

BCCA

**CMA INTER
AUDIT**

CA CMA ANANTH SHARMA



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AUDIT Meaning:

"An audit is 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."

Primary Objective to form and express an opinion via audit report whether financial statements show a **true and fair view** of state of affairs and profit & loss account

Secondary Objective prevention and detection of fraud and errors during the course of audit.

CONCEPT OF "TRUE AND FAIR"

That the assets are neither undervalued or overvalued, according to the applicable accounting principles;

No material asset is omitted,

The charge, if any, on assets are disclosed, Material liability should not be omitted,

The profit and loss account discloses all the matters required to be disclosed by Part II of Schedule III and the balance sheet has been prepared in accordance with part I of Schedule III,

All unusual, exception or non- recurring items have been disclosed separately.

SCOPE OF AUDIT:

Applicable law and regulation The ICAI Pronouncements The Terms of Engagement

Overall objectives of the Auditor (SA 200):

While auditing the financial statements, the auditor has following objectives:

1. To obtain reasonable assurance about whether the financial statements are free from material misstatements.
2. To express an opinion on whether financial statement are prepared as per applicable F.R.F and
3. To report on financial statements and communicate as per SAs.

RELATIONSHIP AND DISTINCTION BETWEEN ACCOUNTING & AUDITING

Accounting	Auditing
i. Analyze events and transactions	Review client's internal control system
ii. Record and summarize data in accounting records	Obtain and evaluate evidence on statement Assertions
iii. Make financial statement assertions	Determine fairness of statements in conformity with recognized accounting principles
iv. Prepare financial statements as per recognized accounting principles	Prepare audit report on finding
v. Distribute Financial statements and Auditor's re- port to shareholders	Deliver audit report to client
vi. Accounting is first & after it is done auditing starts	Auditing starts where accounting ends

DISTINCTION AUDIT AND INVESTIGATION:

BASIS		AUDIT	INVESTIGATION
i.	Meaning	Auditing is an independent and systematic examination of the evidence underlying the accounting or other data in accordance with the generally accepted auditing practices to ascertain the true and fair view of the financial statements of an enterprise.	An investigation may be defined as an examination of accounts and records with a view to ascertain any fact for some special purpose which varies from assignment to assignment.
ii.	Scope	The audit has a wide scope. In statutory audit, the scope is determined by the relevant law and in case of a private audit (e.g. management audit) by a client.	The scope of investigations, on the other hand, is limited as regards the period or areas to be covered.
iii.	Objective	In audit, the accounts and records are verified as to their truth and fairness.	Investigation is for special purpose (e.g. investigation on the behalf of incoming partner)

iv.	Audit Procedure	The audit is conducted in accordance with the generally accepted auditing principle.	Investigations involve an extended auditing procedure.
v.	Evidence	An auditor will evaluate the accounting records predominantly based on persuasive evidence.	An investigator can draw his conclusions only on the basis of substantial or sometimes conclusive evidence.
vi.	Approach	Auditor is skeptical and not suspicious.	Whereas an investigator starts with suspicion and collects evidence to either confirm or dispel that suspicion.
vii.	Periodicity	Auditing is a routine exercise (normally conducted annually).	Investigation may spread over a gap period longer than one year.

BASIC PRINCIPLES GOVERNING AN AUDIT



Inherent limitations of auditing: (SA 200)

Auditor cannot obtain absolute assurance. (cannot reduce audit risk to Zero)

This is due to inherent limitations of an audit due to which auditor obtains persuasive evidence rather than conclusive.

It arises from:

1) Nature of financial reporting:

Preparation of financial statement involves judgment by management. (Ex: accounting estimates.) In this case absoluteness is not possible.

2) The Nature of Audit Procedures:

There is the possibility that management or others may not provide complete information.

3) Limitations w.r.t time and cost:

Users expect that the auditor will form an opinion on financial statements within reasonable time and cost.

Thus, auditor resorts to test procedures (not 100% checking). Hence, he directs more efforts to risky areas.

4) Other matters:

- ✓ Related party transactions.
- ✓ Events and conditions affecting entity's ability to continue as going concern.
- ✓ Non-compliance with laws as auditor may not have complete knowledge of laws affecting client.

"MATERIALITY" IN PLANNING AND PERFORMING THE AUDIT

SA 320 on Materiality in Planning and Performing an Audit lays down that "The concept of materiality is applied by the auditor both in planning and performing the audit.

Factors to be considered for determining materiality of an item are:

- 1) **Individually:** It may be determined individually. E.g., a payment of ₹ 1000 may be material in a small business, but even ₹ 1 lac could be immaterial for a big business entity.
- 2) **Aggregate:** It may be determined in aggregate. E.g., total income from investment in mutual funds could be more material than looking into each individual investment.
- 3) **Legal Considerations:** It depends on the statutory or legal considerations.
E.g., where the terms of appointment of a whole time director are not according to law, the remuneration paid to him is a material item even if the financial implication is not much.
- 4) **Legal Definition:** It may be defined or described in law itself.
E.g., Schedule III requires separate disclosure of items of all expenses exceeding 1% of turnover or to write off capital assets purchased for less than ₹ 5000.
- 5) **Qualitative:** It may be qualitative and not often reckoned with respect to quantitative details alone.
E.g., improper disclosure of an accounting policy in the Notes to the Annual Financial Statements may affect economic decisions.
- 6) **Insignificant quantity but special context:** It may be of an insignificant quantity otherwise, but material in special circumstances. E.g., rounding off to the nearest rupee the fraction of 0.666 as 0.67 in computer software. It may be material in future due to cumulative effect even if insignificant now.

CLASSIFICATION OF VARIOUS TYPE OF AUDIT



AUDITOR'S ENGAGEMENT (SA 210)

- Audit Engagement letter is given by Auditor to Company, explaining scope of work duties & responsibilities of Auditor and that of management of Company.
- It specifies limits of Liability of Auditor. It avoids misunderstanding confusion, dispute between client & Auditor at a later stage.
- Audit engagement letter confirms acceptance of Audit by Auditor, documentation objective & scope of Audit & Other work and the extent of his responsibilities to client.

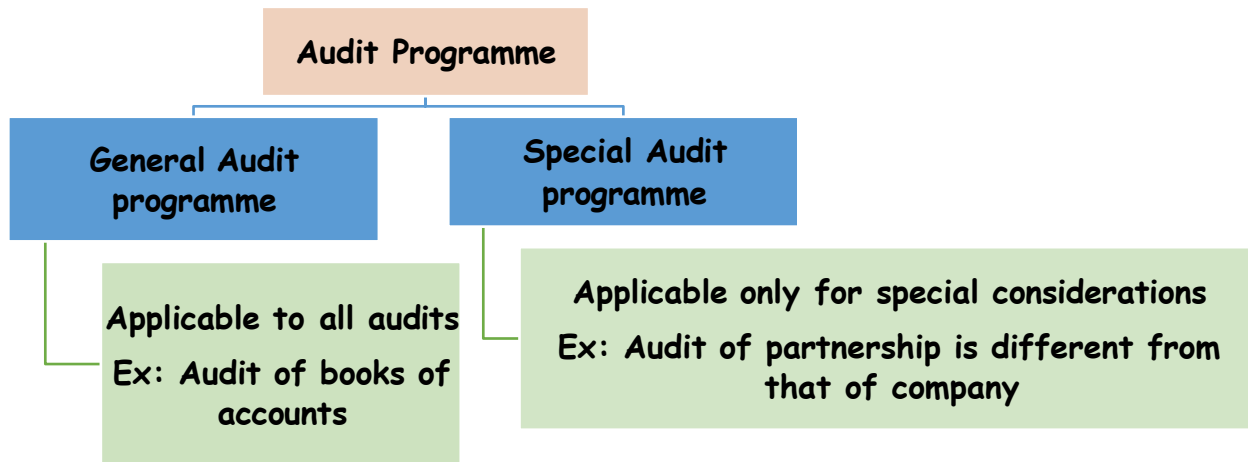
Form and content of Engagement letter:

- ✓ The objective and scope of the audit.
- ✓ The responsibilities of the auditor;
- ✓ The responsibilities of management.
- ✓ Identification of the AFRF for the preparation of the financial statements; and
- ✓ Reference to the expected form and content of reports to be issued by the auditor.

AUDIT PROGRAMME: (SA 300)

- Audit programme consists of a series of verification procedures to be applied to the financial statements for the purpose of obtaining sufficient evidence to enable the audit or to express an informed opinion on such statements.
- It contains a detailed plan of audit procedures with instructions for the techniques to be adopted for accomplishing the audit objectives.
- Evolving one audit programme applicable to all business under all circumstances is not practicable, because :
 - ✓ Businesses vary in nature, size and composition;
 - ✓ Work which is suitable to one business may not be suitable to others;
 - ✓ efficiency and operation of internal controls vary from organization to organization, and
 - ✓ The nature of the service to be rendered by the auditor vary from assignment to assignment.

Types of Audit Programme:



Advantages of audit programme

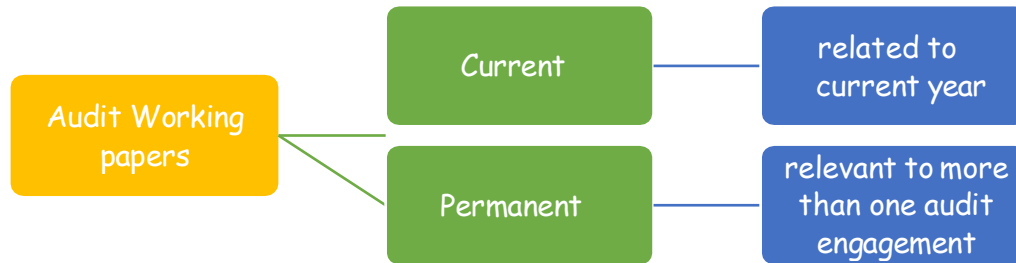
- 1) It provides assistants **clear set of instructions** of the work to be done.
- 2) It provides a **total perspective (outlook)** of the work to be performed.
- 3) **Selection of assistants** becomes easier.
- 4) Without a written programme, there is always a danger of ignoring or overlooking certain books and records.
- 5) The assistants, by putting their signature on programme, **accept the responsibility** for the work carried out by them individually.
- 6) The principal can **control the progress** of the various audits in hand by examination of audit programmes.
- 7) It **serves as a guide** for audits in the succeeding year.
- 8) Serves as **evidence** in the event of any charge of negligence being brought against the auditor.

Disadvantages of audit programme

- 1) The auditor's task becomes mechanical and the auditors may lose interest and initiative.
- 2) Drawing up of an audit programme may be unnecessary for a small concern.
- 3) Though audit programme helps in fixing responsibilities but inefficient staff may defend themselves by stating that the matter was not contained in the audit programme.
- 4) Rigid programmes cannot be laid down for each type of business.

AUDIT WORKING PAPERS (SA 230)

- Audit working papers comprise all documents prepared or obtained by the auditor and retained by him in connection with the performance of his audit.



Purpose of Audit Working Papers

- ✓ Aid in planning and performance of the audit;
- ✓ Aid in supervision and review of the audit work; and
- ✓ These papers serve as an evidence of the audit work performed by the auditor to support his opinion.

Form and Content of Audit Working Papers

The form and content of working papers vary from audits to audits, but they are affected by the following matters:

- ✓ nature of engagement;
- ✓ form of audit report;
- ✓ nature and complexity of client's business;
- ✓ nature and condition of client's records
- ✓ degree of reliance of internal controls;
- ✓ supervision of work performed by assistants.

Types of working paper files

Permanent Audit File	Current Audit File
(a) Legal and organizational structure of the entity, e.g. Memorandum of Association and Article of Association in case of a company.	(a) Correspondence relating to acceptance of annual reappointment.
(b) Extracts or copies of legal documents, agreements and minutes relevant to the audit.	(b) Extracts of important matters in the minutes of Board Meetings and General Meetings relevant to the audit.
(c) A record of study and evaluation of internal controls.	(c) Copies of management letters.
(d) Analysis of significant ratios & trends.	(d) Analysis of transactions and balances.
(e) Copies of the audited financial statements of previous year(s).	(e) Copies of communication with other auditors, experts and third parties.
(f) Notes regarding significant accounting policies.	(f) Audit programme.
(g) Significant audit observations of the earlier years.	(g) Conclusions reached on significant aspects of audit.

- An audit book is usually a **bound book** in which a large variety of **matters observed** during the course of audit are recorded.
- The audit notebook is a **permanent record** of the auditor.
- For **each individual audit**, the auditor usually **maintains a separate audit notebook**.
- An audit notebook is a great **evidential tool** available as a defense with the auditors in the event of any charges brought against them.

Contents of Audit Notebook

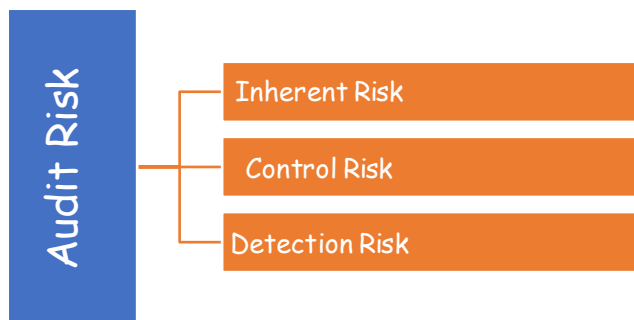
- ✓ Name of the business enterprise.
- ✓ Organization structure.
- ✓ Important provisions of Memorandum of Association (MOA) and Articles of Association (AOA).

- ✓ Communication with the previous auditor, if any.
- ✓ Management representations and instructions.
- ✓ List of books of accounts maintained by the enterprise.
- ✓ Accounting methods, internal control systems followed by the enterprise, applicable laws etc.
- ✓ Key managerial personnel.
- ✓ Errors and fraud discovered.
- ✓ Matters requiring explanations or clarifications.
- ✓ Special points that need attention in the audit report.

AUDIT RISK (SA 315)

- "Audit risk" is the risk that the auditor gives an inappropriate audit opinion when the financial statements are materially misstated. Such misstatements can result from either fraud or error.

Types of Audit Risks



- 1) Inherent risk** - It is the susceptibility of a account balance or class of transaction to misstatements that could be material, either individually or when taken together with misstatements in other balance or classes, **assuming that there were no internal controls**.
- 2) Control risk**- It is the risk that misstatement, that could occur in an account balance or class of transactions and that could be material, either individually or when taken together with misstatements in other balances or classes, will not be prevented /detected/corrected on timely basis by the accounting and internal control systems.
- 3) Detection risk** -It is the risk that an **auditor's substantive procedures** (the procedures designed to obtain evidence as to the completeness, accuracy and validity of the data produced by the accounting system) **will not detect a misstatement** that exists in account balance or class of transactions that could be material, either individually or when taken together with misstatements in other balances or classes.

Audit Risk = Inherent Risk X Control Risk X Detection Risk SURPRISE CHECKS

Meaning:

It means surprise visit by the auditor to verify the various aspects relating to audit i.e. an auditor visits the client's office without prior intimation to check the various aspects relating to audit.

- 1) **Moral check:** Such visits by the auditor acts as moral check on employees.
- 2) **Time & Areas:** The element of surprise in an audit can be both with regard to the time of the audit and the areas which are subjected to audit.
- 3) **Frequency of surprise checks:** It is a matter to be decided having regard to the circumstances of each audit. However, wherever possible a surprise check should be made **at least once in the course of an audit.**

Areas:

Generally, this is adopted in the following areas:

- Verification of **cash and investments.**
- Test verification of **stores and stocks** and the records relating thereto.
- Verification of **books** of primary entry.
- Verification of **statutory registers.**

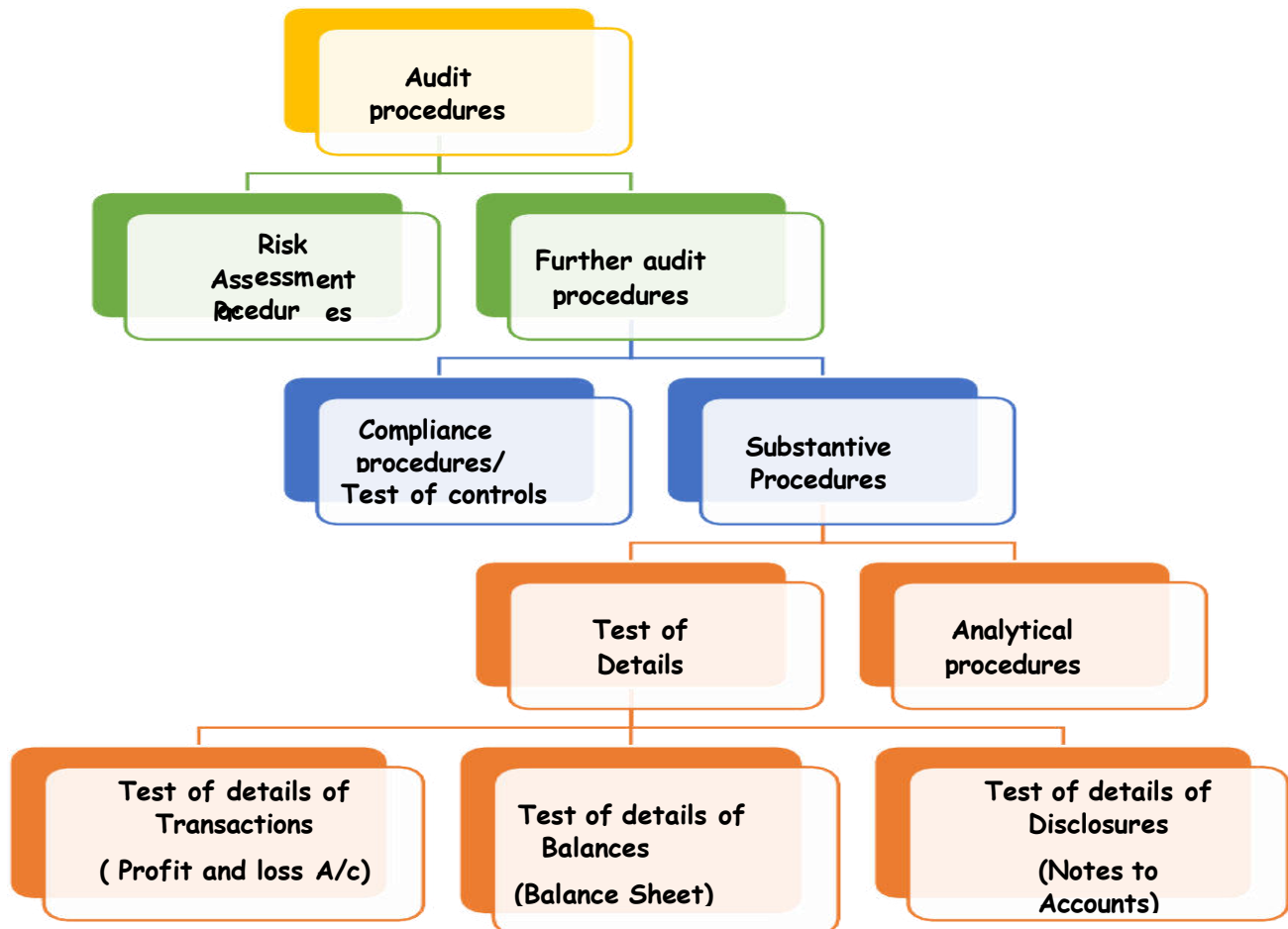
Communicate to management:

The results of surprise check should be communicated to the management by a report so that corrective action can be taken by the management.

AUDIT EVIDENCE (SA 500)

- It means the information received by the auditor either through the client or from outsiders in support of the conclusions reached by him on which he bases his opinion on financial statements.

Audit Procedures to obtain Audit Evidence:



As per SA 200, the auditor shall obtain **sufficient and appropriate audit evidence** through the performance of compliance and substance procedures.

Compliance Procedures/ Tests of Controls:

These are the audit procedures/tests performed by the auditor to get the evidences about the functioning of the internal control systems. Auditor looks for the following **assertions**...

That the internal control system **exists**.

That the internal control system **is operating efficiently**; and

That the internal control system **is in continuity throughout the period under audit**.

Substantive Procedures:

These are the audit procedures performed by the auditor to get the evidences as to the accuracy, validity and completeness of the information produced by accounting system.

These are of **two types**:

Test of details, which includes

- ✓ Tests of details transactions (also called as vouching) and
- ✓ Tests of details balances (also called as verification).
- ✓ Tests of details of disclosures .

Analytical review procedures(ARP) (i.e. analysis of significant ratios and trends and including the resulting investigation of unusual fluctuations therein).

Audit Assertions :

Assertions about test of details of transactions: (OAC3)

- 1) **O**ccurrence: Transactions and events that have been recorded have occurred and pertain to the entity.
- 2) **A**ccuracy: Amounts and other data relating to recorded transactions and events have been recorded appropriately.
- 3) **C**ompleteness: All transactions and events that should have been recorded have been recorded.
- 4) **C**ut-Off: Transactions and events have been recorded in the correct accounting period
- 5) **C**lassification: Transactions and events have been recorded in the proper accounts.

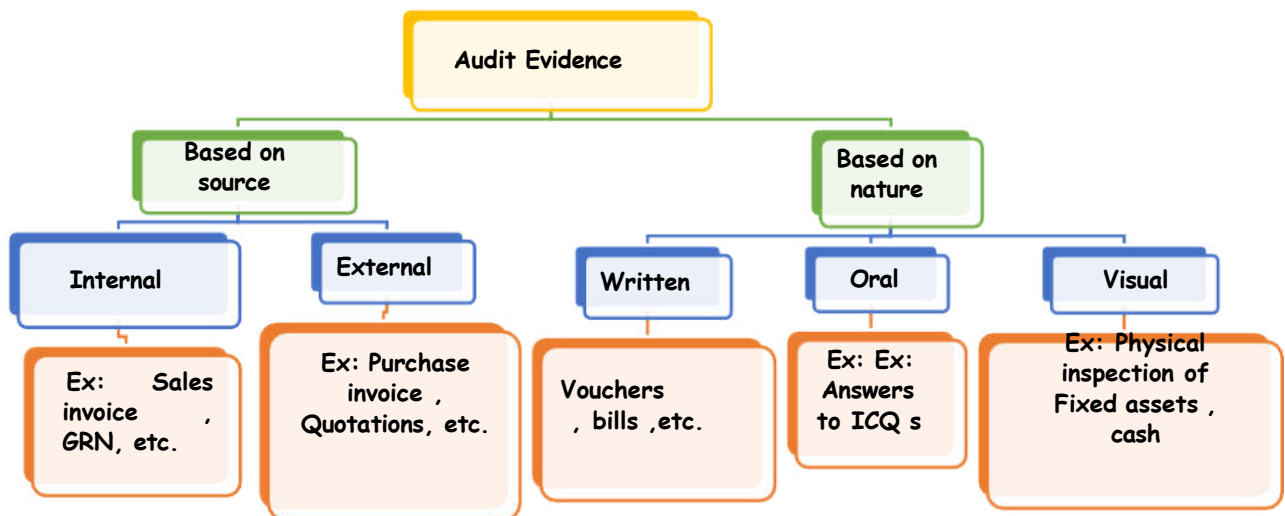
Assertions about test of details of balances: (P COVER)

- 1) **P**resentation & Disclosure: Assets and liabilities are disclosed in the financial statements in accordance with applicable financial reporting framework. (Schedule III)
- 2) **C**ompleteness: Assets, liabilities and equity interests that should have been recorded have been recorded.
- 3) **E**xistence: Asset, liabilities and equity Interests exists as on balance sheet.
- 4) **V**aluation: Assets, liabilities and equity interests are included in the financial statements at appropriate amounts.
- 5) **R**ights & Obligations: That an asset is a right of the entity, and a liability is an obligation of the entity at a given date.

Assertions about Presentation and Disclosure: (OAC2)

- 1) **O**ccurrence and rights and obligations: Disclosed events, transactions and other matters have occurred and pertain to the entity.
- 2) **A**ccuracy and valuation: Financial and other information are disclosed fairly and at appropriate amounts
- 3) **C**ompleteness: All disclosures that should have been included in the FS have been included.
- 4) **C**lassification and understandability: Financial information is appropriately presented and described and disclosures are clearly expressed.

Reliability of Audit Evidence



- ✓ External evidence (e.g. confirmation received from a third party) is generally more reliable than internal evidence;
- ✓ Internal evidence is more reliable when related internal control is satisfactory.
- ✓ Evidence in the form of documents and written representation is usually more reliable than oral representations.
- ✓ Evidence obtained by the auditor himself is more reliable than that obtained through the entity.

Methods to Obtain Audit Evidence :

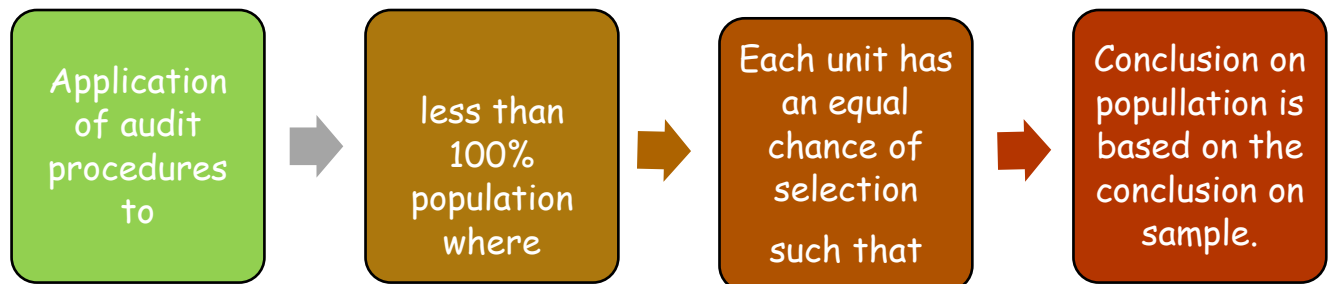
Auditor obtains evidence in performing compliance and substantive procedures by any one or more of the following methods - (HINT— iIO CAR)

- 1) **Inspection** - It consists of examining records, documents, or tangible assets..
- 2) **Observation** - It consists of witnessing a process or procedure being performed by others.
- 3) **Inquiry and Confirmation** - **Inquiry** consists of seeking appropriate information from a knowledgeable person inside or outside the entity,
Confirmation consists of the response to an inquiry to corroborate information contained in the accounting records.
- 4) **Computation** - It consists of checking the arithmetical accuracy of source documents and accounting records or performing independent calculations.
- 5) **Analytical Review** - It consists of studying significant ratios and trends and investigating unusual fluctuations.

SA 530: AUDIT SAMPLING

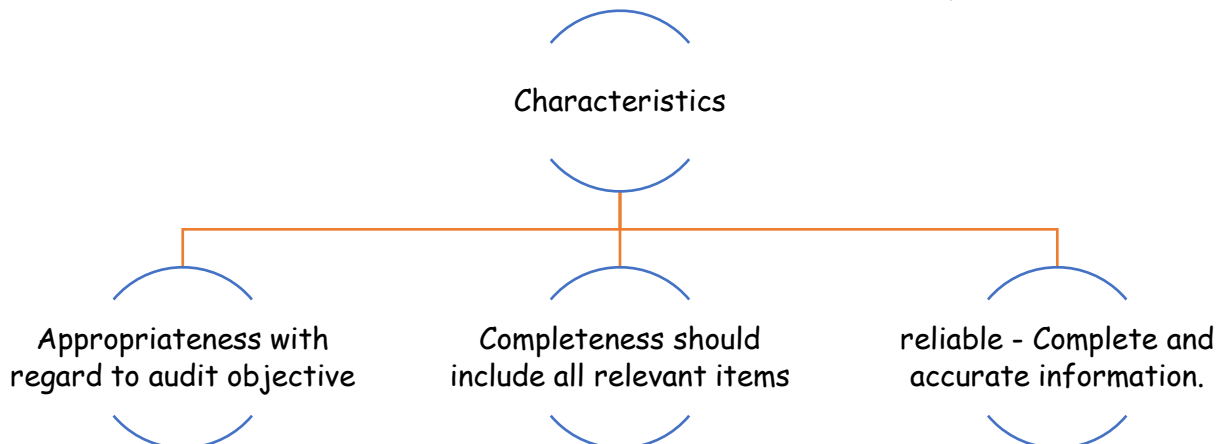
BRIEF OVERVIEW

1. Meaning of Audit Sampling:

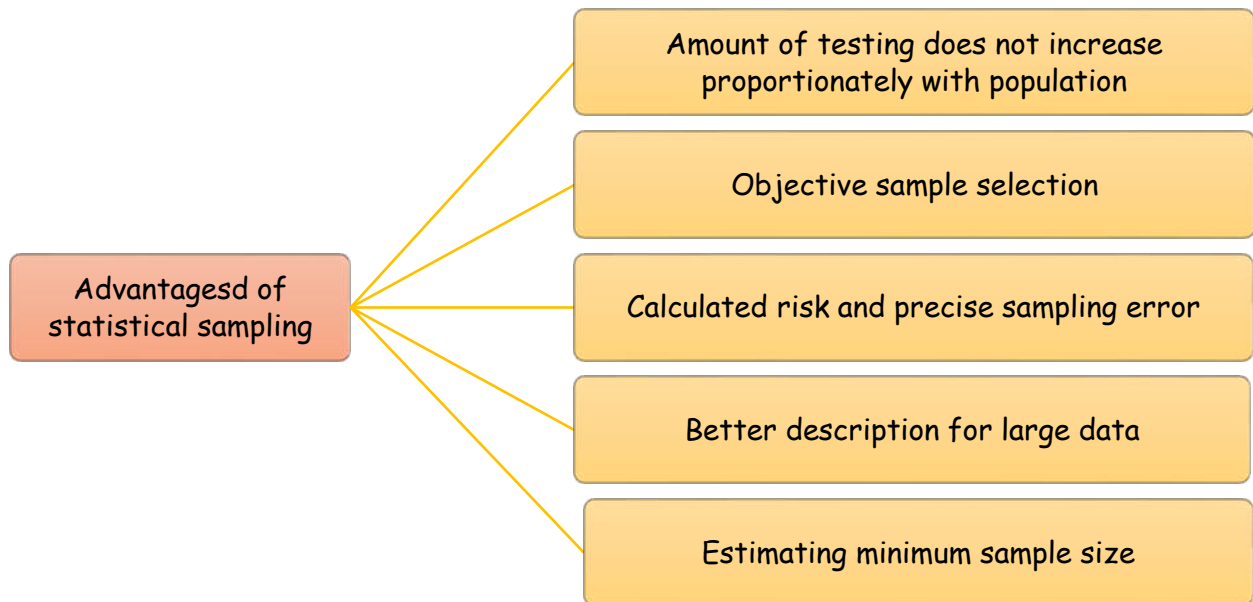
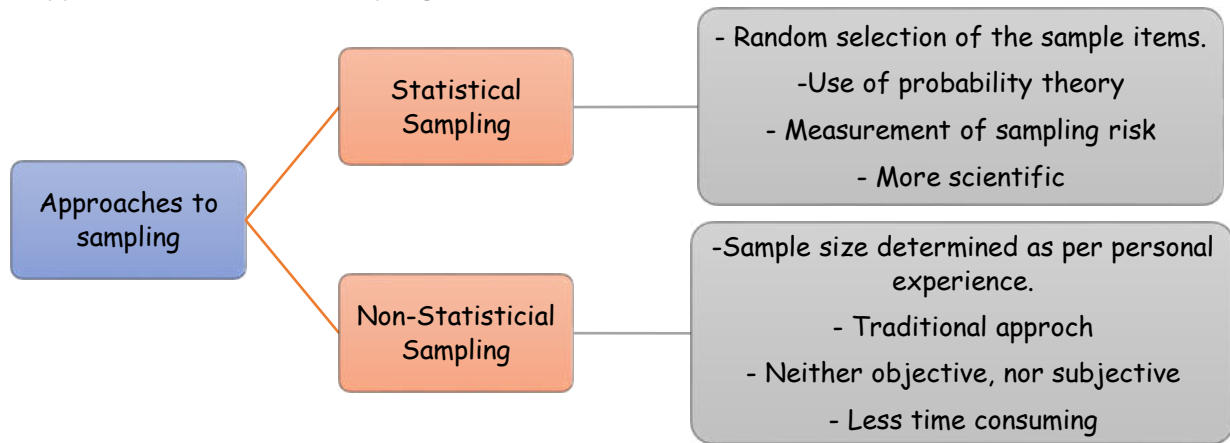


Meaning of Population:

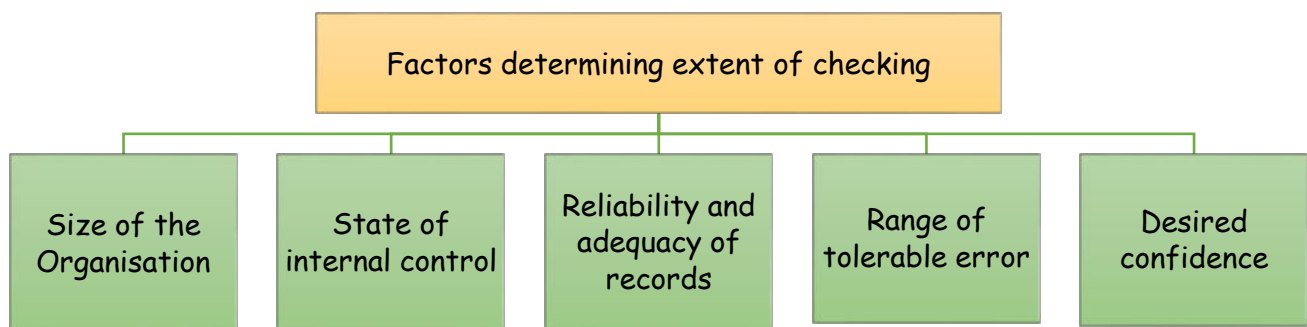
Entire data set about which conclusion is to be drawn and from which sample is selected.



2. Approaches to Audit Sampling:

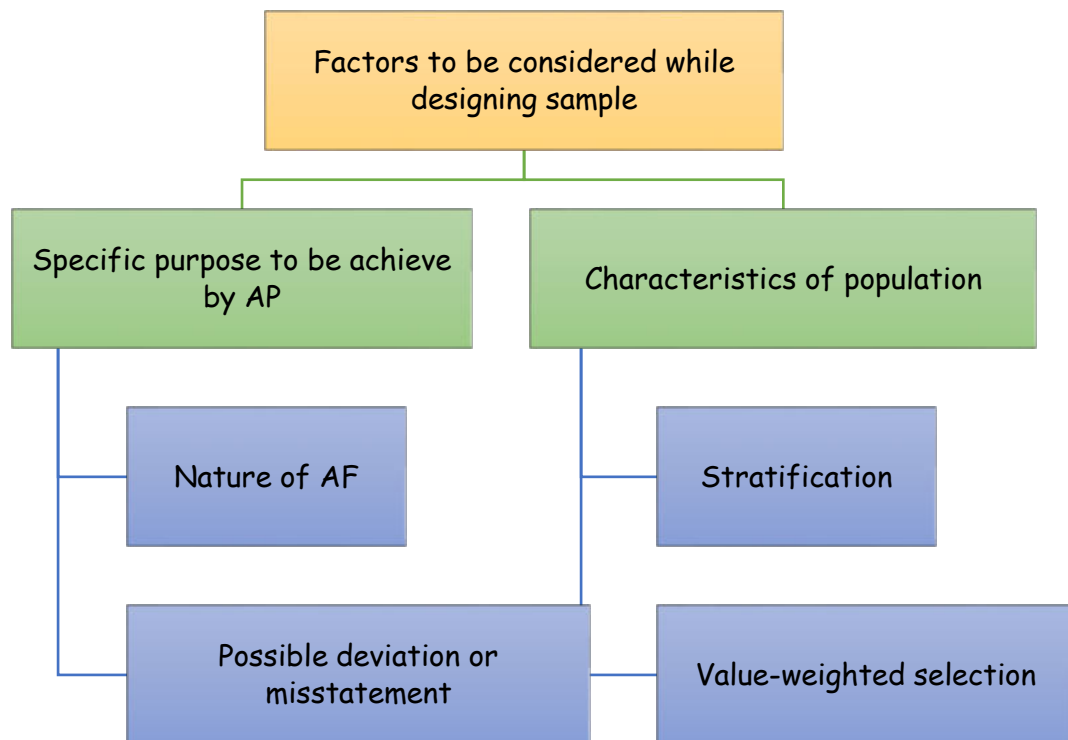


The decision whether to use a statistical or non-statistical sampling approach is a matter for the auditor's professional judgment.



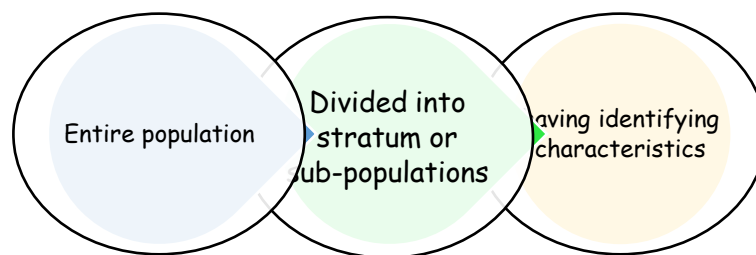
3. Sample design, size and selection of items:

- Sample design

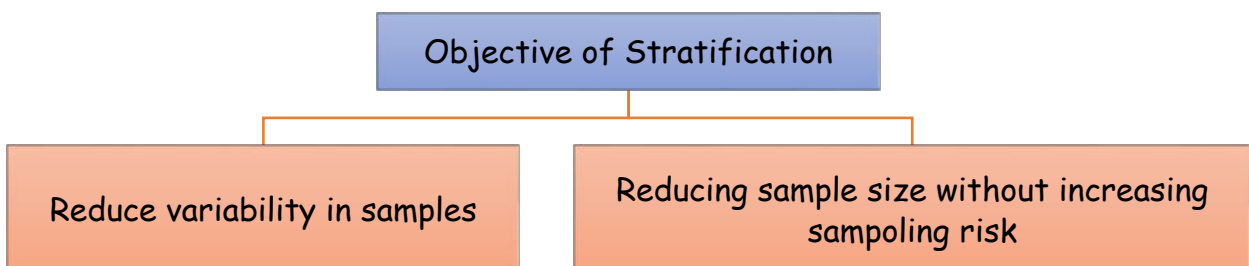


- Stratification

- Meaning

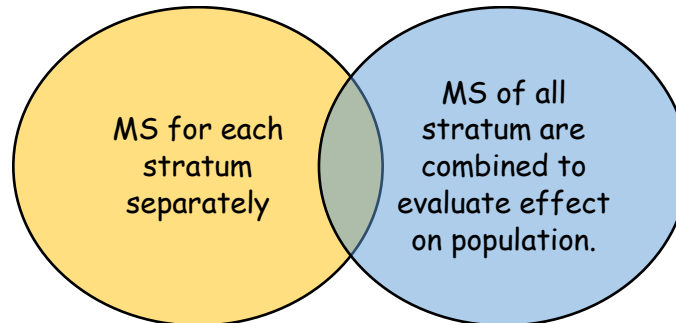


- Objective



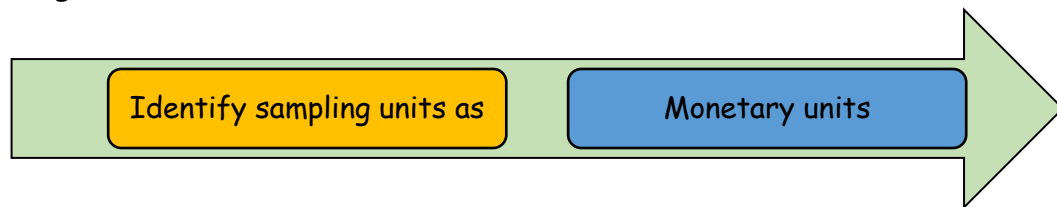
Example: - Population of trade receivables may be divided into strata according to age brackets (due for 0-60 days, due for 60-90 days etc.)

➤ Projecting misstatements: -

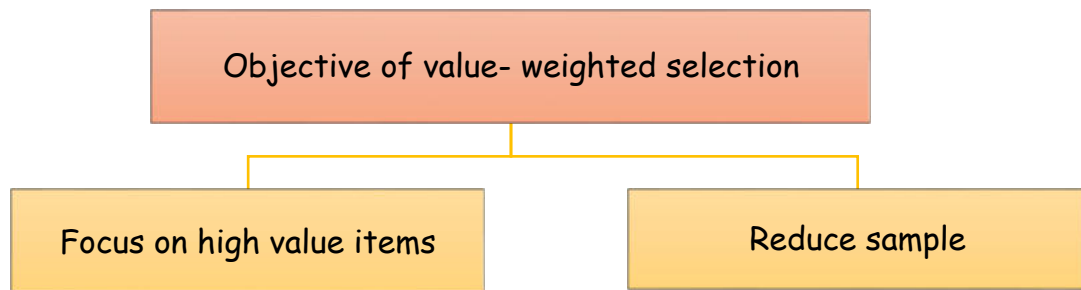


Value-weighted selection:

➤ **Meaning**



➤ **Objective**



○ **Sample size**

- Introduction
- ✓ Number of sampling units selected out of population.
- ✓ Depends on level of Sampling Risk auditor is willing to accept (inversely related)
- ✓ Determined statistically or using professional judgment.

○ **Factors influencing sample size - Test of details: -**

➤ Assume sample size as n.

Factor		Sample size
RMM assessment	α	n
Expected MS	α	n
Level of assurance that actual MS does not exceed tolerable MS	α	n
Sampling units in population	α	n
Reliance on other SAPs to address same assertion	α	$\frac{1}{n}$
Tolerable MS	α	$\frac{1}{n}$
Appropriateness of satisfaction	α	$\frac{1}{n}$

○ **Factors influencing sample size - Test of controls: -**

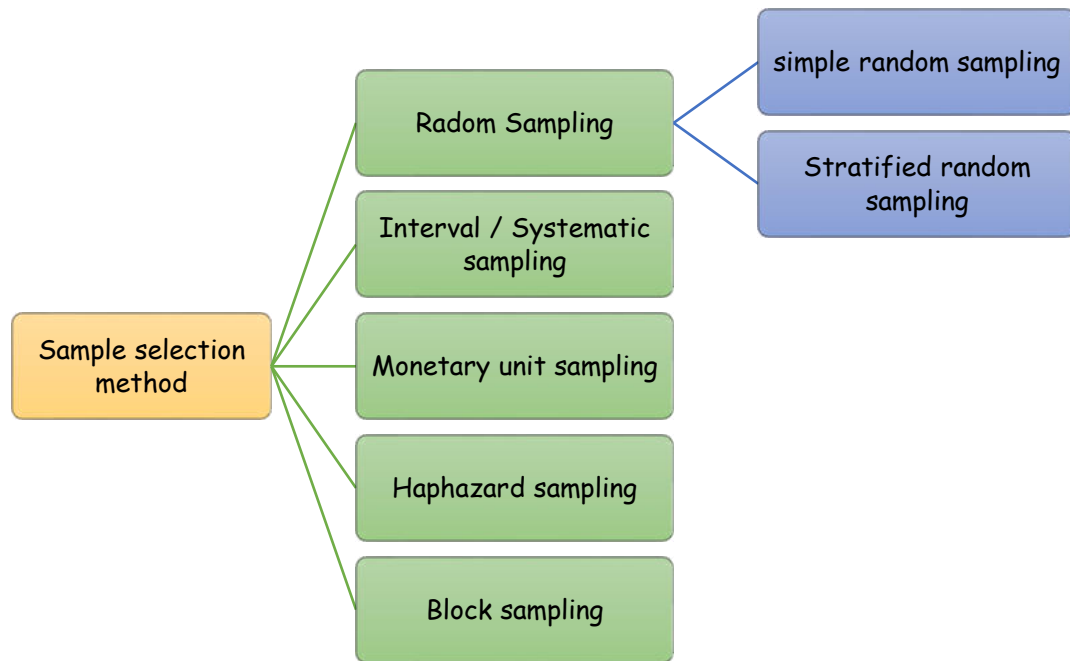
➤ Assume Sample size as n

Factor		
Reliance on operative effectiveness of controls	α	n
Expected rate of deviation	α	n
Level of assurance that expected deviation coincides actual deviation	α	n
Tolerable rate of deviation	α	$\frac{1}{n}$
Sampling units in population	α	-

Data Analytics: Inspecting, cleaning, transforming, and modelling data to highlight useful information, suggesting conclusions and supporting decision-making.

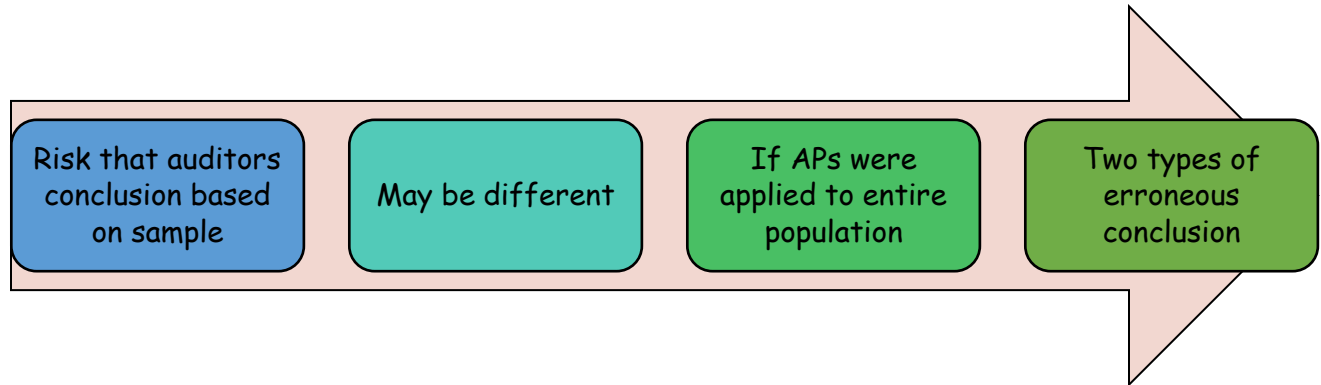
Example: JE Testing.

○ Sample selection method



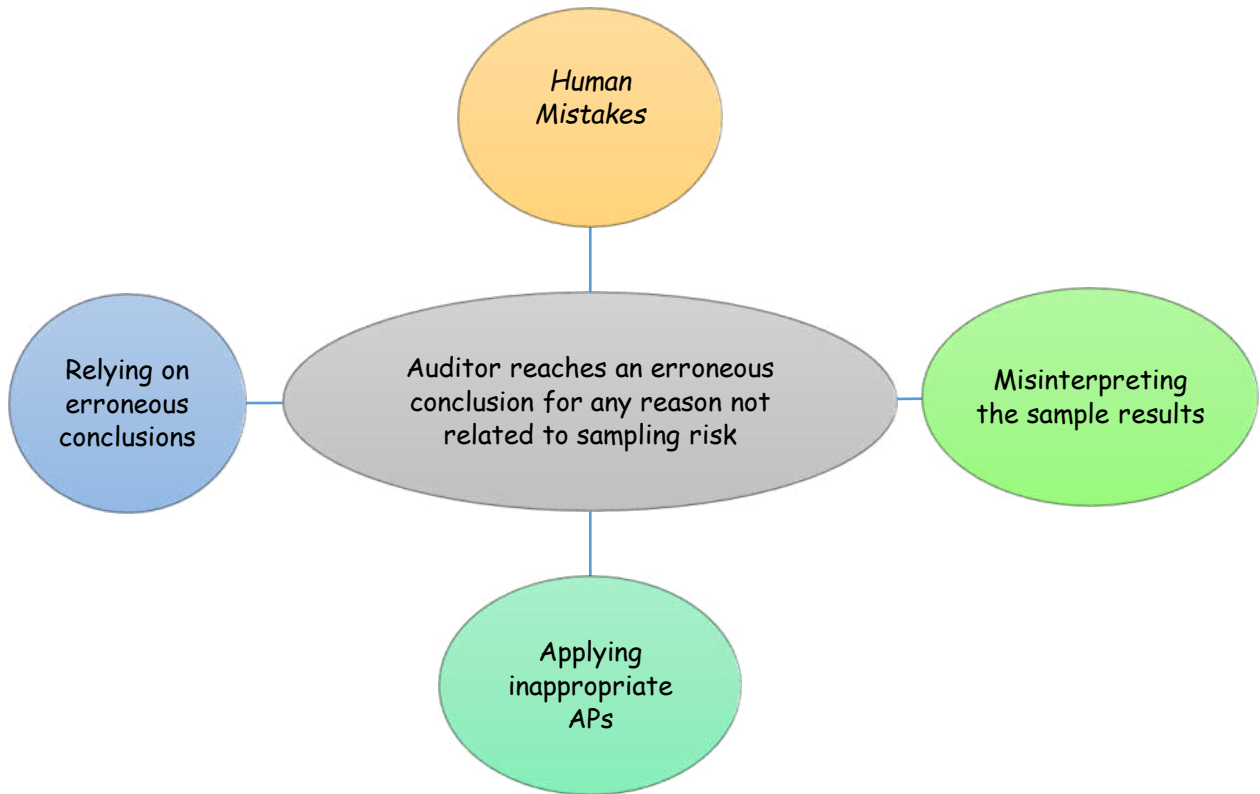
- Simple random sampling:
 - Each unit has equal chance of selection.
 - Items chosen using random number generators.
 - Simple, easy and unbiased
 - Appropriate for similar units in population
- Stratified random sampling:
 - Dividing population into strata.
 - Taking random sample from each strata.
 - Appropriate for diversified population
- Interval / Systematic sampling:
 - Determination of an interval
 - Dividing number of sampling units by sample size
 - Determine that sampling units are not in a structured pattern.
- Monetary Unit sampling:
 - Type of value-weighted selection
 - Sample size in monetary amounts
- Haphazard Sampling
 - Selecting sample without structured technique

- Auditor should avoid conscious bias
- Block Sampling
 - Selection of block of contiguous items
 - Suitable for heterogeneous sampling units
- **Sampling and Non-Sampling risk:**
 - Sampling Risk

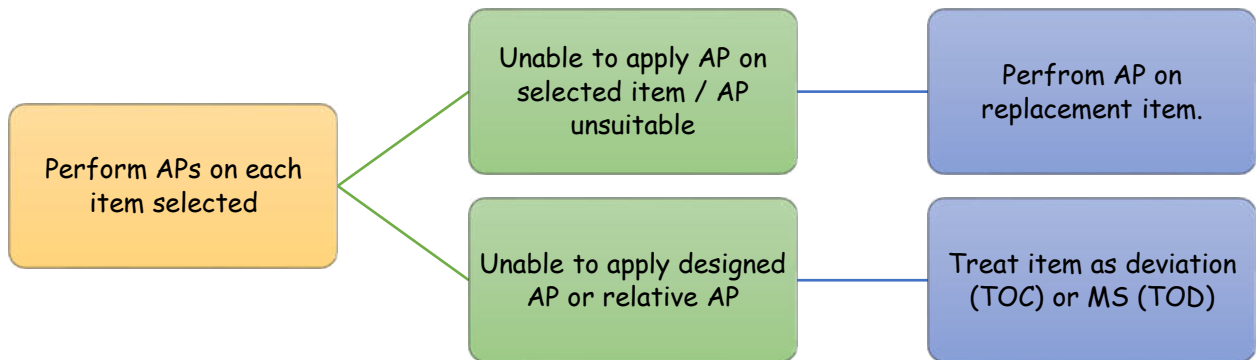


Conclusion	Test of controls	Test of Details	Affects	Results in
C ₁	Controls more effective than actually are	MS does not exist when in fact it does	Audit effectiveness	Inappropriate audit opinion
C ₂	Controls less effective than actually are	MS exists when in fact it does not	Audit efficiency	Additional workload

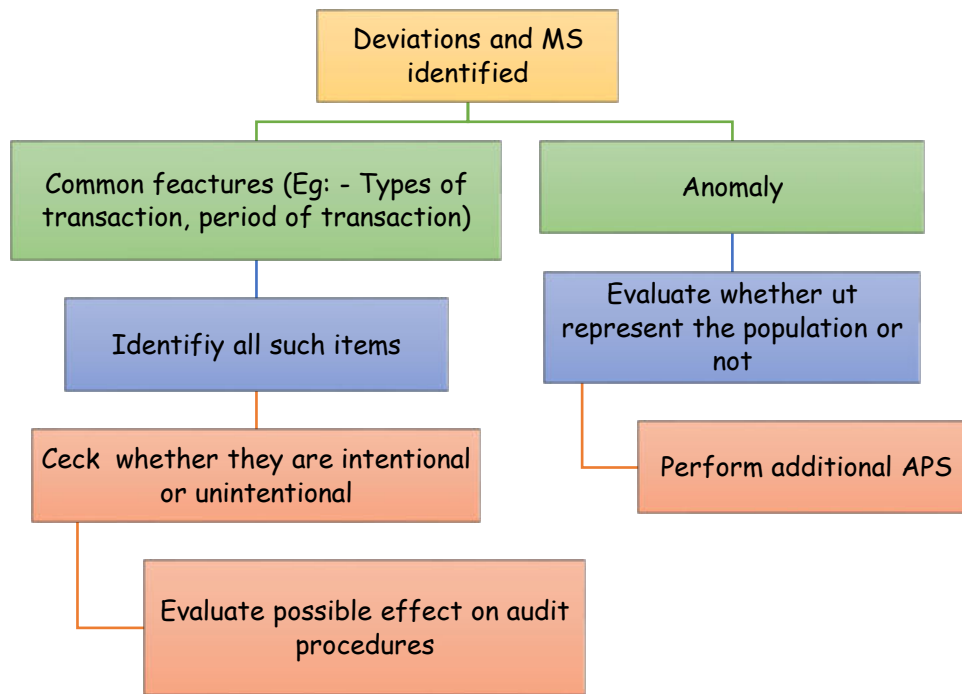
➤ Non-Sampling Risk



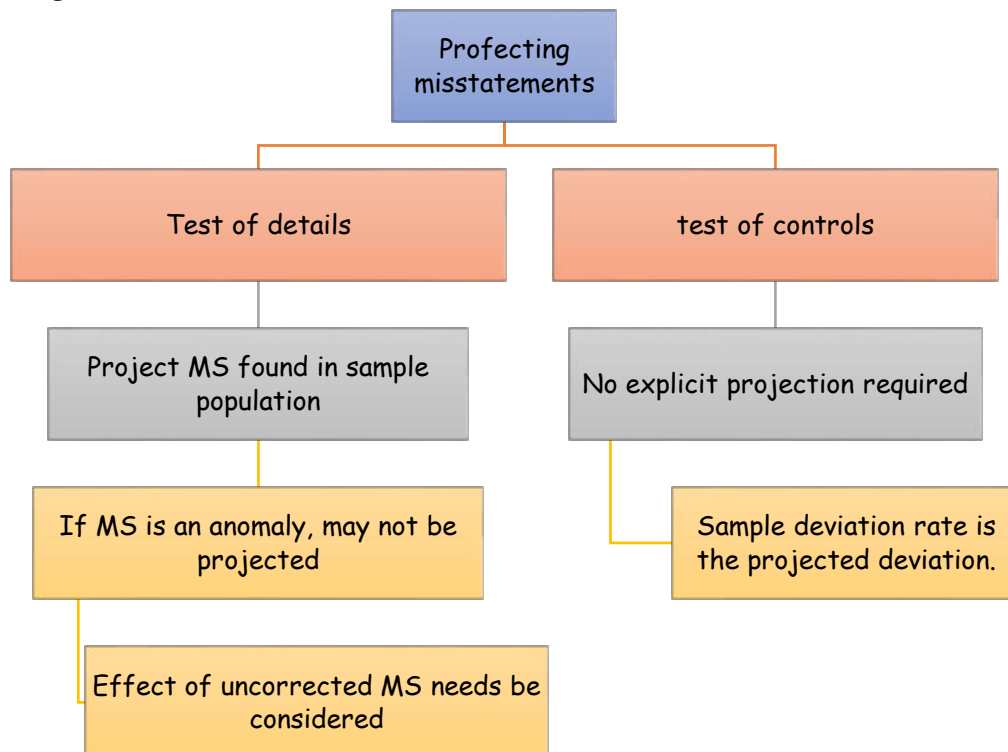
4. Performing Audit procedures



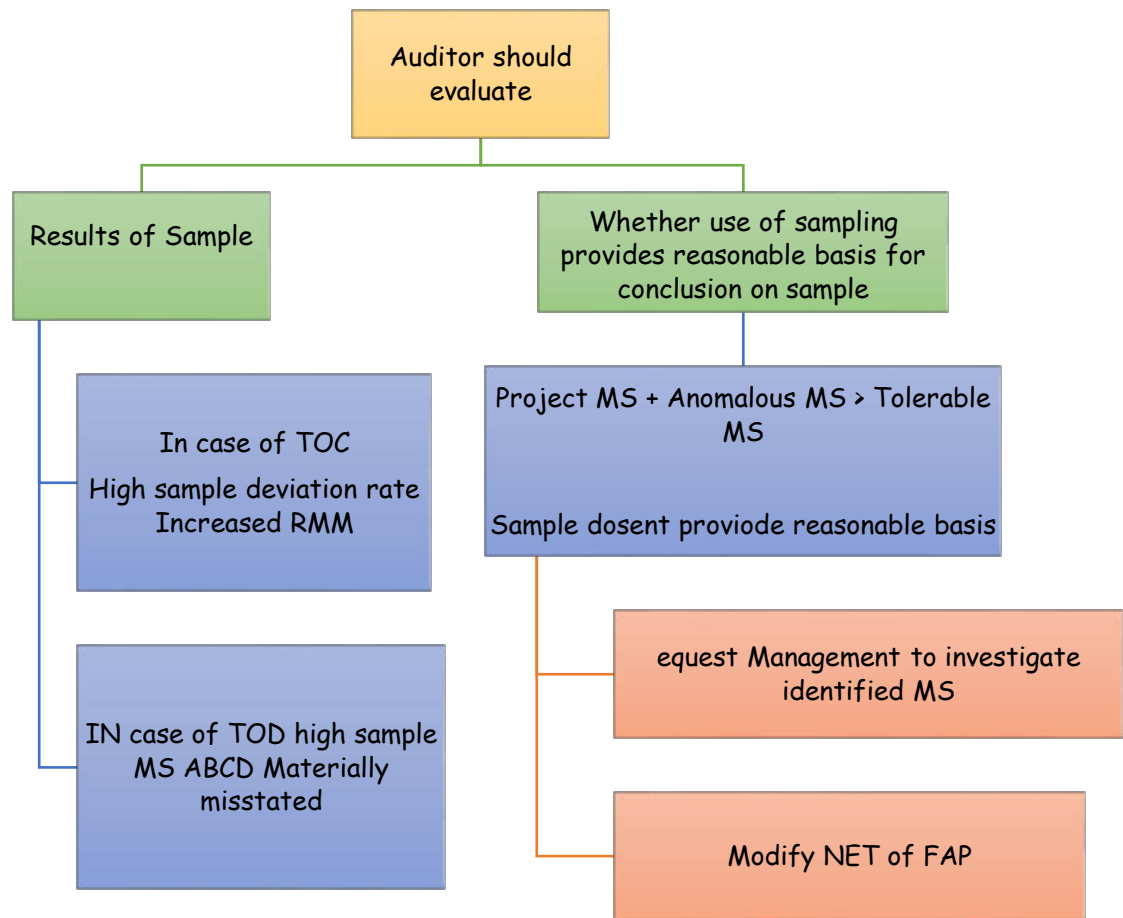
5. Nature and cause of deviations and Misstatements



6. Projecting Misstatements



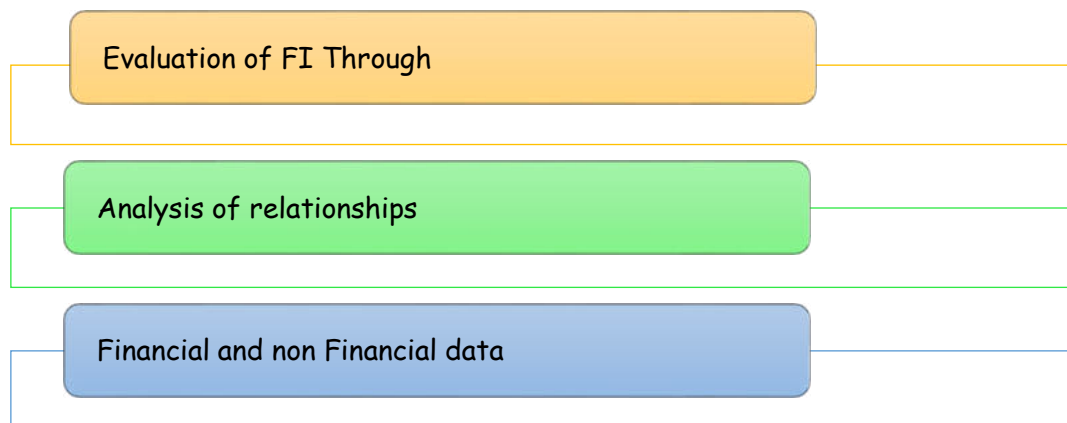
7. Evaluating results of Audit sampling



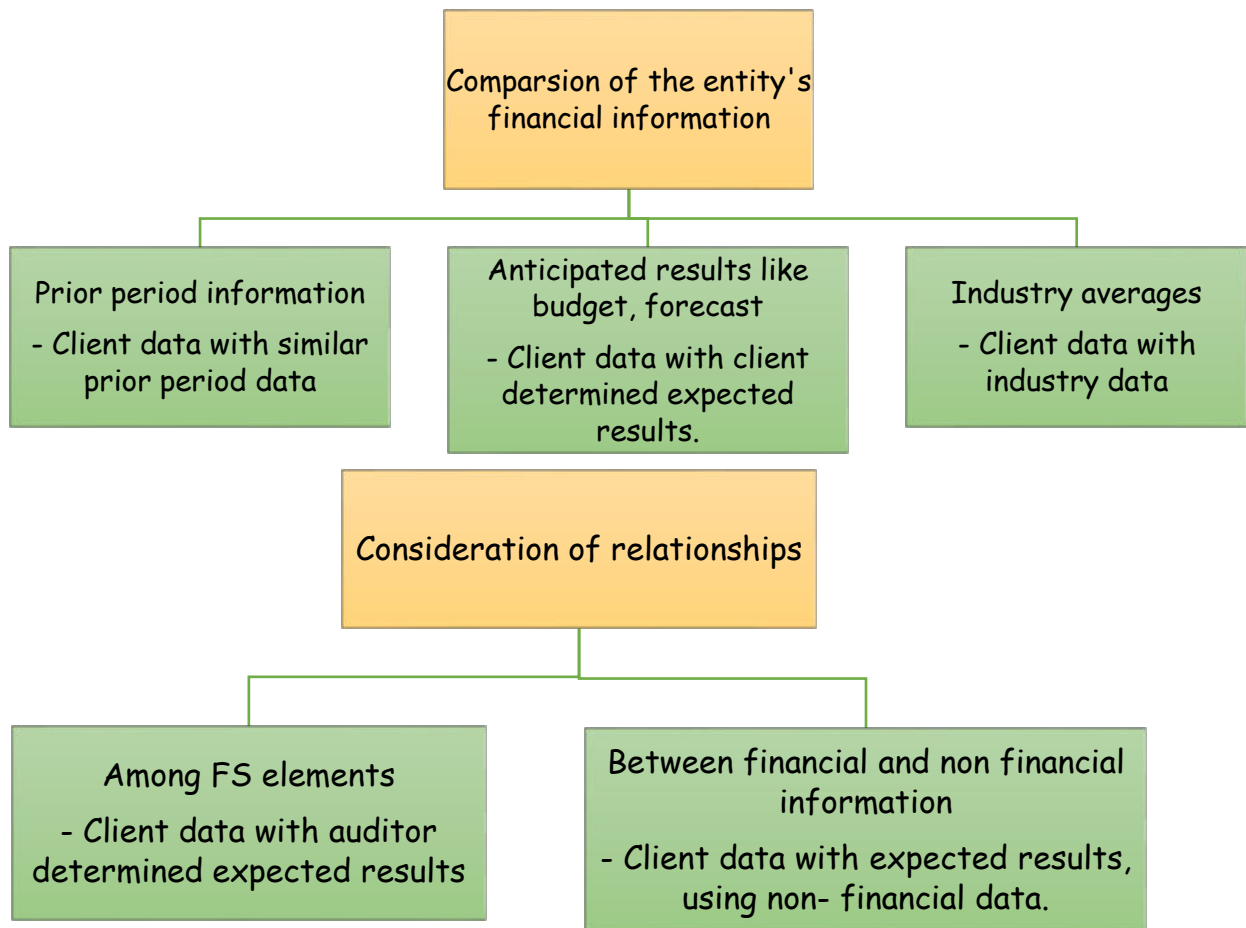
ANALYTICAL PROCEDURES

1. Meaning and Nature

❖ **Meaning:**



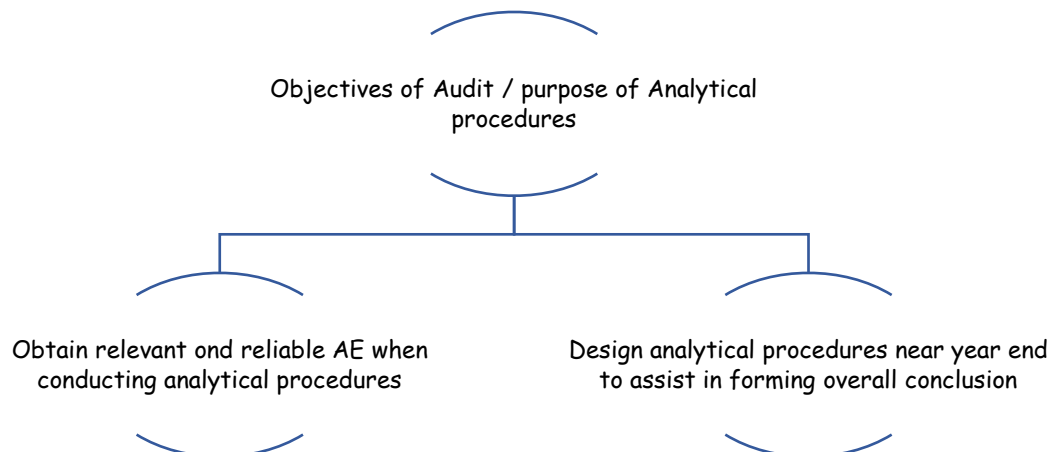
❖ Nature:

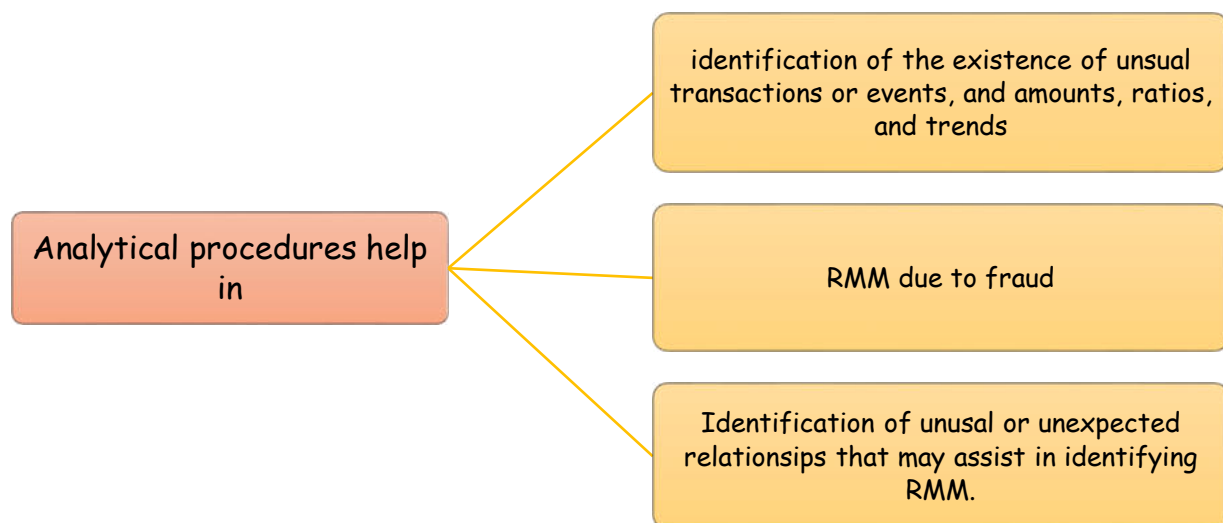
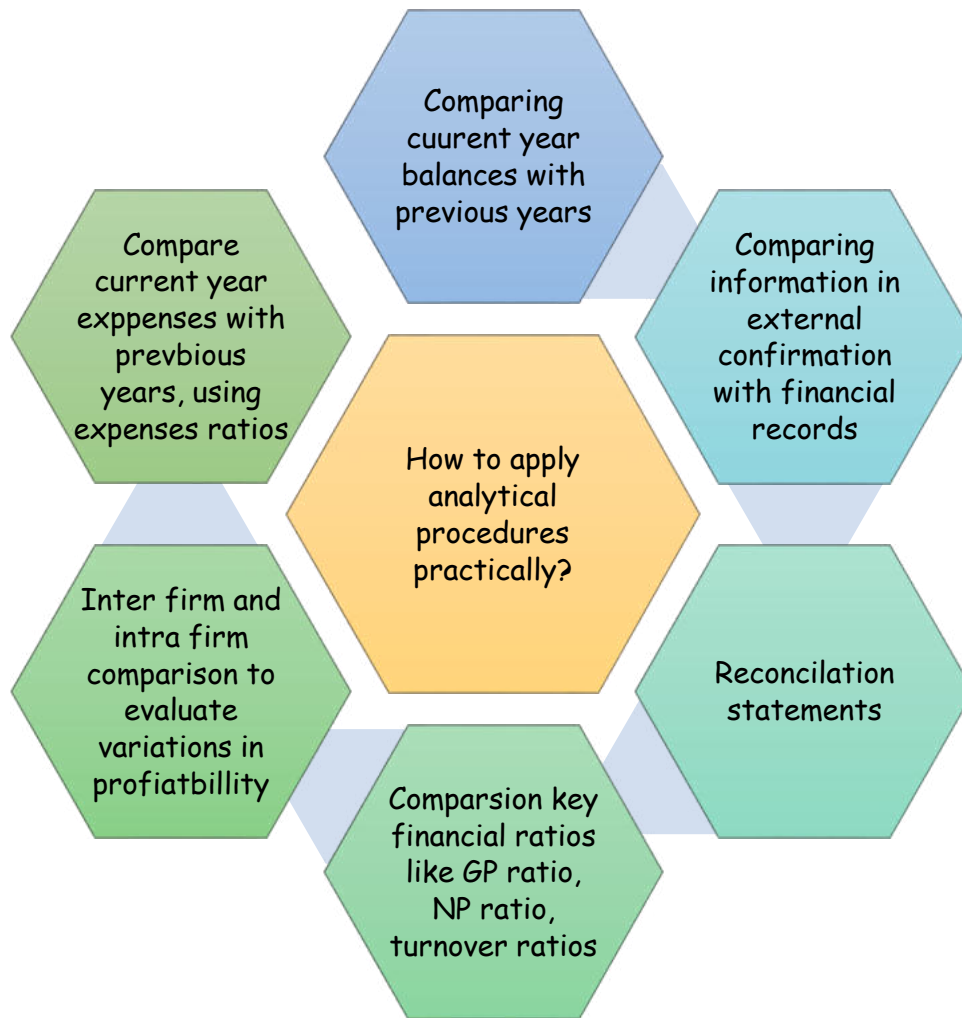


Methods to perform Analytical Procedures may include simple comparisons or performing complex analyses using statistical techniques.

2. Purpose and Timing

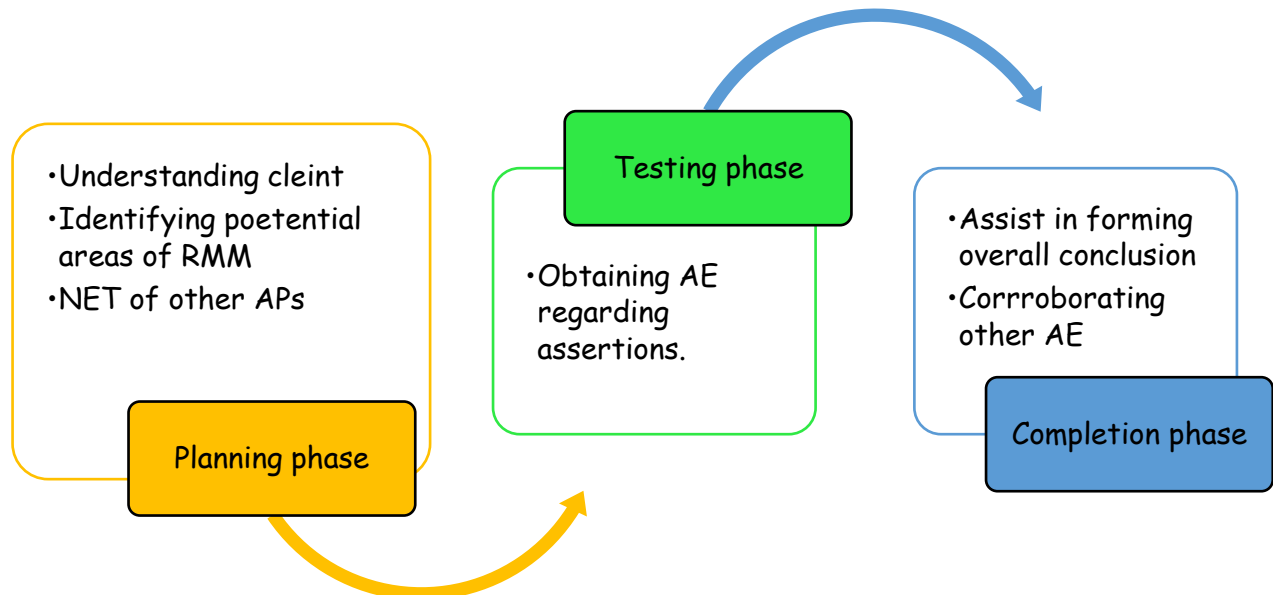
❖ Purpose



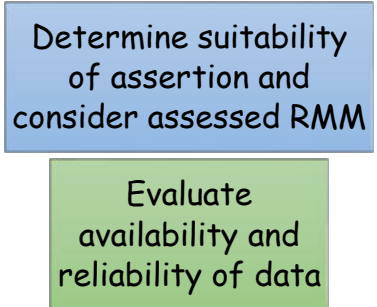


❖ **Timing:**

Performance of analytical procedures during

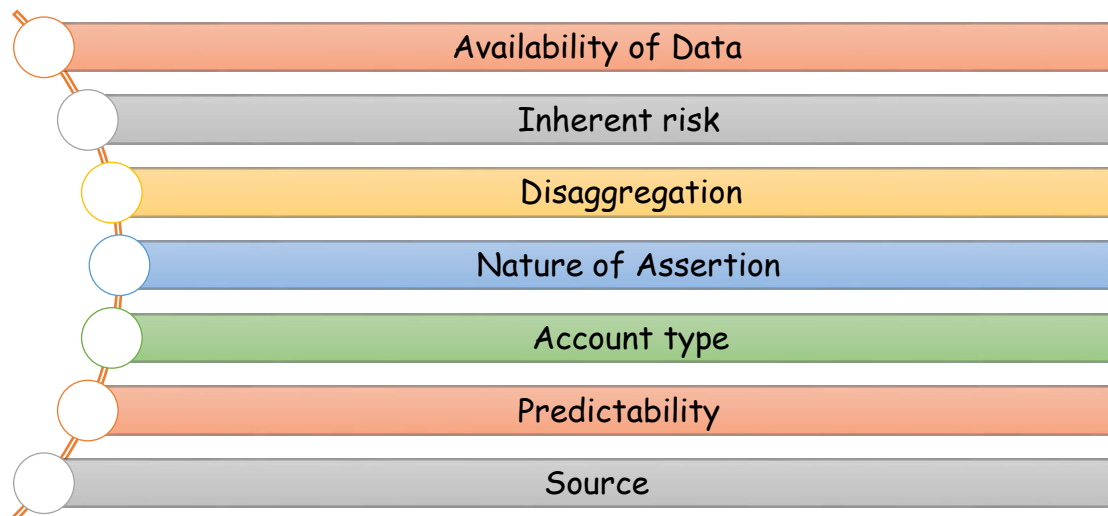


- Should Analytical Audit procedures be applied in audit?

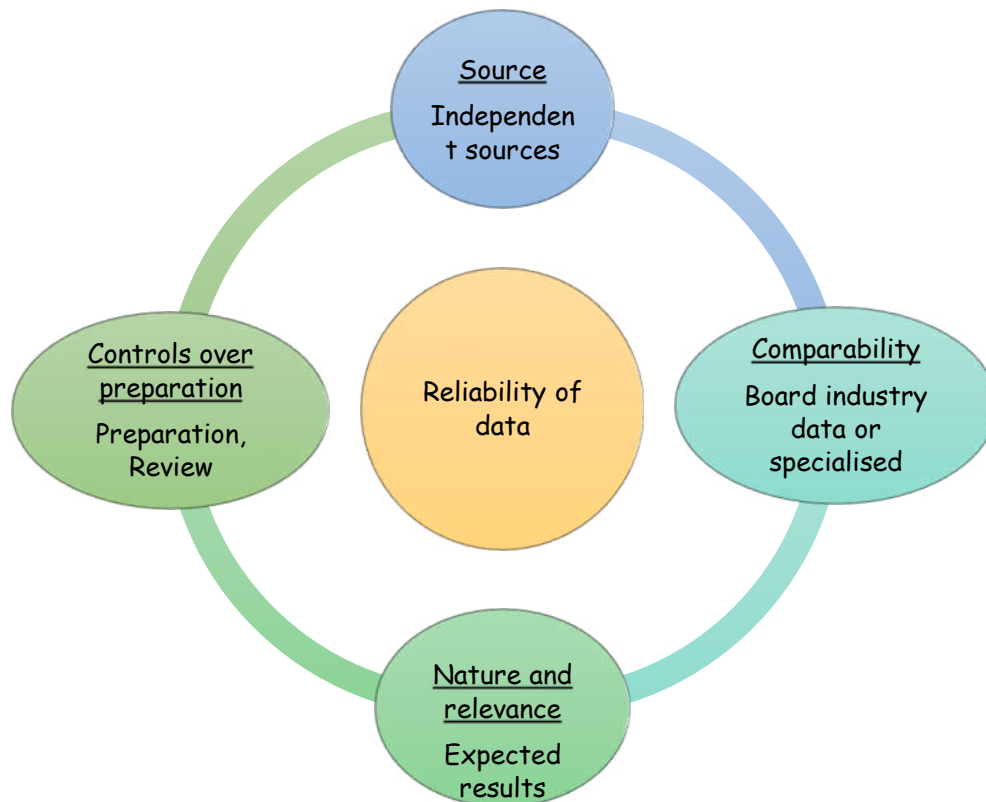


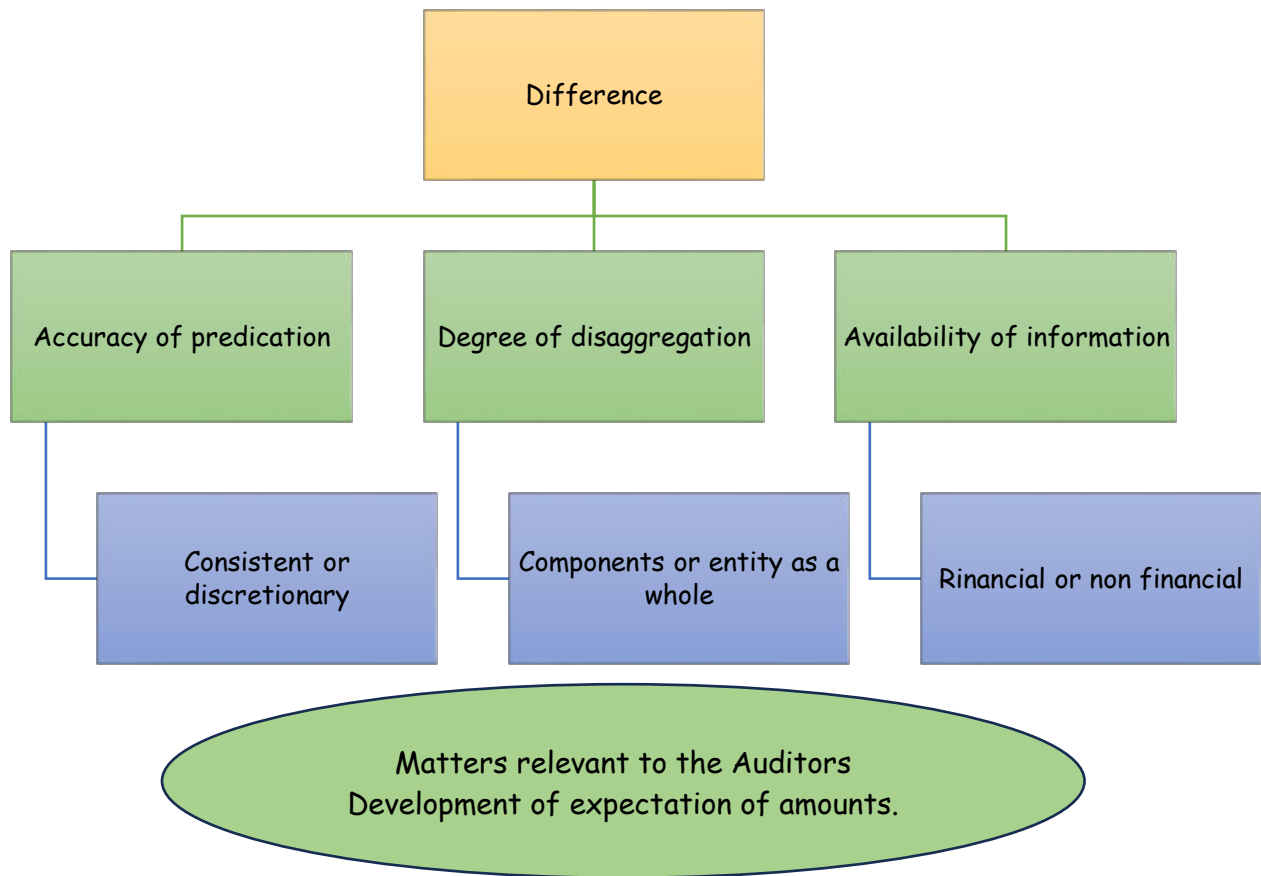
3. Substantive analytical Procedures:

- ❖ Factors to be considered for substantive analytical procedures.

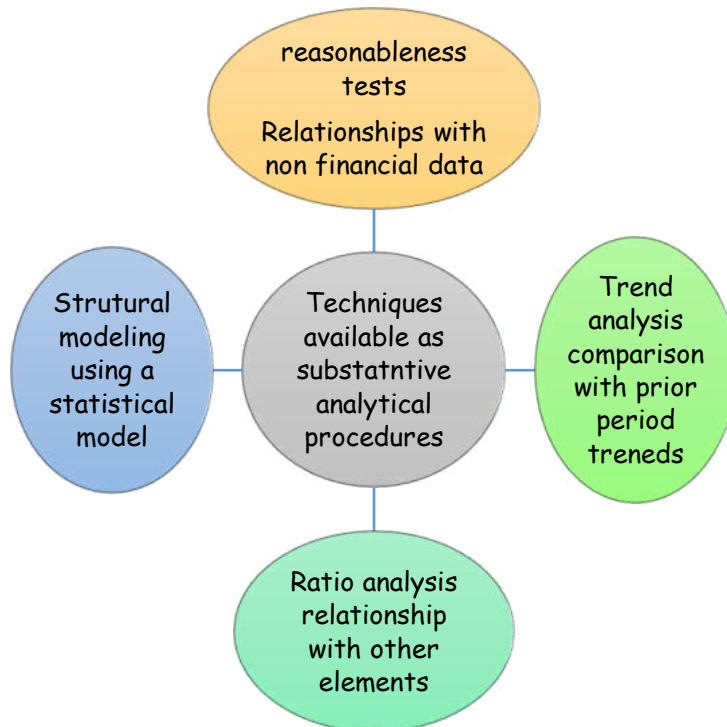


- ❖ Steps in performing the procedures.
 - Consider RMM
- ❖ Reliability of data
 - *Source*
 - *Comparability*
 - *Nature and relevance of data*
 - *Control over preparation of information*
- ❖ Develop an expectation of recorded amounts or ratios
 - Accuracy of prediction
 - Degree of disaggregation
 - Availability of information
- ❖ Determine any difference from expectation, acceptable without investigation.

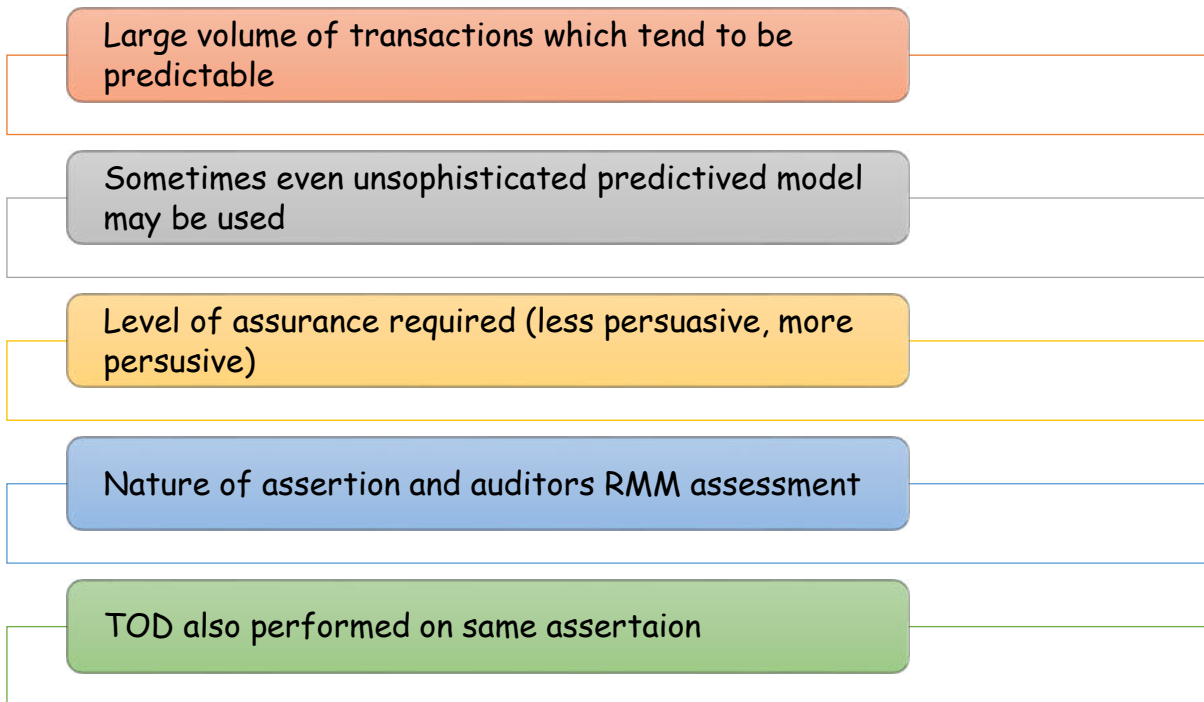




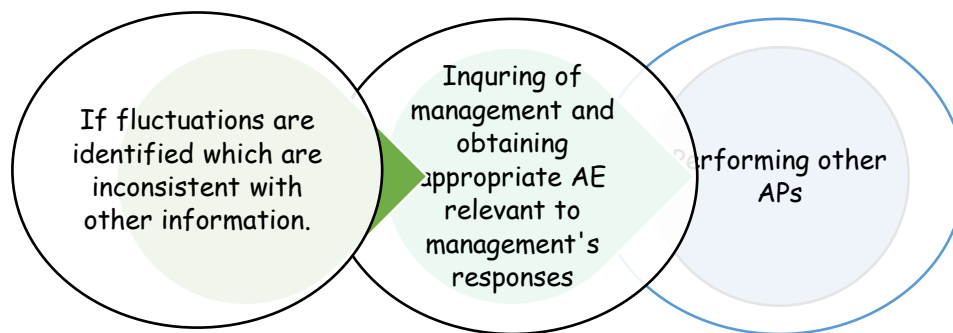
❖ **Techniques**



4. Suitability of particular analytical procedures for Assertions.



5. Investigating results of analytical procedures



6. Considerations specific to public entities

- Relationships between financial statement items may not exist.
- Non-capitalization of expenditure on acquisition of assets
- Industry data may not be available

AUDIT REPORT: (SA 700)

ELEMENTS OF AUDIT REPORT:

- 1) Title: The Auditor's Report should have an appropriate title i.e. "Auditor's Report".
- 2) Addressee: As required by the circumstances of the engagement. Ordinarily, the Auditor's Report is addressed to the authority appointing the Auditor.
- 3) Auditor's opinion:

- a) Opening or introductory paragraph:

- ✓ Identify the entity whose financial statements have been audited;
- ✓ State that the financial statements have been audited;
- ✓ Identify the title of each statement that comprises the financial statements;
- ✓ Specify the date or period covered by each financial statement comprising the financial statements

- b) Opinion para:

While expressing unmodified opinion he shall use the following:

- **In case of fair presentation framework**
 - ✓ In our opinion, the accompanying financial statements present fairly, in all material respects, [...] in accordance with [the applicable FRF]
- **In case of compliance framework**
 - ✓ The accompanying financial statements are prepared in all material respects in accordance with [applicable FRF]

- 4) Basis for opinion para :

- ✓ States that the audit was conducted in accordance with **Standards on Auditing**
- ✓ The **Auditor's Responsibilities** under the SAs;
- ✓ Auditor has followed the **Code of Ethics** issued by ICAI;
- ✓ States whether the auditor believes that the audit evidence obtained is **Sufficient and Appropriate** to provide a basis for the auditor opinion.

- 5) Going Concern :

Where applicable, the auditor shall report in accordance with **SA 570**

- 6) Key Audit Matters :

For audit of financial statements of listed entities, the auditor shall communicate key audit matters in the auditor's report as per SA 701.

7) Management's Responsibilities for the Financial Statements:

- ✓ Preparing the financial statements in accordance with the **AFRF**
- ✓ Such **internal control** as management determines is necessary to enable the preparation of financial statements that are **free from material misstatement**, whether due to fraud or error;
- ✓ Assessing the entity's ability to continue as a **going concern** and

8) Auditor responsibility:

- ✓ An expression of opinion on the financial statements and scope of audit.
- ✓ Reference to **SAs** issued by ICAI and law or regulation.
- ✓ Reference to applicable financial reporting framework

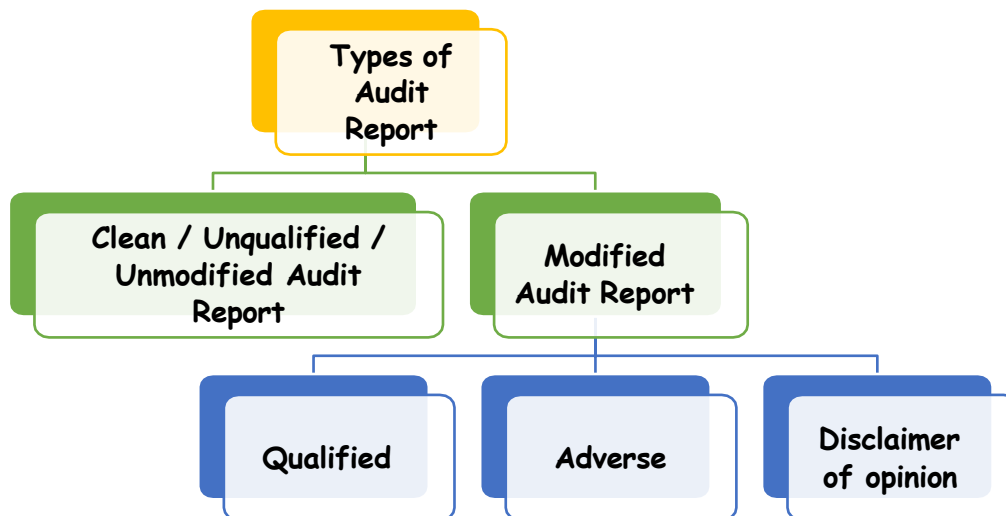
9) Other reporting responsibilities

10) Signature of the auditor

11) Place of signature.

12) Date of the auditor's report.

TYPES OF AUDIT REPORT:



	Material but not Pervasive	Material and pervasive
Sufficient and Appropriate Audit Evidence obtained	QUALIFIED	ADVERSE
Sufficient and Appropriate Audit Evidence is not obtained	QUALIFIED	DISCLAIMER OF OPINION

Clean or Unqualified/Unmodified Report

Clean or Unqualified report will be given by the auditor if the auditor is satisfied that the accounts, Balance Sheet, Profit and Loss Account and Cash Flow statement do represent a **true and fair view** and they are prepared in conformity with the accounting principles and statutory requirements.

Qualified Report

In qualified report the auditor believes that overall financial statements are **not fairly stated**. The reasons for giving Qualified Report are be as follows:

The books of accounts, Profit and Loss Account and the Balance Sheet do not represent the true and fair view of the state of affairs and results of the operations, due to lack of conformity with the accounting principles and statutory requirements,

- The auditor is not able to verify the value and existence of certain assets,
- The information requested by the auditor is not furnished,
- Proper books of account are not maintained as required by law,

Adverse or Negative Report

When there is sufficient basis for the auditor to form an opinion that the whole accounts and financial statements, do not present a true and fair view of the financial condition and results of operation, the adverse or negative opinion will be given. The adverse or negative report will be given on the following grounds:

When the auditor is not satisfied with the truth and fairness of financial statements,

- Nonconformity with the Generally Accepted Accounting Principles,
- Mistakes, discrepancies and material misstatement in the financial statements,
- Omission of a material disclosure.

Disclaimer Report

The auditor may disclaim or refuse opinion on the accounts, Profit and Loss Account and the Balance Sheet, when he does not have sufficient information to base his opinion. In the scope and opinion paragraph, the auditor should give disclaimer information. This may happen on the following grounds:

- The auditor has not been able to obtain sufficient information to form his opinion,
- The audit examination is not adequate to form an opinion,
- There are some material un-determined item in audit examination.

Internal Audit:

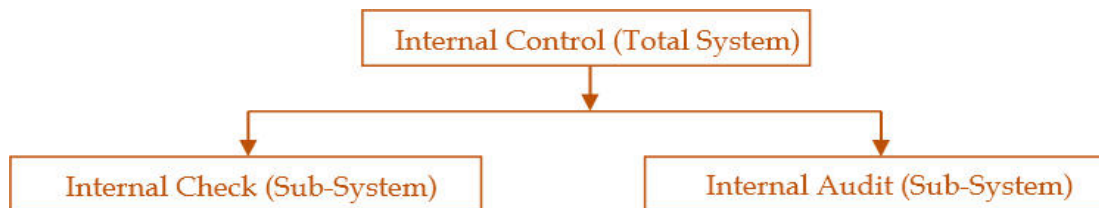
It is a continuous critical review of financial and operating activities by a staff member of the auditor.

Internal Control:

It consists of all the methods and procedures adopted to assist in achieving the objective of efficient conduct of business. It includes internal checks and internal audit.

Internal Check:

A system of allocation of responsibility, division of work, and methods of recording transactions, whereby the work of an employee is checked continuously by another.



S No	Basis	Internal Audit	Internal Control	Internal Check
	Way of Checking	In an internal audit system, each component of work is checked.	In internal controls systems, work of one person is automatically checked by another.	It operates in routine to doubly check every part of a transaction at the time of occurrence and recording of the same
ii.	Objective	Its objective is to evaluate the internal control system and to detect frauds and errors.	Its objective is to ensure adherence to management policies, safeguarding of assets, prevention and detection of frauds and errors, accuracy and completeness of accounting records.	Its objective is to ensure that no one employee has exclusive control over any transaction or group of transactions and their recording in the books

iii.	Point of Time	In an internal audit system, work is checked after it is done.	In an internal control system, checking is done simultaneously with the conduct of work. Every transaction is checked as soon as it is entered.	Methods of recording transactions are devised where work of an employee is checked continuously by correlating it with the work of others.
iv.	Thrust of system	The thrust of internal system is to detect errors and frauds.	The thrust of internal check system is to prevent errors.	The thrust of internal control lies in fixing of responsibility and division of work to avoid duplication.
v.	Cost Involvement	In an internal audit system, work is checked specially; therefore cost is involved in addition to accounting	The system proves to be costly in case of small businesses because more number of employees are engaged	It is a part of internal control and a method of division of work, therefore does not add to the cost.
vi.	Report	The internal auditor submits his report to the management	Internal Controls provide for built in MIS reports	The summary of day to day transactions work as report for the senior.

Internal Control :

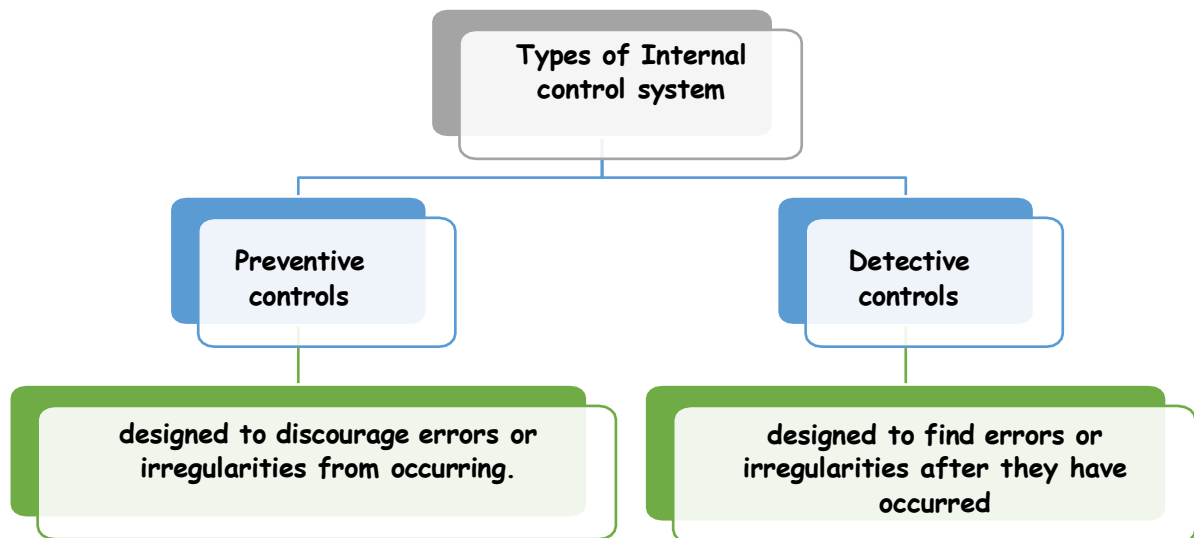
The **internal control system** comprises all the methods and procedures adopted to -

- ✓ assist in achieving the objective of efficient conduct of business
- ✓ ensure adherence to management policies,
- ✓ safeguarding of assets,
- ✓ prevention and detection of frauds and errors, and
- ✓ checking the accuracy and completeness of the accounting records

Advantages of Internal Control:

- ✓ (i) Efficiency, effectiveness and economy: A good internal control system ensures that the resources are utilized only for their intended purposes and helps to overcome the risk associated with the misuse of organization's funds and other resources.
- ✓ Prevention of errors and irregularities: It prevents errors and irregularities by detecting them in a timely manner, thereby promoting reliable and accurate accounting records.
- ✓ Safeguard from irregularities or misappropriations: A good internal control system errors the protection of organisation resources from misappropriation and do safeguard from any irregularities.
- ✓ (iv) Employees' satisfaction: It protects the interests of employees by segregation of duties and delegation of responsibilities.

Types of Internal Control System



- ✓ **Examples of preventive controls are:**
 - 1) Segregation of Duties
 - 2) Approvals, Authorizations, and Verifications
 - 3) Security of Assets
- ✓ **Examples of detective controls are:**
 - 1) Reviews of Performance
 - 2) Physical Verification

Importance of Internal Controls:

- 1) **Attainment of goal & Objectives:** - A sound internal control helps the entity towards the attainment of goal & objective of the business.
- 2) **Reliable financial Information:** A sound internal control helps the organization to set reliable financial information for managerial decision making.
- 3) **Compliance with law & Regulations:** Sound Internal control system ensures various compliance with laws & regulation prevailing in the country
- 4) **Efficient & Effective operation:** - A sound internal control system ensures efficient and effective operations that accomplish the goals of the organizations and protect employees and assets of the business.
- 5) **Prevention of fraud & errors:** - A sound internal control system prevents and detects frauds and errors and ensures timely preparations of financial statements and various reports for decision making.

Limitation of Internal Controls:

- 1) Organizational Structure: Deficiencies in organizational structure make internal control ineffective.
- 2) Size of the Organization: Small organizations have very low levels of internal control, which are almost negligible due to more interference by owners and management.
- 3) Unusual Transactions: The internal control procedures normally fail to keep a check on unusual transactions.
- 4) Costly: The implementation of internal control procedures and processes involves incurring costs in terms of time, effort and resources.
- 5) Abuse of Power: Members at the top-level management may override/interfere with control.
- 6) Obsolence: Control system may become redundant with passage of time if not updated with change in the size and nature of business.
- 7) Potential for human error: Due to misunderstanding of the concept of internal control human errors may occur while carrying out Internal Control System.
- 8) Frequent follow-up measures: Follow-up procedures need to be frequent to ensure its effectiveness, which is extremely time-consuming.

Responsibilities of Management Vis-A-Vis Auditors

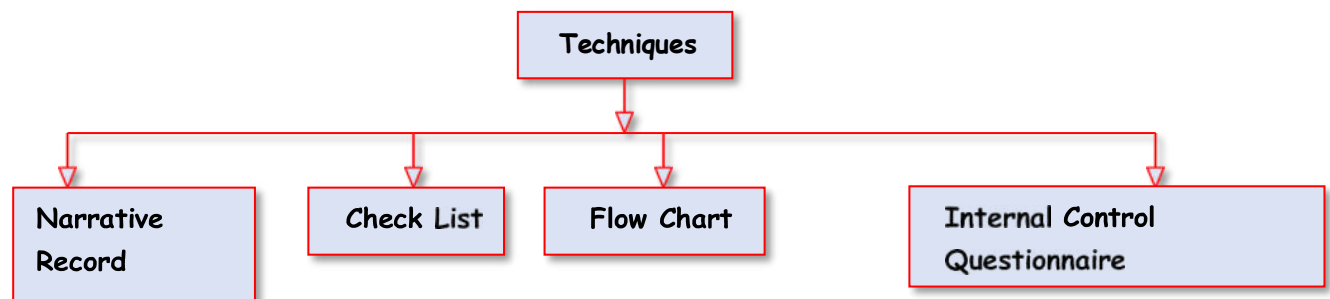
Responsibility of Management: The prime responsibility for maintaining an adequate accounting system and incorporating various internal controls rests with the management.

Auditor's Responsibility: To safeguard his own interests, the auditor might resort to examination and evaluation of the internal controls that exist in the organization.

He formulates an audit programme only after satisfying himself that such internal control systems are adequate and in consonance with the requirements of the business.

The auditor should bring the weaknesses of the internal control system, if any, to the management's notice through a "letter of weakness" or "management letter".

Techniques for Evaluation of Internal Control:



Narrative Record:

It is a complete and exhaustive description of the system.

It is appropriate in circumstances where a formal control system is lacking, like in the case of small businesses.

Gaps in the control system are difficult to identify using a narrative record.

Check List:

It is a series of instructions that a member of the audit staff is required to follow. They have to be signed/ initialed by the audit assistant as proof for having followed the instructions given.

A specific statement is required for every weakness area.

Flow Chart:

It is a pictorial representation of the internal control system depicting its various elements such as operations, processes, and controls, which help in giving a concise and comprehensive view of the organization's working to the auditor.

Internal Control Questionnaire:

It involves asking questions to various people at different levels in the organization.

The questionnaire is in a pre-designed format to ensure collection of complete and all relevant information.

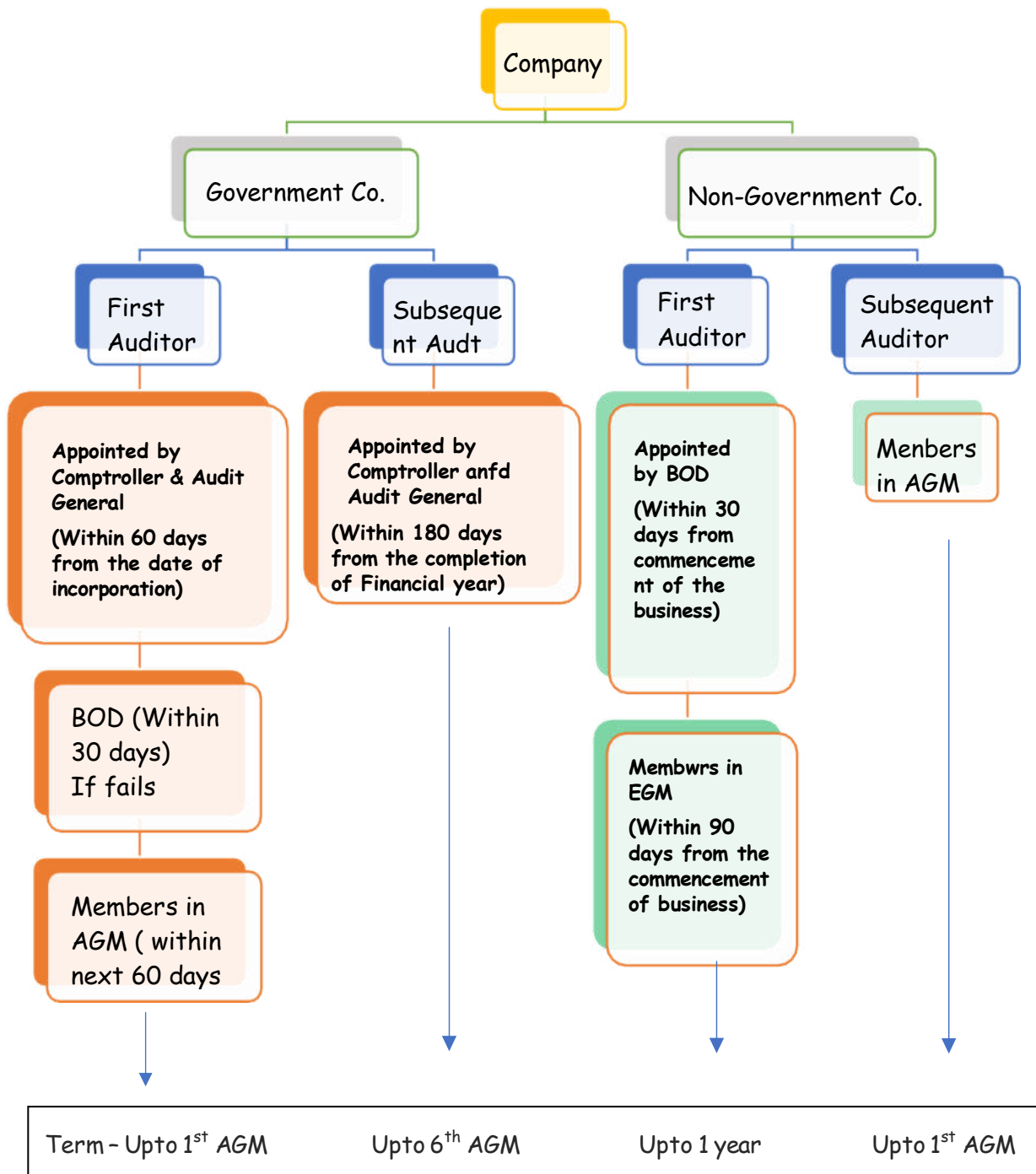
The questions are formed in a manner that would facilitate obtaining full information through answers in "Yes" or "No"

Scope/Functions of Internal Audit:

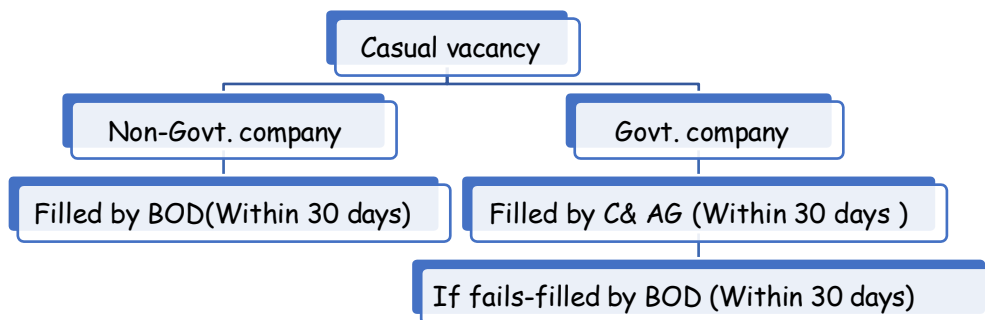
1. **Monitoring of internal control.** The internal audit function may be assigned specific responsibility for reviewing controls, monitoring their operation and recommending improvements thereto.
2. **Examination of financial and operating information.** The internal audit function may be assigned to review the means used to identify, measure, classify and report financial and operating information, and to make specific inquiry into individual items, including detailed testing of transactions, balances and procedures.
3. **Review of operating activities.** The internal audit function may be assigned to review the economy, efficiency and effectiveness of operating activities, including non- financial activities of an entity.
4. **Review of compliance with laws and regulations.** The internal audit function may be assigned to review compliance with laws, regulations and other external requirements, and with management policies and directives and other internal requirements.
5. To facilitate the **prevention and detection of frauds.**

SL. NO	INTERNAL AUDIT	OPERATIONAL AUDIT
i.	Compliance objective	Risk identification, process improvement objective
ii.	Financial accounts focus	Business focus
iii.	Audit focus	Efficiency & improvement focus
iv.	Transaction-based	Process-based
v.	Policies and procedures focus	Risk management focus
vi.	Cost Centre wise budget monitoring	Accountability for performance improvement Results
vii.	Focus on policies, transactions and compliance	Focus on goals, strategies and risk management Processes

Sec.139 - Appointment of Auditor:

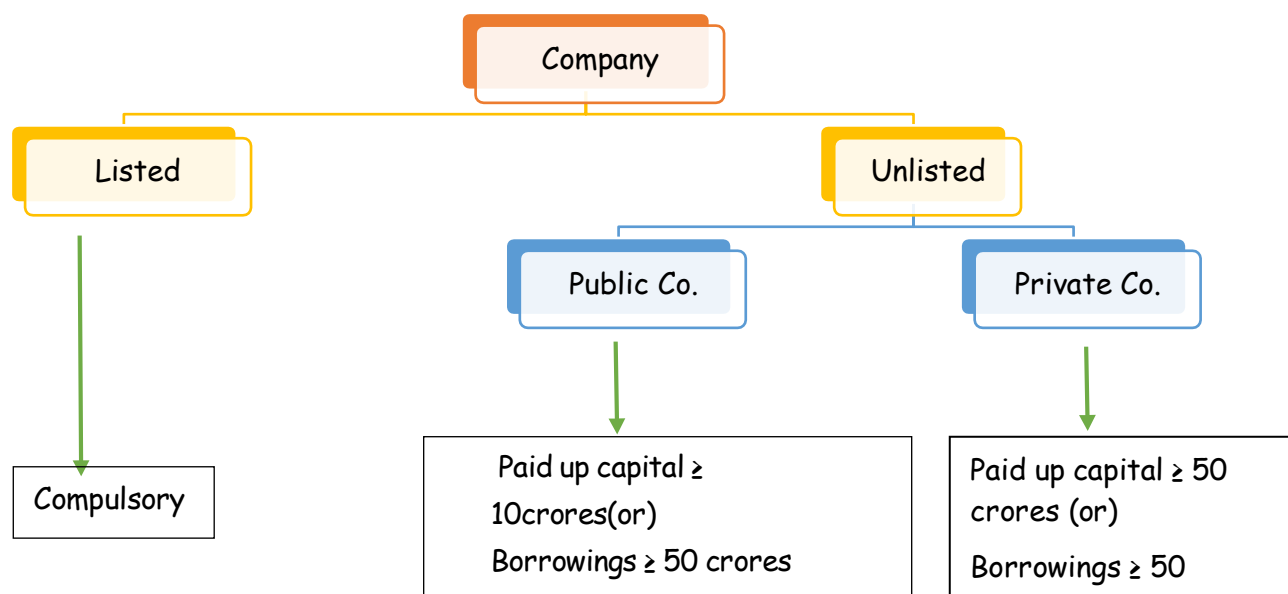


Casual vacancy - Sec.139(8):



Note -Casual vacancy if formed due to resignation ,need to be approved by company in general meeting (**Within 3 months** from the recommendation of board)

Rotation of Auditor:



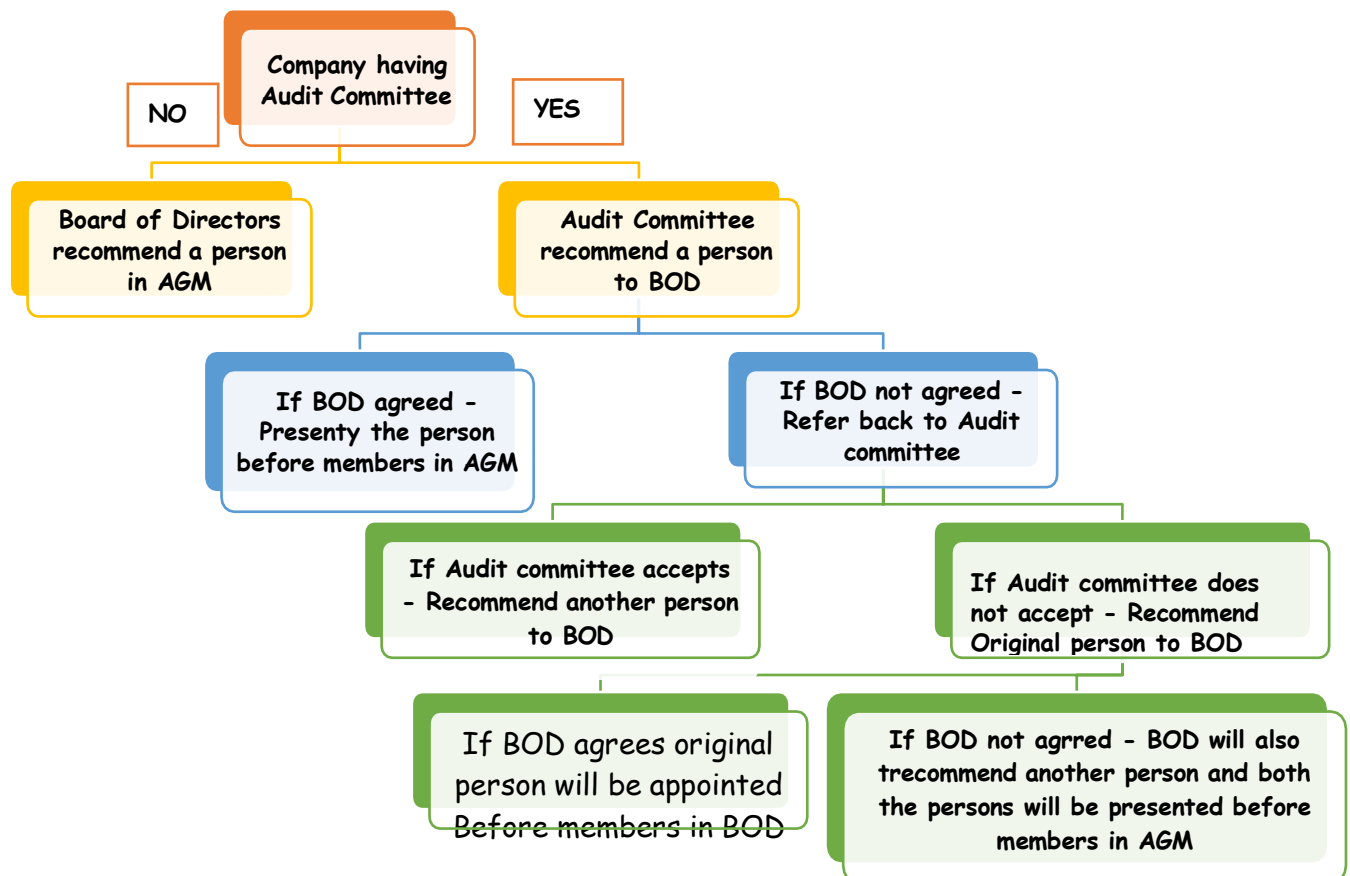
Manner of Rotation:

Individual Auditor - 5 years

Audit firm - 2 terms of 5 years

Cooling period - 5 years

Manner / procedure of Appointment of the Auditor:

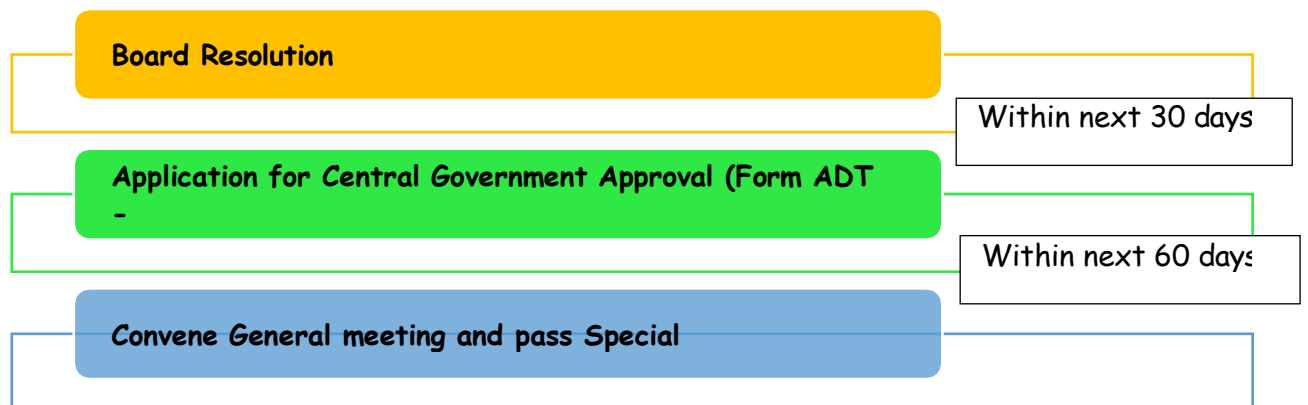


Sec.139(9) - Re-appointment of retiring Auditor:

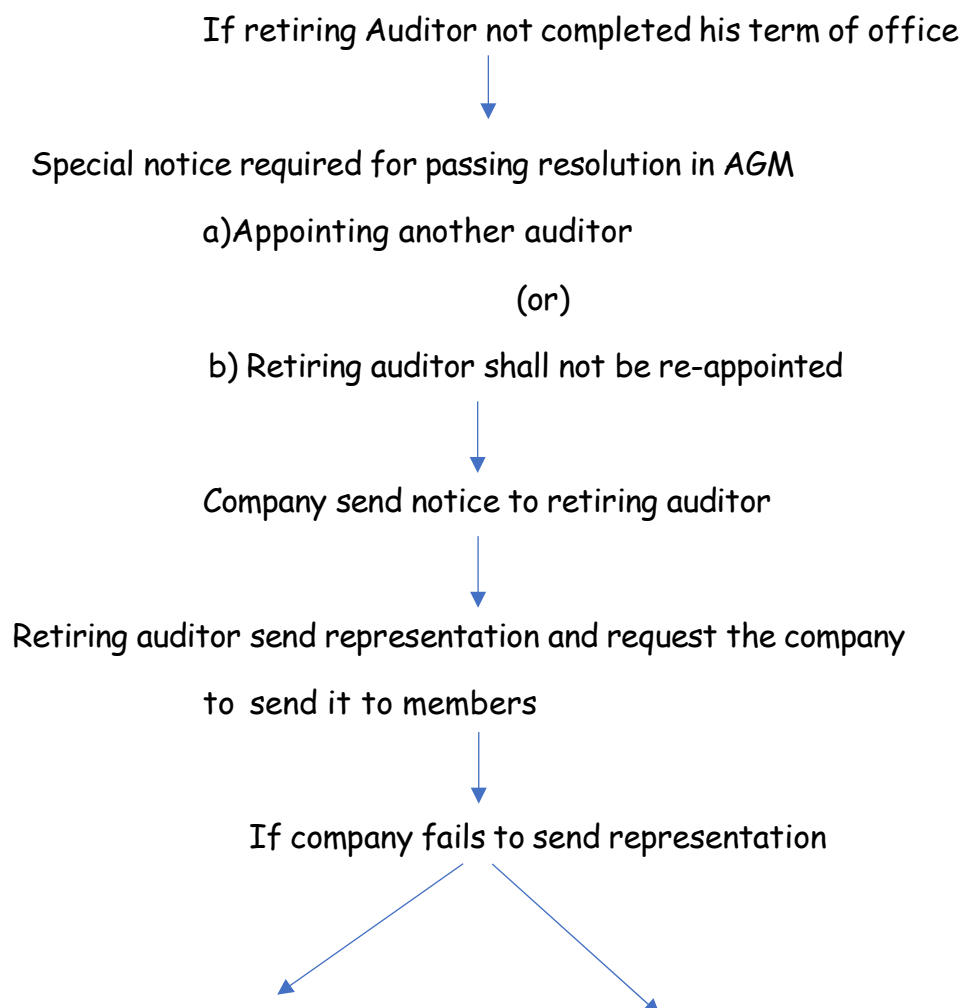
Retiring Auditor can be re-appointed only if:

- Not disqualified for re-appointment
- Not given notice for unwillingness
- SR has not passed for appointment of new auditor

Sec .140 - Removal of Auditor:



Sec.140(4)-Appointing Auditor other than retiring Auditor:



Read out at the meeting

File with the registrar

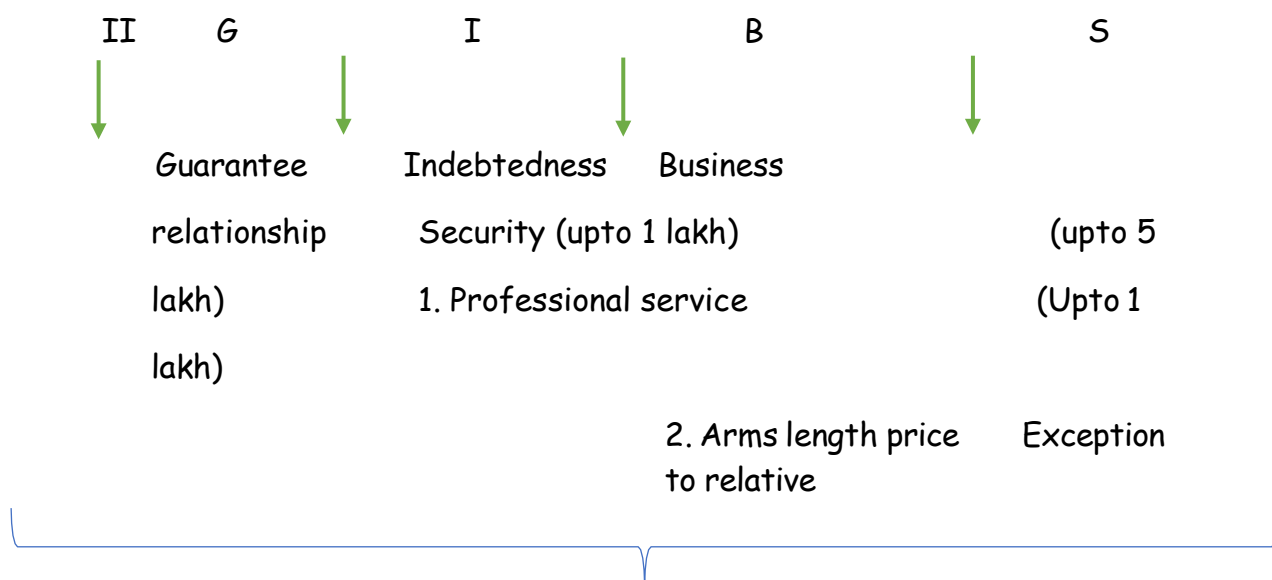
Sec.141- Eligibility , Qualifications & Disqualifications of Auditor:

Qualification of the Auditor:

- 1) Individual - He must be a chartered Accountant
- 2) Audit Firm - Majority of the partner must be practicing in India

Disqualifications:

- I 1) Body corporate other than LLP
- 2) Officer or employee of the company
- 3) Officer (or) partner (or) employee of the officer (or) employee of the company.



In Company , Holding company , Subsidiary company , Associate company , Subsidiaries of Holding company

+

Subsidiary of Associate company (In case of Business relationship)

III

8) A person whose relative is a director (or) Key Managerial personnel of the company

9) Full time employment elsewhere

10) Auditor of more than 20 companies

(Exception - OPC , Dormant company , Small company and Private company with paid up capital less than **100 crores**)

11) Auditor is convicted by the court and 10 years has not elapsed

12) Engaged in Sec. 144 services.

Sec.142-Remuneration of Auditor:

As per section 142 of the act the remuneration of the auditor of a company shall be fixed in its **general meeting (Members)** or in such manner as may be determined therein.

✓ However, **board** may fix remuneration of the **first auditor** appointed by it.

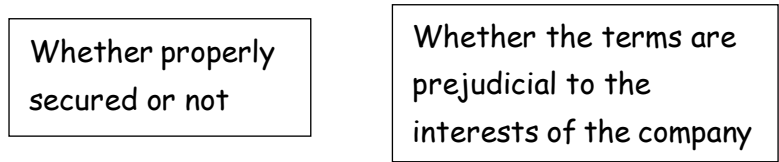
Sec. 143 - Powers and Duties of Auditor:**Powers :**

- 1) Right of access of books
- 2) Right to acquire information
- 3) Right to Remuneration
- 4) Right to attend in the General meeting
- 5) Right to sign the Audit report
- 6) Right to visit branches

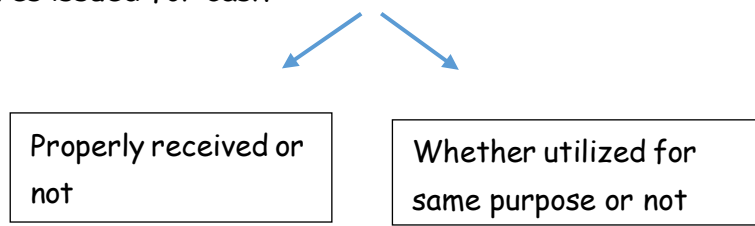
Duties to make enquiries:

- 1) Loans and advances provided by the company



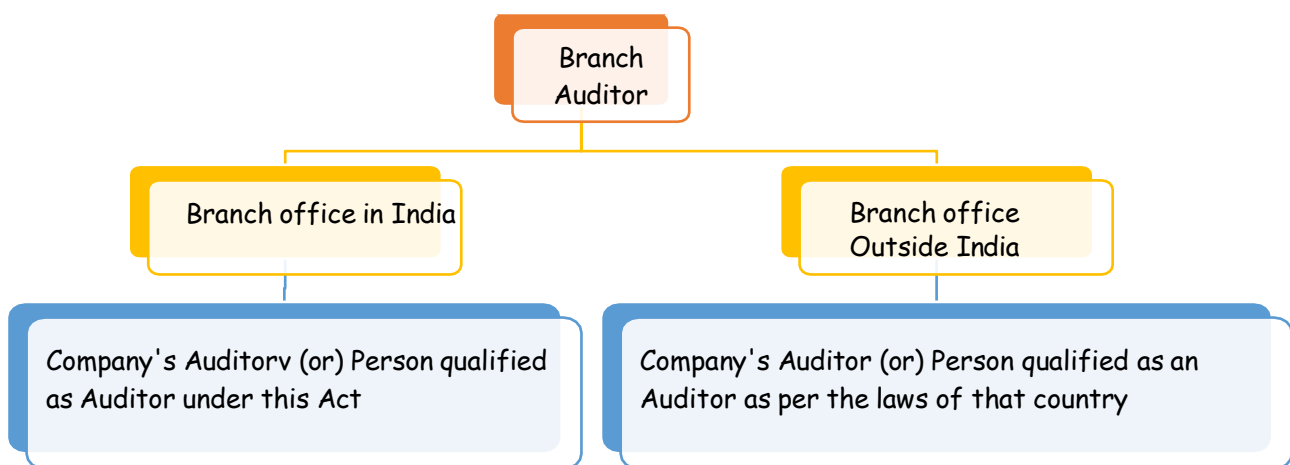


- 2) Transactions merely by book entries not prejudicial to the interests of the company
- 3) If company other than investment company or banking company, sold its shares ,assets where selling price is less than its cost price
- 4) Loans and advances made by the company , shown as deposits
- 5) Personal expenses charged to revenue A/c.
- 6) Shares issued for cash

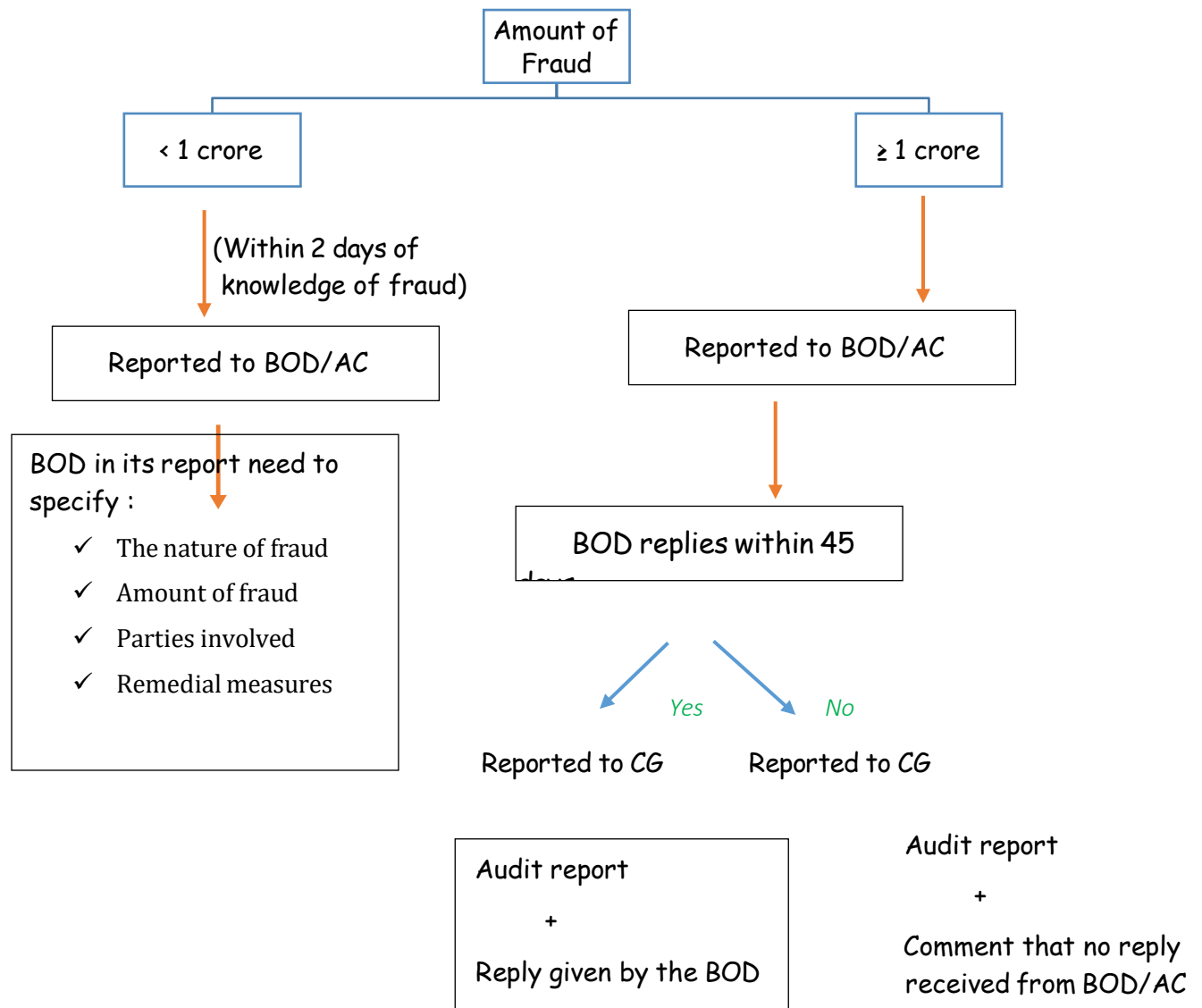


Sec.143(8)-Branch Audit:

The branch auditor shall prepare a report on the accounts of the branch examined by him and send it to the auditor of the company who shall deal with it in his report in such manner as he considers necessary.



Sec. 143(12)-Duty to Report on Frauds



Penalty: Fine - 1 lakh to 25 lakhs

Sec. 144-Certain services not to be rendered by the Auditor:

Section 144 of the Companies Act, 2013 prescribes certain services not to be rendered by the auditor.

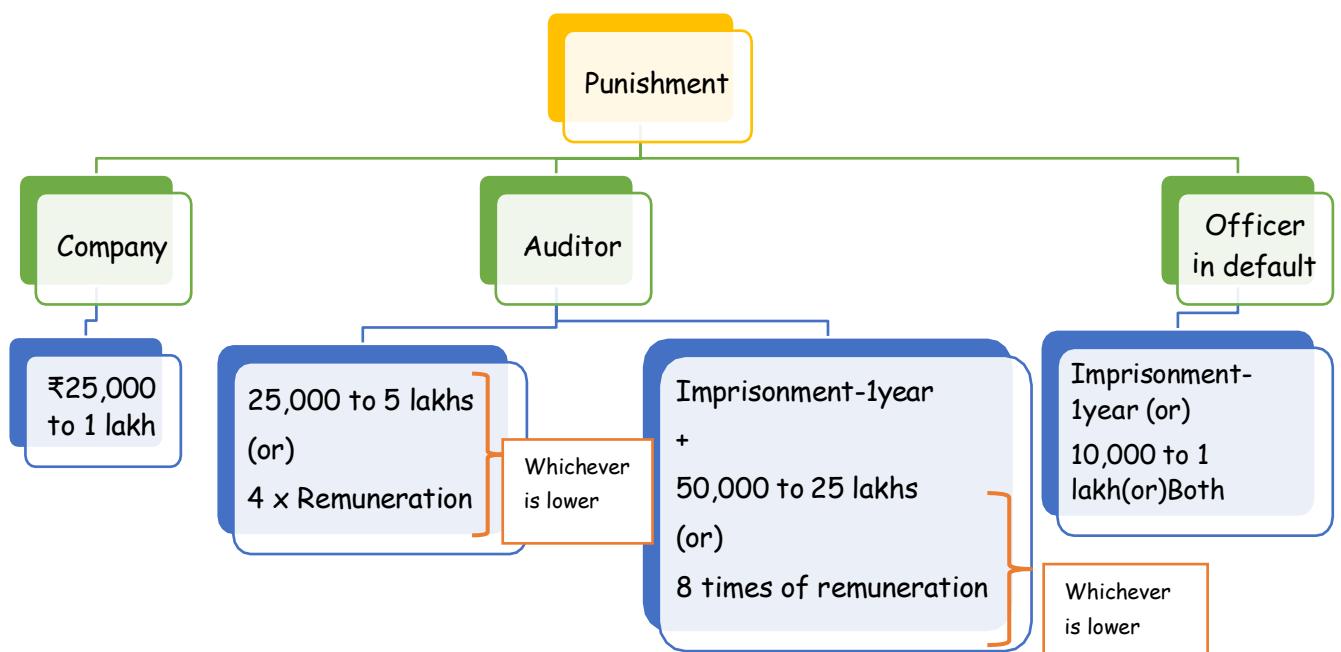
- (i) **M**anagement services; and
- (ii) rendering of **O**utsourced financial services;
- (iii) **D**esign and implementation of any financial information system;

- (iv) **I**nternal audit;
- (v) **I**nvestment banking services;
- (vi) **I**nvestment advisory services;
- (vii) **A**ccounting and book keeping services;
- (viii) **A**ny other kind of services as may be prescribed.

Sec.145-Signing of the Audit report:

- a) The person appointed as auditor of the company shall sign the auditor's report or sign or certify any other document of the company.
- b) The qualifications, observations or comments on financial transactions or matters, which have adverse effect on the functioning of the company, mentioned in the auditor's report shall be
 - Read before the company in general meeting; and
 - Open to inspection by any member of the company.

Sec.147-Punishment for contravention:



Sec.148-Cost Audit:

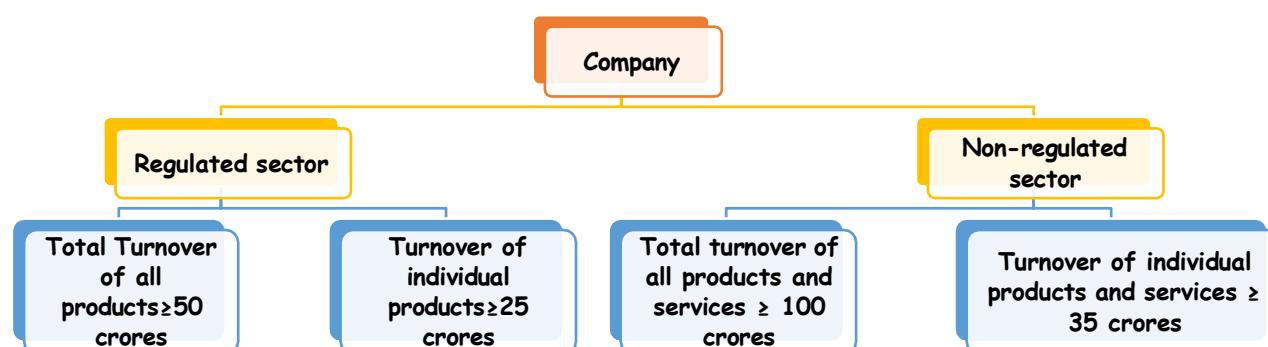
It is an audit process for verifying the cost of production of any article, on the basis of accounts as regards utilization of material or labour or other items of costs maintained by the company.

- Every company including all units and branches thereof, shall, in respect of each of its financial year, is required to maintain cost records in **Form CRA-1**.

Need for Cost Audit:

- The Central Government may by order specify audit of items of cost in respect of certain companies.

Applicability of Cost Audit:



Exemption:

The requirement for cost audit under these rules shall not be applicable to a company:

- whose revenue from exports, in foreign exchange, **exceeds 75%** of its total revenue; or
- which is operating from a special economic zone (SEZ).

Appointment of Cost Auditor:

A) In the case of companies which are **required to constitute an audit committee**

- The Board shall appoint an individual, who is a cost accountant in practice, or a firm of cost accountants in practice, as cost auditor on the recommendations of the Audit committee.
- AC shall also recommend remuneration for such cost auditor;

In the case of other companies which are **not required to constitute an audit committee**, the Board shall appoint an individual who is a cost accountant in practice or a firm of cost accountants in practice as cost auditor and the remuneration of such cost auditor shall be ratified by shareholders subsequently.

- ✓ The company has to appoint an Auditor **within 180 days of the commencement of every financial year.**
- ✓ The company shall inform
 - The cost auditor and
 - File a notice of such appointment with the central government

Within a period of 30 days of the Board meeting

(or)

Within 180 days of the commencement of the financial year

whichever is EARLIER (Form CRA-2).

- ✓ The qualifications, disqualifications, rights, duties applicable to auditors shall, apply to a cost auditor appointed under Sec. 148.
- ✓ The cost auditor shall **submit the cost audit report to the BOD within 180 days** from the closure of the financial year (Form CRA-3)
- ✓ A company shall **within 30 days from the date of receipt** of a copy of the cost audit report, furnish the **Central Government** with such report
- ✓ The provisions of **section 143(12)** on duty to report on fraud shall apply mutatis mutandis to a cost auditor during performance of his functions.

Casual vacancy of cost auditor:

- ✓ Filled by BOD **within 30 days of such vacancy** and BOD should intimate CG in form CRA-2 within 30 days of such appointment.

177- Sec. Applicability of Audit Committee:

Every **listed company** and the following classes of companies shall constitute an Audit Committee:

- a) All public companies with a **paid-up capital of Rs. 10 Crs or more;**
- b) All public companies having **turnover of Rs. 100 Crs or more;**

- c) All public companies, having in aggregate, outstanding loans or borrowings or debentures or deposits **exceeding Rs. 50 Crs** or more.

Applicability of Secretarial Audit:

The following companies are required to do the secretarial audit :

- (a) Every **listed** companies; or
- (b) Every Unlisted public company having a paid - up share capital of **₹ 50 Crores** or more; or
- (c) Every Unlisted public company having a turnover of **₹ 250 Crores** or more; or
- (d) Every company having outstanding loans or borrowings from banks or public financial institutions of **₹ 100Crores** or more.
 - Who will conduct the Secretarial Audit of the Companies?
Only a practicing company secretary can conduct the secretarial audit of the Companies.
 - Secretarial Audit Report is given in **Form MR-3**

Applicability:

CARO, 2020 is applicable for all the companies including foreign companies but not applicable for the following:

1. One person company
2. Small company
3. Banking company
4. Companies registered for charitable purpose
5. Insurance company
6. Private company which
 - a. Turnover < or equals to 10 crores in the financial year
 - b. Paid up capital < or equals to 1 crore on the balance sheet date
 - c. Borrowings < or equals to 1 crore

1) FIXED ASSETS MODIFIED IN CARO 2020:**a) Fixed asset register****b) Physical verification - (Any discrepancies)**

c) Immovable property: Whether the **title** of immovable properties is held in the name of the company.

d) Revaluation (newly added in 2020):

- d. Whether the company has revalued its Property, Plant and Equipment and, if so:
- e. Whether the revaluation is based on the valuation by a Registered Valuer.
- f. Specify the amount of change, if **change is 10% or more** in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets.

e) Disclosure of benami transactions (newly added in 2020):

Whether any proceedings have been initiated or are pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988)

2) INVENTORIES (MODIFIED IN CARO 2020)**a) Physical verification:**

- i. Whether physical verification of inventory has been conducted at reasonable intervals by the management.
- ii. Whether any discrepancies of **10% or more**

b) Working capital loans (newly added in 2020):

- iii. Whether the company has been sanctioned working capital limits in **excess of 5 crore rupees**, in aggregate, from banks or financial institutions.
- iv. Whether the **quarterly returns or statements** filed by the company with such banks or financial institutions are in agreement with the books of account of the Company, if not, give details.

3) INVESTMENTS, GUARANTEE , SECURITY , LOANS OR ADVANCES (MODIFIED IN 2020)

a) Applicability: Whether during the year the company has provided loans or provided advances in the nature of loans, or stood guarantee, or provided security to any other entity [not applicable to companies whose principal business is to give loans], if so, indicate:

- i) **To related parties:** The aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to subsidiaries, joint ventures and associates.
- ii) **To unrelated parties:** The aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to parties **OTHER THAN subsidiaries, joint ventures and associates.**

b) Terms and conditions: Whether the **terms and conditions** of the grant of all loans and are **not prejudicial to the company's interest.**

c) Repayment regularity: If the amount is overdue, state the total amount **overdue for more than 90 days,**

d) Rescheduling or Extension of overdue loans (newly added in 2020): Specify the aggregate amount and percentage of such dues renewed or extended or settled by fresh loans and

e) Demand loans without repayment period:

- i. Specify the aggregate amount, percentage thereof to the total loans granted,
- ii. Aggregate amount of loans granted to Promoters, related parties.

4) OTHER LOANS, INVESTMENTS, GUARANTEES MADE BY COMPANY: (SAME AS CARO 2016)

In respect of loans, Investments, Guarantees, and securities provided by company, whether provisions of **section 185 & 186** have been complied with? If not, provide the details thereof.

5) DEPOSITS : (SAME AS CARO 2016)

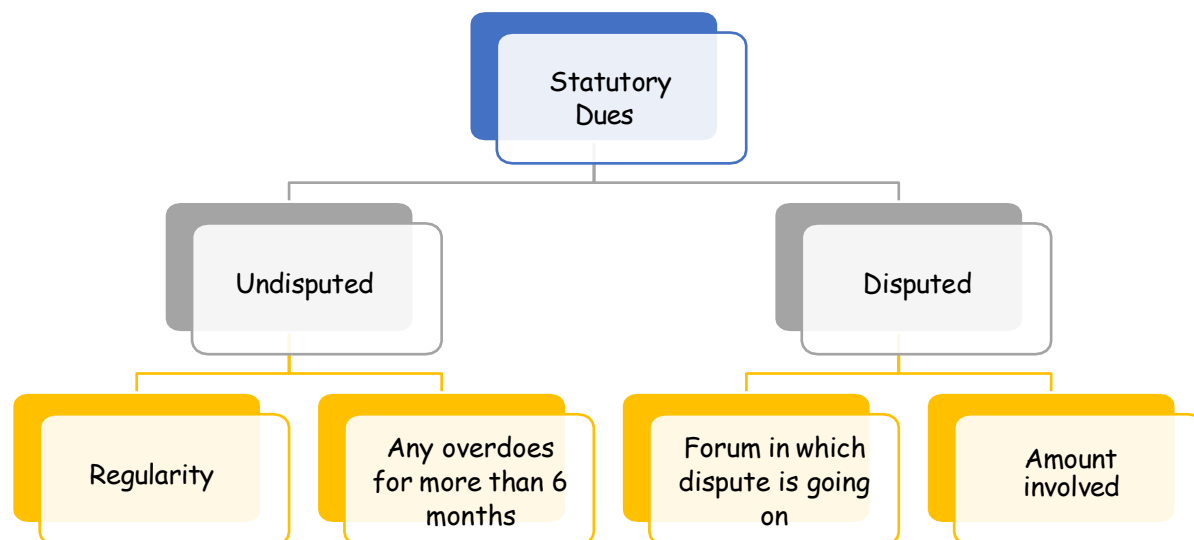
In case the company has accepted deposits from the public,

- a) Verify the compliance of the provisions of **Sections 73 to 76** of the Co.'s Act, 2013 or
- b) If there is **any Non-compliance**, the nature of contraventions should be stated.

6) COST RECORDS : (SAME AS CARO 2016)

Compliance with sec.148 of the Companies Act,2013

7) STATUTORY DUES: (SAME AS CARO 2016)



8) DISCOVERY OF UNDISCLOSED INCOME (NEWLY ADDED IN 2020) :

Whether any transactions not recorded in the books of account have been surrendered or disclosed as income during the year in the tax assessments under the Income Tax Act, 1961 (43 of 1961), if so, whether the previously unrecorded income **has been properly recorded** in the books of account during the year. (Author Note: May Be treated as prior period items in the accounting records)

9) DEFAULT IN REPAYMENT OF DUES:**a) Lender wise default:**

- i) Whether the company has defaulted in repayment of borrowings of loans to a financial institution, Bank, Debenture holders or Governments.
- ii) If so, the period and amount of default to be reported each lender wise in the following Format:

b) Willful defaulter (newly added in 2020): Whether the company is a declared willful defaulter by any bank or financial institution or other lender.

c) Purpose of term loans: Whether term loans were applied for the purpose for which the loans were obtained.

d) ST LOAN FOR LT PURPOSE (NEWLY ADDED IN 2020): *Whether funds raised on short term basis have been utilized for long-term purposes, if yes, the nature and amount to be indicated.*

e) Loans taken to meet subsidiary company needs (newly added in 2020): Whether the company has taken any funds from any entity or person on account of or to meet the obligations of its subsidiaries, associates or joint ventures, if so, details thereof with nature of such transactions and the amount in each case.

f) loan against pledge of securities of subsidiaries:

1. Whether the company has raised any loans during the year **"ON PLEDGE OF SECURITIES HELD IN SUBSIDIARY/ASSOCIATE/JOINT VENTURE** and if So, Give details thereof.
2. Also report whether the company has defaulted in repayment of such loans.

10)END USE OF FUNDS RAISED:**a) IPO / FPO:**

1. Whether the money raised by way of initial or further public offer(including debt instruments) were utilized for the purposes for which those are raised.
2. If not, the details along with the defaults, delays & subsequent rectifications, if any, to be reported.

b. Preferential allotment:

1. Compliance with **section 42** of the act. and
2. The amount raised has been used for the purpose for which they are raised.

11)REPORTING OF FRAUDS:

a. Noticed or reported:

Whether any fraud by or Whether any frauds on the company ~~by its officers or employees~~ has been noticed or reported during the year.

- i. If yes, the nature and the amount involved is to be indicated.

b. **Sec. 143(12) - fraud (newly added in 2020):**

Whether any report under **sub-section (12) of section 143** of the Companies Act has been filed by the auditors **in Form ADT-4** as prescribed under rule 13 of Companies (Audit and Auditors) Rules,2014 with the Central Government.

c. **Whistle blower complaints (newly added in 2020):**

12) NIDHI COMPANY: (SAME AS CARO 2016)

- a) Whether Nidhi Company has complied with **the net owned funds (i.e., net worth) to deposits** in the ratio of **1:20** to meet out the liability.
- b) Whether Nidhi Company is **maintaining 10% Unencumbered term deposits** as specified in Nidhi Rules, 2014 to meet out the liability.

13) RELATED PARTY TRANSACTION : (SAME AS CARO 2016)

Whether all transaction with related parties is

- a) In **compliance with section 177 & 188** where applicable, &
- b) Details have been disclosed in the financial statements etc., as required by applicable accounting standards.

14)INTERNAL AUDIT SYSTEM (NEWLY ADDED IN CARO 2020) :

- a) Whether the company has an **internal audit system** commensurate with the size and nature of its business.

Whether the **reports of the Internal Auditors** for the period under audit were

considered by the statutory auditor.

15)NON - CASH TRANSACTION: (SAME AS CARO 2016)

Whether Company has entered into any Non-Cash Transactions **with directors** & if so provisions of section 192 have been complied with.

16)NON-BANKING FINANCIAL INSTITUTION (MODIFIED IN 2020)

- a) **45IA of RBI ACT:** Whether the company is required to be registered under section 45-IA of Reserve Bank of India Act 1934, and If so, whether the registration has been obtained.
- b) **NBFC activities (new):** Whether the company has conducted any Non-Banking Financial or Housing Finance activities without a valid Certificate of Registration (COR) from the Reserve Bank of India as per the Reserve Bank of India Act, 1934.
- c) **Core Investment Company (new):**
 - i) Whether the company is a Core Investment Company (CIC) as defined in the regulations made by the Reserve Bank of India, if so,
 - ii) Whether it continues to fulfil the criteria of a CIC, and in case the company is an exempted or unregistered CIC, whether it continues to fulfil such criteria.
 - iii) Whether the Group has more than one CIC as part of the Group, if yes, indicate the number of CICs which are part of the Group.

17) CASH LOSSES (NEWLY ADDED IN 2020)

Whether the company has incurred cash losses in the financial year and in the immediately preceding financial year, if so, state the amount of cash losses.

18)RESIGNATION OF AUDITORS (NEWLY ADDED IN 2020)

- a) Whether there has been any resignation of the statutory auditors during the year, if so,
- b) Whether the auditor has taken into consideration the issues, objections or concerns raised by the outgoing auditors.

19)MATERIAL UNCERTAINTY (NEWLY ADDED IN 2020)

Whether the auditor is of the opinion that no material uncertainty exists as on the date of the audit report that company is capable of meeting its liabilities existing at the date

of balance sheet as and when they fall due within a period **of 1 year** from the balance sheet date

20)CORPORATE SOCIAL RESPONSIBILITY FUND (NEWLY ADDED IN2020)

Compliance with sec.135 of the Companies act,2013

21)MODIFIED OPINION (CARO) IN OTHER GROUP COMPANIES (NEWLY ADDED IN 2020)

- a. Whether there have been any qualifications or adverse remarks by the respective auditors in the Companies (Auditor's Report) Order (CARO) reports of the companies included in the consolidated financial statements

1. Audit of Educational Institutions / college:

Initial considerations

- Examine the trust deed or regulation.
- Study the minutes of meetings of governing body / trustee to gain knowledge of any important decision which may affect the accounts for e.g., purchase of computer etc.
- Evaluate the system of internal control.
- Obtain list of accounting records & accounting policy adopted by the management.

Incomes

Fees from students:

- Check the admission fee to confirm whether amount has been credited to a separate account. Refundable money is shown as liabilities.
- Ascertain whether the amounts demanded from student are as per rates specified according to their course.
- Verify the fee received by comparing fee collection register and copy of receipts issued to students, for cash received, check entries in cashbook.
- Check authorization for fee concessions.
- Ensure that in case of late payment of fee, fine has been properly imposed, collected & accounted for.
- Ascertain accounting & authorization for fee received in advance.
- In case hostel facility is also granted to students, check whether hostel dues are properly demanded & collected on timely basis. Also ascertain whether all hostel dues have been properly accounted for.

Rent:

- Examine agreement with tenants to know rates of rent & their due dates etc.
- Verify rent received by comparing counterfoils of receipts issued with the bank passbook.

Interest:

- Verify investment registers to check whether interest w.r.t. same has been duly accounted for.
- Interest and dividend received should be checked with reference to entries in bank passbook.

Donations and grants:

- Donations may be of two types, for specific use or for general use. Check recording of such amount in separate accounts.
- Vouch counterfoils of receipts issued to donors.
- Verify grant from government or any local authority with reference to sanction letter.

c) Expenses

Towards students:

- Check the basis for prove scholarships to students, verify acknowledgement letter from students.
- Examine whether expenses on books in library & sports item are properly authorised & accounted for.

Towards staff:

- Examine the terms and conditions of salary to each category of staff.
- check the calculation w.r.t. gross remuneration payable & deductions
- Vouch payment made to teachers & other personnel with reference to pass book.

Common expenditure:

- Vouch payment against electricity & water bill etc.
- Examine payments towards maintenance of hostel.

d) Assets and liabilities:

Assets:

- Examine whether all fixed assets are properly accounted for.
- Verify ownership & existence of fixed assets by examining records & conducting physical verification respectively.
- Verify whether depreciation has been properly calculated w.r.t each class of fixed assets.
- Obtain WR w.r.t existence, ownership valuation of assets.

Liabilities:

- Verify corpus / capital fund with special attention to any increase in the same as compared to that of previous year.
- Check that any deposit paid by the student on admission, if refundable, is shown as a

liability & not transferred to P&L account.

2. Audit of Hospital:

Initial considerations:

- ✓ Hospitals can be run as sole proprietorship or partnership or trust and even as a company etc. Auditor should ascertain the legal status & study applicable statute, if any.
- ✓ Examine the trust or partnership deed or memorandum or articles as per the status of hospital. (other points, same as in previous topic)

Incomes:

From patients:

- ✓ Check copies of bills issued to the patients with reference to the register of patients to ensure that all patients have been billed properly.
- ✓ Check calculation of few bills.
- ✓ Examine whether bills are raised properly bifurcating into rent charges, Service charges & payments regarding medicine.
- ✓ Check internal control & authorization for bills raised at concessional rates.

From grants:

- ✓ Check copies of correspondence with the government or local bodies to ensure the purpose of grant.
- ✓ Ensure whether grant or donations received for specific purpose have been properly applied.
- ✓ Obtain WR regarding use of grants.
- ✓ Examine accounting for grants with special attention to classification into capital & revenue.
- ✓ Income from investment:
- ✓ Examine investment register .
- ✓ Vouch interest, dividend etc. to ensure whether same has been properly accounted for.
- ✓ Check collection of various incomes received on investment with reference to entry in cashbook/pass book.

Expenses :

- ✓ Ensure authorization of various payments specially capital expenditure.
- ✓ Compare various items of expenditure with those of previous year (ARP).
- ✓ Check few calculations w.r.t staff salary to check whether these are in accordance with

the pay rules.

- ✓ Special attention should be given to purchase of high value medicines & injections. Also check whether there is strict control over their purchases and issues
- ✓ Obtain WR regarding abnormal item of expenses if any.

Assets and Liabilities:

- ✓ Check whether hospital is eligible for income tax exemption.
- ✓ Examine whether all fixed assets are properly accounted for.
- ✓ Check ownership & existence of fixed assets by verifying records & conducting physical verification respectively.
- ✓ Verify whether depreciation has been properly calculated on each class of fixed assets.
- ✓ Obtain WR for existence, ownership & valuation of assets.
- ✓ Verify corpus/ capital fund with special attention to any increase in the same as compared to that of previous year.
- ✓ Examine adequacy of internal controls over purchase and issue of stock.
- ✓ Examine whether any claim against the hospital has been properly accounted for.

3. Audit of Trust

Initial considerations:

- ✓ Examine the trust deed or regulation.
- ✓ Study the minutes of meetings of governing body / trustee to gain knowledge of any important decision which may affect the accounts.
- ✓ Study the provision of applicable statute as per the legal status of the institution.
- ✓ Evaluate the system of internal control.
- ✓ Obtain list of accounting records & accounting policy adopted by them.

Incomes

Donations & grants:

- ✓ Examine donations received as shown in cash book with reference to copies of receipts issued.
- ✓ Ensure that all donations received has been taken into account.
- ✓ Check periodic internal report w.r.t. donations received during that period (monthly or quarterly).
- ✓ Donation may also be received in kind, ensure their proper recognition in books of account.

- ✓ If any grant has been received for some particular purpose, examine whether the same has been utilized for designated use only.

Others:

- ✓ Vouch income from investment i.e., dividend, interest to ensure that these are properly accounted for.
- ✓ Check calculation of interest income.
- ✓ There may be income on account of rent. Examine agreement with tenants to check terms & conditions thereof.
- ✓ Check subscription details to ensure their proper recognition.

Expenses:

- ✓ Vouch all expenses, especially to check whether expenses have been made towards object of the trust.
- ✓ Check payment to staff towards salary etc.
- ✓ Compare other expenses like stationery telephone etc. with those of previous year (ARP).
- ✓ Verify that all payments are made after proper sanction by proper authority.
- ✓ Examine whether the trust enjoys income tax exemption under the Income Tax Act 1961.
- ✓ Check whether payment of tax has been made, if circumstances require so.

Assets and Liabilities :

Investment:

- ✓ Check authorization of purchase & sale of Investment
- ✓ Physically check the investment certificates.
- ✓ Other assets and liabilities: Same as above
- ✓ Verify second sale of the goods, so repossessed.

4. Audit of Local Bodies

Initial considerations:

1. A municipality can be defined as a unit of local self-government in an urban area.
2. 'local self-government' ordinarily means the administration of a locality — a village, a town, a city or any other area smaller than a state.
3. It raises its revenue through local taxation and spends its income on local services.
4. These bodies generally follow the cash basis of accounting.

Financial Administration:

Budgetary procedure:

- a) Budget preparation is determining the levels of taxation, rates and the ceilings on expenditure.
- b) The objectives of to bodies budgetary procedure are:
 - Financial Accountability,
 - Control of expenditure, and
 - To ensure that funds are raised and money is spent in accordance with the rules and regulations.

Expenditure control:

Matters of regular revenues and expenses are generally delegated to the executives, for example, commissioners. Thus, it should be seen whether expenditure is within limits.

Accounting system:

Municipal accounting system is usually kept as per the cash system.

c) Objective of Audit of local bodies :

- a) reporting on the fairness of the content and presentation of financial statements;
- b) reporting upon the strengths and weaknesses of systems of financial control;
- c) reporting on the adherence to legal and/or administrative requirements;
- d) reporting upon whether value is being fully received on money spent; and
- e) detection of error, fraud and misuse of resources.

d) Audit Procedure:

- ✓ Auditor should obtain basic information about the constitution, functions and financial status of the local body.
- ✓ Obtain sufficient knowledge about their budget and accounting system.
- ✓ The auditor should obtain complete knowledge about the budget as it is an important tool of financial planning and control for urban local bodies.
- ✓ The revenue items may include property tax, collection from public places, grants, etc.
- ✓ The expenditure may include salary and wages, allowances to employees, rent, printing and stationery, repairs and maintenance, etc.
- ✓ Assets may consist of land, buildings, plant and machinery, vehicles, office equipment, furniture and fittings, etc.

- ✓ Reserves, long-term and short-term loans and unutilised grants are included in the liabilities side.
- ✓ Verification of assets and liabilities should also be carried out in usual manner.

e) Audit report:

Finally, he expresses opinion on financial statements. He should also communicate the comparisons of budgeted and actual figures.

5. Audit of co-operative societies

- The Co-operative Societies Act, 1912, a Central Act, contains the fundamental law regarding the formation and working of the co-operative societies in India and is applicable in many States with or without amendments. In many States, viz., Maharashtra, West Bengal, Orissa, the co-operative societies are governed by specific State Acts.
- An auditor of a co-operative society should be familiar with the provisions of the particular Act governing the society under audit.
- A co-operative society is a business organisation with a special mode of doing business, by pulling together all the means of production co-operatively, elimination of middlemen and exploitation from outside forces.
- Co-operative organizations are also forging ahead in large scale, industries such as sugar mills, oil mills, paper and pulp industries, spinning and weaving mills and distilleries

a) Qualifications of Auditor of co-operative societies:

- A Chartered Accountant is qualified to be appointed as Auditors of a Co-operative Society.
- If Permitted under the State Act:
 - a) Persons holding Government Diploma in Co-operative Accounts;
 - b) Persons holding Government Diploma in Co-operation and Accountancy;

b) Appointment of Auditor :

- ✓ Auditor is appointed by the Registrar of Co-operative Societies.
- ✓ The Auditor conducts the audit on behalf of the Registrar and submits his Report to Registrar and also to the Society.
- ✓ Audit Fees is determined by the Registrar on the basis of a statutory scale of fees and category of the Society audited. The fees shall be paid by the Society.

c) Books, Accounts, and records to be maintained:

The Central Co-operative Societies Act does not contain any specific provisions relating to maintenance of books of account and records. However, State Acts confer powers on the Registrar to issue directors/ instructions for the maintenance of books of account.

Usually, the following books of accounts are maintained considering the nature and object of the society:

- ❖ Detailed cash book.
- ❖ Sales register & Cash sales summary register; & register for collection from debtors.
- ❖ Purchase register.
- ❖ Stock register.
- ❖ Accounts related to all assets and liabilities of society.
- ❖ Register of recoveries of loans from salaries (if any);
- ❖ Loan disbursement register in case of credit society.
- ❖ Any other columnar subsidiaries depend upon the nature and functions of society.

d) Restrictions on Shareholdings :

A person cannot become a member and hold shares of limited liabilities society maximum to the following extent

- 20% of the total number of shares; or
 - Shares of the value ₹ 21,000
- } Whichever is higher

The above rule is NOT applicable if a registered society is a member of the society;

The State At may provide limits as to the shareholding, other than that provided in the Central Act.

e) Restrictions on loans and advances :

- a) Registered Society can give a loan only to a member of the society.
- b) With special sanction of the Registrar, a Registered Society may make loans to another Registered society.
- c) Other points
 - It cannot lend money based on security of movable property except with the sanction of the registrar
 - State Government may restrict lending money on immovable property by

order.

f) Restrictions on Borrowings (Loan taken)

Deposits and loans shall be taken from non- members, only to such extent and under such conditions, as may be prescribed by Rules or Bye- Laws.

g) Investment of Funds:

A Registered Society may invest or deposit in any of the below funds –

- ❖ In Government Savings Bank/Central or State co-operative bank;
- ❖ Securities specified the Indian Trusts Act, 1882;
- ❖ In the shares or on the security of any other Registered Society;
- ❖ In co-operative banks other than (a) mentioned above approved by the Registrar, or
- ❖ In any other mode permitted by Central or State Government Rules.

h) Can a society distribute funds to members?

A Co-operative society has to transfer at least 25% of its net profits in any year to reserve funds before distributing dividends or bonus to members.

If the financial position of the society does not permit such transfer, the Registrar can reduce the transfer to the extent of 10%.

Exception

A Society with unlimited liability can distribute profits, only after obtaining a general or special order of the State Government in this behalf.

i) How does a society use its reserve fund outside the business or utilize as working capital?

A society may use the Reserve Fund

- a. in the business of a society, as working capital;
- b. may invest as per provisions of the Act (discussed above); OR
- c. may be used for some public purposes likely to promote the object of the society.

The auditor should ensure strict compliance with the State Act and. Rules in this regard.