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CHAPTER 10 - AUDIT REPORT

SA 700 FORMING AN OPINION AND REPORTING ON THE FINANCIAL STATEMENTS

FORMING AN OPINION

- "1) Auditor form opinion whether FS prepared in accordance with applicable FRF. To form opinion obtain reasonable assurance whether FS free from material misstatements.
- In forming such opinion he shall consider following:
 - Sufficiency & appropriateness of audit evidences
 - Materiality of uncorrected misstatements
 - Adequacy of disclosures in FS
 - Consistency of accounting Policies with applicable FRF
 - Reasonableness of Accounting Estimate so Reliability & relevance of financial info
 - Adequacy of disclosure of material transactions & Event so Appropriateness of Terminology used FS
- Fair presentation framework, he shall consider:
 - Overall presentation, structure & content of FS, &
 - Whether FS represent underlying transactions & events so as to achieve fair presentation."

EXPRESSION OF OPINION

"Unmodified opinion When FS prepared in accordance with applicable FRF.

Modified opinion

- ❖ FS not free from material misstatements, or
- ❖ is unable to obtain sufficient & appropriate evidence to conclude FS free from material misstatement

Supplementary info

Integral part of FS: Cover in opinion

Otherwise: Differentiate from FS: If not then ask mgt to change way of presentation; If mgt refuse - mention in report such info not audited

CONTENT OF AUDITOR' REPORT

1. Title	2. Addressees - Members/TCWG	3. Auditor's opinion
4. Basis for opinion	5. Going concern	6. KAM
8. Auditor's responsibilities for FS	9. Other reporting responsibilities	7. Mgt responsibilities for FS
Objectives of auditor; Meaning of reasonable assurance; misstatements can arise on account of fraud	10. Sign of auditor	Prepare FS in accordance with FRF; Exercise IC; Assess going concern
	11. Place of sign	12. Date of report

SA 706 EMPHASIS OF MATTER (EOM) AND OTHER MATTER (OM) PARAGRAPHS IN THE INDEPENDENT AUDITOR'S REPORT

EOM: refers to matter appropriately incorporated in FS of such importance that it is fundamental to user's understanding of FS.

"Include EOM para in the report provided:

- Auditor wouldn't be required to modify opinion in accordance with SA 705
- Matter not been determined to be KAM"

Examples of EOM :

- "- Uncertainty relating to future outcome of exceptional litigation
- Significant subsequent event occurs bw date of FS & date of auditor's report
- Early application of new A/c standard
- Major catastrophe"

OM: Para relating to matter other than those in FS which is relevant to user's understanding or auditor's responsibility or his report

Auditor include OM para in the report, not prohibited by law/regulation; & matter not been determined to be a KAM

Examples of OM:

- Reporting on more than one set of FS
- Restriction on distribution/use of the report

Audit Procedures

- "- Comparative info agrees with other disclosures
- A/c policies in comparative info are consistent with those applied in the current period.
- Changes in A/c policies, if any, have been properly accounted for & disclosed."

UDIN

Financial documents /certificates attested by third person misrepresenting themselves as CA were misleading Authorities & Stakeholders. ICAI also received complaints of signs of CAs being forged by non CAs. To curb malpractices, ICAI implemented in phased manner as innovative concept of UDIN . All Certificates were made mandatory with effect from 1st February, 2019. CAs having full-time COP can register on UDIN Portal & generate UDIN by registering certificates attested/ certified by them. Accordingly, auditor is required to mention UDIN w.r.t each audit report being signed by him.

SA 701 COMMUNICATING KEY AUDIT MATTERS (KAM) IN THE INDEPENDENT AUDITOR'S REPORT

KAM: Matters that, in auditor's professional judgment, were of most significance in audit FS.

Communicating KAM is not

- "❖ Substitute for disclosures in FS
- ❖ Substitute for expressing a modified opinion
- ❖ Substitute for reporting in under SA 570 when material uncertainty exists relating to events/conditions that may cast significant doubt on entity's ability to continue as a going concern; or
- ❖ Separate opinion on ind matters."

Purposes of KAM

"- enhances communicative value of the report - provides addn info to users of FS to assist them in understanding matters most significance in audit.- assist users in understanding entity & areas of significant mgt judgment in the audited FS"

KAM to be selected to from matters communicated to TCWG - In making determination auditor shall take into account the following:

- "- Areas of higher assessed ROMM
- Significant auditor judgments relating to areas that involved significant mgt judgment
- Effect on audit of significant events/transactions"

Matter Determined to be KAM, still Not Communicated in the Report

"Describe each KAM in the report unless:- Law/regulation precludes public disclosure; or- In rare circumstances, adverse consequences of communicating matter would reasonably be expected to outweigh public interest benefits."

SA 705 MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT

Types of modified opinion

Nature of matter	Material not pervasive	Material and pervasive
FS materially misstated	Qualified	Adverse
Unable to obtain SAAE	Qualified	Disclaimer

Disclaimer: In rare circumstances involving multiple uncertainties, auditor concludes, notwithstanding having obtained SAAE regarding each of uncertainties, not possible to form opinion on FS due to the potential interaction of uncertainties & their possible cumulative effect on FS.

Form and content of auditor's report in case of modified opinion

- Use heading "Modified/Adverse/Disclaimer of opinion" and "Basis for modified/Adverse/Disclaimer of opinion."

SA 710 COMPARATIVE INFORMATION - CORRESPONDING FIGURES AND COMPARATIVE FINANCIAL INFORMATION

COMPARATIVE FINANCIAL STATEMENTS

"Comparative info where amounts & other disclosures for prior period are included for comparison with FS but, if audited, are referred to in the opinion."

Auditor's Opinion refers to each period for which FS are presented

CORRESPONDING FIGURES

Comparative info where amounts & other disclosures for prior period, included as integral part of FS & intended to be read in relation to amounts & other disclosure

"Auditor's Opinion on FS refers to currentperiod only."

"Audit opinion not refer to corresponding figures, EXCEPT:(1) Auditor's report in prior period FS modified & subject matter is still unresolved (2) Auditor obtains AE w.r.t. existence of material misstatement in prior period FS on which unmodified opinion was issued, & misstatement has not been dealt as required by applicable FRF."

Prior period FS

AUDITED BY ANOTHER AUDITOR	UNAUDITED
"Auditor shall state in OM Para: - FS of prior period audited by predecessor auditor - Type of opinion expressed by him - Date of that report. Prior period FS contain material misstatements: - Communicate misstatement to TCWG & Mgt - Request predecessor auditor be informed"	State in OM Para that corresponding FS are unaudited.

CHAPTER 11 - COMPANY AUDIT

ELIGIBILITY QUALIFICATIONS AND DISQUALIFICATIONS OF AN AUDITOR (SEC 141)

(1) Auditor to be CA only; firm where major partners are CA	
(2) Firm appointed - CA Partners authorised to act & sign on behalf of firm	
(3) Person not eligible to be auditor:-	
a) Body corporate (Not LLP)	c) Partner/employee of officer/employee
b) Office/employee of co	d) Person/relative/partner holds:
e) Person/firm having business relationship with co/hold/subs/asso/subs of hold	(i) any security/interest in co/subs/hold/asso/subs of holdco Relative may hold security/interest upto 1L (Face value) - relative has shares above 1L - Corrective action in 60 days
f) Relative of director/KMP	(ii) indebted to co/subs/hold/asso/subs of hold > 5L
"g) Person full time employment elsewhere or person appointed as auditor in more than 20 cos other than OPC, dormant co, small co & pvt co PUC < 100cr"	(iii) given guarantee/security to co/subs/hold/asso/subs of hold > 1L h) Person convicted of fraud & period of 10 yrs not elapsed I) Person providing services u/s 144
(4) Person incurs disqualification u/s 141(3) after appointment, vacate office & deemed casual vacancy	- A/c and book keeping services - Internal Audit - Actuarial - Design & implementation of any financial info system - Investment advisory - Investment banking - Outsourced financial service - Mgt services - Others

'Retiring auditor re-appointed at AGM, if-

- Not disqualified for re-appointment;
- Not given notice in writing
- SR not been passed at that meeting appointing some other auditor/providing expressly that he shall not be re-appointed.

ROTATION OF AUDITOR (Sec 139(2))

Applicability of Sec 139(2)

All listed co (Other than OPC & small co)		
Unlisted public co PUC > 10 cr	+	Pvt co PUC > 50 cr
	Co borrowings from FI, banks, public deposit > 50 cr	
- Appoint individual more than 1 term of 5 yrs - Appoint firm more than 2 terms of 5 yrs Auditor not eligible for re appointment for 5 yrs from completion of such term		
"(1) As on date of appointment, no firm having a common partner to other firm, whose tenure expired in co preceding FY, appointed as auditor for a period of 5 years. (2) Right of co to remove auditor/right of auditor to resign not to be prejudiced. (3) Members of a co may resolve to provide that- (i) Auditing partner & team rotated at intervals (ii) audit conducted by more than 1 auditor"		

FILLING OF A CASUAL VACANCY [Sec 139(8)]

Other Companies	Govt Companies
To be filed by BOD in 30 days	To be filed by CAG in 30 days
In case of resignation, appointment by BOD to be approved by Co. at AGM	In case of failure: BOD shall fill in 30 days
In case of failure, auditor liable to a penalty of 50,000 or remuneration of auditor, whichever is less, & in case of continuing failure, with further penalty of 500 each day during which such failure continues, subject to a maximum of 5L	

Manner of Rotation of auditors on expiry of their term (Rule 6)

- AC recommend to BOD, name of individual auditor/firm
 - Where co required to constitute AC, BOD consider recommendation, & in other cases, BOD itself consider matter of rotation & make recommendation for appointment by members in AGM.
 - in case of auditor, period for which individual/firm held office prior to commencement of Act taken into account for calculating period of 5/10 yrs
 - incoming auditor/firm not be eligible if such auditor/firm associated with outgoing auditor/firm under same network of audit firms.
- Explanation I** - "same network" includes firms operating/functioning under same brand name, trade name or common control.
- Explanation II** - (a) break in term for a continuous period of 5 yrs considered as fulfilling requirement of rotation
 (b) if partner, in charge of firm & also certifies FS, retires from firm & joins another firm, other firm ineligible to be appointed for a period of 5 yrs."

APPOINTMENT OF AUDITOR (SEC 139)

First Auditor		Subsequent Auditor	
Others - 139(6)	Govt Co - Sec 139(7)	Others - 139(1)	Govt Co - Sec 139(5)
By BOD in 30 days from DOR	By CAG in 60 days of DOR	By Members in AGM	By CAG in 180 days from commencement of year
In case of failure: Members in EGM in 90 days	In case of failure: BOD in 30 days	Hold off from 1st AGM to 6th AGM	Hold off till conclusion of AGM
Hold off till conclusion of first AGM		Where at any AGM, no auditor appointed/re-appointed, existing auditor continue to be the auditor	

- Written consent & certificate to be obtained from auditor.
- Under Rule 4, the certificate shall state following:-
 - individual/firm is eligible for appointment
 - proposed appointment as per the term provided under the Act;
 - proposed appointment is within limits laid down by or under the Act;
 - list of proceedings against auditor/firm/any partner of firm pending w.r.t professional matters of conduct, as disclosed in the certificate, is true & correct.
- Company file a notice of appointment with Registrar within 15 days of meeting in which auditor is appointed.

AUDIT COMMITTEE (Sec 177)

Following classes of co's shall constitute an AC -

Listed co		
Public co PUC > = 10 cr	+	Public co loans/borrowings/debentures/deposits > = 50 cr
	Public co turnover > = 100 cr	

Manner of selection & appointment of auditors (Rule 3)

- In case of co required to constitute AC, AC, & in cases where committee not required, BOD, take into consideration qualifications & experience of individual/firm proposed to be considered for appointment as auditor
- AC/BOD call for other info from the proposed auditor
- Where co required to constitute AC, committee recommend name of individual/firm to BOD for consideration & in other cases, BOD consider & recommend individual/firm to members in AGM
- If BOD agrees with recommendation of AC, further recommend appointment of individual/firm to members in AGM- If BOD disagrees with AC, refer back recommendation to AC for reconsideration citing reasons for such disagreement.
- If AC decides not to reconsider its recommendation, BOD record reasons for disagreement & send its own recommendation to members; and if BOD agrees with recommendations of AC, it shall place matter for consideration by members in AGM"

REMOVAL OF AUDITORS**Before expiry of term (Sec 140(1)):**

- Board Resolution- Application to CG in Form ADT 2 in 30 days of BR
- Co hold GM in 60 days of receipt of approval of CG for passing SR
- Auditor given a reasonable opportunity of being heard."

"Direction by Tribunal - Auditor acted in Fraudulent Manner (Sec 140(5)): Tribunal suomotu/on application made by CG/any person concerned, satisfied auditor has acted in fraudulent manner, it may, by order, direct co to change its auditors. If application made by CG & Tribunal satisfied that any change of auditor required, it shall within 15 days of such application, make an order that he shall not function as auditor & CG may appoint another auditor

Auditor against whom final order passed under this section not be eligible to be appointed as auditor of any co for a period of 5 yrs from dat of passing of the order & also be liable for action u/s 447"

AUDITOR'S REMUNERATION (Sec 142)

Remuneration of auditor fixed in GM/in such manner as may be determined. BOD fix remuneration first auditor appointed by it.

Appointment of auditor other than retiring auditor - Sec 140(4)

- Special notice required for resolution at AGM appointing auditor a person other than retiring auditor/providing expressly that retiring auditor not be re-appointed
- On receipt of notice, Co send copy thereof to retiring auditor
- Where notice given & retiring auditor makes representation in writing to co & requests its notification to members, Co shall, unless representation is received by it too late for it to do so,-
 - a) in notice of resolution state fact of representation made; and
 - b) send copy of representation to every member to whom notice is sent & if a copy of representation not sent as aforesaid, auditor may require that representation read out at the meeting."

If Tribunal satisfied on application of co or other person the rights conferred being abused by auditor, then, copy of representation may not be sent & need not be read out at the meeting.

COST AUDIT - Sec 148**Applicability for Maintenance of Cost Records (Rule 3):**

Cos, engaged in production of goods/providing services, having overall turnover of Rs. 35 cr or more during preceding FY, required to include cost records. Including Foreign Cos but exclude co classified as MSME. Divide list of cos into (A) Regulated sectors and (B) Non-regulated sectors.

Maintenance of Cost Records (Rule 5):

"Every co required to maintain cost records in Form CRA-1. As per clause (vi) to Paragraph 3 of the CARO, auditor has to report whether maintenance of cost records specified by CG & whether such accounts & records have been so made & maintained."

Applicability of Cost Audit (Rule 4):

- ""Regulated Sectors"" if overall annual turnover during immediately preceding FY is Rs. 50 cr or more & aggregate turnover of individual product/service for which cost records are required to be maintained is Rs. 25 crore or more.
- ""Non-Regulated Sectors"" if overall annual turnover during immediately preceding FY is Rs. 100 cr or more & aggregate turnover of individual product/ service for which cost records required to be maintained is Rs. 35 cr or more."

Appointment of cost auditor (Rule 6):

"- Co to appoint auditor within 180 days of commencement of every FY. Before such appointment, written consent of cost auditor to appointment & certificate shall be obtained. The certificate to be obtained from the cost auditor shall certify that the-

- (a) individual/firm eligible for appointment
- (b) individual/firm satisfies criteria provided in sec 141
- (c) proposed appointment within limits laid down by/under authority of the Companies Act, 2013; &
- (d) list of proceedings against auditor or any partner of firm pending w.r.t professional matters of conduct is true & correct.- Every co inform auditor of his/its appointment & file notice of appointment with CG within 30 days of BM in which such appointment is made or within 180 days of he commencement of FY, whichever is earlier in Form CRA-2- The auditor appointed shall continue in such capacity till expiry of 180 days from closure of FY or till he submits cost audit report, for FY for which he has been appointed."

Submission of cost audit report :

- To BOD - submit audit report along with his reservations in Form ORA-3 within 180 days from closure of FY
- To CG- Co within 30 days from date of receipt of copy of audit report in Form CRA-4 in XBRL format. If, after considering report, CG of opinion any further info necessary, may call for such further info"

Punishment for non compliance - Sec 147**On Company**

Sec 139 to 146 contravened, co punishable with fine not be less than 25,000 which may extend to 500,000 & every officer in default punishable with imprisonment for term which may extend to 1 yr or with fine not less than 10,000 which may extend to 100,000, or both

On Auditor

"Sec 139, 143, 144, 145 contravened, fine not less than 25,000 may extend to 5L/4 times remuneration, whichever is less. If provisions contravened knowingly, punishable with imprisonment which may extend to 1 yr & with fine not less than 50,000 may extend to 25L or 8 times remuneration, whichever is less."

"Auditor convicted shall be liable to:

- refund remuneration received
- pay damages for loss arising out of incorrect/ misleading statements of particulars made in his audit report."

POWERS/RIGHTS OF AUDITOR - Sec 143

1. Right of access to books etc
2. Right to obtain info & expl from officers
3. Right to receive notice to attend AGM - Sec 146
4. Right to report to members on the accounts examined by him
5. Right to lien

All notices & other communications of any GM forwarded to auditor & auditor attend either by himself/through authorised representative, who shall also be qualified to be auditor, any GM & have right to be heard at such meeting.

"Reporting requirement on adequacy of IFC not be applicable to a Pvt co which is a -

- OPC; or
- Small co; or
- turnover < 50 cr & borrowing from banks/Fis /any body corporate at any point of time during FY < 25 cr"

AUDIT OF BRANCH OFFICE ACCOUNTS - Sec 128

- Where co has a branch office, accounts of that office audited either by auditor appointed for co or by any other person qualified for appointment as an auditor of co under this Act
- Where branch office situated outside India, accounts of branch office audited either by company's auditor or by accountant or by any other person duly qualified to act as auditor of branch office in accordance with laws of country
- Branch auditor prepare report on accounts of branch & send it to auditor of co who shall deal with it in his report in such manner as he considers necessary.
- Branch auditor submit his report to co's auditor & reporting of fraud by auditor extend to such branch auditor"

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 - (b) individual/firm satisfies criteria provided in sec 141
 - (c) proposed appointment within limits laid down by/under authority of the Companies Act, 2013; &(d) list of proceedings against auditor or any partner of firm pending w.r.t professional matters of conduct is true & correct.
- Every co inform auditor of his/its appointment & file notice of appointment with CG within 30 days of BM in which such appointment is made or within 180 days of he commencement of FY, whichever is earlier in Form CRA-2
- The auditor appointed shall continue in such capacity till expiry of 180 days from closure of FY or till he submits cost audit report, for FY for which he has been appointed."

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DUTIES OF AUDITOR - Sec 143

1. Duty to inquire on certain matters:

- "a) whether loans & advances made by co on basis of security properly secured & whether terms are prejudicial;
- b) transactions of co represented merely by book entries prejudicial to interests of co;
- c) where co not being an investment/banking co so much of assets of co as consist of shares, debentures & other securities sold at a price less than that at which they were purchased by the co;
- d) loans & advances made by the co shown as deposits;
- e) personal expenses charged to revenue account;
- f) it is stated in books & documents of the co any shares allotted for cash, whether cash has actually been received in respect of such allotment, & if no cash has actually been so received, position as stated in books & BS is correct, regular & not misleading."

2. Duty to report - Sec 143(2) and (3): The auditor's report shall state:

- "a) sought & obtained all info & expl necessary for purpose of audit & if not, details & effect of such info on the FS;
- b) proper books of account as required by law kept by co
- c) report on accounts of any branch office of co audited by other person sent to him under proviso to that sub-section & manner in which he has dealt with it in preparing his report;
- d) BS & PLA/c are in agreement with books of account and returns;
- e) FS comply with accounting standards;
- f) observations of auditors on financial transactions or matters which have any adverse effect on the functioning of the co;
- g) any director disqualified from being appointed as director under sub-section (2) of the section 164;
- h) any qualification, reservation/adverse remark relating to maintenance of accounts & other matters connected therewith;
- l) co has adequate IFC with reference to FS in place & operating effectiveness of such controls;
- j) Other matters as prescribed"
- "- Co disclosed impact of pending litigations in its FS;
- Co made provision, as required under any law/A/c standards, for material foreseeable losses, if any, on long term contracts including derivative contracts;
- Any delay in transferring amts to IEPF
- a) Mgt represented that no funds advanced/loaned/invested by co to/in any other person/entity, Intermediary shall lend/invest in other persons/entities or provide any guarantee, security/like on behalf of Ultimate Beneficiaries;
- b) Mgt represented that no funds received by co from any person co shall lend/invest in other persons or entities or provide any guarantee, security/the like on behalf of Ultimate Beneficiaries
- c) Based on audit procedures nothing has come to notice that has caused auditor to believe that representations under above sub-clause contain any material misstatement.
- Dividend declared/paid in compliance with section 123"

Removal of Cost Auditor:

"Auditor removed before expiry of term, through a BR after giving reasonable opportunity of being heard & recording reasons for removal in writing. Form CRA-2 to be filed with CG for intimating appointment of another cost auditor enclose relevant BR to effect. Above provisions not prejudice right of auditor to resign."

Cost Audit not to apply in certain cases:

- "I) revenue from exports, in foreign exchange, exceeds 75% of its total revenue; or
- ii) which is operating from a SEZ.
- iii) engaged in generation of electricity for captive consumption"

3. Duty to sign audit report

4. Duty to comply with auditing standards

5. Duty to report frauds - Refer Ch 5

6. Duty to report on other matters to CG

7. Duties and Powers of the company's auditor with reference to the audit of branch and the branch auditor

8. Duty to state reason for qualification

Who can be cost auditor

Cost Accountant appointed by BOD; no person appointed u/s 139 shall be appointed for conducting audit of cost records; Auditor conducting cost audit comply with cost AS.



CHAPTER 12 - AUDIT OF ITEMS OF FINANCIAL STATEMENTS



Assertions

Representations by mgt embodied in FS, as used by auditor to consider diff types of potential misstatements that may occur

Income Statement	Balance Sheet	Presentation & disclosure
Occurrence	Existence	Occurrence & existence
Completeness	Completeness	Completeness
Measurement	Valuation	Measurement & Valuation
Accuracy	Rights & Obligations	
Classification		

Share Capital

- "- Compare PY balance to CY
- If no change, obtain WR there were no changes during the year.
- If change, obtain copies of relevant resolutions.
- Obtain copy of Form SH 7 & Form PAS 3 & verify no of securities issued along with the issue price.
- Verify paid-up capital within limits of authorised capital."

Issue if shares at premium

"Verify premium transferred to a ""securities premium account"" and application of amount is only for the purposes mentioned u/s 52."

Issue if shares at discount

- "- Co can't issue shares at discount as per Sec. 53, except in case of sweat equity shares u/s 54.
- Co contravenes provisions of sec 53, co punishable with fine 1L - 5L & Every officer is in default punishable with imprisonment upto 6M or with fine 1L-5L, or with both.
- Verify co not issued any of its shares at a discount by reading minutes of meeting"

Reduction of capital

- "- Verifying SR passed; Check AOA authorizes the reduction; Inspect ROC Certificate
- Examine Tribunal Order for reduction & ensure copy of order & minutes filed with ROC.
- Vouching JE recorded
- Ensure requirements of Schedule III w.r.t. reduced capital have been complied with.
- Confirming revaluation of assets properly disclosed in the BS.
- Confirming words ""& reduced"" added to name of the co in the Balance Sheet."

Audit of Borrowings

- "- Ensure that loans obtained are within the borrowing powers.
- Examine imp terms in agreements
- Where entity accepted deposits, auditor examine directives issued by RBI or other appropriate authority are complied with.
- Obtain certificate from bank showing balance in the accounts as at end of the year

(Confirmation procedure)

- Reconcile balances in overdraft/loan account with that shown in bank statements.
- Verify loan/draft raised by appropriate authority.
- Confirm, in case of co, that conditions prescribed in Sec. 180 are complied with
- Ascertain purpose of loan raised & manner in which it has been utilised"

Audit of cash and cash equivalents

"Cash balance:

- Carry out physical verification of cash
- Surprise verification of cash
- Verify all cash balances in same location simultaneously.
- If IOUs found, obtain explanations for such IOUs remaining pending.
- Examine quantum of torn/mutilated notes
- If entity is maintaining unduly large balance of cash, carry out surprise verification of cash more frequently."

"Cash at Bank:

- Direct confirmation from bank
- Examine BRS to identify reconciling items
- Pay special attention to items in reconciliation statements which are o/s for unduly long period.
- Where large no of cheques issued/deposited in last few days, & has remained unpaid/uncleared, may indicate intention of understating creditors/ debtors or bank balances.
- For FDs, relevant receipts/certificates, duly supported by bank advices, should be examined.
- Where amts held in bank accounts blocked, the auditor examine relevant facts suitably disclosed"

"Special considerations in case of WIP

- '- Auditor - examine production/costing records; hold discussions with personnel concerned, and obtain expert opinion, where necessary.
- If physical verification impracticable, auditor lay greater emphasis on ascertaining whether the system, from which the WIP is ascertained, is reliable."

"Verification of goods on consignment

- Vouch Proforma invoice sent with goods to ascertain the quantity & value of goods sent.
- Freight evidences given by transporter like Challan, Bill, Receipt for freight charged.
- Insurance charge to be verified from cover note & premium paid receipt
- Account sale sent by consignee, referring to sale price of the goods sold, expenses incurred by him & stock remained unsold.
- Obtain confirmation from consignee for goods held on consignment.
- Unsold goods taken in cl stock valued properly inclusive of expenses incurred by consignee.
- JEs relating to such transaction be verified from the books of the Company."

Audit Procedures on Patent

- "- Obtain list of patents & verify ownership by inspection of certificate
- Examine agreement if it has been so as to find out the total cost.
- In case of outright purchase, purchase consideration, legal fees & registration charges included in cost. When they are developed within org, all costs incurred on their development including legal & registration expenses for registration of patent should constitute cost.
- Check that the patent rights are alive and legally enforceable.
- Check that renewal fees paid on due dates & being charged to revenue.
- Ascertain rate at which value of each patent is being written off is adequate
- Ascertain only the actual cost incurred in the process has been capitalised."

Classification of liability

"A liability classified as current when it satisfies any of the following criteria:

- expected to be settled in the company's normal operating cycle;
- held primarily for the purpose of being traded;
- due to be settled within twelve months after the reporting date; or
- No unconditional right to defer settlement of liability for at least 12 months after reporting date."

Audit of revenue

- "- Identify the control points over sales.
- Tests identified controls to determine how strong & reliable they are. If controls assessed as strong, the auditor can reduce the amount of substantive testing.
- Selects a random sample of transactions & examines related supportings
- Performing substantive audit procedures like vouching and analytical procedure
- Examine basis of recognition of revenue is in accordance with AS 9, Revenue Recognition.
- Examine entity has instituted adequate cut-off procedures in relation to sales & sale returns
- Examine selected entries in sales return journal w.r.t receiving reports, CN etc
- In respect of goods sent on approval, examine that revenue is not recognised until: goods formally accepted; buyer done an act adopting transaction; time period for rejection elapsed
- In respect of sales to intermediate parties, examine revenue from such sales isn't recognised until significant risks & rewards of ownership have passed."

AUDIT OF RESERVES & SURPLUS

Reserves	Provisions
appropriation of profit	charge against Profit.
Not intended to meet any liability, contingency/diminution in value of assets	Made to provide for depreciation, renewal or a known liability or a disputed claim
Can't be created unless there is a profit except a few like revaluation reserves	They must be created whether or not there is profit
Generally optional except few ones like CRR	have to be made as per GAAP

Audit Procedures

- "- Compare opening balance of reserves & surplus to the PY audited FS
- For addition/utilisation in CY, in case of:
 - P/L balance: Trace movement to Surplus/Deficit as per SPL. For adjustment related to d/d payment, verify relevant resolution regarding declaration of dividend.
 - Share Premium: Confirm co issued any shares during year at premium. Ensure any withdrawal from securities premium account is in compliance of Sec. 52.
 - Other Equity: Understand underlying reason for transaction."

Audit of Trade Receivables

- '- Carry out examination of relevant records
- Check agreement of balances shown in TR schedule with those in ledger accounts.
- in case of significant TR, auditor examine correspondence/other documentary evidence to satisfy himself about their validity & accuracy.
- Inspect proper authorisation in respect of bad debts written off/excessive discounts or unusual allowances made.
- Examine contingent liability is properly disclosed.
- Direct confirmation procedure and analytical procedure

Audit of Inventories

Examination of records: Examine stock records w.r.t relevant basic documents like GRN, inspection reports, material issue notes etc. If entity not maintain detailed stock records, suitably extend extent of application of other audit procedures.

"Attendance at stock taking:

- Auditor attend stock taking, if inventory value is material in his opinion.
- Extent of participation in inventory taking depends upon the IC system prevailing, results of examination of inventory records and analytical review procedures.
- Test check few high value items by himself for their existence & quantum.
- Physical conditions of stock are looked into by auditor.
- Reviews stores records & notes down discrepancies for reconciling them
- Cut off procedure to ensure that entity accounts for stock for which liability had been booked and excludes stock which had been sold."

"Analytical Procedures: Auditor may apply following analytical review procedures:

- Reconciliation of quantities of op stocks, purchases, production, sales & cl stocks
- Comparison of cl stock quantities & amts with those of PY
- Comparison of relationship of CY stock quantities & amts with CY sales & purchases, with corresponding figures for PY
- Comparison of composition of cl stock with corresponding figures for PY
- Comparison of CY GP ratio with GP ratio for PY
- Comparison of actual stock, purchase & sales with corresponding budgeted figures
- Comparison of yield with corresponding figure for the PY"

Audit Procedures on Goodwill

- "- Ensure that goodwill recognized in books in compliance of AS 26.
- Examine vendors' agreement to ascertain the amount of goodwill.
- Ensure business is acquired at a price in excess of value of net assets taken over, such excess amount is the goodwill.
- Only amt paid to vendors not represented by tangible/intangible assets, value of which can be measured reliably has been debited to goodwill account.
- Ensure goodwill not recognised in books by revaluation of assets/writing back amt of goodwill earlier written off.
- Ensure goodwill not yet written off properly disclosed as per Schedule III
- Ensure amortisation of goodwill over a reasonable period"

Audit Procedure on Trade Mark and Copyright

- "- Obtain signed schedule & confirm all of them are shown in BS.
- Examine agreement in case of assignment of Copyrights/transfer of trade marks
- Ensure trademarks & copyrights have been duly registered under respective laws.
- Verify existence of copyright by reference to contract bw author & entity
- See value determined properly & costs incurred for purpose of obtaining trademarks & copyrights have been capitalised.
- Ascertain legal life of trademarks & copyrights not expired.
- Ensure amt paid for both IA properly amortised"

Audit of other income**"1. Interest on Fixed Deposits**

- Obtain list of FDs along with applicable interest rate & number of days
- Verify arithmetical accuracy of interest calculation
- For deposits o/s at year end, obtain confirmation from bank/financial institution
- Obtain confirmation of interest income from bank & verify that interest income as per bank reconciles to calculation shared by entity.
- Obtain copy of Form 26AS & reconcile interest reflected to calculation

2. Dividend Verify dividend is recognised in SPL only when entity's right to receive payment of dividend established.**3. Gain (Loss) on sale of investment in Mutual Funds**

- Verify that Gain/(loss) on sale of investment in MF recognised as other income only on transfer of title & determined as difference bw redemption price & carrying value
- Obtain MF statement & trace gain/loss "

Audit of Tangible Fixed Assets

- "- Examine related records & perform physical verification.
- Consider appropriateness of a/c policies
- Ensure entity capitalised assets as per component approach
- Opening balance to be reconciled with PY audited FS
- Capital WIP verified w.r.t underlying contractor bills, work orders etc
- Acquisition of new PPE & improvements to existing ones should be verified w.r.t supporting documents such as orders, invoices, receiving reports and title deeds etc. Due care to be taken when purchase from a related party."

Audit of Intangible Fixed Assets

- "- Ensure intangible asset recognised only if
 - (a) probable future economic benefits will flow to enterprise; &
 - (b) cost of asset can be measured reliably.
- At initial stages, IA measured at cost. After initial recognition IA carried at its cost less any accumulated amortisation & any impairment losses.
- Ensure if an item does not meet definition of IA, expenditure to acquire it or generate it internally is recognised as an expense when it is incurred.
- In some cases, asset may incorporate both intangible & tangible elements inseparable. Ensure that in determining whether such an asset should be treated under AS 10 or AS 26 appropriate judgment taken
- Ensure proper disclosure is made in the FS"

Audit of Trade Payables and Other current liabilities

- "- Check adequacy of cut-off procedures adopted by the entity
- Examine correspondence & other relevant documentary evidence
- In case of any unusual payments around year-end, examine them thoroughly
- Review subsequent transactions to identify/ confirm material liabilities o/s
- Confirmation procedures and analytical procedures"

Audit of loans and advances and other current assets

- "- Examine entity is empowered to make loans
- Examine loan document & other evidence to examine terms & conditions
- Ascertain parties complied with terms & conditions of loans & advances- In case of defaults, Consider these are indicative of unwillingness or inability of parties concerned to make payment.
- Pay particular attention to loans & advances given to parties in whom directors/persons who are substantial owners of the entity are interested."

Audit of Purchases

- "- Identify control points over purchases.
- Tests identified controls to determine how strong & reliable they are. If controls are assessed as strong, auditor reduce amount of substantive testing.
- Selects random sample of transactions & examines related documents.
- Performing substantive audit procedures like vouching & analytical procedure"

"Analytical Procedures:-

Consumption Analysis: Examine consumption of RM & compare it with PY & ask for reasons for any significant variations noticed.

- **Stock Composition Analysis:** Collect reports for composition of stock & compare it with PY & ask for reasons for any significant variations noticed.
- **Ratios:** Compare creditors & stock turnover ratios of CY with PY
- **Quantitative Reconciliation:** Review quantitative reconciliation of cl stocks with opening stock, purchases and consumption."

Classification of assets

"Asset classified as current when it satisfies any of the following criteria:

- a] expected to be realized/intended for sale/consumption in co's normal operating cycle
- b] held primarily for the purpose of being traded;
- c] expected to be realized within twelve months after the reporting date; or
- d] cash/cash equivalent unless restricted from being exchanged/used to settle a liability for at least 12 months after reporting date. All other assets shall be classified as non-current."

Audit of provisions and contingent liabilities

- "- Obtain a list of all provisions and compare them with balances in the ledger.
- Inspect underlying arrangements
- Obtain underlying working & basis & verify whether same is complete and accurate.
- Review minutes of meetings of the Board of Directors or other similar bodies.
- Review list of pending law suits & obtain opinion of lawyer dealing with cases.
- Review of records relating to contingent liabilities maintained by the company.
- Review of terms and condition of grants and subsidy availed."

Audit of employee benefit expense

- "• Obtain understanding of process of recording employee attendance.
- Obtain list of employees along with a monthly movement
- In case of new employees, select few cases & obtain appointment letter & verify salary for first month & subsequent months was processed as per agreed terms
- In case of employees resigned, select few cases & obtain their full & final computation & verify all their dues have been paid
- Obtain monthly salary registers. Compile monthly payroll reasonability by calculating average salary per employee per month & compare with PY & preceding month.
- Verify provision made for all employee benefits & obligations
- In case PF, ES applicable, determine reasonable amt by applying the rate to basic wages & comparing to amount recorded in books & analyse reasons for variance, if any."

Audit of depreciation and amortization

- "- Understand & evaluate adequacy & effectiveness of IC regards accounting, maintenance & safeguarding of FA & proper distinction made bw capital & revenue expense
- Check the amt of depreciation accurately calculated
- Ensure cocomplied with requirements of AS 10
- Ensure provisions of Section 123(1) complied with by the company.
- Perform analytical procedures to obtain audit evidence as to overall reasonableness of depreciation & amortisation expense."

Purpose of depreciation

a) To provide funds for replacement of assets	b) To determine true cost of goods
c) To determine the profit or loss for the year	d) To show a true and fair value of entity's assets in the balance sheet

Audit of Other expense**"1. Rent expense**

- Obtain month wise schedule of rent payment along with rent agreements.
- Examine rent expense recorded for all 12 months & rent paid is as per agreement.
- Examine agreement contains any escalation clause, if yes, verify rent increased/adjusted during period only as per escalation clause.
- Verify expense pertains to premises used for running business operations of the entity."

"2. Power and fuel expense

- Obtain month wise expense schedule of power & fuel along with power bills.
- Examine whether expenses have been recorded for all 12 months.
- Compile month wise summary of power units consumed & applicable rate & check arithmetical accuracy of the bill raised on monthly basis.
- Analyse monthly power units consumed by linking it to units of FG produced & investigate reasons for variance in monthly trends.

3. Legal and professional expenses

- Obtain a month wise and consultant wise summary.
- In case of monthly retainer ship agreements, verify whether expenditure for all 12 months recorded correctly.
- For non-recurring expenses, select sample & vouch for assertions.
- Special focus given while vouching for legal expenses same may highlight dispute for which entity not made any provision

4. Travel, repair and maintenance, printing and stationery, miscellaneous expenses

- Select sample & vouch for occurrence, completeness, measurement & disclosure
- Wherever possible, auditor prepare summary of expenditure on monthly basis & then analytically compare trends.
- In addition, auditor perform analytical procedures
- Analyse expense per unit produced & compare same with PYs & ask for reasons from Management If any significant variations are found."

CHAPTER 13 - AUDIT OF DIFFERENT TYPES OF ENTITY

Government Audit

Meaning : Objective, systematic, professional & independent examination of financial, admin & other operations of public entity for evaluating & verifying them.

Power of CAG

"General powers: inspect any office of accounts under control of Union/State Govt; require that any accounts, books, papers & other documents sent to specified places;

can put such question as he may consider necessary; call for such info as he may require "

"Directions by CAG to Auditor [Sec 143(5)]: CAG direct auditor manner in which accounts required to be audited; Auditor submit copy of audit report to CAG Report include directions issued by CAG, action taken & its impact on accounts and FS of the company."

"Supplementary audit report [Sec 143(6)]: CAG within 60 days from date of receipt of report, have following rights:

- Order conduct of supplementary audit
- Comment upon/supplement report
- Any comments/supplement sent by co to every person entitled to copies of audited FS"

Test Audit [Sec 143(7)]: CAG cause test audit

Function of govt audit performed by CAG

Duties of CAG

- Compile & submit accounts
- Audit receipts & expense of entity substantially financed from consolidated fund
- Audit grants & loans
- Audit receipts/expense of consolidated fund
- Audit accounts of govt co's & corporations
- Submission of accounts

Audit of Partnership firms

Advantages

- "- Audited accounts reliable means of settling accounts bw partners
- Audited accounts accepted by IT Dept as basis for computing assessable income
- Relied upon by banks when advancing loans.
- Helpful in negotiations to admit a partner.
- Effective safeguard against undue advantage being taken by working partner."

Audit of local bodies

Financial admin and budgetary procedure

"Budget preparation determining levels of taxation, rates & ceilings on expense. Objectives of local bodies budgetary procedure are:

- Financial Accountability.
- Control of expenditure, &
- Ensure funds raised & money spent in accordance with rules & regulations."

Objectives of audit of local bodies

- "- Reporting on fairness of content & presentation of FS
- Reporting upon strengths & weaknesses of systems
- Reporting on adherence to legal & admin requirement
- Reporting upon value being fully received on expense
- Detection of error, fraud & misuse of resources."

Audit consideration for audit of partnership firm

- "- Confirming that letter of appointment clearly states nature & scope of audit.
- Studying minute book.
- Verifying that business is authorised by the deed"

Audit of NGO

Sources of Funds

- "• Grants & donations, fund raising programmes, advertisements, subscriptions, gifts etc.
- Donations received in nature of capital receipts shown as liabilities
- In the form of corpus contribution or contribution towards revolving fund."

Audit Programme

- "• **Corpus Fund:** The contributions/ grants examined w.r.t letters from the donor.
- **Ear-marked Funds:** Check requirements of donors, BR of NGO & rules & regulations of schemes of the funds.
- **Programme & Project Expenses.** Verify agreement with donor/contributor supporting particular programme / project.
- **Contributions & Grants:** Check agreements with donors & grants letters
- **Receipts from fund raising programmes:** Verify in detail IC system & obtain confirmations from persons responsible for collection of funds & mode of receipt."

Audit of various items under govt audit

Expenditure Audit

Audit of rules & orders

- "- To ensure expenditure is in accordance with:
 - a) relevant provisions of Constitution & of laws & rules
 - b) Rules, regulations issued by CAG.
 - c) Orders of, or rules made by, any higher authority."

Audit against provision of funds

- "Ensure whether expense:
- a) made for purpose to which grant has been provided.
 - b) Does not exceed the appropriation made."

Propriety Audit

- "- Auditor examine cases of improper expense even though expense incurred as per existing rules & regulations.
- Auditor examine public financial morality by looking in to the wisdom, faithfulness & economy of transactions.
- No hard & fast rules laid down regarding standards of financial propriety- Auditor examine that :—
 - a) Authorities made expense with same degree of vigilance, as a person of ordinary prudence would exercise in respect of his own money.
 - b) Expense not prima facie more than occasion demands.
 - c) No authority exercises its power of sanctioning expenditure which will accrue to its own advantage.
 - d) Public money not utilised for benefit of a particular person /section of community."

Audit of sanctions

- "- To ensure the expenditure is: Covered by a sanction and Sanctioned by appropriate authority
- Thus auditor should consider following:
 - a) knowledge of sanctioning powers of various authorities
 - b) Examine all sanctions adequately noted
 - c) For petty expense, signature of competent authority on a bill can be regarded as a sanction"

Performance Audit

- "- Ensure govt programmes achieved desired objectives at lowest cost & given intended benefits.
- Performance audit includes efficiency, economy & effectiveness audit.
- **Efficiency Audit:** Examine various schemes/projects executed, & operations carried out in efficient manner, & yielding expected results.
- **Economy Audit:** Examine govt acquired financial, human & physical resources in economical manner, & sanctioning & spending authority have observed economy.
- **Effectiveness Audit:** Examine programmes & projects performing well & Overall targeted objectives achieved."

Audit of LLP

Applicability of audit (Rule 24)

LLP, whose t/o doesn't exceed, in any FY, 40L or whose contribution doesn't exceed 25L, isn't required get accounts audited.

Appointment of auditor

Appointed for each FY

If designated partners failed to appoint

Partners may appoint auditor

Tenure of auditor

- "hold such office till the period —
- a) New auditors are appointed, or
 - b) They are re-appointed."

Annual Return

LLP required to file AR in Form 11 with ROC within 60 days of closer of FY.

Appointment of designated partners

- "- At any time for first FY but before end of first FY
- At least 30 days prior to end of each FY (other than first FY),
- To fill casual vacancy in office of auditor
- To fill up vacancy caused by removal of auditor."

Audit of Charitable Institution

- "- Examine donations received shown in cash book w.r.t copies of receipts issued.
- Check periodic internal report w.r.t. donations received during that period
- Donation may also be received in kind, ensure their proper recognition in books of account.
- If any grant received for some particular purpose, examine same has been utilised for designated use only.
- Compare other expenses like stationery telephone etc. with those of previous year"

Audit of educational institution

- "- Check admission fee amt credited to a separate account. Refundable money shown as liabilities.
- Check demands for fee raised against all students.
- Ascertain amts demanded from student are as per rates specified according to their course.
- Check authorization for fee concessions.
- Ensure that in case of late payment of fee, fine properly imposed, collected & accounted for
- Donations of two types - specific/general use. Check recording of such amt in separate accounts
- Verify grant from govt or any local authority with reference to sanction letter."

Audit of Club

- "- Entrance Fee: Vouch receipt with members' applications, counterfoils issued to them
- Subscriptions: Vouch members' subscriptions with supportings issued
- Arrears of Subscriptions: Arrears of subscriptions for PY correctly brought over & arrears for CY correctly adjusted
- Irrecoverable Member Dues: See Register of Members to ascertain Member's dues in arrear & enquire necessary steps taken for their recovery
- Pricing: Verify internal check regards members charged for foodstuffs & drinks provided and fees chargeable for special services rendered, such as billiards, tennis, etc.
- Member Accounts: Trace debits from subsidiary registers to members to confirm that account of every member has been debited with amounts recoverable from him."

Audit of leasing companies

- "• Ensure provisions of laws & regulations compiled with
 - Examine compliance with AS 19
 - Study MOA & AOA of Co.
 - Check BR authorizing lease agreement
 - Examine lease proposal form submitted by lessee
 - Study lease agreements
 - Copies of insurance policies should also be examined.
 - Examine invoices for purchases of assets given on lease & check whether leasing company proper title over asset.
 - Examine lease-rentals properly accounted for.
 - Ensure transaction in regard to 'Sale and Lease back' properly identified & disclosed in accounts
 - Ascertain adequacy of provisions for debts against lessees"

Audit of hospitals

- "- Register of Patients : Vouch Register of patients with bills issued to them.
- Collection of Cash: Check cash collections as entered in Cash Book with receipts, counterfoils & other evidence
- Legacies and Donations: Ascertain legacies & donations received for specific purpose applied in manner agreed
- Authorisation & Sanctions: Verify capital expense incurred only with prior sanction of authorised person
- Grants & TDS: Verify that grants duly accounted for. Refund in respect of TDS claimed.
- Budgets: Compare totals of various items of expense & income with amount budgeted for them"

Audit of hire purchase companies

- "- Examine HP agreement in writing & signed by all parties.
- Hire purchase agreement specifies clearly
 - a) Hire-purchase price of goods to which agreement relates;
 - b) Cash price of goods
 - c) Date on which agreement deemed to have commenced;
 - d) No of instalments & date
 - e) Goods to which agreement relates
- Ensure instalment payments received regularly"

Audit of Cinema Hall

- "- Study minutes of meetings of governing body/trustee to gain knowledge of any imp decision
- Check tickets to be issued are serially numbered & kept in proper custody.
- Perform compliance procedures to check there is strict IC on entry to cinema hall
- Check IC w.r.t. issuance of free passes.
- Check internally generated daily report with no of tickets sold for each category
- Reconcile total entertainment tax collected with total no of tickets sold for each category.
- Study agreement entered into for advertisement
- Ascertain whether income w.r.t slides shorts exhibited properly recognised & collected
- Study agreement entered into by cinema hall with restaurant run in the premises.
- Check collection of share in restaurant income."

Audit of Hotel

- "- Study daily occupancy report prepared by mgt
- Ensure properness of billing. Also verify appropriate rates charged according to category of rooms
- Check bills raised to all parties listed in guest register. In case it is not so, obtain Reconciliation.
- If receipts in foreign currency, ensure compliance with FEMA.
- Examine few bills issued to customers to ensure their correctness.
- In case, hotel provides banquet hall for various functions, study tariff structure.
- Ensure correctness of billing for letting out banquet hall.
- In case spaces let out to shopkeepers/travel agencies, check agreement entered into with them.
- Normally hotels pay commission to various travel agents. Inspect agreement entered into
- Ensure appropriateness of accounting of commission in correct account & period.
- Ensure room addition expenses/major additions to hotel buildings properly capitalised.
- However, redecoration & daily maintenance charged to revenue."

AUDIT OF CO-OPEARTIVE SOCIETIES**Appointment of Auditor
By Registrar****Qualification of Auditor**

CA + persons holding govt diploma in co-operative accounts/in co-operation & accountancy & also person served as an auditor in co-operative department of govt

Restriction on loans (Sec 29)

Registered society not make loan to any person other than member. With special sanction of Registrar, registered society may make a loan to another registered society

Examination of overdue debts

Overdue debts for period from 6 months to 5 years and more than 5 years to be classified & reported by an auditor. Auditor to ascertain proper provision for doubtful debts made

Audit Questionnaires

"Auditor to answer 2 sets of questionnaires called as audit memos:-

- First set of general nature & applicable to all types of societies.
- Second set is specific for particular type Generally audit report as per convention divided into two parts styled as part I & part-II:-
 - Part I throws light on comparative financial position, capital structure, solvency position & profitability. Contain comments on working of society & suggestions for future improvements.
 - Part II points out observations of routine nature, which are finished products of routine vouch & post audit such as missing vouchers, loan bonds, inadequacies of documents etc."

Appropriation of profit (Sec 33)

"Prescribed % of profit transferred to Reserve Fund before distribution as dividend/bonus to members"

Investment of funds (Sec 32)

"Society may invest its funds in any one or more of following:

- a. In Central or State Co-operative Bank
- b. In any of securities specified in section 20 of Indian Trusts Act, 1882
- c. In shares, securities, bonds or debentures of any other society with limited liability.
- d. In any co-operative bank, other than Central/State co-operative bank, as approved by Registrar
- e. In any other moneys permitted by Central or State Government."

Adherence to Co-opeartive principles

"Auditor ascertain in general, how far objects, for which organisation is set up, achieved. Considered from viewpoint of social benefits may be looked into how far sales could be affected at lower prices. While auditing expenses, auditor see that they are economically incurred & there is no wastage of funds."

Special report to registrar

"If auditor notices some irregularities in working of society, report these to the Registrar. In following cases, a special report may become necessary:

- Personal profiteering by members detrimental to interest of society.
- Detection of fraud
- Specific examples of mis-management
- In case of urban co-operative banks, disproportionate advances to vested interest groups, & deliberate negligence about recovery thereof"

Restrictions on shareholding (Sec 5)

Where liability of member limited, no member of society other than registered society hold portion of share capital of society as would exceed a maximum of 20% of total no of shares or of the value of shareholding to 1,000/-.

Registered society may, with sanction of Registrar, contribute an amt not exceeding 10% of net profits remaining after compulsory transfer to reserve fund for any charitable purpose

- "a. Whether he obtained all necessary info & explanations which were necessary for purpose of audit.
- b. In his opinion & to best of his info & according to explains, said accounts give all info required by Act.
- c. PLA/c gives true & fair view of Profit & Loss made
- d. BS gives true & fair view of state of affairs
- e. Proper books of account as required properly maintained.
- f. Whether BS and PLA/c in agreement with books of account"

"In addition, auditor attach schedules regards following info:

1. All transactions which appear to be contrary to 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."

Multi State Co-operative Society (MSCS)

Content of Auditor's report [Sec 73(3) & (4)]

"In his opinion & to best of his info & according to explanation given, said account give info required & give a true & fair view :

- a. In case of BS, of state of society's affairs as at end of its FY; &
- b. In case of PL, of PL for its FY. The report shall also state:
 - He obtained all info & explanation necessary for audit
 - Proper books of account kept by the society so far as appears from examination of books & proper returns received from branches or offices not visited by him.
 - Report on accounts of any branch audited by person other than him forwarded to him & how he dealt with same
 - Society's BS & PLA/c in agreement with books of account & return
 - Where any matters answered in negative, the auditor's report shall state reason"

Books of accounts

"Every MSCS keep books of account with respect to-

- a. all sum of money received & expended & matters in respect of which receipt & expenditure take place;
- b. all sale & purchase of goods;
- c. the assets & liabilities;
- d. in case of MSCS engaged in production, processing & manufacturing, particulars relating to utilization of materials or labour or other items of cost"

Appointment of Auditor (Sec 70)

- "- First auditor: by BOD within 1 month of date of registration & hold office until conclusion of first AGM
- If BOD fails, society in GM may appoint first auditor
- Subsequent auditor appointed by society, at each AGM. Hold office from conclusion of that meeting until conclusion of next AGM."

Qualification of auditor (Sec 72)

"CA. Persons not eligible for appointment as auditors:

- a. A body corporate
- b. An officer/employee of the society
- c. A person member/who is in employment, of an officer or employee of society
- d. A person indebted to the society or has given any guarantee or provided any security of any third person to the society for an amount exceeding 1,000"

Inquiries by auditor [Sec 73(2)]

- "a. Loans & advances made on basis of security properly secured & terms not prejudicial to interests of society
- b. Transactions represented merely by book entries not prejudicial to interests of the society
- c. Personal expenses charged to revenue account, and
- d. It is Stated in books & papers of the society any shares allotted for cash, cash has actually, been received & if no cash received, position as stated in account is correct"

Powers of CG to direct special audit (Sec 77)

Affairs Not Managed in Accordance With, Prudent Commercial Practices

Financial Position its such as would endanger its Insolvency

Managed as it would Cause Injury to Interest of Trade or Industry or Business

- "1. CG at any time by order direct that a special audit of the society's accounts for such period as may be specified
2. CG order for special audit only if Govt hold 51% or more of paid-up share capital in such society.
3. Special auditor same powers & duties as an auditor has under section 73. Special auditor make report to CG.
4. On receipts of report CG take such action as it considers necessary. If CG does not take any action within 4 months, govt send to the society copy of, or relevant extract from, there port with its comments thereon & require the society either to circulate that copy to members or to have such copy or extracts read before the society at its next GM"

Basis	Inquiry by central res=gistrar (Sec 78)	Inspection of society (Sec 79)
When	On are quest from: federal co-operative to which society is affiliated or a creditor or not less than 1/3 of members or not less than 1/5 of total no of members	
How	Hold inquiry/inspection into constitutions, working & financial condition of the society	
Opportunity of being Heard	Before holding such inquiry/inspection 15 days notice must be given to the society	
Powers given	"a. Access to books, accounts, documents, securities, cash & other properties & summon any person in possession/responsible for custody of any such thing b. Require officers to call GM by giving notice of not less than 7 days & place at head quarters to consider such matters as may be directed, and where officers refuse to call such a meeting, he have power to call it himself. c. Summon any person reasonably believed to have any knowledge of affairs of the society to appear before him"	"a. Access to all books, accounts, papers, vouchers, securities, stock & other property of society & in event of serious irregularities discovered take them into custody & have power to verify cash balance & to call a meeting where such GM is, in his opinion necessary. b. Every officer or member shall furnish such info with regard to working as the central registrar or the person making such inspection may require."
Others	Follow up: Central Registrar with in a period of 3 months communicate report of inquiry to the society	Inspection Report: Copy of report of inspection communicated to the society within 3 months from date of completion of such inspection.

CHAPTER 14 - BANK AUDIT

Types of Banks

Commercial Banks: most wide spread banking institutions, that provide no of products & services. Two of its main functions are - accepting deposits and granting advances.

Regional Rural Bank: Banks set up in rural areas to cater to basic banking & financial needs of rural communities.

Co-operative Bank: function like Commercial Banks but set up on basis of Cooperative Principles & registered under Cooperative Societies Act of the respective state or MSCS Act

Payments Bank: New type of banks. Allowed to accept restricted deposits but cannot issue loans & credit cards.

Development Banks: Conceptualized to provide funds for infrastructural facilities

Small finance Banks: Set up to make available basic financial & banking facilities to unserved & unorganised sectors

Types of report to be issued

- Report on adequacy & operating effectiveness of ICFR
- LFAR
- Report on compliance with SLR
- Report on treasury operation of bank
- Report on whether income recognition, asset classification & provisioning made as per guidelines issued by RBI
- Report on whether any serious irregularity noticed in working

Regulatory Authority - RBI

- "RBI is responsible for
- Development & supervision of constituents of Indian financial system
 - Determining monetary & credit policies keeping in with the need of the hour.
 - Regulating activities of banks"

Types of banks on basis of level of computerisation

- Non computerised
- Partially computerised
- Fully computerised

Engagement team (ET) discussion

- "ET hold discussions to gain better understanding of bank & its environment, including IC & also to assess potential for material misstatements of FS. The discussion provides:
- Opportunity for more experienced members to share their insights
 - Opportunity for members to exchange info about bank's business risks.
 - An understanding amongst members about effect of results of RAP on other aspects of audit"

"ET discussion ordinarily includes a discussion of following matters:

- Errors that may be more likely to occur;
- Errors which have been identified in prior years;
- Method by which fraud might be perpetrated
- Audit responses to Engagement Risk, Pervasive Risks, & Specific Risks;
- Need to maintain professional skepticism throughout audit engagement;
- Need to alert for info/conditions indicates a material misstatement may have occurred"

ET discussion ordinarily includes a discussion of following matters:

- Errors that may be more likely to occur;
- Errors which have been identified in prior years;
- Method by which fraud might be perpetrated
- Audit responses to Engagement Risk, Pervasive Risks, & Specific Risks;
- Need to maintain professional skepticism throughout audit engagement;
- Need to alert for info/conditions indicates a material misstatement may have occurred

Appointment of Auditor

- "Auditor of banking co - appointed at AGM; of nationalised bank - appointed by BOD. In either case approval of RBI is required
- Auditors of SBI appointed by CAG in consultation with CG
- Auditors of subsidiaries of SBI to be appointed by SBI
- Auditors of RRB to be appointed by bank with the approval of CG"

Content of Audit report

"In case of nationalised bank, auditor required to make report to CG to state following:

- whether BS is full & fair BS containing all necessary particulars & properly drawn & in case he called for any info whether given & satisfactory
- Transactions within powers of
- Returns received from branches found adequate
- Other matter which he considers should be brought to notice of CG"

Accounts where there is erosion in value of security

- "Not follow stages of asset classification. straight-away classified as doubtful/loss asset:
- Realisable value of security is less than 50% of value assessed by bank at time of last inspection - classified under doubtful category
 - Realisable value of security, as assessed by bank less than 10% of o/s in borrowal accounts, - classified as loss asset. It may be either written off or fully provided for by the bank."

Agriculture advances

- | For long duration crops | For short duration crops |
|---|---|
| Instalment remains overdue for 1 crop season. | Instalment remains overdue for 2 crop seasons |

Audit of Advances

"Auditor primarily concerned with obtaining evidence about following:(a) Amts included in BS are o/s at date of BS(b) Advances represent amount due to bank.(c) Amts due to bank are appropriately supported by Loan documents (d) There are no unrecorded advances.(e) Stated basis of valuation of advances is appropriate & properly applied(f) Advances disclosed, classified & described in accordance with accounting policies (g) Appropriate provisions towards advances have been made as per the RBI norms"

Accounts regularized near about BS Date: should be handled with care & without scope for subjectivity. Where account indicates inherent weakness - deemed as a NPA.

Advances under Consortium: Based on record of recovery of respective individual member.

Long Form Audit Report (LFAR)		Initial consideration by stat auditors			
"Besides audit report as per statutory requirements, terms of appointment require auditors to also furnish LFAR. Matters in the LFAR specified by RBI.LFAR to be submitted before 30th June every year. Format of LFAR doesn't require executive summary to be given, members may consider providing same to bring out key observations."	Declaration of indebtedness		Planing		
	Internal assignment by auditor		Terms of engagement		
	Communication with previous auditor		Initial engagement		
	Assessment of risk	Establish engagement team			
	Understanding Bank & its environment				
Mode of creation of security		Prudential norms on income recognition, asset classification & provisioning			
Understanding Risk Mgt Process		Mortgage	Set off	NPA - An asset becomes NPA when it ceases to generate income for the Bank.	
a) Oversight & involvement in control process by TCWG		Pledge	Lien	"Out of order - An account treated as 'out of order' if o/s bal remains continuously in excess of sanctioned limit/drawing power. In cases there are no credits for 90 days as on BS date, these accounts should be treated as 'out of order'."	
b) Identification, measurement & monitoring of risks		Hypothecation	Assignment		
c) Control Activities		d) Monitoring Activities			
e) Reliable information system				Overdue - Amt due to bank is 'overdue' if it isn't paid on due date fixed by bank.	

Any income exceeds 1% of total income if the income is reckoned on a gross basis or one percent of the net profit before taxes if the income is reckoned net of costs, should be considered on accrual as per AS-9.

Audit of expenses

- "Obtain analysis of deposits o/s at end of each quarter. Work out weighted avg int rate. Compare this rate with actual average rate of interest paid as per annual accounts & enquire into diff, if material.
- Compare avg rate of int paid with corresponding figures for PYs & analyse any material diff
- On test check basis, verify calculation of int & satisfy himself that:
 - Int provided on all deposits up to BS date;
 - Int rates in accordance with bank's internal regulations
 - In case of FDs examine Int rate are in accordance with Rate mentioned in FD Receipt/ Certificate.
 - Int on Savings Account checked on test check basis
 - Int on inter-branch balances provided at rates prescribed by HO
 - Int on overdue/matured term deposits estimated & provided for."

Computation of drawing power (DP)

- "DP limit up to which a firm or co can withdraw from working capital limit sanctioned.
- Sanctioned limit is total exposure that bank can take on a particular client On the other hand, DP refers to amt calculated based on primary security less margin as on a particular date.
- All accounts kept within DP & sanctioned limit. Accounts exceed sanctioned limit/DP brought to notice of Mgt
- DP to be arrived based on current stock statement. Stock statements not be older than 3 months.
- Stock statements, quarterly returns & other statements submitted by borrower to bank be scrutinized in detail. Audited Annual Report submitted by borrower should be scrutinized properly.
- Ensured DP calculated as per guidelines formulated by BOD. Special consideration should be given to proper reporting of sundry creditors.
- Stock audit carried out by bank for all accounts having funded exposure of more than 5 crores."

Auditor can obtain SAAE about advances by:

- examining validity of recorded amts
- examining loan documents
- reviewing operation of accounts
- examining existence, enforceability & valuation of security;
- checking compliance with RBI norms

Audit of revenue items

- "When credit facility classified as NPA for first time, interest accrued & credited in PY not realized should be reversed
- Interest on advances against Term Deposits, NSCs, KVPs taken to income account on due date, provided adequate margin is available
- In case of bills purchased O/s at close of year discount received should be properly apportioned between the 2 years.
- In case of bills for collection, auditor examine procedure for crediting party on whose behalf bill collected."

Evaluation of IC over advances

- "Make advance only after satisfying as to credit worthiness of borrower
- All necessary documents executed by parties before advances are made.
- Compliance with terms of sanction & end use of funds should be ensured.
- Sufficient margin kept against securities taken
- Securities requiring registration registered in name of bank
- DP Register updated every month to record value of securities hypothecated."

CHAPTER 15 - CARO 2020

APPLICABILITY

Every co including a foreign company as defined in clause (42) of section 2 of the Companies Act, 2013 except-			
a) Banking co	b) Insurance co	c) Sec 8 co	d) OPC & small co
e) Private co, not being subsidiary/holding co of a public co, having a paid up capital & reserves & surplus not more than Rs. 1 crore as on BS date & which does not have total borrowings exceeding Rs. 1 crore from any bank/FI at any point of time during FY & which doesn't have a total revenue exceeding Rs. 10 crore during FY			

Para 3 of CARO 2020 (Reporting under CARO)	
Clause	Description
(i)(a)	(A) whether co maintaining proper records showing full particulars, including quantitative details and situation of PPE; (B) whether the co maintaining proper records showing full particulars of intangible assets;
(i)(b)	Whether these PPE physically verified by mgt at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether same have been properly dealt with in books of account
(i)(c)	Whether title deeds of all immovable properties disclosed in the FS held in the name of the co, if not, provide the details thereof as follows:- 1. Description of property 2. Gross Carrying Value 3. Held in the name of 4. Whether promoter, director or their relative or employee 5. Period held—indicate range, where appropriate 6. Reason for not being held in name of co
(i)(d)	Whether co revalued its PPE (including ROU assets) or intangible assets or both during the year and, if so, whether revaluation is based on valuation by a Registered Valuer; 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;
(i)(e)	Whether any proceedings initiated or pending against co for holding any benami property under Benami Transactions (Prohibition) Act, 1988 & rules made thereunder, if so, whether co appropriately disclosed the details in its financial statements;
(ii)(a)	Whether physical verification of inventory conducted at reasonable intervals by mgt & whether, in the opinion of auditor, the coverage & procedure of such verification by the management is appropriate; whether any discrepancies of 10% or more in the aggregate for each class of inventory were noticed and if so, whether they have been properly dealt with in the books of account;
(ii)(b)	Whether during any point of time of the year, the company has been sanctioned working capital limits in excess of five crore rupees, in aggregate, from banks or financial institutions on the basis of security of current assets; 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;
(iii)	Whether during year the co made investments in, provided any guarantee or security or granted any loans or advances in nature of loans, secured or unsecured, to companies, firms, LLP or any other parties, if so, -
(iii)(a)	"Whether during the year the co provided loans/provided advances in 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- (A) aggregate amt during the year, & balance outstanding at the BS date with respect to such loans or advances and guarantees or security to subsidiaries, joint ventures and associates;(B) aggregate amt during the year, & balance o/s 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;"
(iii)(b)	Whether investments made, guarantees provided, security given & terms and conditions of grant of all loans & advances in the nature of loans and guarantees provided are not prejudicial to the company's interest;
(iii)(c)	In respect of loans and advances in the nature of loans, whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;
(iii)(d)	If the amount is overdue, state the total amount overdue for more than ninety days, and whether reasonable steps have been taken by the company for recovery of the principal and interest;
(iii)(e)	Whether any loan or advance in nature of loan granted which has fallen due during the year, has been renewed/extended /fresh loans granted to settle overdues of existing loans given to same parties, if so, specify aggregate amt of dues renewed/extended/settled by fresh loans & percentage of aggregate to total loans or advances in nature of loans granted during year
(iii)(f)	Whether the company has granted any loans or advances in the nature of loans either repayable on demand or without specifying any terms or period of repayment, if so, specify the aggregate amount, percentage thereof to the total loans granted, aggregate amount of loans granted to Promoters, related parties as defined in clause (76) of section 2 of the Companies Act, 2013;
(iv)	In respect of loans, investments, guarantees, and security, whether provisions of sections 185 and 186 of the Companies Act have been complied with, if not, provide the details thereof;
(v)	In respect of deposits accepted by co or ams which are deemed to be deposits, whether the directives issued by RBI & provisions of sections 73 to 76 or any other relevant provisions of the Companies Act & rules made thereunder, where applicable, have been complied with, if not, nature of such contraventions be stated; if an order has been passed by Company Law Board or NCLT or RBI or any court or any other tribunal, whether the same has been complied with or not;
(vi)	Whether maintenance of cost records has been specified by CG under sub-section (1) of section 148 of the Companies Act and whether such accounts and records have been so made and maintained;
(vii)(a)	Whether co regular in depositing undisputed statutory dues including GST, PF, ESI, IT, sales-tax, service tax, duty of customs, duty of excise, VAT, cess and any other statutory dues to the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated;
(vii)(b)	Where statutory dues referred to in sub-clause (a) have not been deposited on account of any dispute, then amts involved & forum where dispute is pending shall be mentioned
(viii)	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;
(ix)(a)	"Whether the company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender, if yes, the period and the amount of default to be reported as follows:-1. Nature of borrowing 2. Name of Lender 3. Amount not paid on due date 4. Whether Principal or interest 5. No. of days delay or unpaid"
(ix)(b)	Whether the company is a declared wilful defaulter by any bank or financial institution or other lender;
(ix)(c)	Whether term loans were applied for the purpose for which the loans were obtained; if not, the amount of loan so diverted and the purpose for which it is used may be reported;
(ix)(d)	Whether funds raised on short term basis have been utilised for long term purposes, if yes, the nature and amount to be indicated;
(ix)(e)	Whether co taken any funds from any entity/person on account of/to meet obligations of its subsidiaries, associates or JVs, if so, details thereof with nature of such transactions and the amount in each case;

Para 3 of CARO 2020 (Reporting under CARO)	
Clause	Description
(ix)(f)	Whether co raised loans during the year on pledge of securities held in its subsidiaries, JVs or associate companies, if so, give details & also report if the company has defaulted in repayment of such loans raised;
(x)(a)	Whether moneys raised by way of IPO/FPO (including debt instruments) during the year were applied for purposes for which those are raised, if not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported;
(x)(b)	Whether co made any preferential allotment or private placement of shares or convertible debentures (fully, partially or optionally convertible) during the year & if so, whether requirements of section 42 & 62 of the Companies Act, 2013 complied with and the funds raised have been used for the purposes for which the funds were raised, if not, provide details in respect of amount involved and nature of noncompliance;
(xi)(a)	Whether any fraud by the company or any fraud on the company has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated;
(xi)(b)	Whether any report under sub-section (12) of section 143 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;
(xi)(c)	Whether the auditor has considered whistle-blower complaints, if any, received during the year by the company;
(xii)(a)	Whether the Nidhi Company has complied with the Net Owned Funds to Deposits in the ratio of 1:20 to meet out the liability;
(xii)(b)	Whether the Nidhi Company is maintaining ten per cent. unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability;
(xii)(c)	Whether there has been any default in payment of interest on deposits or repayment thereof for any period and if so, the details thereof;
(xiii)	Whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act where applicable and the details have been disclosed in the financial statements, etc., as required by the applicable accounting standards;
(xiv)(a)	Whether the company has an internal audit system commensurate with the size and nature of its business;
(xiv)(b)	Whether the reports of the Internal Auditors for the period under audit were considered by the statutory auditor;
(xv)	Whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of Companies Act have been complied with;
(xvi)(a)	Whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 (2 of 1934) and if so, whether the registration has been obtained;
(xvi)(b)	Whether 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;
(xvi)(c)	Whether the company is a Core Investment Company (CIC) as defined in the regulations made by the Reserve Bank of India, if so, 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;
(xvi)(d)	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;
(xvii)	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;
(xviii)	Whether there has been any resignation of the statutory auditors during the year, if so, whether the auditor has taken into consideration the issues, objections or concerns raised by the outgoing auditors;
(xix)	On the basis of the financial ratios, ageing and expected dates of realisation of financial assets and payment of financial liabilities, other information accompanying the financial statements, the auditor's knowledge of the Board of Directors and management plans, 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 one year from the balance sheet date;
(xx)(a)	Whether, in respect of other than ongoing projects, the co transferred unspent amount to a Fund specified in Schedule VII within a period of 6 months of the expiry of FY in compliance with 2nd proviso to Sec 135(5)
(xx)(b)	Whether any amount remaining unspent under subsection (5) of section 135 of the Companies Act, pursuant to any ongoing project, has been transferred to special account in compliance with the provision of sub- section (6) of section 135 of the said Act;
(xxi)	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, if yes, indicate the details of the companies and the paragraph numbers of the CARO report containing the qualifications or adverse remarks.