* A person who is a partner or who is in the employment, of an officer MSCS
* A person who has given any guarantee or provided any security in connection with the indebtness of any third person to MSCS for an amount exceeding one thousand rupees.

Appointment

* Sub 1st Auditor → within one month from Registration of company at BM. If not, then he will be appointed at GM.
* Subsequent Auditor → at every AGM by members

Powers & Duties

Can Access BOA, Papers & Securities at all times.

Officers are bound to provide information.

Inquiries

Same as in the case of inquiry w.r.t. company as provided u/s 143(3) of Companies Act, 2013.

Audit Report

Same Contents

Special Audit

Situations

(a) that the affairs of any Multi-State co-operative society are not being managed in accordance with self-help and mutual aid and co-operative principles.

(b) that any Multi-State Co-operative Society is being managed in a manner likely to cause serious injury or damage to the interests of the trade industry or business

(c) that the financial position of any multi-State co-operative society is such as to endanger its solvency.

Condition

If CG/SG holds atleast 51% of capital

Auditor

* Same Auditor
* Any CA

will have same powers of Main Auditor

↓

will provide the report to CG.

Action by CG

As it thinks fit

↓

If no action taken within 4 months, CG shall forward the report to the society.

Expenses

Shall be borne by the co-operative society.

Inquiry by Central Registrar

Applicant

- creditors
- 1/3 of Board Members
- 1/10 of Total members

Prior Notice

of 15 days to Society

Who will conduct Inquiry

Central registrar or Authorised person

Powers

- He shall have free access to the books, accounts, documents, securities, cash and other properties
- summon any person in possession or responsible for the custody of any such books, accounts, documents securities.
- require the officers of the society to call a general meeting of the society by giving notice of not less than 7 days and where the officers of the society refuse or fail to call such a meeting, he shall have power to call it himself.
- he may summon any person who is reasonably believed by him to have any knowledge of the affairs of the Multi-State Co-operative society to appear
- may examine such person or oath.

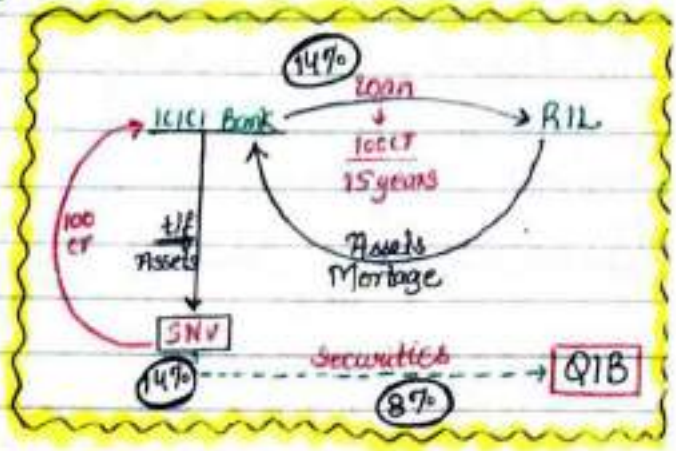
Report

To society within 3 months

Bank Audit

* Laws applicable on Banking Companies ⇒

(1) Banking Regulation Act, 1949
(2) Companies Act, 2013
(3) RBI Act, 1934
(4) SBI Act, 1955
(5) SBI (Subsidiary Banks) Act, 1959
(6) Regional Rural Banks Act, 1976
(7) IT Act, 2000
(8) PMLA, 2002
(9) Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.



* Provisions w.r.t. Auditor ⇒

Qualifications ⇓

Same as provided in Section 11(1)(2) of CA, 2013

Pvt. Firm
↓
Majority

Disqualifications ⇓

Same as provided in Section 141(3) of CA, 2013

BIG FABRIC ROPE

Powers ⇓

same as of Company's Auditor Section 143(1) of CA 2013

Eg: To access BOA, to demand information

Remuneration ⇓

as per sec 142 of CA, 2013

It includes
(a) Audit fees
(b) Reimbursement of expenses
(c) Value of Facility

Appointment ⇓

(1) Nationalised Banks: BOD in consultation with RBI
Eg: PNB, Canara
(2) SBI: C&AG in consultation with CG
(3) Subsidiary of SBI: State Bank of India. Eg: SBBJ
(4) RRB: BOD in consultation with CG
Eg: Sharda Gramin Bank.
(5) Any other bank: Members in consultation with RBI.
Eg: Axis Bank

* Provisions w.r.t. Auditor's Report of a Banking Company

Legal Requirements

(1) SA :- 700, 701, 705, 706

(2) Companies Act, 2013
- (a) 143(3) → Contents
- (b) 143(12) → Reporting on fraud

(3) Long form Audit Report

(4) Circular by RBI ---

CARO, 2016 is not applicable on Banking companies.

Internal/External Auditor shall refer matter to RBI, if he has a doubt w.r.t.
- (a) fraud
- (b) fraudulent Activity
- (c) Act of excess of power
- (d) Smells any foul play

If he deliberately fails to report, he will be liable for action.

Report to CG
In case of Nationalised Banks

- (a) B/S Presents True & Fair View of affairs of Banking Company
- (b) P&L presents true & fair view
- (c) Transactions are within powers of the Board
- (d) Returns submitted by Branches are adequate
- (e) Any other necessary informatio

* Bank Audit Approach

Questions on Internal Control System

(1) Who performs the control?
(2) How is the control performed?
(3) When the control is performed?
(4) Why is the control being performed?
(5) What is the evidence that proved that control is performed?

Engagement Team Discussions

Nature of Discussions

(1) Errors that occurred in past year.
(2) Errors that may occur.
(3) Method of by which fraud can be committed by Banking Personnel
(4) Response to identified Risk
(5) Maintain Professional Skepticism.

Benefits of Discussions

(1) Experienced Team Members can share their view points
(2) An understanding among New team members w.r.t. Banking risks.

* Steps involved in Bank Audit

Step 1 : Initial consideration by Statutory Auditor

(1) fix the terms of engagement in compliance of SA 210

(2) Develop an Audit Plan in compliance of SA 300

(3) Perform prod. procedures in Initial Audit Engagement as per SA 510

(4) Communicate with Previous Auditor

(5) Establish Engagement team

(6) Assessment of Engagement Risk

(7) Should not be involved : Internal Assignment of Bank

Step 2 Identify and Assess the Risk of M.M (by performing R.A.P) (in compliance of SA 315)

Step 3 Understand the Bank, its environment and Internal Control (in compliance of SA 315)

Step 4 Understand the Bank's Accounting process

Step 5 Understand the Risk Assessment procedures performed by Bank and evaluate it.

R.A.P → Bank

Bank

(1) To establish Control System

(2) The control System should be regularly monitored.

Auditor

(1) To evaluate the procedures of Bank

(2) To make discussion with TCWG

SA - 260, 265

* Provisions w.r.t. Security

Types

(1) **Primary**

It means the security offered by the Borrower for which credit has been provided by the bank.

(2) **Collateral**

This is an additional security which is kept by the Borrower in addition to the Primary security

Methods of creation of Security

Mortgage

Usually an Immovable Property.

Types →

(a) **Registered**

Mortgage deed is prepared between lender and borrower.

(b) **Equitable**

More title deeds are transferred to create security.

Pledge

- It is a kind of Bailment
- Movable goods are kept as security
  - Ownership — Pawnor
  - Possession — Pawnee

Hypothetication

- Here, Security has been created on the Asset for which loan has been obtained
- Possession — ~~Pawnee~~ Borrower
- In case of default, Bank can sell the security

Assignments

Transfer of Rights by Borrower to Lender

Eg: Book Debts, Insurance Policies.

Set-off

- In this case Borrower will have two Accounts

Loan A/c → Deposit A/c

In case of default, money will be lifted from Deposit A/c to Loan A/c

* Provisions w.r.t NPA / Prudential Norms on Income Recognition

NPA ?

(a) Interest and/or Installment overdue for a period of 90 days
Term loan

(b) The account remains 'out of order'
OD/cc limit

(c) If an amount is overdue for a period more than 90 days
Bill

Categories of NPA

Categories	Provision
(1) Sub-Standard Assets	15%
(2) Doubtful Assets	
Secured	
Upto 1 year	25%
1 to 3 years	40%
More than 3 years	100%
Unsecured	100%
(3) Loss Assets	100%

Note 7

Agriwltural Advances → NPA ?

Long Duration Crops
↓
If Installments / Interest remains overdue for one crop season.

Short Duration Crops
↓
If Installment / Interest remains overdue for two crop seasons.

* Considerations by bank

Computing drawing Power of Borrower
OD/CC

1) Amount → Sanctioned Limits
2) Drawing Power → Authorised by Board
3) Ensure that a/c is secured by Current Assets
4) Stock statements → scrutinize
5) Construction Business → Examine w.r.t. WIP.

While Providing Advances / loan by Bank

(1) The Bank should check Credit Worthiness of Borrower → by checking CIBIL score.

(2) The Necessary documents should be obtained and scrutinised by Bank.

(3) The loan provided shall be within the Authority of Bank personnel

(4) Sufficient Margin should be kept against securities so as to cover for any decline in value of security.

(5) Every loan A/c must be reviewed atleas once in every year.

* Audit Approach

Income of Banking Co.

(1) Auditor shall obtain Reasonable Assurance that there is no unrecorded income.

(2) Auditor shall obtain Reasonable Assurance that income is recorded in Proper amounts in Proper accounts.

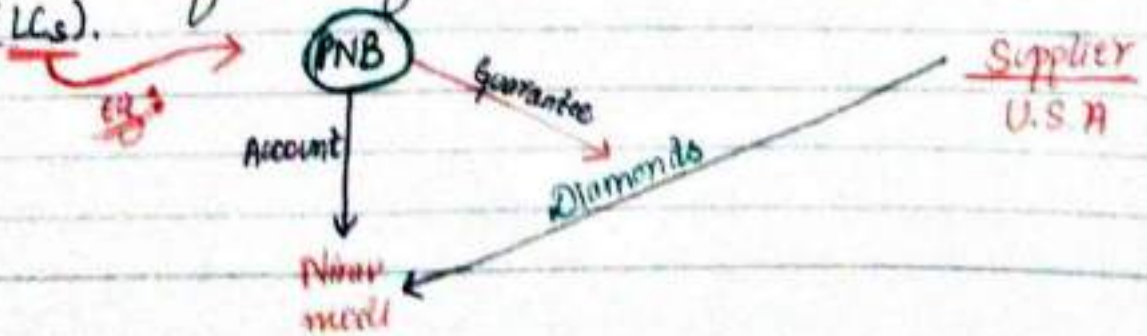
(3) If any income exceeds 1% of Total Income of Bank, then check the Income Recognition as per AS-9.

(4) For other income, it may be recognised when received. In that situation, Auditor need not to Qualify the Report.

(5) Interest on advances against NSC, KVPs is taken to ~~to~~ income Account on due date.

(6) Examine the procedure for crediting the party on whole behalf Bill was collected.

(7) Check the commission received by Bank in case of Letter of Credits (LCs).



Expenses of Banking Co.

(1) Assess the Reasonableness of Amount of Interest expense

(2) Compare the interest paid with the figures of previous years and Analyse the differences.

(3) Ensure that Interest rate is as per the Internal Rules & Regulations of Bank.

(4) Ensure that interest rate is in compliance of RBI Directions.

(5) In case of FDs, Ensure that Inter paid is as per the rate specified in FD certificate.

(6) In case of Inter-Branch Balances, Check that ~~Intangible~~ Interest has been paid as per rates specified by H.O.

AASB identifies the Project (1) → Study Group will be constituted (2) → Study Group will provide recommendations (3) (Study group will submit the draft)

(3) → (4a) Draft will be provided to chairman

(3) → (4b) Draft will be posted in website of ICAI

Next 21 day → Draft will be discussed at the Meeting of AASB (5)

Draft will be discussed at the Meeting of AASB (5) ← Next 10 days ← It shall be forwarded to council Members of ICAI (6) ← Next 60 days ← (7) will provide recommendations (suggestions, improvements etc)

(7) → Posted in the website (8) → Next 10 days → Suggestions, Improvements are considered at Meeting of AASB (9) → Final proposed Standards are submitted to council (10) → Final Standards are issued (11)

The SAs framed by ICAI is inspired from ISAs (International Standards of Auditing) as framed by IAASB under the Authority of IFAC!

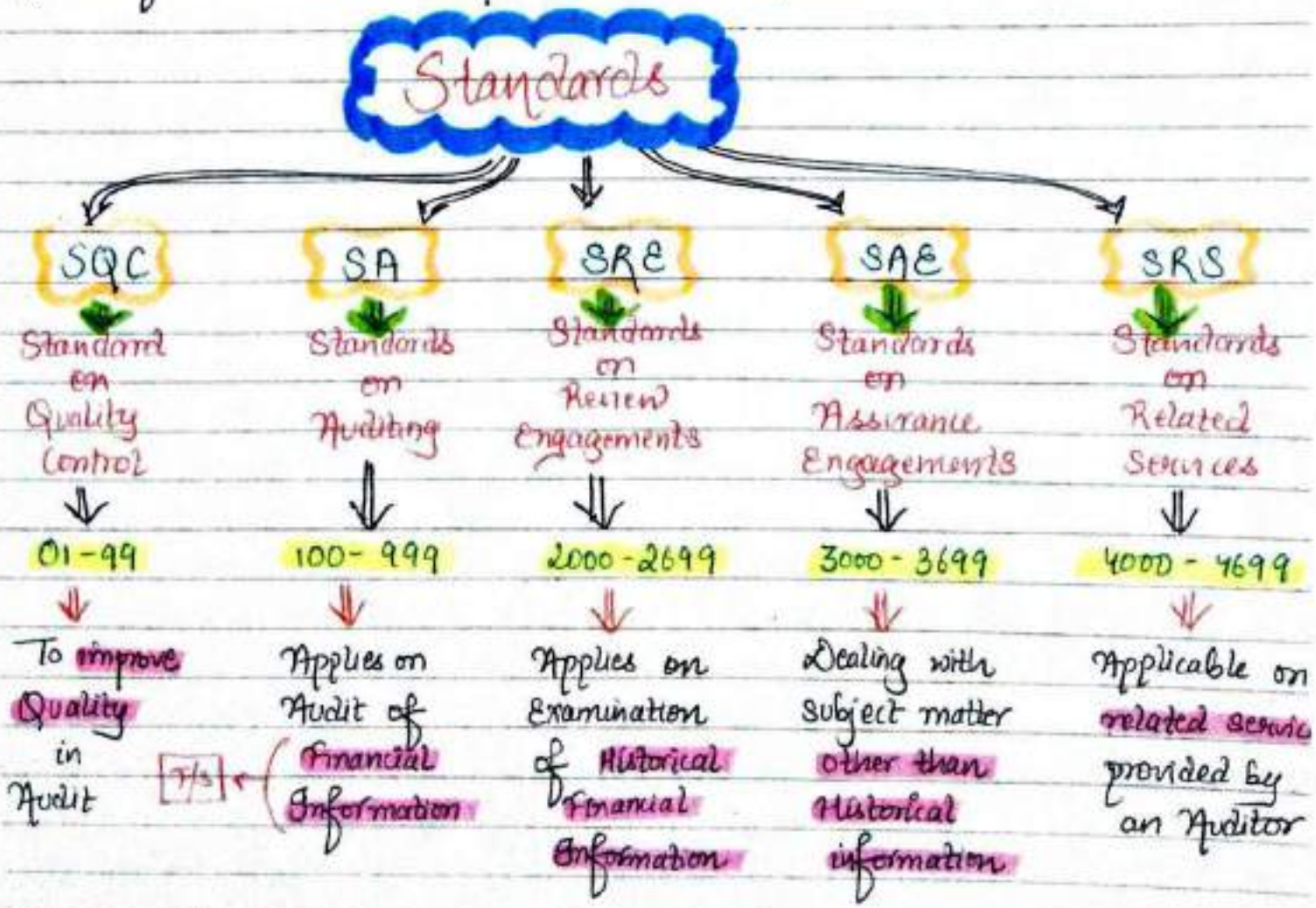
IAASB → International Auditing & Assurance Standards Board

IFAC → International Federation of Accountants

Objectives and Functions of AASB

(a) To review the existing and emerging practices worldwide and identify areas in which SAs, SQC, SAE need to be developed.

(b) To formulate SAE, SA, SQC, SRE under the Authority of the ICA
(c) To review SA, SQC, SAE, SRE, SRS to access their relevance in changed conditions
(d) To formulate Guidance Notes under the Authority of ICAI.
(e) To review Guidance Notes to access their relevance in changed conditions.
(f) To formulate general Classifications on issues from standards.
(g) To formulate technical Guide, Practice Manuals etc.



SA

100 - 199 → Introductory Matters

200 - 299 → General Principles and Responsibilities

300 - 499 → Risk Assessment and Response to Assessed Risk

500 - 599 → Audit Evidence

600 - 699 → Using work of others

700 - 799 → Audit Conclusion & Reporting

800 - 899 → Specialised Areas.

Applicable for CA-Inter except

- SA 260
- SA 265
- SA 330
- SA 402
- SA 450
- SA 540
- SA 600
- SA 620
- SA 720

SA 200

Overall objectives of Independent Auditor and Conduct of an Auditor in accordance with SAs

Definition of Audit

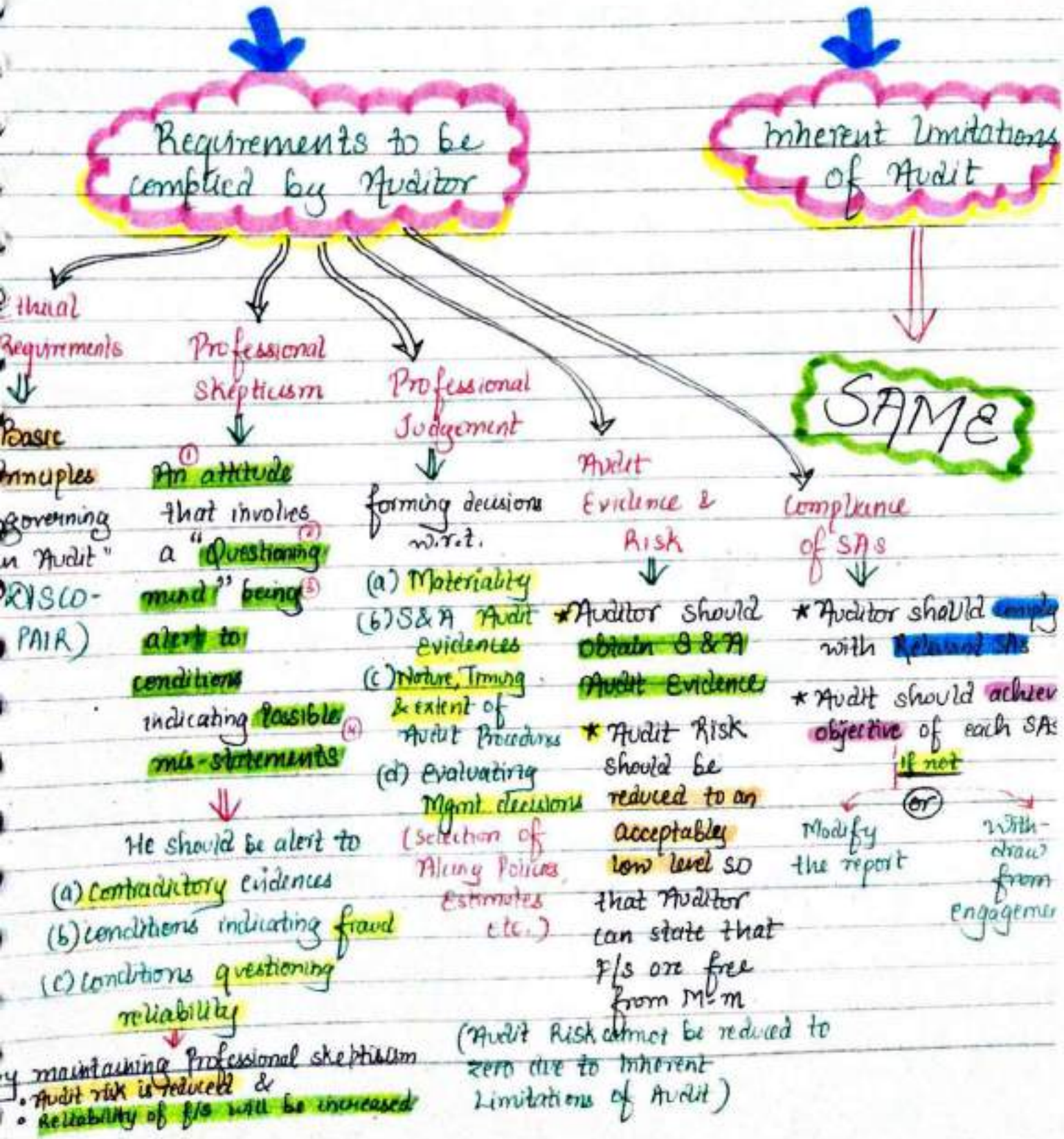
SAME

Responsibilities of Management

(1) Preparation of F/S as per FRF
(2) Design & Implement ICS
(3) Selection of Accounting Policies
(4) Maintenance of Accounting Records

Objectives of an Auditor

(1) To obtain Reasonable Assurance as to whether F/S are free from M-m.
(2) To provide an opinion on truth & fairness of F/S


Requirements to be complied by Auditor
Inherent Limitations of Audit
SAME
Ethical Requirements
Basic Principles Governing an Audit" (RISCO-PAIR)
Professional Skepticism
An attitude that involves a "Questioning mind" being alert to conditions indicating possible mis-statements
He should be alert to
(a) Contradictory evidences
(b) Conditions indicating fraud
(c) Conditions questioning reliability
by maintaining Professional skepticism
• Audit risk is reduced &
• Reliability of f/s will be increased
Professional Judgement
forming decisions w.r.t.
(a) Materiality
(b) S&A Audit evidences
(c) Nature, Timing & extent of Audit Procedures
(d) Evaluating Mgmt decisions (Selection of Acctg Policies, Estimates etc.)
Audit Evidence & Risk
* Auditor should obtain S&A Audit Evidence
* Audit Risk should be reduced to an acceptably low level so that Auditor can state that f/s are free from M-M
(Audit Risk cannot be reduced to zero due to Inherent Limitations of Audit)
Compliance of SAs
* Auditor should comply with Relevant SAs
* Audit should achieve objective of each SA
if not
(or)
Modify the report
With-draw from Engagement

SA 210

Agreeing the terms of

↓

Beginning of Audit

Initial Audit engagement

Management is imposing ~~conditions~~ limitations

↓

Do not accept the Audit

Management is not imposing any limitation

↓

Check existence of Pre-conditions

Pre-conditions are in existence

↓

Accept the Audit

Pre-conditions are not in existence

↓

Do not accept the Audit

Pre-conditions ⇒

(i) whether Management has complied with FRF

(ii) Acknowledgment by Mgmt of its responsibilities

(a) Preparation of FS as per FRF

(b) Maintenance of IC

(c) Mgmt will provide an assertions to other Auditors

(d) Maintenance of Quality control

Recurring Audit

↓

Determine requirement w.r.t.

(a) Change in Mgmt

(b) Change in Trust

(c) Change in ownership.

(d) Change in Business Nature

(e) Change in terms of engagement

Required

↓

Send Audit Engagement letter

Not Required

↓

No further duty

Engagement letter

Meaning ⇒ It is a contract or Arrangement between Auditor & client which defines legal relationship between them.

Contents ⇒ (A) Name of client

(B) Scope of Audit

(C) Objectives of Auditor

(D) Resp. of Auditor (E) Resp of Mgt

(F) Identification of FRF

(G) Form & Contents of Audit Report

Engagement

During the course of Audit

Mgmt. request the Auditor to change its terms of Engagement

Determine the Effect

- High Assurance → Accept the change
- Lower Assurance → Check whether Mgmt. act is reasonable
  - Non Reasonable → Do not accept the change (or) Modify the Report / Withdraw → Communicate Legally
  - Reasonable → Accept the change

Pg. 106

Nov 2009 Q17 By Sir

According to SA 500 on Audit Evidences, Auditor is bound to obtain Sufficient & Appropriate Audit Evidence to obtain Reasonable Assurance regarding Truth & fairness of Financial Statements. Further, SA 210 provides that if Mgmt. request to change the terms of Engagement, then Auditor should determine the effect of change on the level of Assurance. If change provides higher level of assurance, Auditor should accept the change Requested by the Mgmt.

2nd →

On the basis of above mentioned discussions, we can conclude that Mr. X, the Auditor of ABC Ltd. should accept the change in terms of engagement as it provides a higher level of assurance and would enable him to obtain S & A Audit Evidence regarding the receivables.

Pg 105 May 2008

According to SA 200 on Overall objectives of Audit, Auditor is bound to comply with the Basic Principles which Governs the an Audit It has been provided under SA 200 that Auditor is having a duty to examine the design, Implementation & effectiveness of ICS by executing the compliance Procedures. Further, SA 315 provides that Auditor should identify the Risk of M-m and design the ~~Major Tim~~ Nature, Timing & Extent of Substantive Procedures on the basis of examination of ICS.

2nd →

On the basis of above mentioned discussions, we can conclude that the Auditor is bound to examine the ICS of the entity and Mgmt. can not restrict him from doing so. Therefore, the contention of the Mgmt. that Statutory Auditor should only focus on Verifying Books and f/s, is not appropriate.

Pg 107

Q.29 According to the Provisions ~~me~~ contained in SA 230. Auditor should maintain Proper Working Papers or should have Proper documentation w.r.t. evidences obtained and the Professional Judgements formed. It means, if an Auditor has formed any opinion or Judgement regarding the management's decision & making estimates or assumptions, then, the Auditor must document his Judgement or opinion w.r.t. same.

2nd para →

After applying the above mentioned Provision of SA 230, we can conclude that the Auditor should maintain Proper documentation w.r.t. the Professional Judgement formed by him regarding the receivable

SA 220

Quality Control for Audit

Objectives

- To maintain Quality control by the Auditor
  - during the perform
  - \+
  - during the reporting
- The fact should be mentioned in the Engagement letter.
- To Provide Reasonable Assurance that
  (a) Auditor has complied with SAs
  (b) Audit opinion is appropriate

Definitions

- Engagement Partner ⇒
  A full time practicing member of ICAI who is partner in the Audit firm
  - To maintain Quality Control is his responsibility
- Engagement team ⇒
  All persons involved in performing an Audit Engagement.
  Eg: Engagement Partner, Article, Paid Assistants etc.

# of Financial Statements

Requirements to implement Quality Control

HEAL-ME

- **H**uman Resource
  - Right person for right job
  - Proper Supervision
  - Proper staff training
- **E**ngagement Performance
  - * Proper framing & directions to Assistants
  - * Proper supervision
  - * Compliance of SAs
  - * Proper Documentation
    - Duty of Engagement Partner
- **A**cceptance and Continuance of Client Relationship
  - * Engagement partner should be satisfied that Audit Procedures are and will be performed in a well manner.
  - * If Eng. Partner obtains information that can cause him to decline Audit, EP. should inform the firm
    - Responsibility Reasons for declining the Audit :-
      - (a) limitation on scope
      - (b) Pressure by client to provide a clean opinion
      - (c) Client carrying Illegal business
- **L**eadership Responsibility
  - * Policies should be properly communicated to Engagement team members
  - * EP. should resolve the dispute between staff
- **M**onitoring
  - Work of Engagement members should be monitored at Regular intervals by some senior staff
- **E**thical Requirements
  - "DISCO-PAIR"
    - Complied b/w EP & Engagement team members

SA 230

Audit

Meaning

Record of
(a) Audit Procedures performed
(b) Audit evidences obtained
(c) Audit conclusions drawn

Eg →
* Audit Notebook
* Audit file
* Audit Program

Purpose / Benefits

(1) Helps in Planning and Performing the Audit

(2) Direct, Supervise and review the work of Assistants

(3) Fix Accountability on Assistants

(4) Recording the matter of continuing importance

(5) Picking up Lapses of work done by staff

(6) Act as evidences

Documentation

Drivers / Factors affecting Documentation

(1) Size of Entity
(Size ↑ Documentation ↑)

(2) Nature of Entity
(Different type of Documentation)
Hotel — Hospital

(3) Legal Status of Entity
(Different type of Documentation)
firm — co. — society

(4) Risk of M-M
(Risk ↑ Doc. ↑
Risk ↓ Doc. ↓)

(5) Effectiveness of ICS
(ICS → strong, Doc. → less)

(6) Significance of A/Evidence
(Evidence - Significant
Oral - written)

(7) Nature of Audit Procedures
(Inquiry with Mgmt → Oral ✓
Inquiry with T/P → Documentation)

Contents

(1) Audit Procedures performed
(2) Audit Evidences obtained
(3) Audit conclusions drawn
(4) Discussion with Mgmt
(5) Discussion with TCWG
(6) Discussion with T/P
(7) Significant findings
(8) Judgement of Auditor

Procedures

SQC - 1

Same

SA 240

Auditor's responsibility relating to

General Duties

(1) Obtain Reasonable assurance that F/s are free from Mem.
(2) It is the primary duty of Mgmt. to detect the frauds.
(3) But, if the Audit comes to know about fraud, then he should extend his procedures to detect the fraud.
(4) Maintain Professional Skepticism.
(5) Discussion with Engagement team
(6) Discussion with Mgmt and obtain WR.
- (a) Responsibility of Mgmt → Design & Implementation of ICS
- (b) Disclosed results of Mgmt's Fraud Assessment
- (c) Have disclosed frauds

Types of Fraud

(1) FRAUDULENT FINANCIAL REPORTING
(a) Mis application of Accounting Policies
(b) Intentional Omission (of Liab.)
(c) Recording fictitious J.E
(d) Adjusting assumptions
(e) Concealment of facts
(f) Ledger Alteration
(g) Engaging in complex trans. (Transactions with entities in Tax Haven, RPT)

MIRACLE

(2) MIS APPROPRIATION OF ASSETS
(a) Theft of Assets
(b) Mis-use of Assets for Personal use
(c) Embezzlement of Cash

Fraud Risk Factors / Drivers

→ Indicators

(1) Slow-down in customer demand
(2) Negative cash flow
(3) Operating losses
(4) High turnover of Mgmt
(5) Significant RPTs
(6) Lack of ethical Requirem
(7) History of violation of any law
(8) Pressure on Mgmt. to achieve targets

TEN-SHOPS

→ Indicators

(1) Lack of trust between entity and employees
(2) Lack of Nomination Audit procedure
(3) Inadequate physical safeguarding of Assets
(4) No segregation of Duti
(5) Tolerance of petty Theft

fraud in an audit of F/S

Risk Assessment Procedure

1) Enquiry with Mgmt. about O,I.E of ICS.
2) Observe that Mgmt. ain the employees about Ethical Behaviours
3) Enquiry with TCWG how they supervise work of Mgmt.
4) Consider other info. which indicates that ere is a risk of M-m.

Communication

Auditor has detected the fraud

→ Inform Mgmt.

- Mgmt. Agrees → Mgmt. has rectified it + Proper disclosure is made → O.K
- Mgmt. dis-agrees → Inform TCWG
  - TCWG Agrees → TCWG has rectified + Proper disclosure → O.K
  - TCWG Disagrees → Qualified / Negative Report

If Mgmt. is involved in fraud

→ Inform TCWG

- TCWG Agrees → TCWG has rectified + Proper disclosure → O.K
- TCWG Disagrees → Qualified / Negative Report

If TCWG is involved in fraud

→ Withdraw

Unable to continue

If there are various M-m

→ Whether to continue

- Yes → Audit Report → Negative / Qualified
- NO → Withdraw + Communicate TCWG → Provide reasons for withdrawal → Intimate
  1. Members
  2. CG / Regulatory Authority
  3. Incoming Auditor

SA 250

Consideration of laws and

Basic Responsibility

Auditor shall obtain knowledge of

(a) applicability of laws

(b) compliance by the entity

Specific Responsibility

Laws which affect FS → Obtain SA Audit Evidence → Check compliance of law

Laws which do not affect FS → Perform limited procedures (Eg. discussion with Mgmt) → To identify cases of non-compliance

Obtain WR

Mgmt. will state that

(a) compliance of laws is the responsibility of Mgmt.

(b) cases of non-compliance have been properly disclosed.

Audit Procedures in case of Non-Compliance

(1) Understand nature of violation

(2) Detect reasons of non-compliance

(3) Determine effect of non-compliance

(4) Discussion with TCWG

(5) Obtain Legal Advice.

Regulations in an audit of F/s

Reporting

- TCWG
  - Inform in case of N-compliance
  - If TCWG is involved
    1) Inform at higher level
    2) Obtain legal advice
- Auditor Report
  - N-C. affects f/s → Qualified/ Negative
  - N-C do not affect f/s → Clean Report + "Other Matters" Paragraph
- Regulatory Authority

Indicators of non-compliance

(1) Unusual payments of legal fees
(2) Matters related to Entities with 'Tax' havens'
(3) Being Payment for Penalties / fines'
(4) Reading minutes of BM.
(5) Enquiry with Mgmt & TCWG
(6) Licensing and regulatory investigation
(7) Litigations & claims
(8) Adverse Media comments

UMBRELLA

SA 300

Planning in an audit of:

Preliminary Activities

(1) Ensure Compliance of "Basic Principles of Audit"
SA 200

(2) Understand the terms of Engagement
SA 210

Ascertain that there is no "limitation on scope"

(3) Ascertain that whether client Relationship can be accepted
SA 220

Eg: Client is engaged in Illegal Activity, Do not accept the Audit

(4) Communicate with Previous Auditor

Planning Activities

Audit Strategy

(1) Consideration of Preliminary Activities Results
Eg: (1) If ICS is weak, frame the Strategy accordingly

(2) Identify terms of Engagement
Eg: Mgmt. can impose limitation on scope of Auditor at a later stage, Auditor will frame strategy accordingly.

(3) Nature, Timing & Extent of Audit procedures to be performed.

(4) Significant matters to examine
Eg: If Previous Auditor has informed that Mgmt. can manipulate with inventories, then Inventory will be the significant matter

Factor affecting Audit Plan/ Strategy

same as of Ch-9

Updation of Plan

Auditor shall update the plan (if necessary)

(5) Ascertain Report Objectives
Eg: Check whether CARO, 2016 is applicable or not

Financial Statements

Documentation

(1) Audit Plan

(2) Audit Strategy

(3) Updated Plan

200

* Imp:

SA 315

Identifying and Assessing the risk of material misstatement through understanding the entity, its environment

Identification of Risk

Auditor shall have identify the risk of MM at

a) F/S level

b) Assertion level

Significant Risk

The risk which can be identified ~~with~~ by the Auditor only after performing special Audit Procedures, is known as Significant Risk.

To find SR, Auditor should check :-

Error - OR / Fraud - SR

(a) That Risk is a risk of fraud.

Independent Party - OR / Related Party - SR

(b) That risk is w.r.t. RPTs

(c) Complexity of Trans.

Eg: layering in case of money laundering

DCB - OR / non-routine - SR

(d) That transactions are of unusual nature

Eg: Transactions with entities located in Tax Haven

Revision of Risk

In case of new evidences obtained, Auditor shall revise the risk and update the plan.

Risk Assessment Procedure

Assessment of Identified Risk

(1) Consider Knowledge in Previous Audit

(2) Consider Knowledge in Similar Audit

(3) Discussion with Previous Auditor

(4) Discussion with TCWG

(5) Discussion with Engagement Team

(6) Inspection

(7) ~~OR~~

Material mis-statement through and Related Internal Controls

Understand the Entity & Environment

1) Size of Entity
2) Legal Status of Entity
3) Industry
(eg: Telecom / Cement)
4) Nature of operations
(manufacturing of goods / services rendering)
5) Mgmt. Structure
(Mgmt + TCWG are same → Risk high)
6) Ownership
(eg. Pattern of S/holding)
7) Objectives
8) Financial Performance
(Performance poor → Risk high)
9) Accounting Policies
(Acctg Policies inconsistent → Risk high)

Understanding the ICS

(1) Evaluate the Risk Assessment procedure performed by Management
(Result → favourable, Risk → low)

(2) Monitor the ICS (ICS weak – Risk high)

(3) Authorisation procedure (exist → Risk low)

(4) Segregation of duties (exist → Risk low)

(5) Nature of controls (Manual → High risk, Automated → Low Risk)

(6) Evaluate the work of Internal Auditor
(Report of I/A clean → Risk low)

(i) Controls followed on the Software System which has been formed inadequates

(ii) Unauthorised access to data may result in damage of data

(iii) Misuse of Powers by IT Personnel

(iv) Unauthorised changes in master files

(v) Potential loss of data

(vi) Failure to make changes to systems

SA 320 Audit

General Points

(1) An item is said to be material if it can influence the economic decision of the user.

(2) Materiality is a subjective concept which depends upon situation.

(3) Materiality is dependent upon Professional Judgement of the Auditor

(4) Materiality is applied both at the planning & performance level.

Relationship b/w Materiality & Audit Risk

(1) There is inverse relationship between Materiality and Audit Risk

(2) ↑ Materiality level
↑ examination
↓ Risk

(3) ↓ Materiality level
↓ examination
↑ Risk

Materiality at Planning level

While Planning the Audit, Auditor shall form Judgement for material item which provides basis for

a) Nature
Highly Material
E.C + WR

Timing
Highly material
Year end checking

Extent
Highly Material
Checking ↑

⇒ of Audit Procedure

b) Identification & Assessment of Risk

(4) If any transaction is above performance materiality but less than Mat. level as a whole; then Auditor shall perform limited procedures

Evidence

Collection of Evidences

1) Inspection ⇒ Examination of Records, Documents and Tangible Assets

2) Observation ⇒ The process of witnessing the procedure performed by other

Eg: Attending Physical verification conducted by Management

3) Inquiry and confirmation
- Inquiry → means obtaining info. from persons within/outside entity
- confirmation → response to an enquiry

4) ARP ⇒ It means studying significant ratios and trends and investigating abnormal fluctuations

5) Recalculation ⇒ Examination of Arithmetical Accuracy of figures

6) Reperformance ⇒ Execution of procedures that were originally performed by Management

Rules on Reliability

(1) External evidences are more reliable than Internal evidences However, Internal evidences can also be reliable if ICS is strong

(2) Evidences obtained directly by the Auditor are more reliable than evidences obtained indirectly

(3) Documentary ~~or~~ evidences are more reliable than oral evidences.

(4) Evidences in original copies are more reliable than photocopies

SA 505

External

Meaning

Audit evidence obtained as a direct response to Auditor from third party

↓

to make sure the reliability of evidence provided by Mgmt.

Situations

(1) Trade Payables
(2) Trade Receivables
(3) Loan
(4) Investment held by T/P
(5) Inventories held by T/P
(6) Pending suits & litigations

Types of Request

(1) Positive Request

Auditor will request the third party to reply in all the cases whether third party Agrees / Disagrees with information provided in request

(2) Negative Request

Here, Auditor will demand the response of third party if there is an exception

↓

Disagreement with information provided in Request

Generally positive request is more reliable than negative request. However, Negative request can be made if

(a) Risk of Mmn is low
(b) Bal is immaterial
(c) If Auditor is having belief that T/P will reply in case of exception
(d) Chances of exceptions are less

Confirmation

External Confirmation Procedure

(a) Identify the information which is to be obtained

(b) Select the third party to whom inquiry will be made.

(c) Design the confirmation (Positive / Negative) (oral / written)

(d) Sending the request

(e) Obtaining the confirmation

Factors affecting Design of Confirmation Request

(1) Risk of Mism
(Risk ↑ → Positive)
(Risk ↑ → Written)

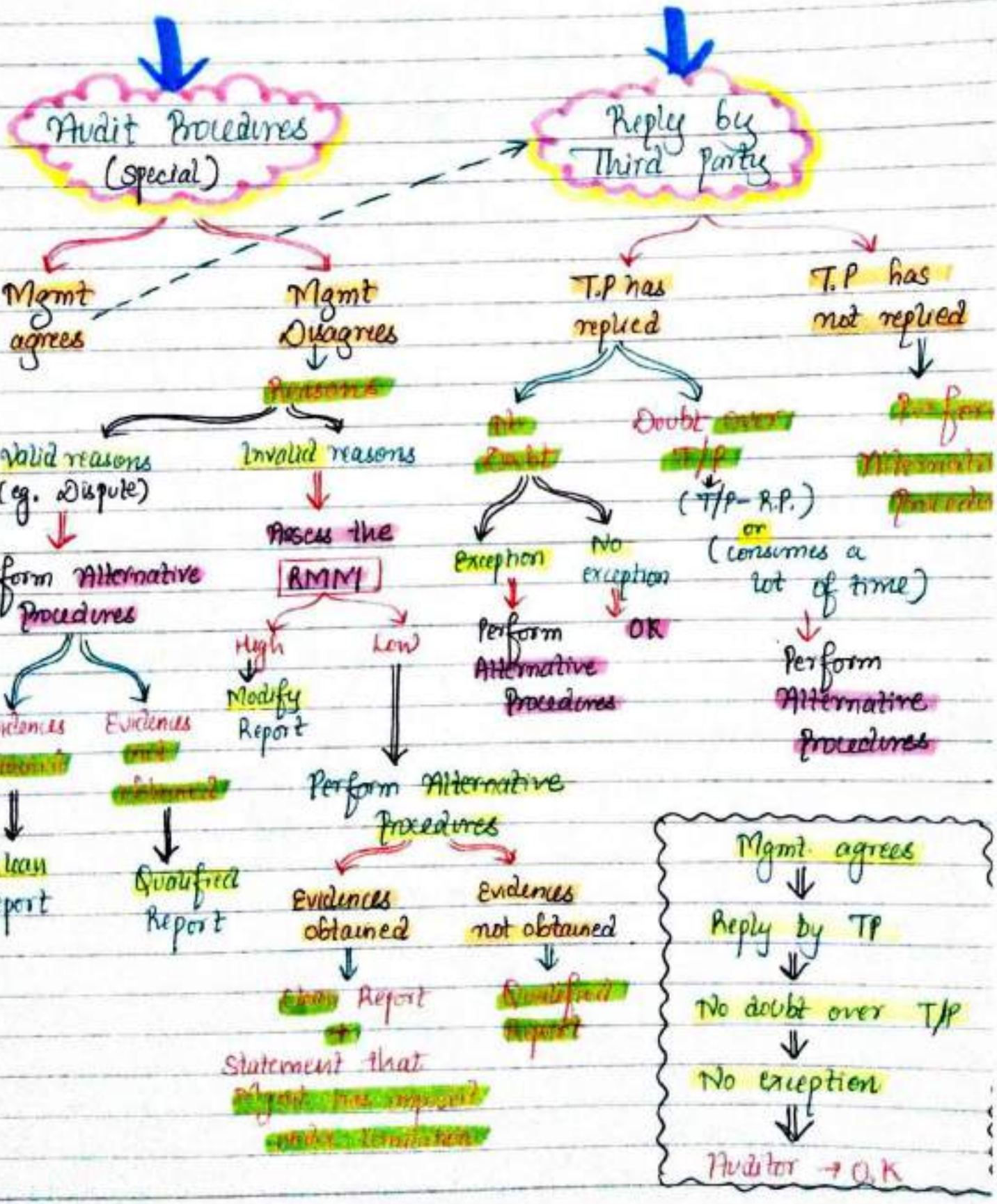
(2) ICS
(ICS weak → Positive)

(3) Significance of matter
(Highly significant → Positive)

(4) Trust on I/P
(less trust → Positive)

(5) Content of Request
(content ↑ → Written)

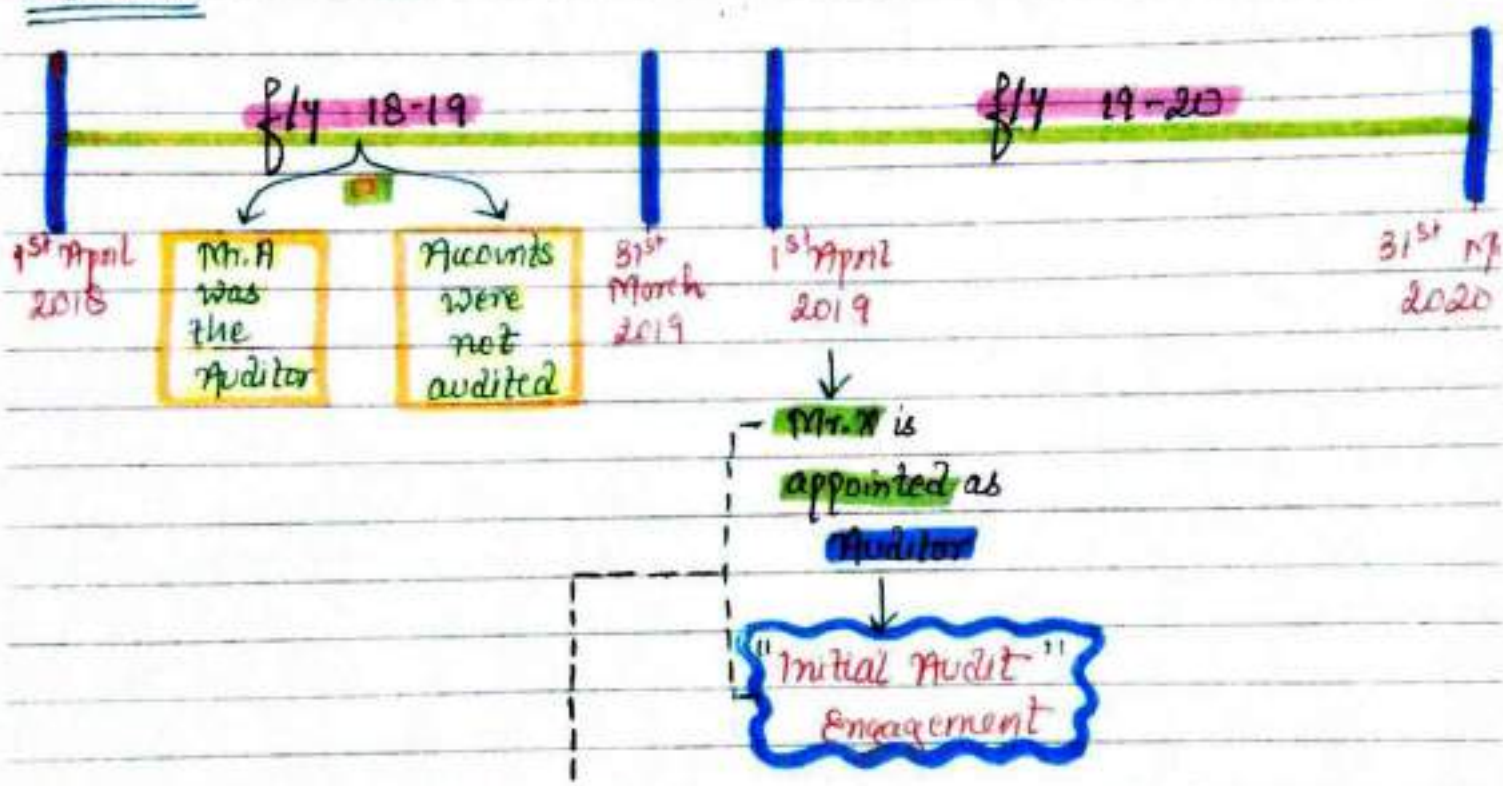
(6) Chances of exception
(Exception ↑ → Positive)


Audit Procedures (Special)
Reply by Third party
Mgmt agrees
Mgmt Disagrees
Reasons
Valid reasons (eg. Dispute)
Invalid reasons
Perform Alternative Procedures
Assess the RMM
High
Low
Modify Report
Evidences obtained
Evidences not obtained
Clean Report
Qualified Report
Perform Alternative Procedures
Evidences obtained
Evidences not obtained
Clean Report + Statement that Mgmt has imposed scope limitation
Qualified Report
T.P has replied
T.P has not replied
No Doubt
Doubt over T/P
(T/P - R.P.) or (consumes a lot of time)
Exception
No exception
OK
Perform Alternative Procedures
Perform Alternative Procedures
Mgmt agrees
Reply by TP
No doubt over T/P
No exception
Auditor → O.K

SA 510

Initial Audit

ABC Ltd



Engagement

Meaning

In engagement in which fls
or prior period
a) were not audited
b) were audited by predecessor Auditor

Audit Procedure

Opening Balances

Check Mis-statement in PY figures

Mis-statement was there

Check effect on current year balances

effect on CYF

Modified Report

No effect in CYF

Clean Report

Mis-stat. was not there

O.K

Accounting Policies

Check consistency of Accounting Policies

Consistent

Clean Report

Non-consistent

Modified Report

Modification in PY Auditor's Report

Check modification in PY Auditor's Report

Modified

(1) Discussion with Mgmt + Predecessor Auditor

(2) Check that Mod. exist in CY or not

Exist

Modified Report

Non-exist

Clean Report

Clean

O.K

* Imp

SA 520 Analytical

Meaning

Analysis of
(a) ~~Significant~~ ratios with ~~significant~~ industry average ratios → Ratio Analysis
(b) Current years figures with that of PY figures → Trend Analysis of SAP
(c) Actual figures with that of Budgeted figures

To ~~observe~~ and examine ~~abnormal~~ fluctuations

4) Suitability of SAP depends upon the Judgement of the Auditor
(If PYF are unaudited, then Auditor will decide that trend Analysis is not a suitable SAP)

Reasonableness Tests ← Ignorance of which will provide lower level of assurance

Stage

(1) Planning
(2) Performance
(3) Conclusion

Substantive Analytical Procedures (SAP)

Determine the Suitability

(1) Determine the suitability for each individual item
(SAP can be applied on which expenses & receipts, it should be decided by Auditor)
(2) SAP will be useful when
(a) transactions are high in volume
(b) transactions are predictable over time
(Compare GPR/NPR in an unstable Entity is not suitable)
(3) Different types of AP provides different level of assurance
(Eg: For comparing Rental Income of Unit, various factors should be considered, like occupancy, development.)

Evaluate the reliability of SAP

(1) Source of information
(external evidences are more reliable than internal evid
(2) Comparability of informa
(entities should be compare
[Eg: Ratios of new entity cann be compared to an entity wh was formed 40 years ago]
(3) Relevance of information
(Budget should be realistic
[Eg: In case of unrealistic Budg its information is irrelevant f performing APR]
(4) Control over Preparation of Information
(In case of unaudited f/s of PY, Trend Analysis will not be reliable)

Procedures

Develop an expectation

↓

of recorded amounts or ratios

↓

Determine the difference of recorded values and expectations

↓

In case of abnormal fluctuations, investigate the causes by

1) Inquiry Mgmt + Obtain S & A Audit Evidence
2) Perform Alternative Procedures

SA 530

Audit

Definitions

(1) Sampling ⇒ Application of Audit Procedure to less than 100% of items within a population of Audit Evidence

(2) Tolerable Errors of M-s ⇒ The errors, even if they are in existence, the Auditor can obtain reasonable Assurance & will provide a clean opinion.

(3) Sampling Risk ⇒

Error Type	Over-reliance	Under-Reliance
Test of Controls (C.P)	That controls are more effective than they actually are	That M-s does not exist when in controls are less effective than they actually are
Test of Details (S.P)	That M-s does not exist when infact it exists	That M-s does exist but infact it does not exist
Effect on Audit Report	Inappropriate Audit opinion	Ineffective Audit opinion

Types of Sampling

Judgemental Sampling

★ Sample size and composition is dependent upon experience & Judgement of Auditor

★ This is known as Traditional Sampling

★ Advantages ⇒
(a) Easy to operate
(b) less time consuming
(c) doesn't require trained staff.
(d) Personal bias

★ Disadvantages ⇒
(a) It is not a scientific method
(b) Inappropriate sampling procedure size & opinion
(c) Personal bias

Statistical Sampling

★ Sample is selected by applying mathematical techniques

★ It is generally based Probability procedure

★ Advantages ⇒
(a) Scientific method
(b) Appropriate sampling size procedure & opinion
(c) Not Personal bias

★ Disadvantages ⇒
(a) Difficult to operate
(b) Time consuming
(c) Require trained staff / special expertise.

Sampling

Methods to calculate sample size

Random Sampling

1) Simple Random
2) Each item of population has equal chance of selection
3) Generally, it is decided by using Random No. Tables
4) Useful for homogeneous Population

5) Stratified Random
1) This is suitable for heterogeneous Population
2) The diversified Pop^n. divided into homogeneous sub-population to cover all type of transactions and process is known as ratification
3) Then sample is taken from sub-population which is known as strata.

Interval Sampling

(1) Block Sampling
* Selection of definite block of consecutive items
Eg: (a) first 50 purchase invoice for month of Feb
(b) Copies of sales invoice regarding from 550-599 of every month
* It is a simple method as it involves judgement of the auditor
* It can be biased at times

(2) Cluster Sampling
* Population is divided into groups called cluster
* A number of clusters are selected on random basis
Eg: 1000 sales invoice are divided into 10 clusters of 100 invoice each and then 3rd, 6th & 9th are selected.
* More effective than Block sampling but less effective than Random sampling.

Factors influencing sample size

Test of Controls / Details

(1) RMM
(RMM ↑ → Sample size ↑)

(2) Tolerable Rate of M.S
(TR ↑ → SS ↓)

(3) Expected rate of Deviations
(ERD ↑ → S.S ↑)

(4) Level of assurance
(Assurance ↑ → SS ↑)

(5) Size of Population
(Size of Pop^n. ↑ → SS ↓)

SA 550

Related

Meaning

1) RP means related Party as defined in the Financial Reporting Framework

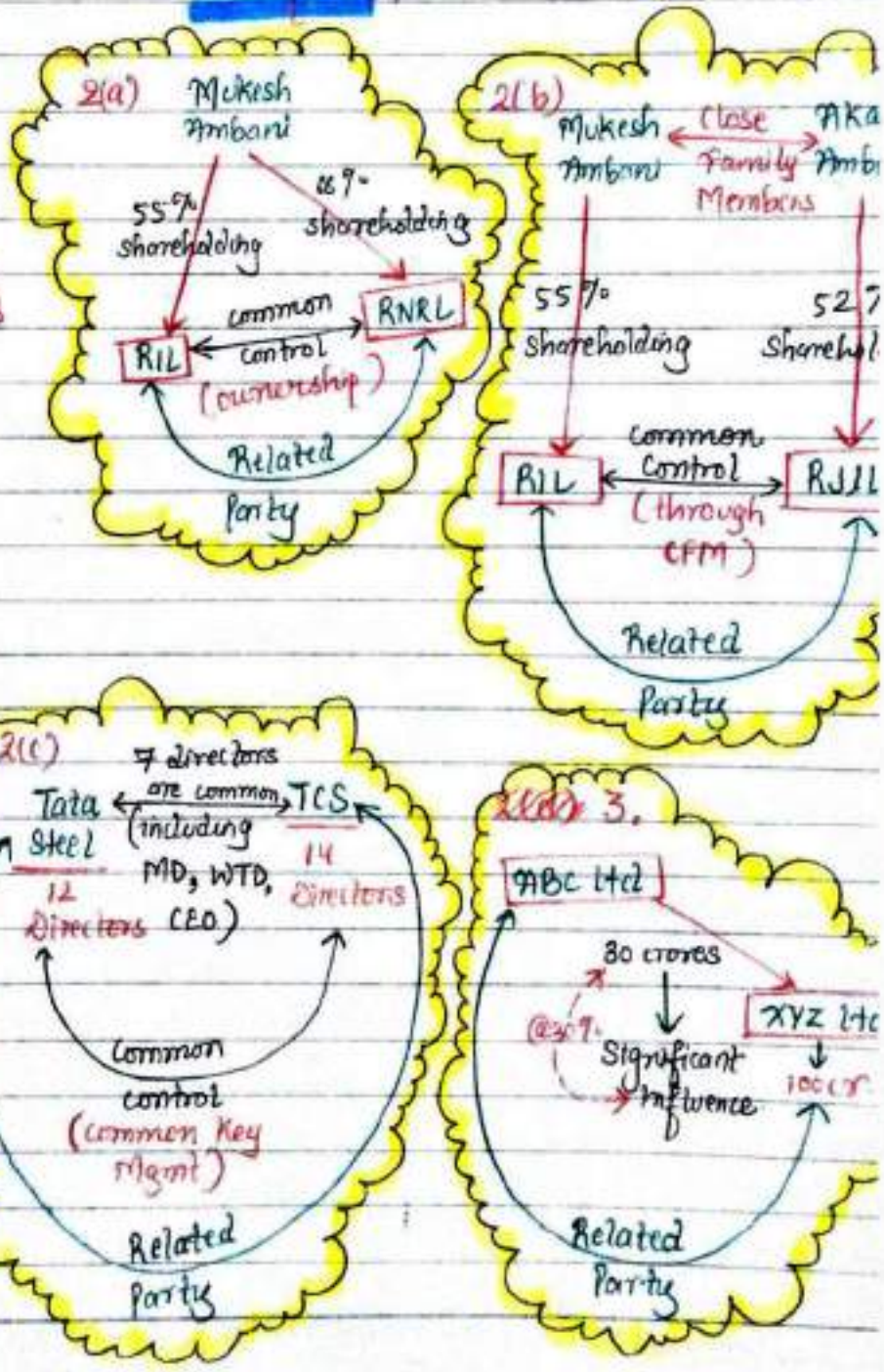
→ Sec 2(76) of CA, 2013

→ AS-18

2) Entity under common control with client through
a) Ownership
b) Close family members
c) being owners
d) Common Key Mgmt.

3) Entity over which client is having significant influence / control.

Examples



Party

Responsibilities of Mgmt.

(1) Identify RP
(2) Compliance of Sec 188 (Board Resolution + Ordinary Resolution)
3) compliance of Sec 189 (making entry in the Register)
4) Compliance of AS 18
5) Proper disclosure of RPTs

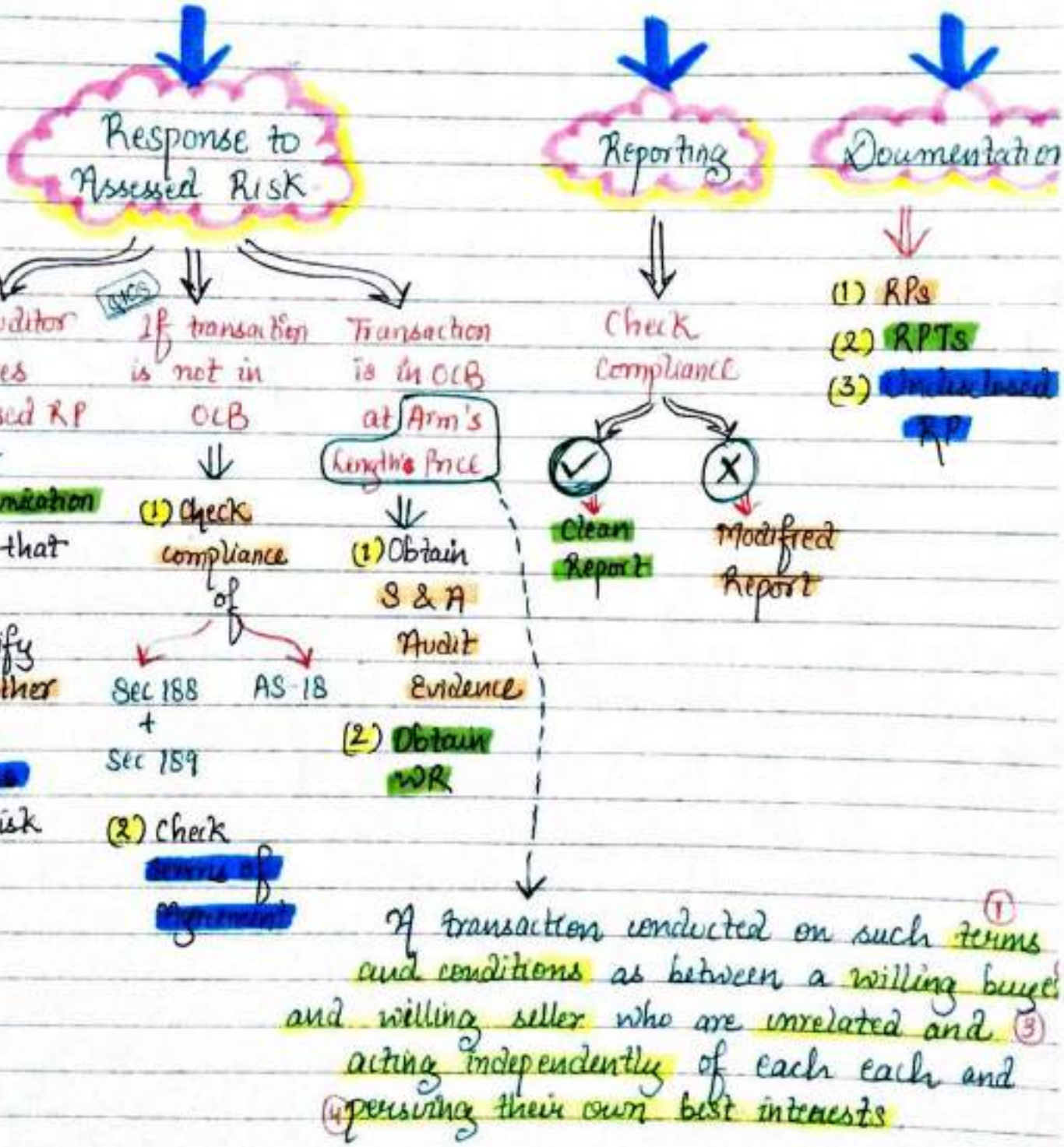
Risk Assessment Procedures

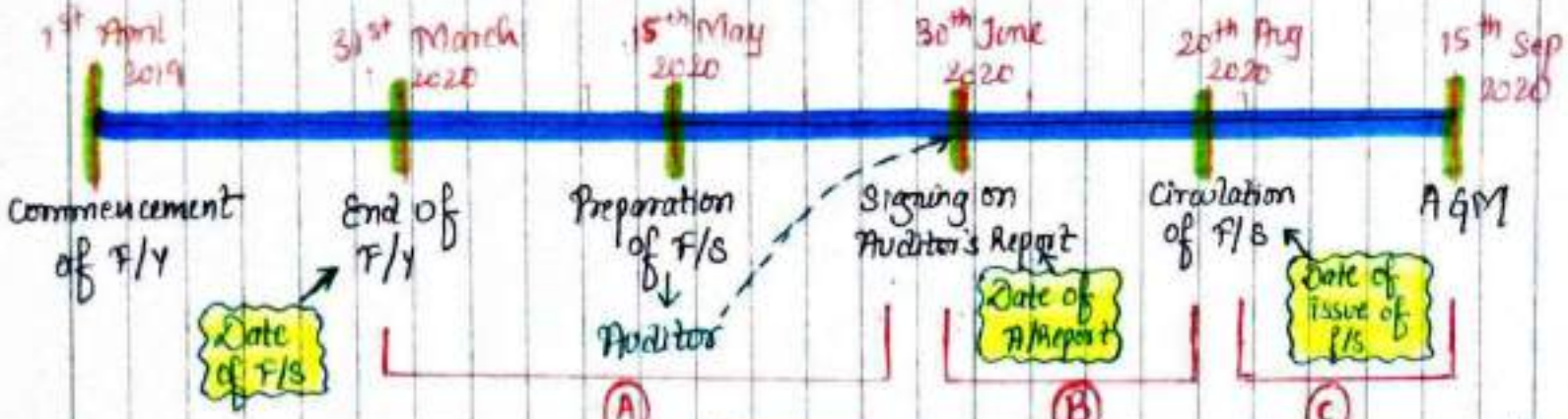
Inquire Management

(1) Obtain list of RPs
(2) Obtain list of RPTs
(3) Nature of relation with RP
(4) Change in relation with RP
(5) Obtain written representation

Understand ICS w.r.t. RPTs

(1) Discussion with Engagement team
(2) Maintain Professional Skepticism
(3) Identify significant risk.
(4) Identify fraudulent RP


Response to Assessed Risk
Reporting
Documentation
If Auditor identifies undisclosed RP
If transaction is not in OCB
Transaction is in OCB at Arm's Length's Price
Check Compliance
(1) RPs
(2) RPTs
(3) Undisclosed RP
(1) Communication with that RP
2) Identify such other RPs
(3) Assess the risk
(1) Check compliance of
Sec 188 + Sec 189
AS-18
(2) Check
(1) Obtain S & A Audit Evidence
(2) Obtain WR
Clean Report
Modified Report
If transaction conducted on such terms and conditions as between a willing buyer and willing seller who are unrelated and acting independently of each each and pursuing their own best interests



Events occured after date of f/s but before date of Auditor's Report

Facts came to the Knowledge of Auditor after date of A/R but before date of issue of f/s

Facts came to the Knowledge of Auditor after issue of f/s

Meaning of Subsequent Events

Events occuring after date of f/s but before date of Auditor's Report and it includes the facts came to the knowledge of Auditor after the date of Auditor's Report.

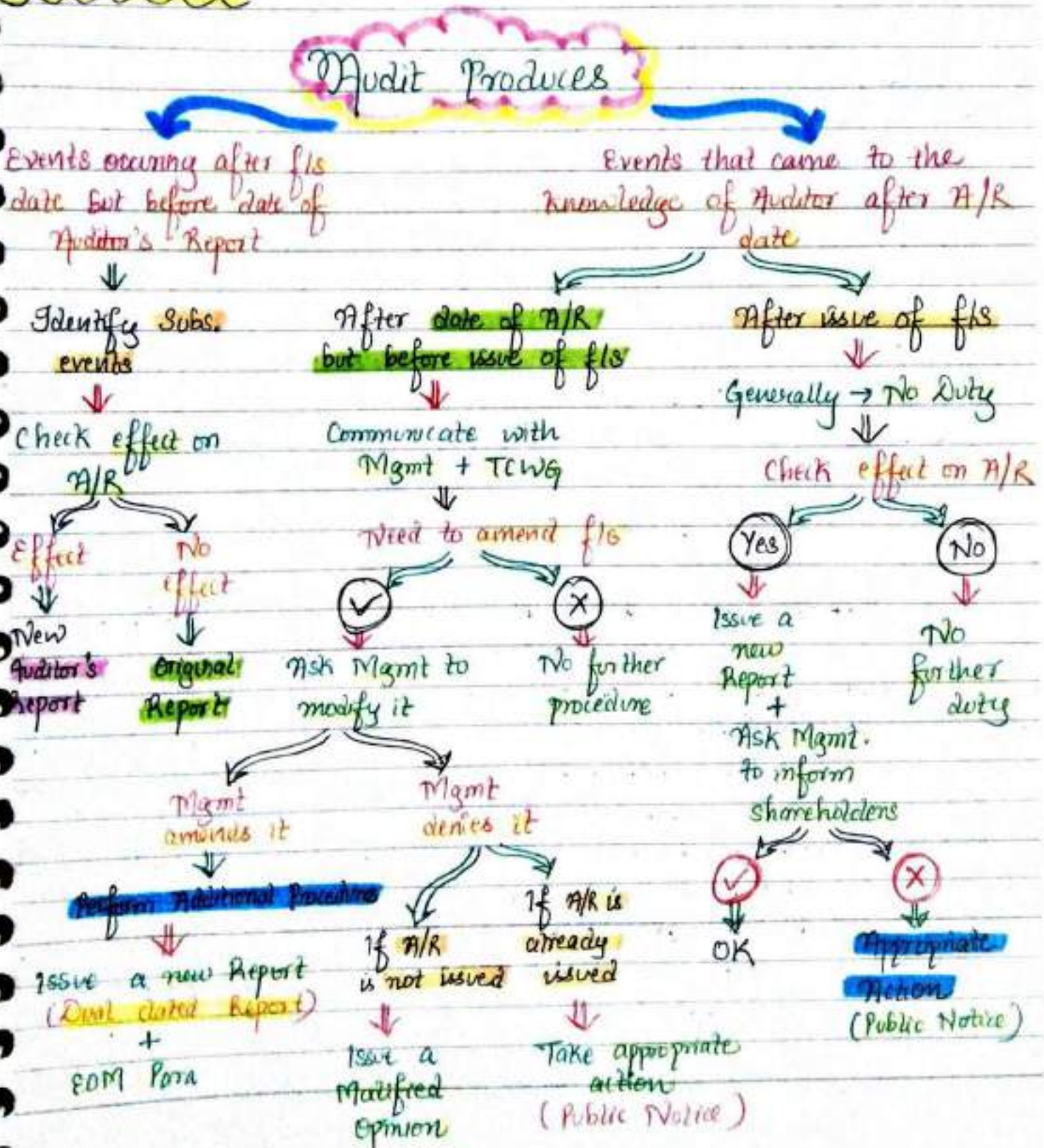
Identification of Subsequent Events

(1) [illegible] with Management
(2) Obtain [illegible]
(3) [illegible] of BM (after date of f/s)
(4) Review [illegible] Reports
(5) [illegible]

SA 560

Subsequent

Events


Audit Produces
Events occuring after f/s date but before date of Auditor's Report
Identify Subs. events
Check effect on A/R
Effect
No effect
New Auditor's Report
Original Report
Perform Additional Procedure
Issue a new Report (Dual dated Report) + EOM Para
Mgmt amends it
Mgmt denies it
If A/R is not issued
Issue a Modified Opinion
If A/R is already issued
Take appropriate action (Public Notice)
After date of A/R but before issue of f/s
Communicate with Mgmt + TCWG
Need to amend f/s
Ask Mgmt to modify it
No further procedure
Events that came to the knowledge of Auditor after A/R date
After issue of f/s
Generally → No Duty
Check effect on A/R
Yes
No
Issue a new Report + Ask Mgmt. to inform shareholders
No further duty
OK
Appropriate Action (Public Notice)

SA 570

Going

Meaning

The Enterprise is normally viewed as continuing operations for forseable future.

Audit Produres

Mgmt. performed Preliminary Assessment of Going concern

- Yes → Evaluate it
- No → Ask the Mgmt to do the assessment

+

- → Obtain
- → Discussion with Mgmt
- → Read the minutes
- → Analysis of cash flows

Concern

Indicators

Financial

1) Negative Cash flow
2) Huge liabilities
3) Arrears of dividend
4) Arrears of creditors
5) Adverse financial ratios
6) Default in Repayment of loan

Operating

(1) Labour unrest (strike, dispute)
(2) Loss of Key Management
(3) Shortage of important supplies
(4) Loss of Key customer
(5) Loss in Market share
(6) existence of Highly Successful competitor
(7) Loss of License

Others

(1) Regular violation of law
(2) Pending litigations & claims

Reporting

If Mgmt denies to make Preliminary Assessment → Modified Opinion → Adverse opinion

Auditor concluded G.C is inappropriate → Adverse opinion

G.C appropriate → Material Uncertainty → Disclosure by Mgmt

- Yes → Clean Opinion +
- No → Modified Opinion

As per SA 570: Statement that G.C. is appropriate but there is a material uncertainty

SA 580

Written

Meaning

1) A written statement by Mgmt. to the Auditor to confirm certain matters to support other evidence.

2) W/R does not include F/s or other supportive Books or records.

3) WR is an evidence but it is not S&A Audit Evidence.

When?

Mgmt. Responsibility

- Preparation of F/s as per FRF
- Assistance to Auditor during Audit

When there is a requirement in other SAs

- RPTs (SA 550)
- Subsequent Event (SA 560)
- Going concern (SA 570)
- [illegible] of [illegible]
- Risk of M-m (SA 315)
- When Internal Au provides Direct Assistance (SA 610)

From?

(1) Mgmt.
(2) TCWG
(3) Other persons involved in entity

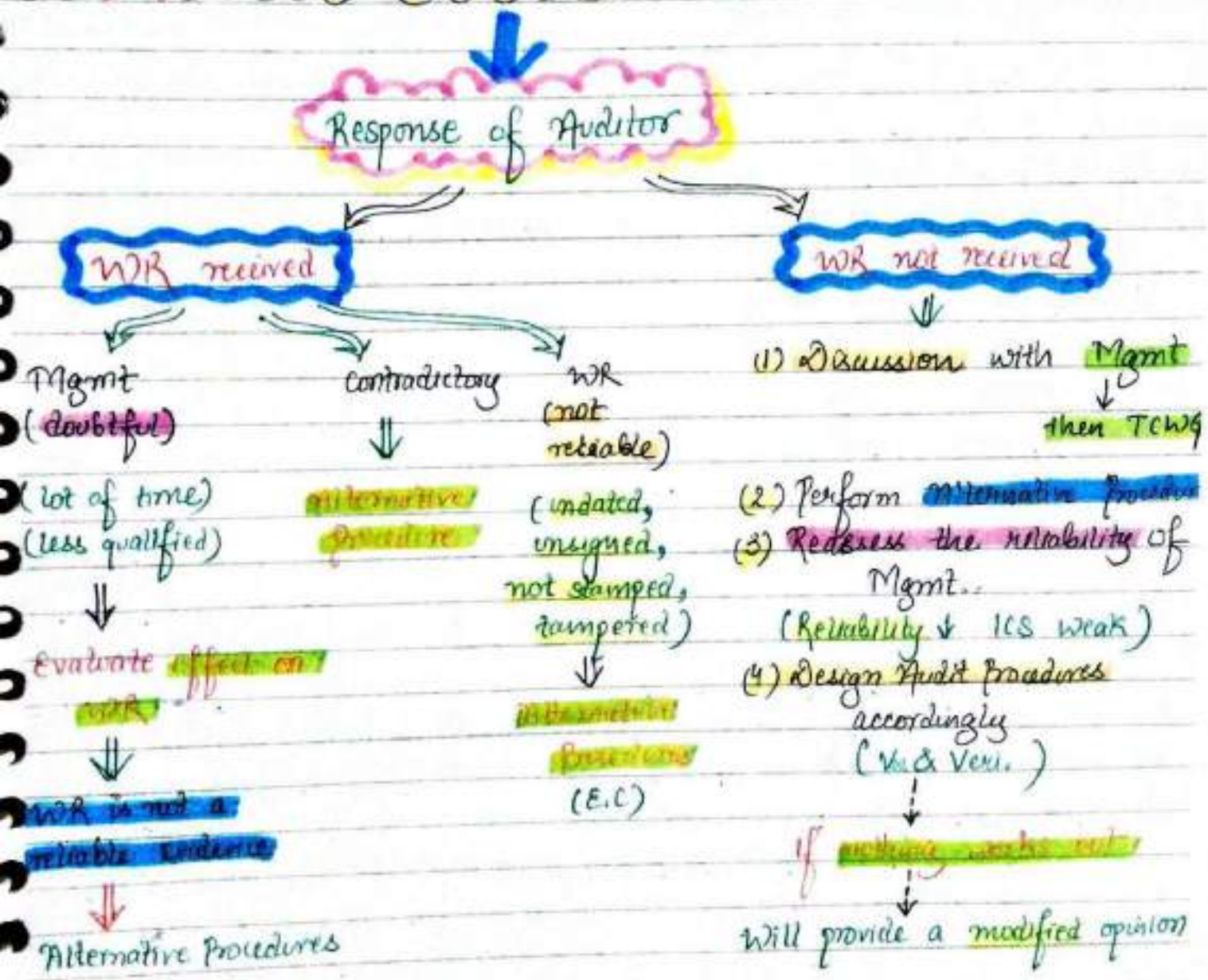
To?

Addressed to Auditor

When?

Nearby to f/s date or Date of A/Report

Representation



SA 610

Using the work of Internal Audito

General considerations before relying →

(1) Qualification and experience of IA
(2) Independence of IA
(3) Evaluate his judgements
(4) Discussion with Mgmt
(5) Discussion with IA
(6) Read IA report
(7) Communicate with TCWG (SA-265)
(8) Document the work and communicate with IA (SA-230)

(1) To conduct Internal Audit

↓

It is a function to evaluate D, I, E of it

(2) is appointed by BoD
(3) Scope is fixed by BoD
(4) EA can rely on the work of IA
(5) EA will be responsible for the work of IA.

Internal Auditor to provide Direct Assistance →

(1) Evaluate ~~no~~ whether work of IA can be used as DA.
(2) Determine extent of work to be assigned to IA
(3) Obtain WR from Mgmt. that it will not restrict IA
(4) Obtain written consent from IA to keep matters confidential.
(5) Document the work performed by IA.
(6) Supervise the work of IA.

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Comparatives

- **PY figures**
  - re part of CY FIS → Corresponding figures
  - are not part of CY FIS → Corresponding FIS
- **Duty of Auditor**
  - (1) Check compliance of TRE
  - (2) If PY figures were unaudited, Auditor shall mention these facts in the Audit Report
- **Prior period Qualifications**
  - Resolved in CY → Clean opinion
  - Unresolved in CY → Modified opinion
- **Prior period items detected in CY**
  - Errors Corrected + Disclosed → Clean Opinion + Emphasis para
  - Otherwise → Modified Opinion (w.r.t. PY figures)

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Responsibilities of

Meaning

Joint Audit is an Audit of fls of an entity by two or more Auditors appointed with the objective of issuing Audit Report.

↓

such Auditors are described as Joint Auditors

Division of work

Work to be based on

(a) Time period

(b) Area

(c) Component of fls

↓

This discussion must be documented

Planning, Risk Assessment

Before commencement of Audit, J/A shal discuss and develop an Audit Plan, Auditor sh

(a) identify division of work and common a'

(b) Ascertain reporting objectives

(c) Determine significant matters

(d) Consider result of PE Activities

(e) Ascertain N.T.E of resources of audit procedures

Note:

(1) Engagement Partner + Engagement team mem of all J/A shall be involved in Planning

(2) J/A shall jointly establish an overall Joint strategy

(3) RMM needs to be identified, communicated and documented.

(4) There will be common engagement letter

(5) J/A shall obtain common management representation letter / written representation

(6) After allocation of work, the work allocation document must be signed by all J/A and communicate to TCWG

(7) J/A shall discuss, document & also inform to TC N.T.E of Audit Procedures

Joint Auditors

Miscellaneous

(1) Joint Auditor should intimate deficiencies or matters which are relevant for other J/A (before finalisation of Audit)

(2) J/A need not renew the work of other J/A

(3) J/A generally form a common opinion.

But in case of contradiction, J/A can provide separate opinions (But there must be reference to each in each other's report)

i.e., J/A are not bound to match their opinions

↓

A Joint Auditor is not bound by the views of majority of Joint Auditor

(1) Before finalising A/R, J/A shall discuss & communicate with each other their respective conclusions.

Responsibility

Joint and several

(1) Common areas of work

(2) Common discussion as on an Audit Procedures

(3) Mutual opinion on issues

(4) WR (if obtained jointly)

(5) Form and content of A/R

Several

(1) Specific area of work

(2) Audit procedure are performed individually

(3) WR (if obtained Separately)

(4) A/R (if provided Separately)

(5) Branch Audit