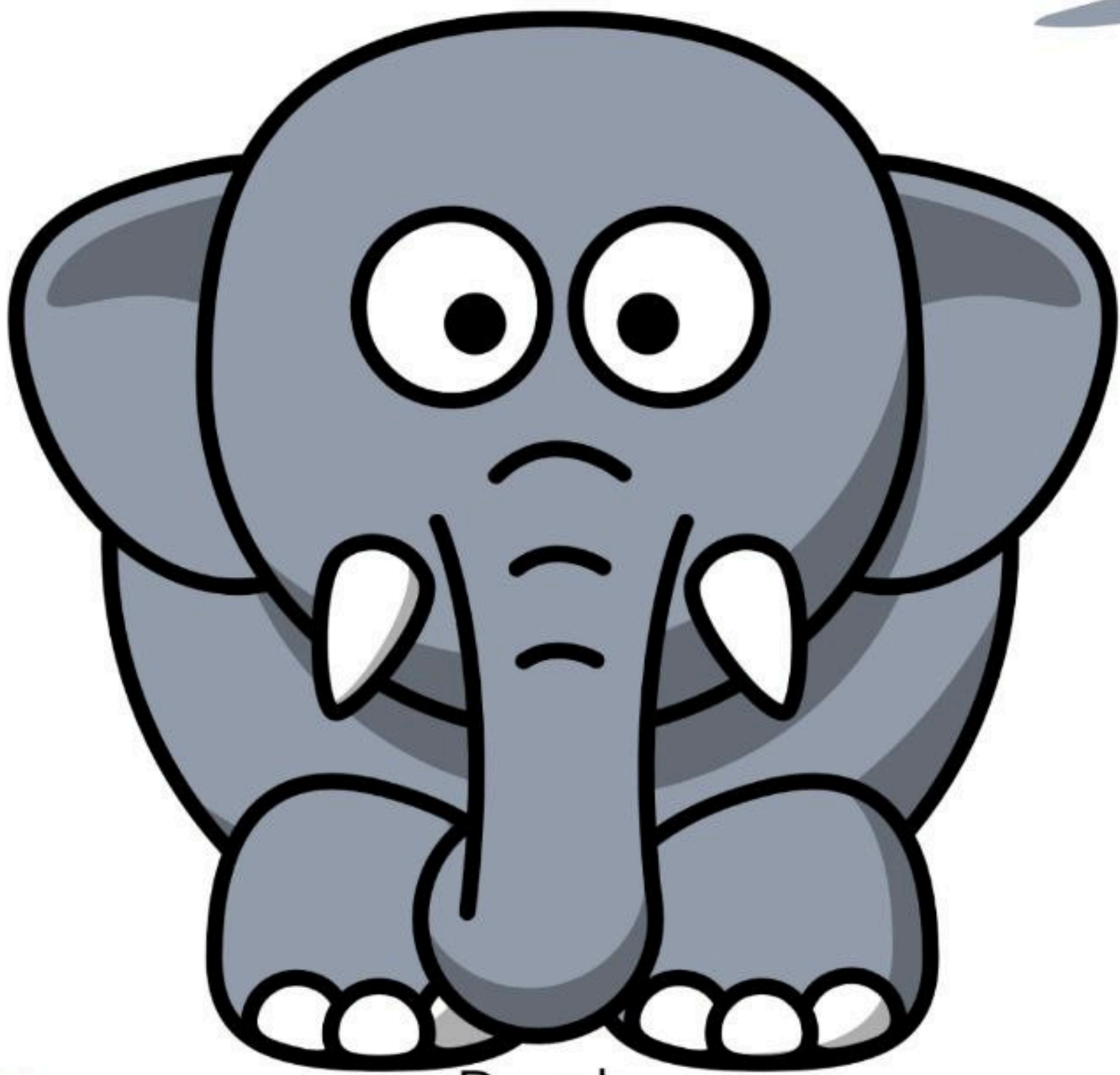


A BOOK BY JANAV & ANKITHA

AUDITING NOTEBOOK

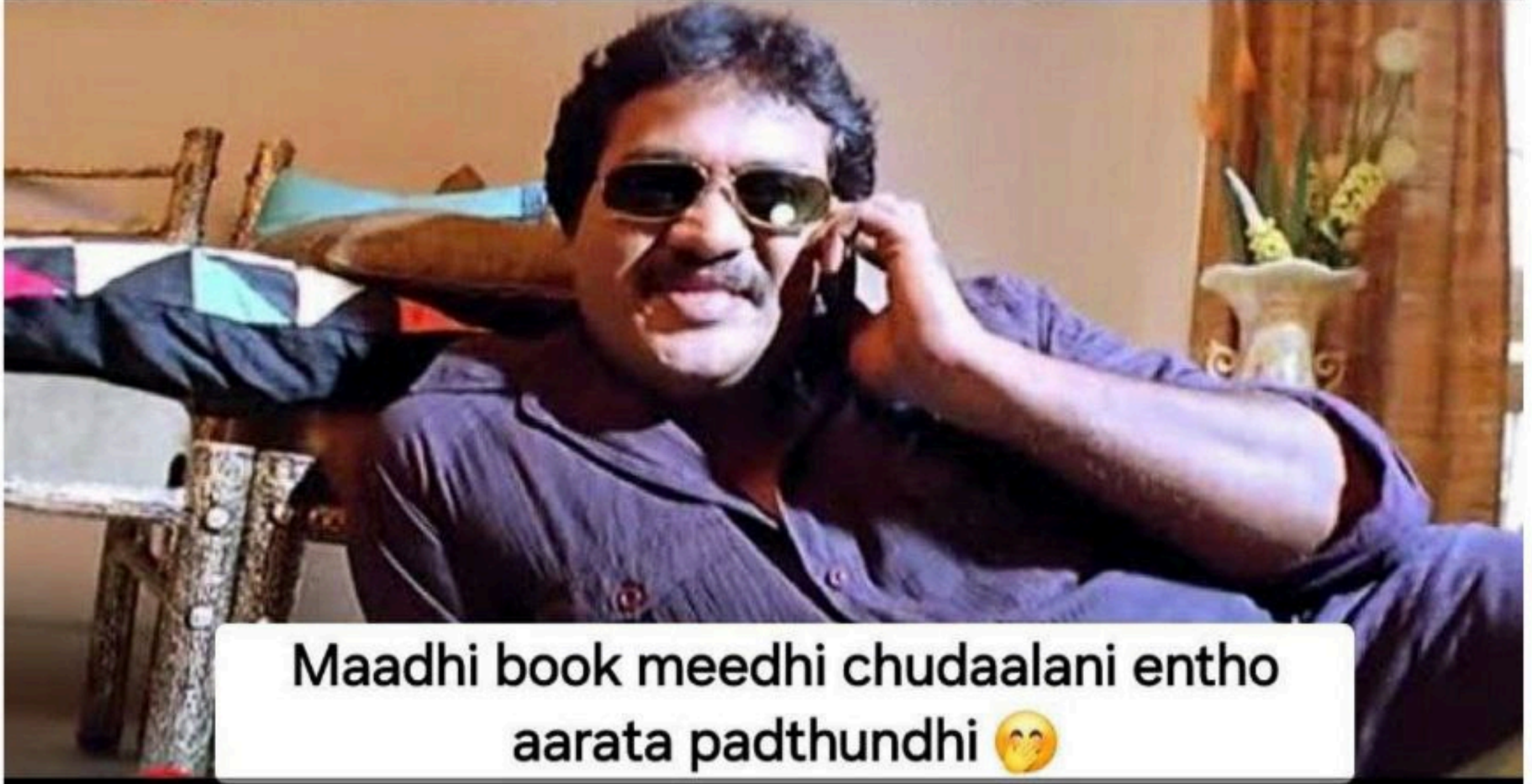


Dumbu

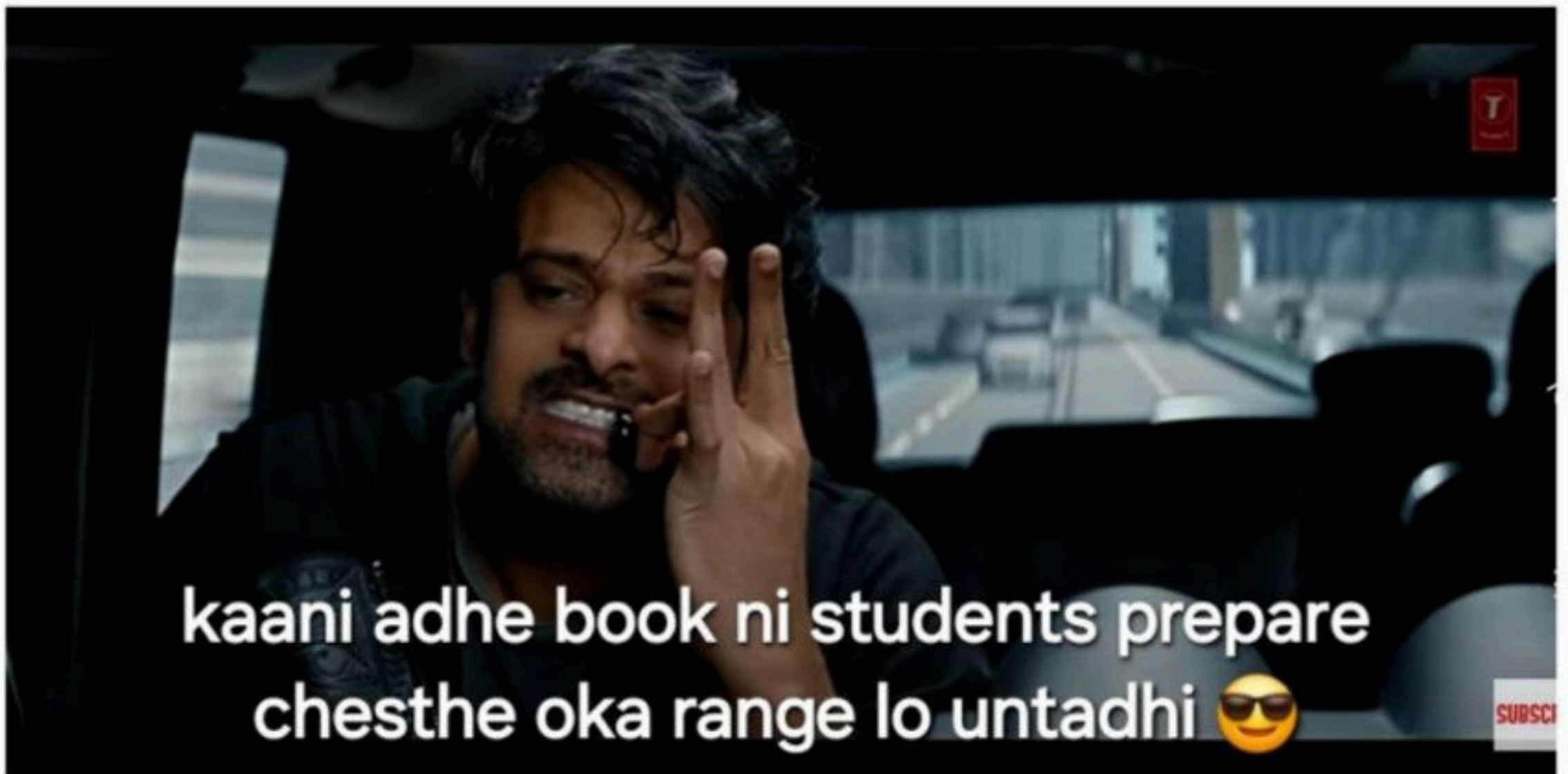
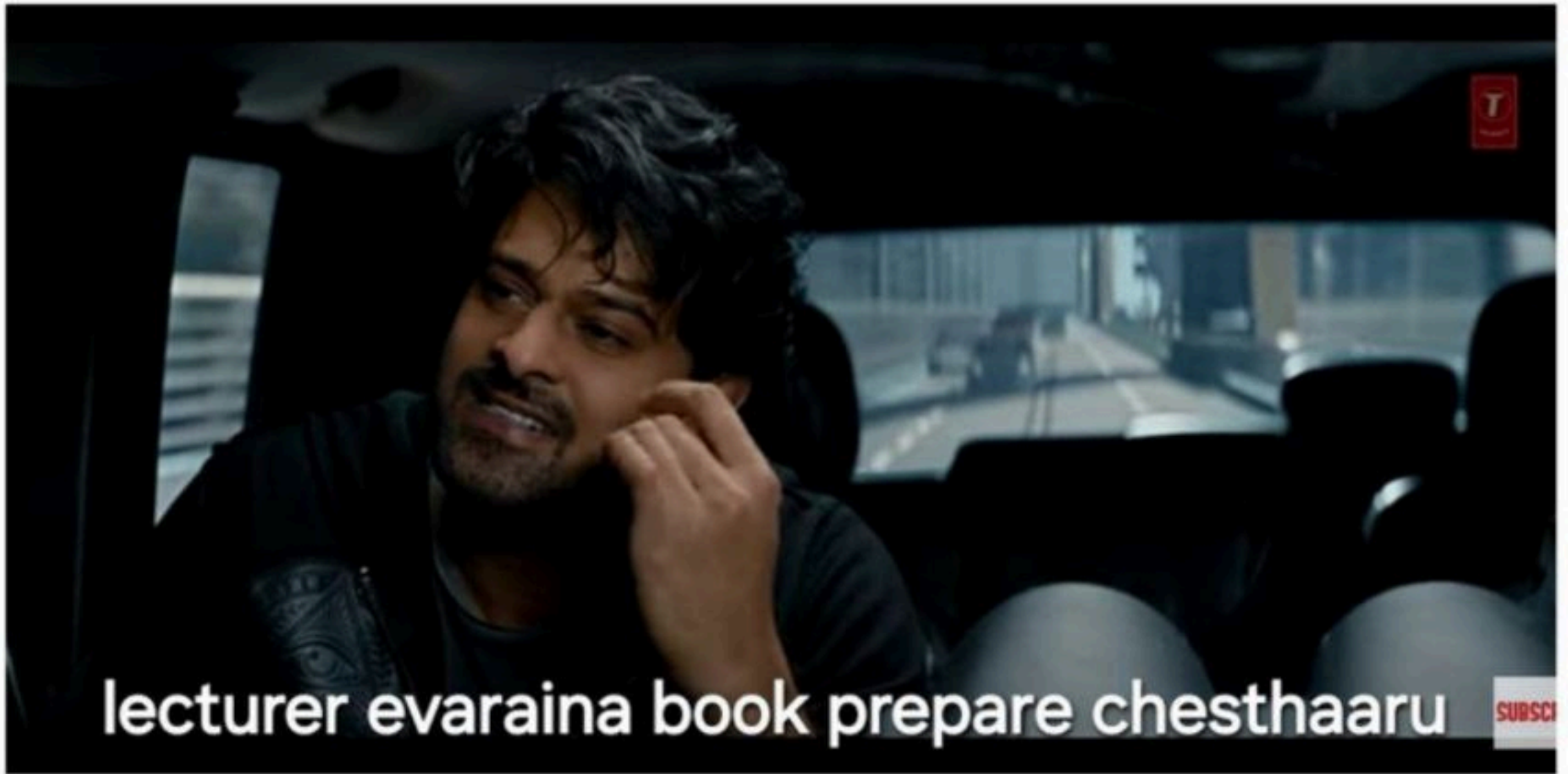
CMAVIDYARTHI



Dubai sheikh meeku salaam kodthundhi



Maadhi book meedhi chudaalani entho
aarata padthundhi 🙏



Team Members 😊

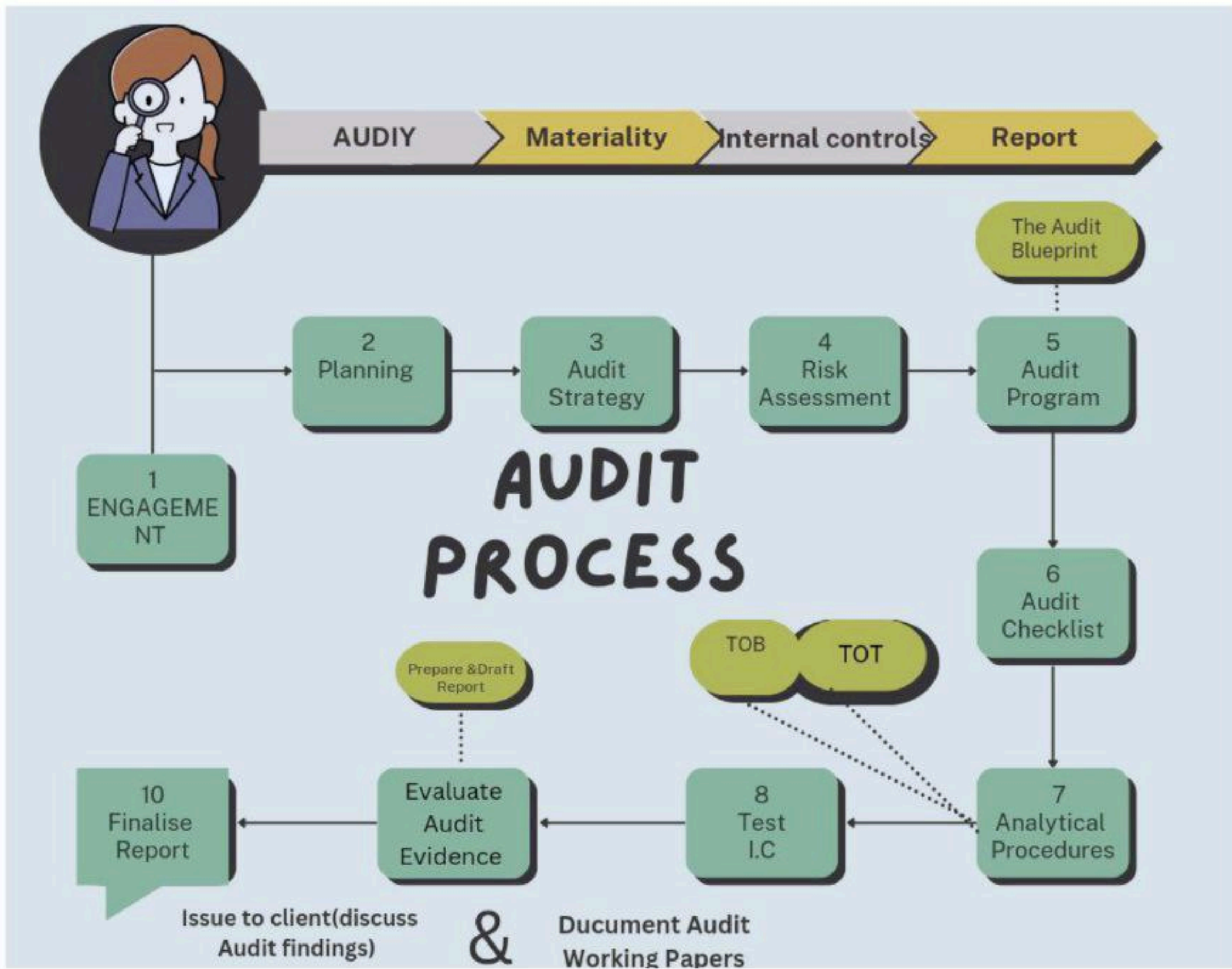


I N D E X

NAME JANAV&ANKITHA ROLL NO. 20
STD. 15th SEC. A SUBJECT Auditing

Sr. No.	Date	Title	Page No.	Teacher's Sign/Remarks
		Audit flowchart	5	
		Audit Introduction	6	
		Auditing Concepts	9	
		Company Audit	13	
		CARO, 2020	34	
		Secretarial Audit	41	
		Cost Audit & Branch Audit	42	
		Joint Audit	48	
		Audit Committee	50	
		Audit Process	52	
		Audit Evidence	54	
		Audit Sampling	62	
		Audit Techniques	65	
		Analytical Procedures	67	
		Audit Risk	69	
		Internal Controls & IFCS	72	
		Application of Technology in Audit	82	
		Audit Report	85	
		Audit Of Items Of FS	92	
		Audit Of Different Entities	100	
		Types Of Audit	115	
		NFRA	119	
		Important Questions		

AUDIT FLOWCHART





FUNDAMENTALS OF AUDITING



Think of it like this: Questioning Mind: "How does this work?"
 Suspicious Mind: "You must be hiding something."

Financial Statements

- Balance sheet [Financial Position]
- P&L A/c [Financial Results]
- CFS [Flow Of Funds]
- Notes to Accounts [disclosure of A/Cing policies & procedures]
- Statement of changes in Equity [changes in Equity]

Users of F.S

- MGT [Decison Making]
- SH [Dividend/profits]
- GOVT [DT & IDT]
- Creditors [Credit worthiness]
- Lendors [Repayment Capacity]
- Customer [Investment Opportunity]
- Employees [Job Security]



APPLICABLE FINANCIAL REPORTING FRAMEWORK [AFRFW]



- ⇒ The framework [entity type; FS goals; laws & regulations]
- ⇒ Used by **management**
- ⇒ to **prepare & present financial statements**

MISSTATEMENT

A difference between:

- What's reported in financial statements
- What's required by accounting standards/rules

⇒ Misstatements can arise from **error** or **fraud**.

FRAUD: intentional deception(deceiving)for personal gain

ERROR: unintentional mistakes in financial statements

AUDIT

⇒ Independent → Impartial & unbiased
 → Family ✗
 financial related ✗

- ⇒ Examination[not investigation]
- ⇒ of financial information of an entity[not for company]
- ⇒ irrespective of it's form, nature and objective
- ⇒ with a view to express opinion.





OBJECTIVE OF THE AUDIT/AUDITOR

⇒ To **express opinion** (Through Audit Report) on financial statements:

a) Whether the financial statements are **free from material misstatements** and

b) Whether they are **prepared as per AFRFW**

AUDITOR



Definition of Auditor

⇒ "Auditor" is used to refer to the **person or persons conducting the audit**, usually the **engagement partner or other members** of the engagement team, or the firm

ENGAGEMENT TEAM



- Engagement Partner
- Audit Manager
- Paid assistant
- Senior article assistant
- Junior article assistant
- Any other designation

AUDITING CONCEPTS

BASIC PRINCIPLES GOVERNING AN AUDIT

Integrity , Objectivity & Independence [IOI]

Integrity → Sincere & honesty

Objectivity → Impartial & unbiased

Independence → No family relationship & No financially related

CONFIDENTIALITY

The auditor should keep the information obtained during audit, confidential.

SKILLS & COMPETENCE

The auditor should have adequate training, experience and competence in Auditing

PLANNING

The auditor should plan his audit work. He should prepare an audit programme to complete the audit efficiently and in time.

ACCOUNTING SYSTEM AND INTERNAL CONTROLS

Understanding of Accounting system and related internal controls help in determining NTE of other Audit procedures

AUDIT EVIDENCE

Auditor should obtain SAAE through performing the compliance and substantive procedures.

DOCUMENTATION

DOCUMENTATION should be maintained by auditor to Evidence Audit work.

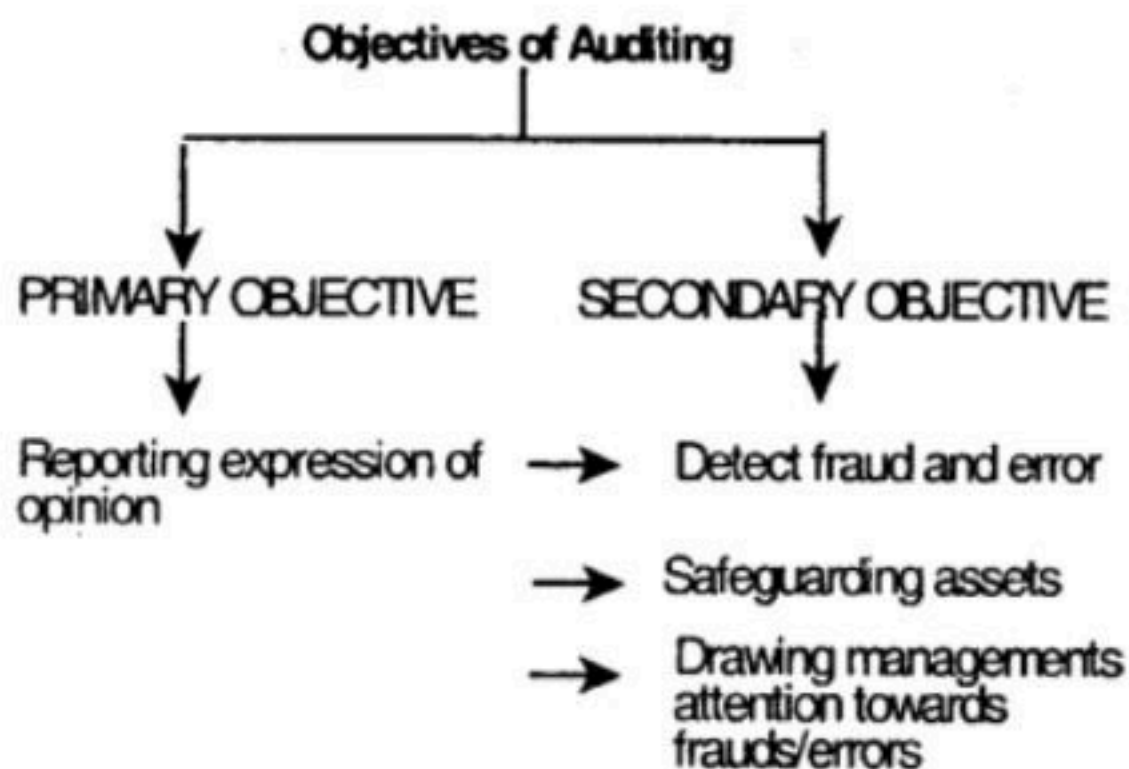
AUDIT CONCLUSIONS & REPORTING

On the basis of conclusions drawn auditor should give report.

OBJECTIVES OF AUDIT

PRIMARY

- ⇒ F.s $\xrightarrow{\text{As per}}$ AFRFW
- ⇒ F.s $\xrightarrow{\text{As per}}$ Accounting standards
- ⇒ F.s $\xrightarrow{\text{As per}}$ Reporting [Guarantee ✗]
- ⇒ F.s are free from ROMM



SIGNIFICANCE OF AUDIT

LEGAL POV

- Settlement of insurance claims
- GST tax payments
- Action against bankruptcy
- IT returns filing
- Borrowing money from external sources

INTERNAL POV

- Quick discovery from frauds & errors
- Moral check of employees
- Uniformity in accounts
- Advice to MGT

EXTERNAL POV

- Valuation of Assets & Liabilities
- Settlement of accounts
- Future trend of business

ADVANTAGES OF AUDIT

Audit provides an assurance to the various users of final accounts

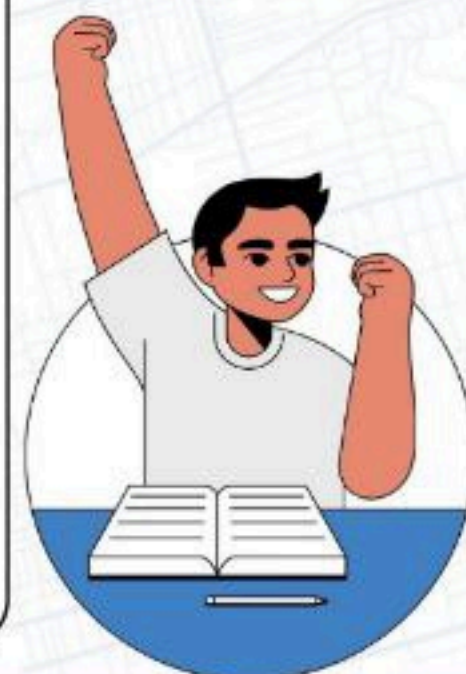
True and Fair balance sheet

True and fair profit and loss account

Tally with books

Detection and prevention of errors and frauds

Advice on system, taxation, finance



INHERENT LIMITATIONS OF AUDIT

Auditors can't guarantee financial statements are error-free because of inherent limitations of Audit.

⇒ Auditors **can't check every transaction** which means there is a possibility that Frauds & Errors will remain undetected

⇒ Auditors **rely on management** provided information, It is less reliable in nature.

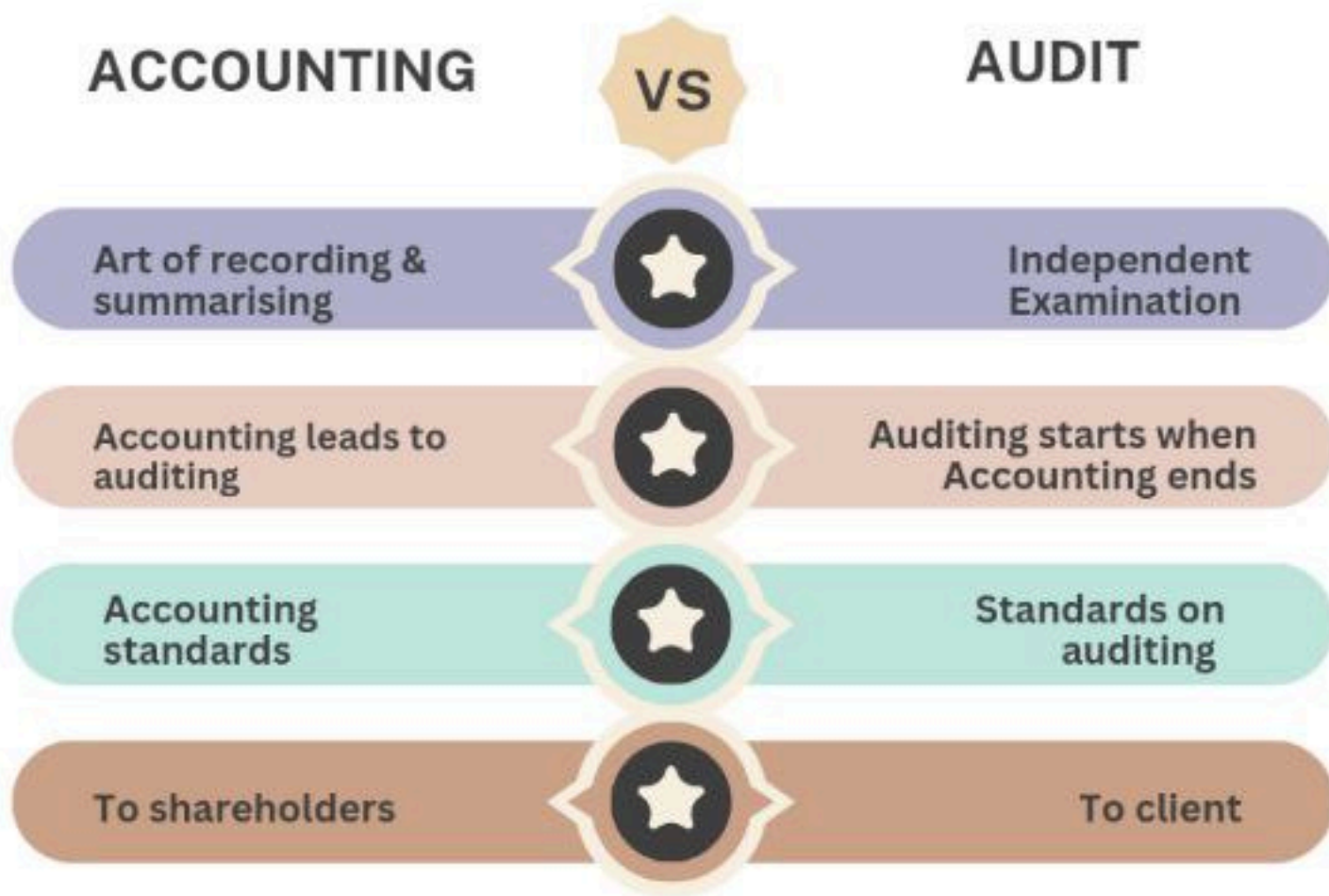
⇒ Audits have **deadlines**.

eg: Auditor focuses on high-risk areas (e.g., cash transactions) due to time limits.

Auditor focuses on high-risk areas (e.g., cash transactions) due to time limits.

⇒ Auditor has to **rely upon experts**.

⇒ This profession is totally based on **Professional Judgement** that differs from person to person

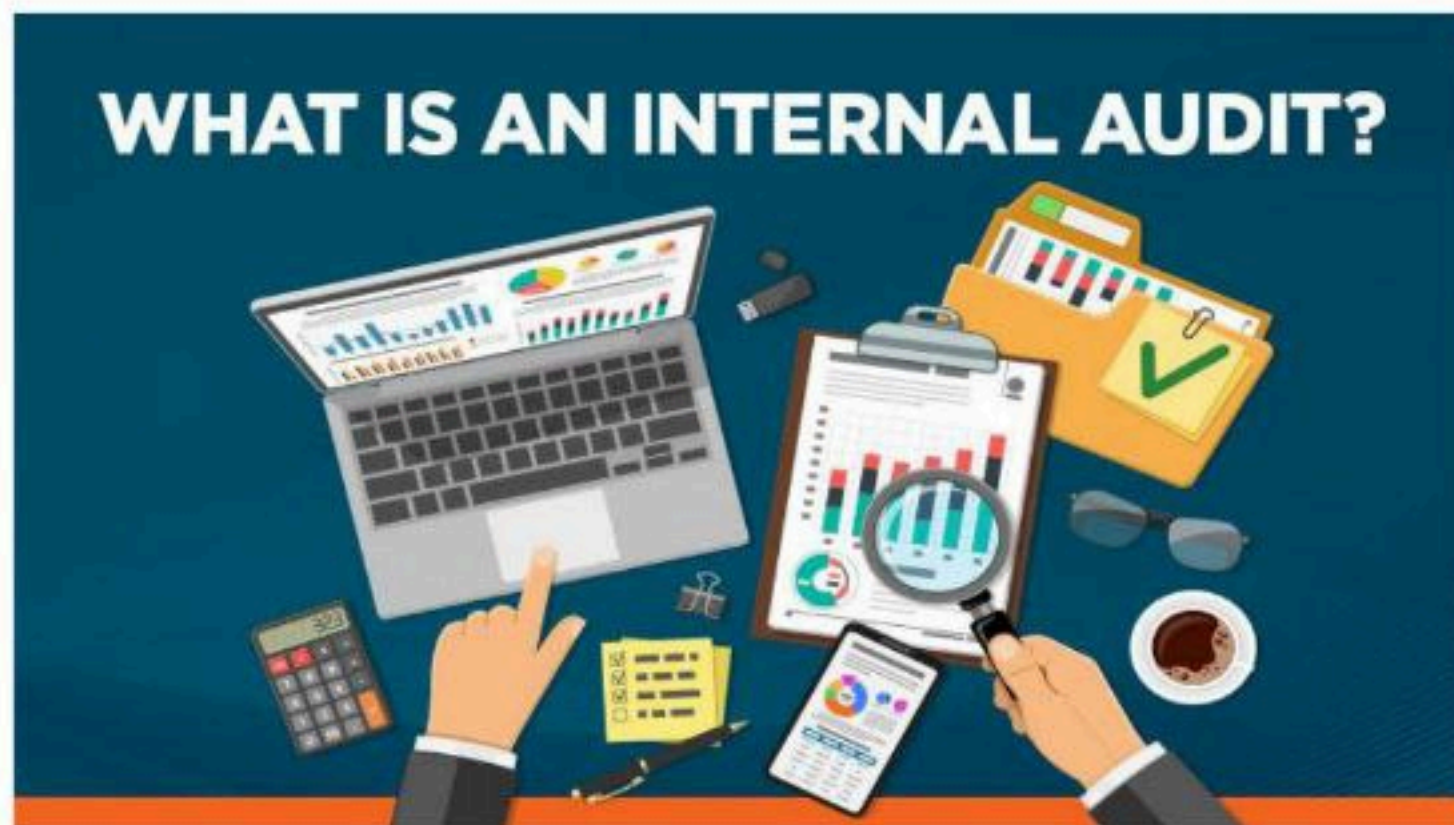


AUDIT	VS	INVESTIGATION
<ul style="list-style-type: none"> ✓ Independent Examination to ascertain true & fair view ✓ Wide ✓ Persuasive Evidence ✓ Questioning Mind ✓ Routine 		<ul style="list-style-type: none"> ✓ Independent Examination to ascertain any fact for special purpose ✓ Narrow ✓ Conclusive Evidence ✓ Suspicious mind ✓ Non - Routine



COMPANY AUDIT

SEC 138 INTERNAL AUDIT



Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations

APPLICABILITY OF INTERNAL AUDIT

- ⇒ Listed Co : Compulsory
- ⇒ Unlisted Co: 4 conditions any
 - Public deposits \geq 25 Cr
 - PUSC \geq 50 Cr
 - O/S borrowing \geq 100 Cr
 - T/O \geq 200 Cr
- ⇒ PVT Co: 2 conditions any
 - O/S borrowing \geq 100 Cr
 - T/O \geq 200 Cr

WHO APPOINTS

IF CONSTITUTED AUDIT COMMITTEE

Recommend of internal auditor → By Audit committee
Appointed by BOD

IF NOT CONSTITUTED AUDIT COMMITTEE

Recommend and appointed by BOD

ELIGIBILITY

- ⇒ CA/CMA [PRACTICE OR NOT]
- ⇒ any other professional from another recognised professional body
- ⇒ Officer or employee of Co [Min pg]

DISQUALIFICATIONS

- ⇒ Statutory auditor
- ⇒ Tax auditor
- ⇒ Cost auditor
- ⇒ GST auditor
- ⇒ involved in A/Cing, book-keeping financial information system, managerial decision making, executed functions

APPOINTMENT OF STATUTORY AUDITOR

GOVERNMENT COMPANY



APPOINTMENT OF STATUTORY AUDITOR

NON-GOVERNMENT COMPANY



SEC 139 APPOINTMENT ROTATION AND CASUAL VACANCY

APPOINTMENT OF STATUTORY AUDITOR

NON-GOVERNMENT COMPANY

Declaration & Notice by auditor & company (before & after appointment)

Ento ee bathuku Non govt co lo auditor ga appoint ayye mundhu company ki 4 declarations ivvalanta 🤔

1)sec 141 kindha disqualification undakudadhu anta

2)ceiling limit ni breach cheyyakudadhu anta

3)Terms conditions arthamcheskoni accept cheyyalanta

4)naaku /naa firm ki /naa partner ki India lo kaani , India bayata gaani elaanti pending suits undakudadhu anta

after appointment manaki sambandham ledh le 🤔 !! company ne manaki AGM aina 7 days lopu appointment notice isthadhi inka aa appointment notice ni AGM aina 15 days lo ROC ki ADT- 1 form lo submit chesthadhi

ROTATION OF AUDITOR



Rotation of Auditors ante Auditors ni change cheyyadam ani meaning andi

sole Properietor anukondi 5 yrs ye !! tharvatha new auditor appoint avuthaadu

Adhe partnership/LLP anukondi 2 terms of 5 yrs ante 10 yrs ani tharvatha cooling period untundi

Inthaki cooling period ante ento thelusa meeku

Thelidhu ra

Thelinappudu adagaali kadha murthy gaaru 🙄

ROTATION OF AUDITOR



cooling period ante suppose meeru oka company tho work chesthunnaru mee term aipointhi okavela adhe company tho malli work cheyyali ante Break anedhi theeskovaali adhe cooling period

Aa cooling period time lo company lo unde employees tho any direct/indirect relation undakudadhu and same company lo work cheyyakudadhu

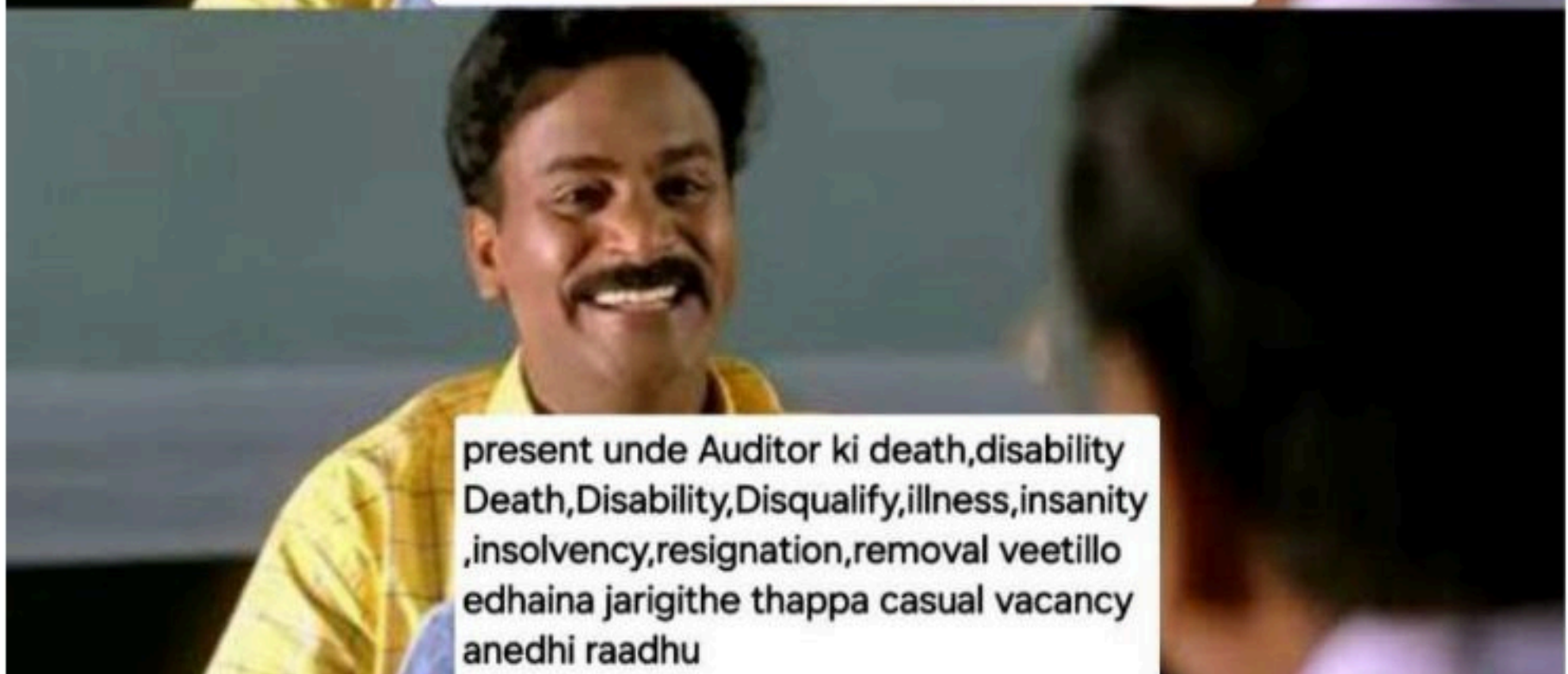
Ee Auditors rotation ki applicability undhi Listed co anukondi compulsory!!Opc and small co ki not applicable!!

Unlisted co aithe PUSC 10cr or above,outside borrowings 50cr or above !! pvt co aithe PUSC 50cr or above,outside borrowings 50cr or above

okavela new auditor ki exit aipoye auditor ki relation/brand name/partners/ Control/Management common ga unte

Iddarni 5 yrs disqualify chese right company ki untadhi andi

CASUAL VACANCY



CASUAL VACANCY



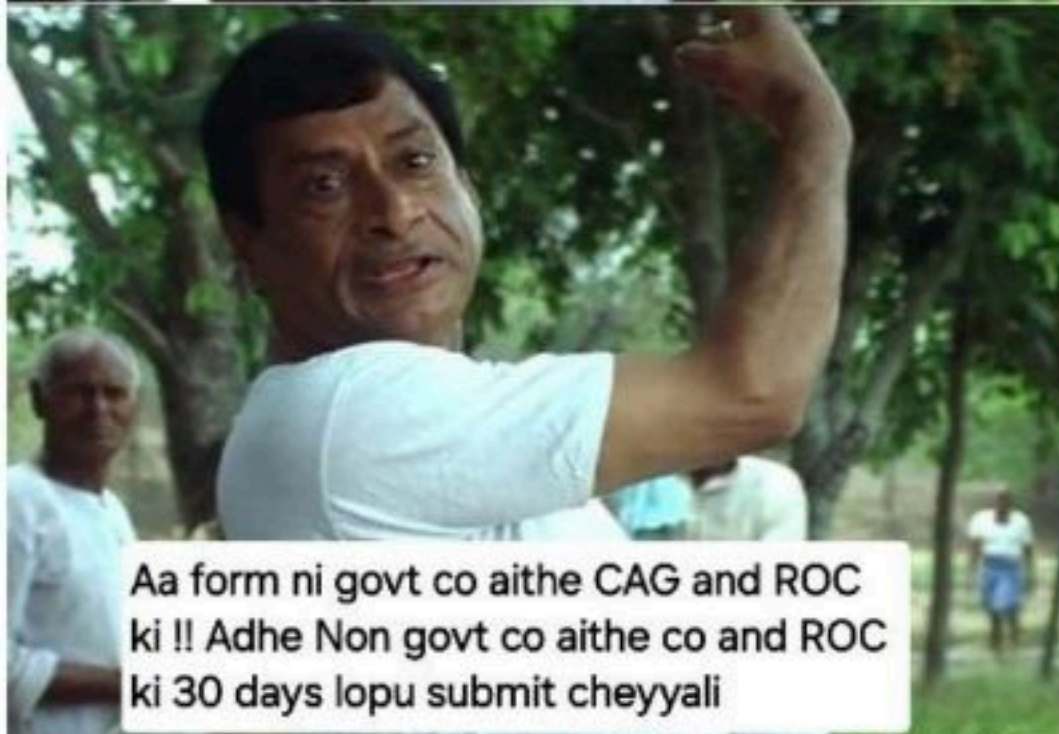
Resignation of Auditor



Auditor kaavalante resign cheyyocchu adhi vaadi janma hakku



Okavela resign chesthe endhuku resign chesaado reason ni ADT-3 form lo cheppadam thana karthavyam



Aa form ni govt co aithe CAG and ROC ki !! Adhe Non govt co aithe co and ROC ki 30 days lopu submit cheyyali

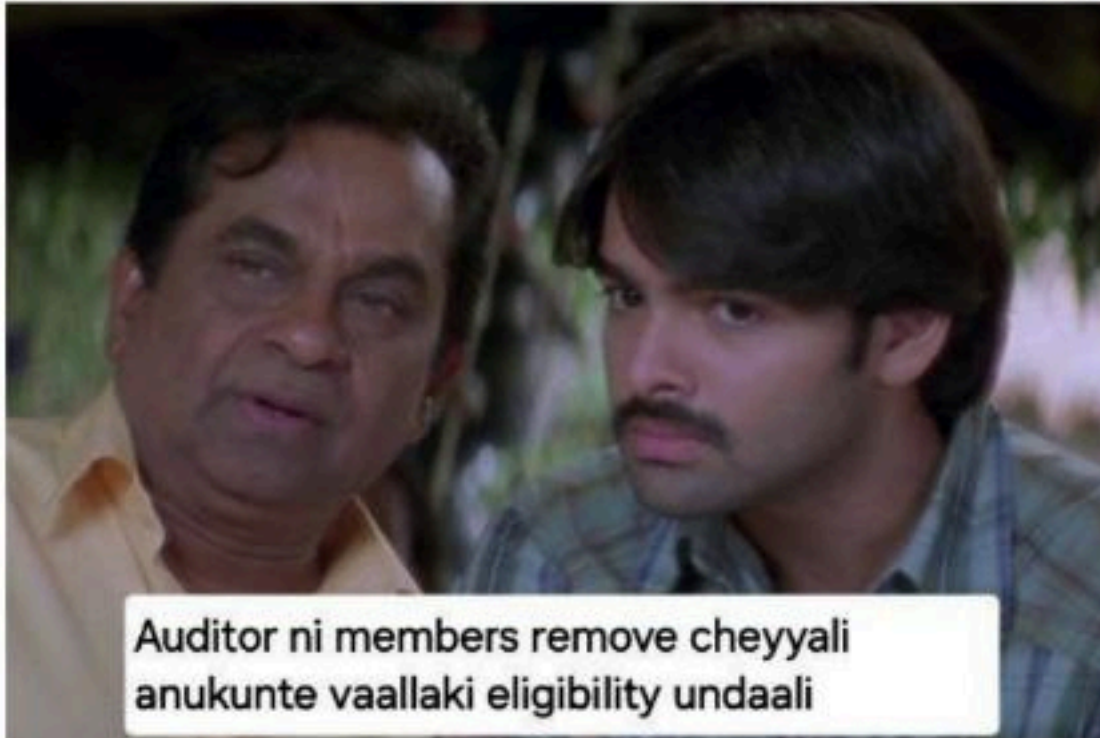


okavela 30 days lopu ivvakapotho Auditor ki Vaadi remuneration (or) 50,000 edhaithe thakkuvo adhi fine ga padthundhi

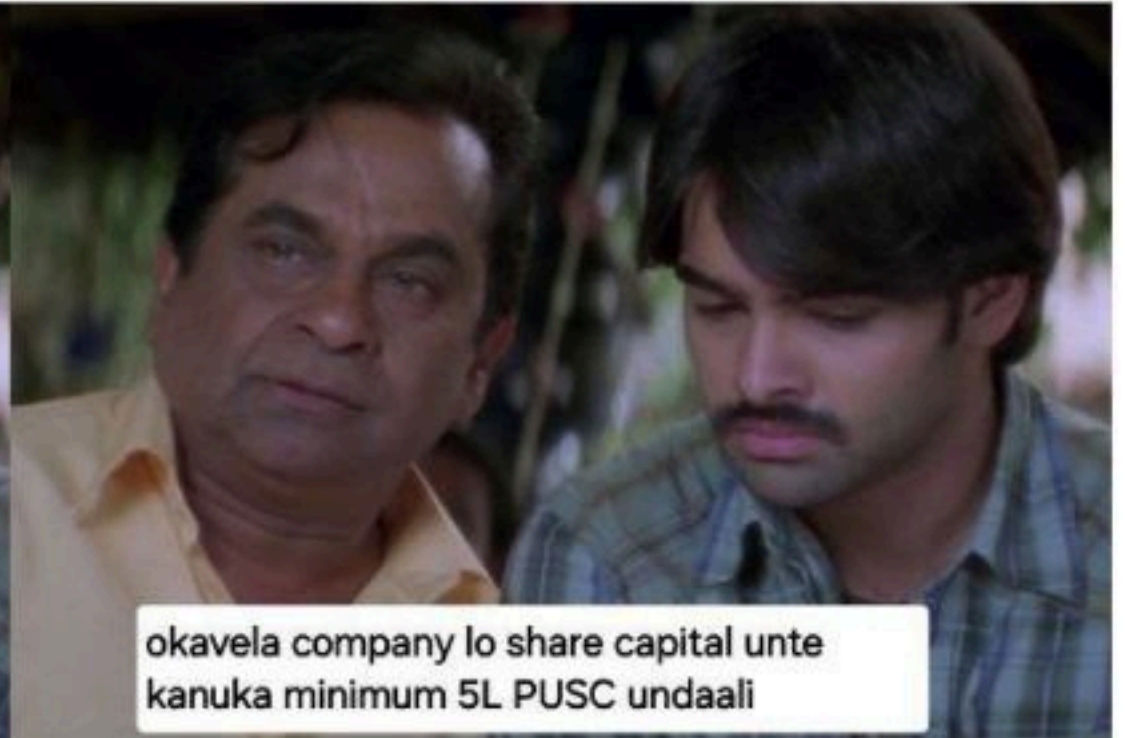


Aa fine tho paatu form enni rojulu ivvado anni rojulaki 500 per day fine !! adhi maximum 2 Lakhs varaku untundhi

REMOVAL OF AUDITOR [BY MEMEBERS]



Auditor ni members remove cheyyali anukunte vaallaki eligibility undaali



okavela company lo share capital unte kanuka minimum 5L PUSC undaali



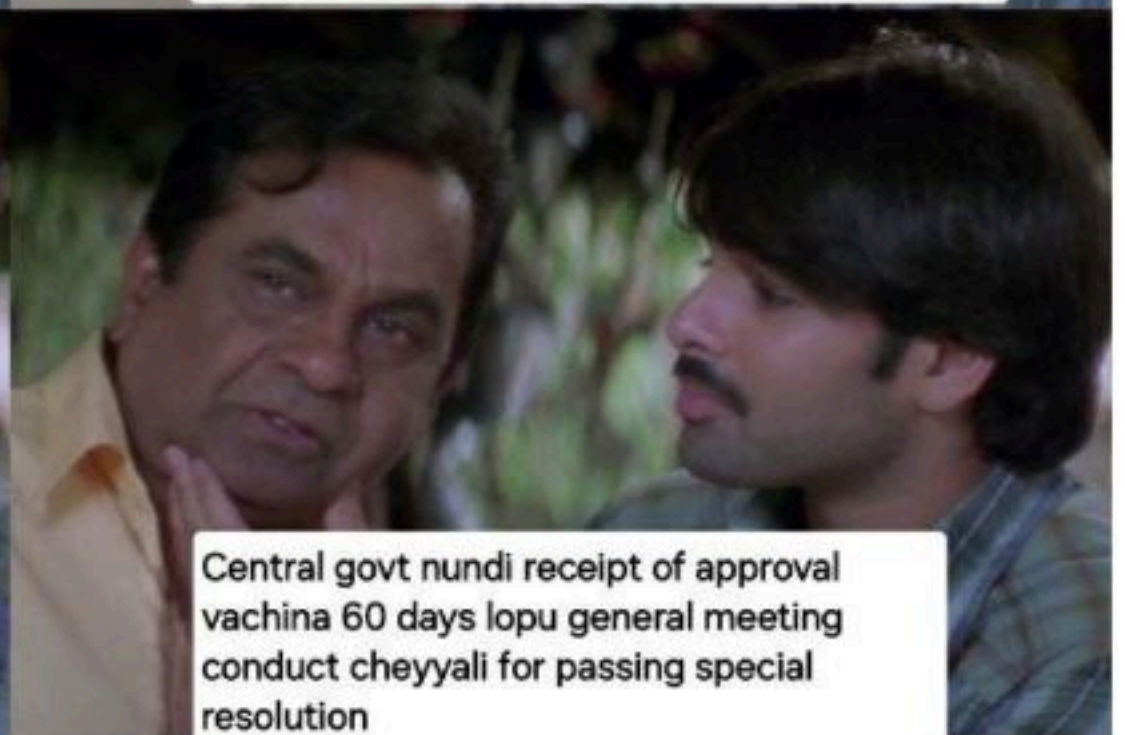
okavela company lo share capital lekapothe minimum 1% voting rights anevi member ki undaali



Aa tharvatha members company ki special notice anedhi pampinchaali

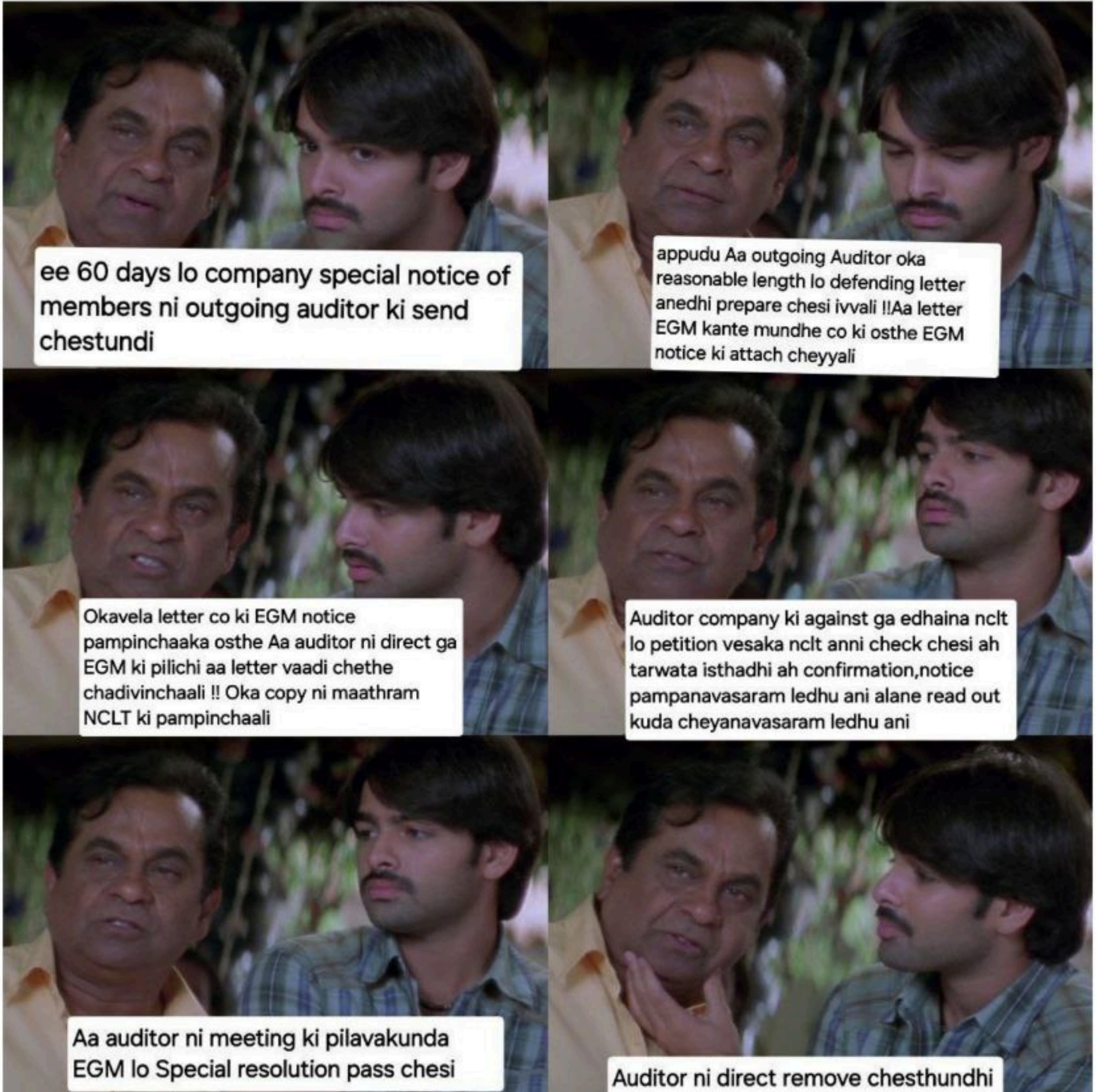


Appudu company board meeting pedthundhi !! Aa Meeting pettina 30 days lopu central govt ki Form ADT-2 lo application pettukovaali



Central govt nundi receipt of approval vachina 60 days lopu general meeting conduct cheyyali for passing special resolution

REMOVAL OF AUDITOR [BY MEMEBERS]



ee 60 days lo company special notice of members ni outgoing auditor ki send chestundi

appudu Aa outgoing Auditor oka reasonable length lo defending letter anedhi prepare chesi ivvali !!Aa letter EGM kante mundhe co ki osthE EGM notice ki attach cheyyali

Okavela letter co ki EGM notice pampinchaaka osthE Aa auditor ni direct ga EGM ki pilichi aa letter vaadi chethe chadivinchaali !! Oka copy ni maathram NCLT ki pampinchaali

Auditor company ki against ga edhaina nclt lo petition vesaka nclt anni check chesi ah tarwata isthadhi ah confirmation,notice pampanavasaram ledhu ani alane read out kuda cheyanavasaram ledhu ani

Aa auditor ni meeting ki pilavakunda EGM lo Special resolution pass chesi

Auditor ni direct remove chesthundi

REMOVAL BY TRIBUNAL

⇒ IF NCLT suomoto [on it's own] or complaint made by

- ▶ CG
- ▶ ROC
- ▶ SEBI
- ▶ IT dept
- ▶ Statutory body
- ▶ Any concerned person

that an auditor of company is involved directly/indirectly in a fraudulent activity either happening on co/by co.



The NCLT within 15 days shall pass an order "disqualification from being an auditor in any Company up to 5 years" & "penalty u/s 447"

SEC 141 ELIGIBILITY, QUALIFICATION AND DISQUALIFICATION

ELIGIBILITY: CA/CMA holding COP

QUALIFICATION :

SOLE PROPRIETORSHIP : A practising CA/CMA holding valid COP

PARTNERSHIP : ⇒ Majority of partners must be practising India

⇒ No max limit on partners

⇒ can enter partnership with non practising Ca/Cma

LLP : ⇒ Must be Indian LLP

⇒ Only individual are allowed to be partners

NOTE: ALL SOLE PROPRIETOR AND LLP, PF's must be registered with ICAI/ICMAI

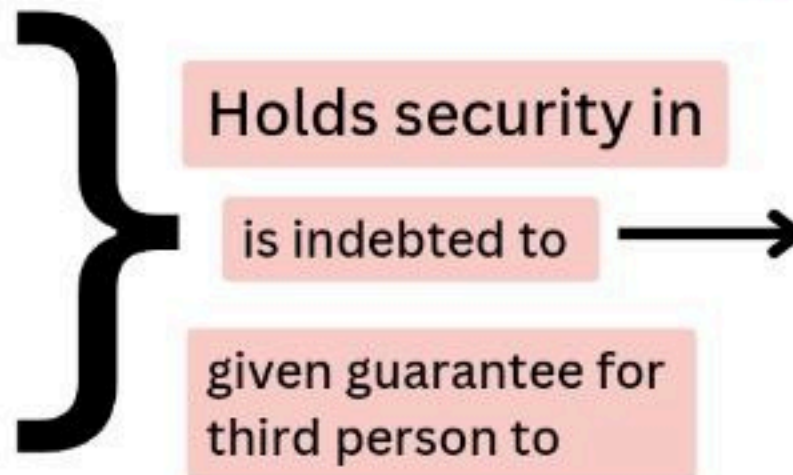
DISQUALIFICATIONS OF AUDITOR

Body Corporate



- ⇒) Body Corporate
- ⇒ Office or employee of company
- ⇒ Partner or employee of officer or employee of Co.

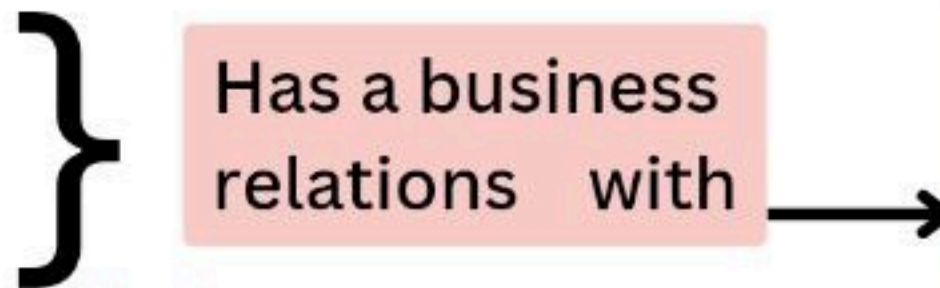
When a person himself
or his relative
or his partner



- company
- it's subsidiary
- it's holding
- it's associate
- subsidiary or holding

The person is disqualified to be appointed
Relative may hold Security upto face value 1,00,000

When a person
or
A firm



- company
- it's subsidiary
- it's holding
- it's associate
- subsidiary or holding

(proposed to be appointed as auditor)

What is not a business relationship:

- Commercial Transactions, which, are in the nature of Professional Services
- Commercial Transactions in the ordinary course of business of the Company at Arm's Length Price

- ⇒ A person - whose relative - director or KMP in the company
- ⇒ A Person who is in full time employment elsewhere
- ⇒ A person or a Partner of a Firm holding audits of more than 20 Companies OPC ✗ Dormant ✗ Small co ✗ PVT Co pusc < 100 Cr ✗
- ⇒ A person convicted for fraud by court & 10 years have not passed for such conviction
- ⇒ If the person provides services mentioned under sec 144

AUDITOR NOT TO RENDER CERTAIN SERVICES [sec 144]

- ⇒ Cost Audit
- ⇒ MGT & other consultancy services
- ⇒ Agency Functions
- ⇒ Accounting Functions
- ⇒ Actuaries
- ⇒ Internal auditor
- ⇒ INVST banking services
- ⇒ INVST advisory services
- ⇒ Financial information system
- ⇒ Portfolio MGT
- ⇒ Underwriting
- ⇒ Brokerage



TRICK: CMA³I³FPUB

SEC 142 REMUNERATION OF AUDITOR

WHO FIXES/DETERMINES



The one who APPOINTS

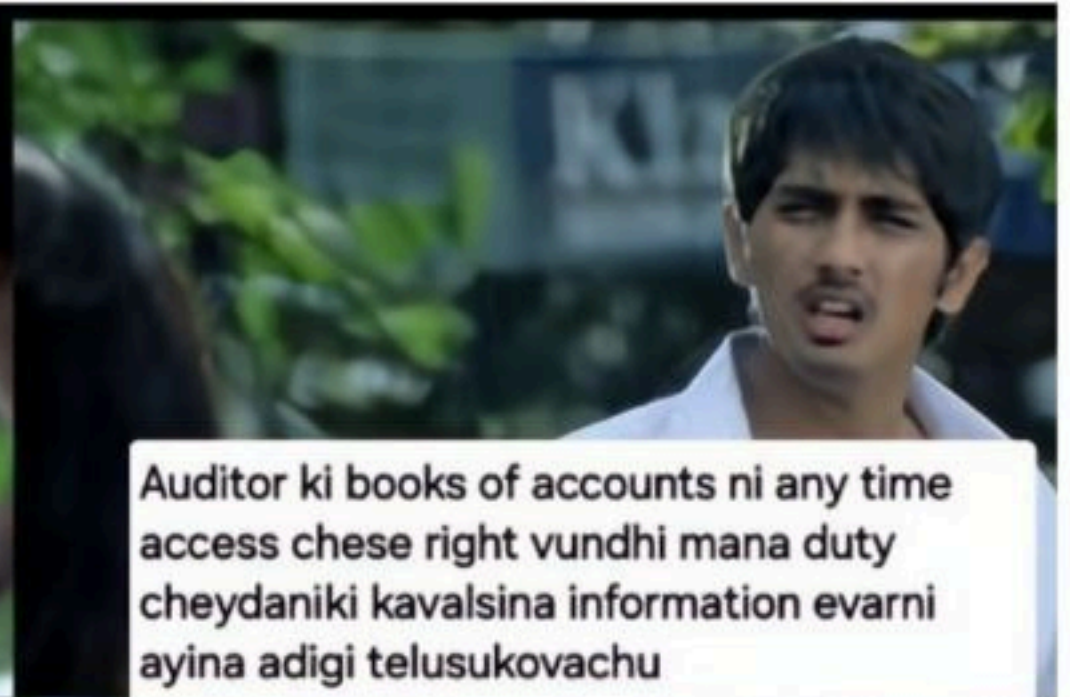
First Auditor of GOVT Co	by CAG
Subsequent Auditor of GOVT Co	by CAG
First Auditor of Non Govt Co	by BOD
Subsequent Auditor of Non Govt Co	by members

Remuneration includes —

- ⇒ Fees Payable to the Auditor,
- ⇒ Expenses if any, incurred by the Auditor in connection with the audit and any facility extended to the Auditor.
- ⇒ However, Remuneration does not include amount paid for any other service rendered by the Auditor at the request of the Company.



section 143 power/rights and duties of auditor ni explain chei



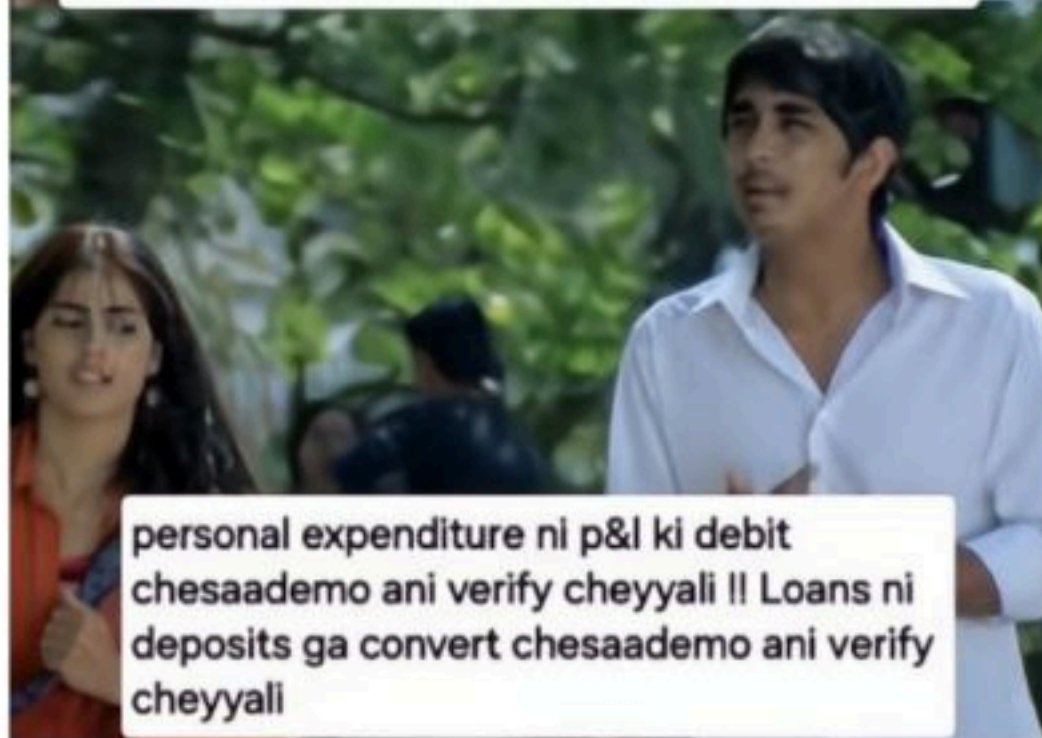
Auditor ki books of accounts ni any time access chese right vundhi mana duty cheydaniki kavalsina information evarni ayina adigi telusukovachu



mana company ni ki unna subsidiaries company books and records kuda manam access cheyochu idhi naaku thelusu



company loans and advances isthe vatiki security vundha ani chudali



personal expenditure ni p&l ki debit chesaademo ani verify cheyyali || Loans ni deposits ga convert chesaademo ani verify cheyyali



bogus sales & purchase emanna unnayemo ani chudali || Non invt co invts ni below cost kante sell chestunnayemo verify cheyyali

Rights Of Auditor

- ⇒ Right to access BOA at all times
- ⇒ Right to obtain information

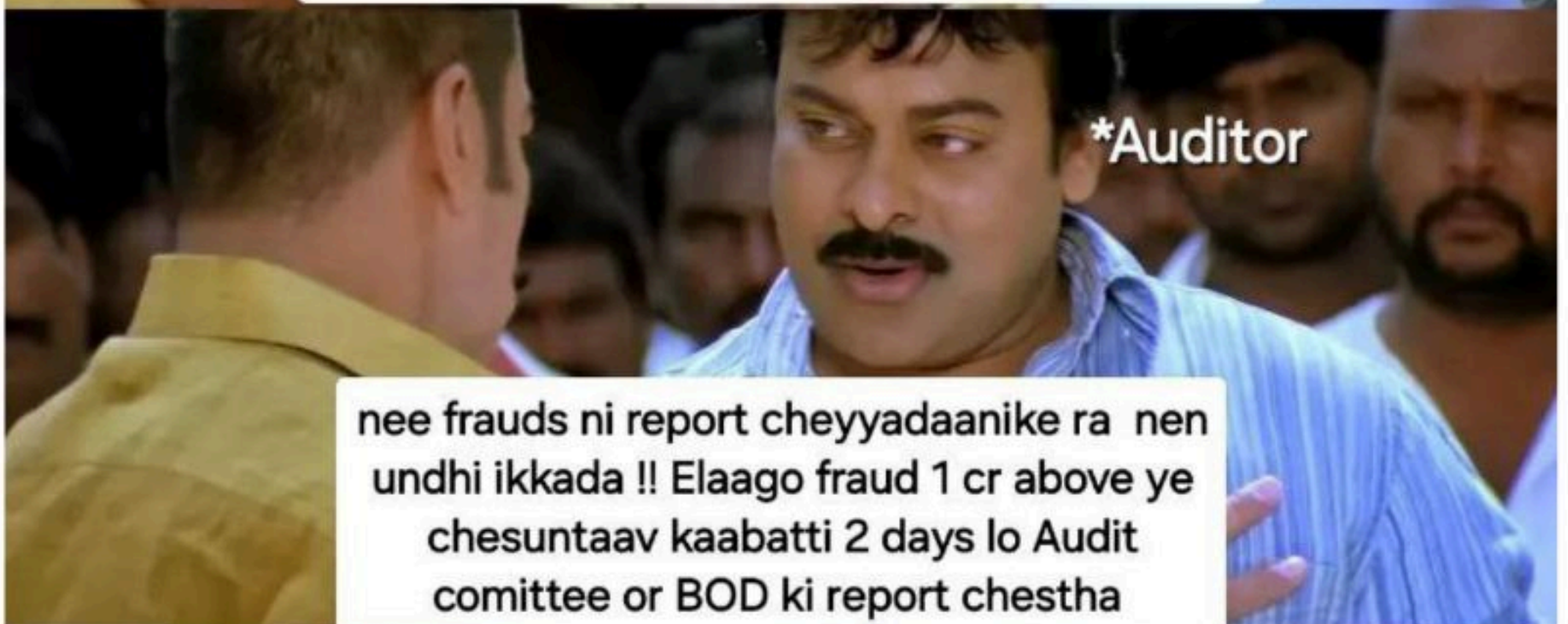
Duties Of Auditor

- ⇒ check whether loans are properly secured/not?
- ⇒ Personal expenditure not allowed to debited to p&l?
- ⇒ If being non-invt Co selling investments below cost?
- ⇒ converting loans into deposits
- ⇒ Bogus sales & purchases ⇒ PUSC not matching with cash & bank



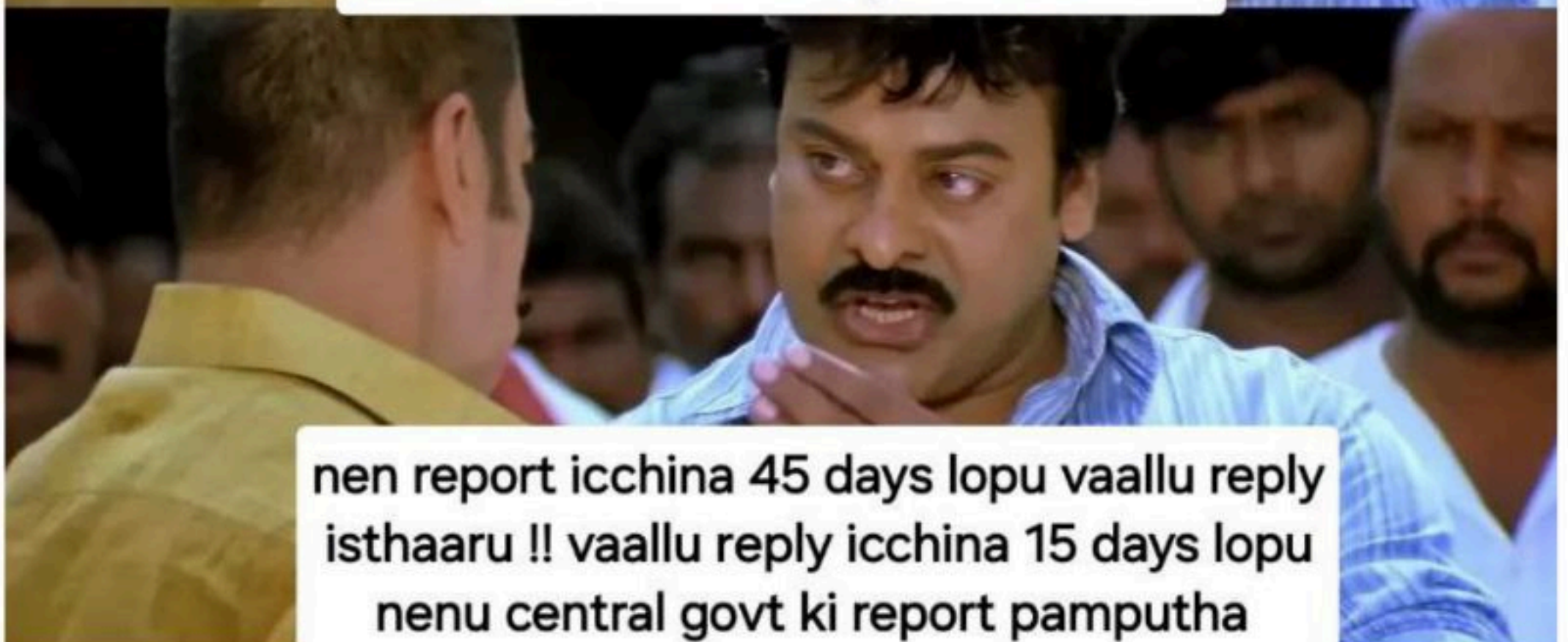


fraud chesindi nene ra em chestav



*Auditor

nee frauds ni report cheyyadaanike ra nen undhi ikkada !! Elaago fraud 1 cr above ye chesuntaav kaabatti 2 days lo Audit comittee or BOD ki report chestha

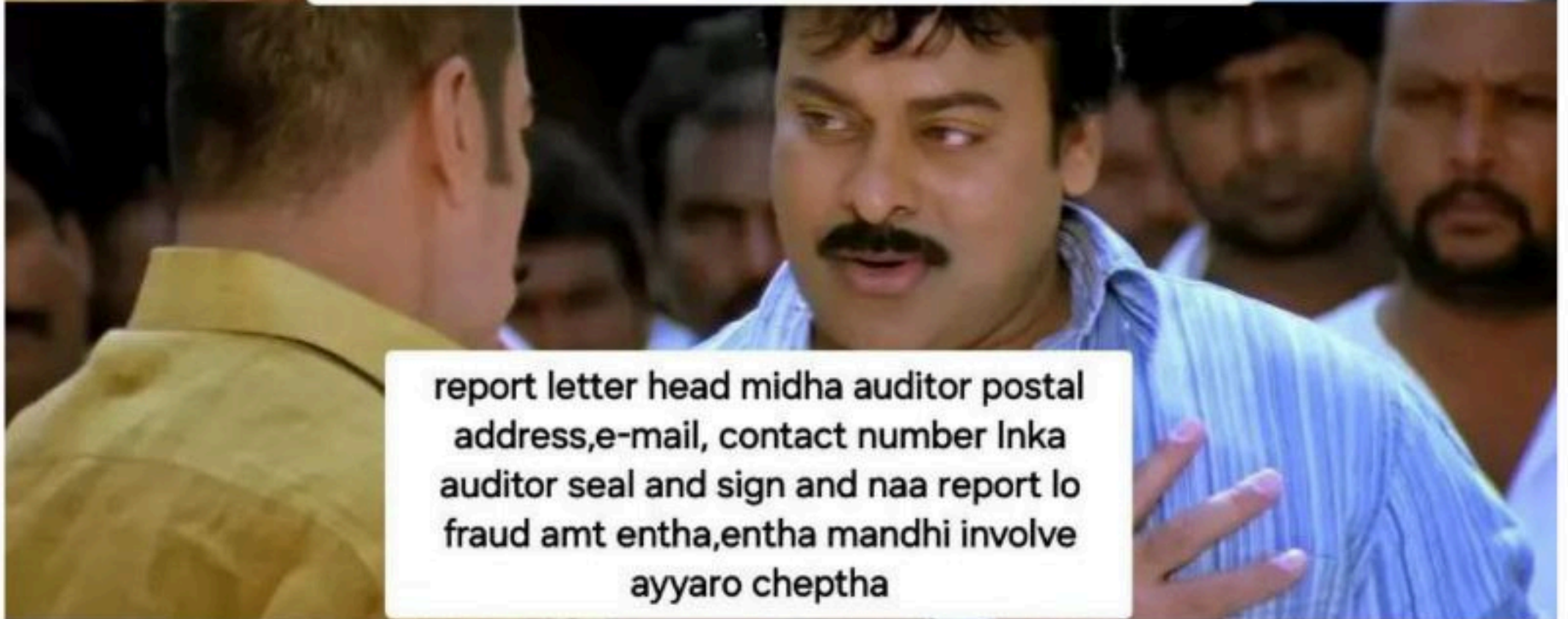


nen report icchina 45 days lopu vaallu reply isthaaru !! vaallu reply icchina 15 days lopu nenu central govt ki report pamputha

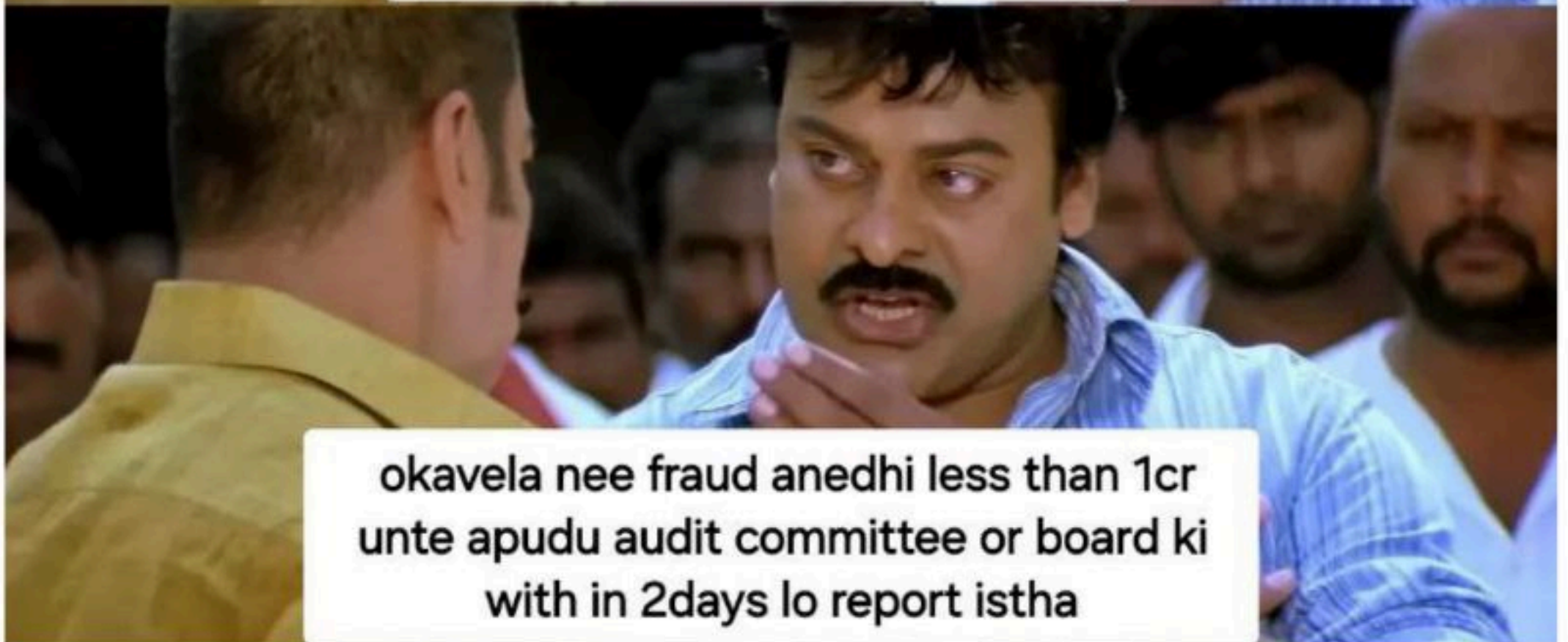




Aa report lo details emani isthaav ra



report letter head midha auditor postal address,e-mail, contact number Inka auditor seal and sign and naa report lo fraud amt entha,entha mandhi involve ayyaro cheptha



okavela nee fraud anedhi less than 1cr unte apudu audit committee or board ki with in 2days lo report istha



Trick:-
B²CCI RMD

- ⇒ Maintenance of **BOA** proper/not?
- ⇒ **Branch audit** reports received or not?
- ⇒ Internal Financial **Controls** adequate or not?
- ⇒ Financial Statements **comply** with AS
- ⇒ Necessary **information** & explanation provided to me or not?
- ⇒ If auditor has given adverse **remarks** on functioning of Co
- ⇒ If auditor has given adverse **remarks** on BOA
- ⇒ Financial Statements **match** with BOA
- ⇒ Check any **director** disqualified u/s 164(2)

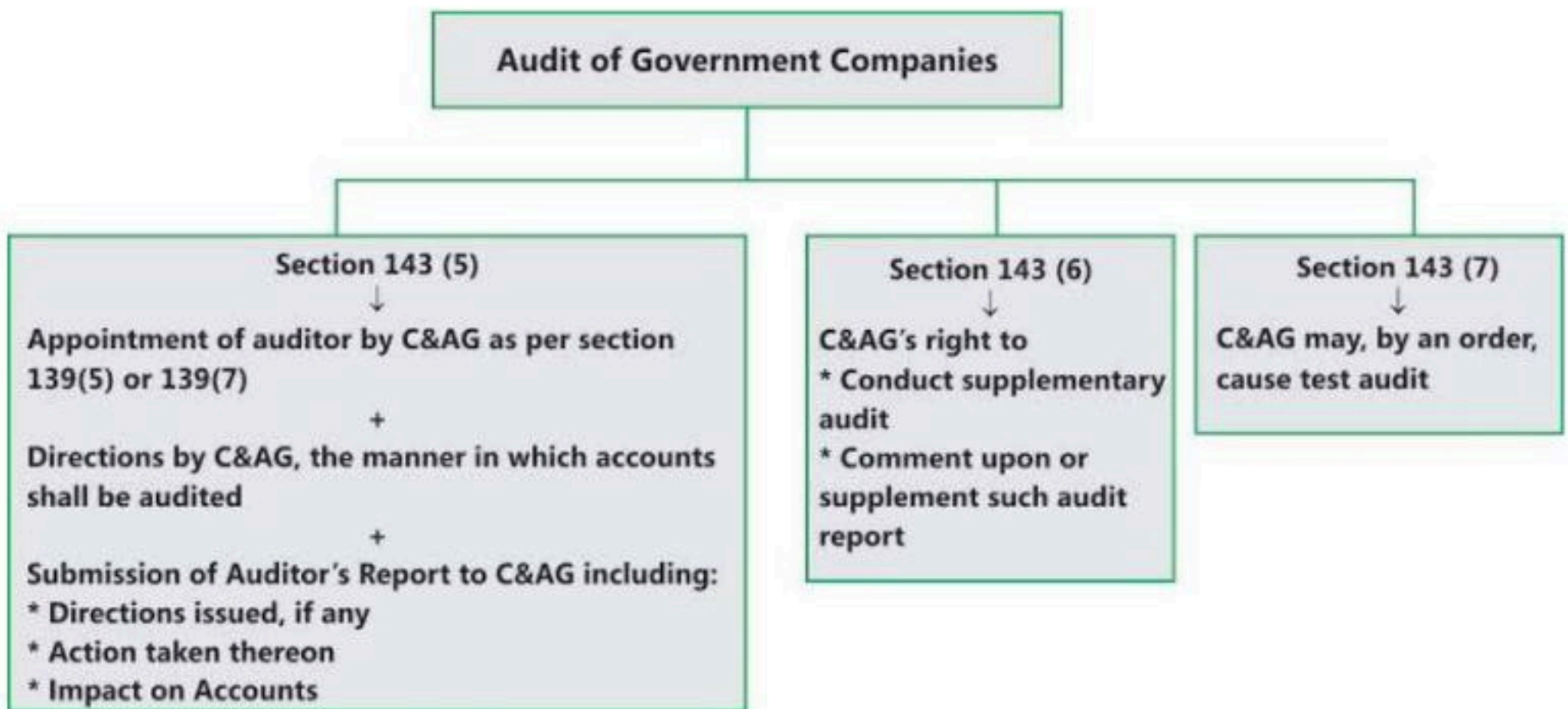
Other matters

- ⇒ Show impact of pending litigations on financial position of Co
- ⇒ Create Provision for future derivative contracts
- ⇒ Any delay in amount transfer to IEPF
- ⇒ Whether Dividend is paid & declared as per sec 123
- ⇒ Accounting software → Feature

↓
Audit Trial



SEC 143 (5) (6) & (7) AUDIT OF GOVERNMENT COMPANIES

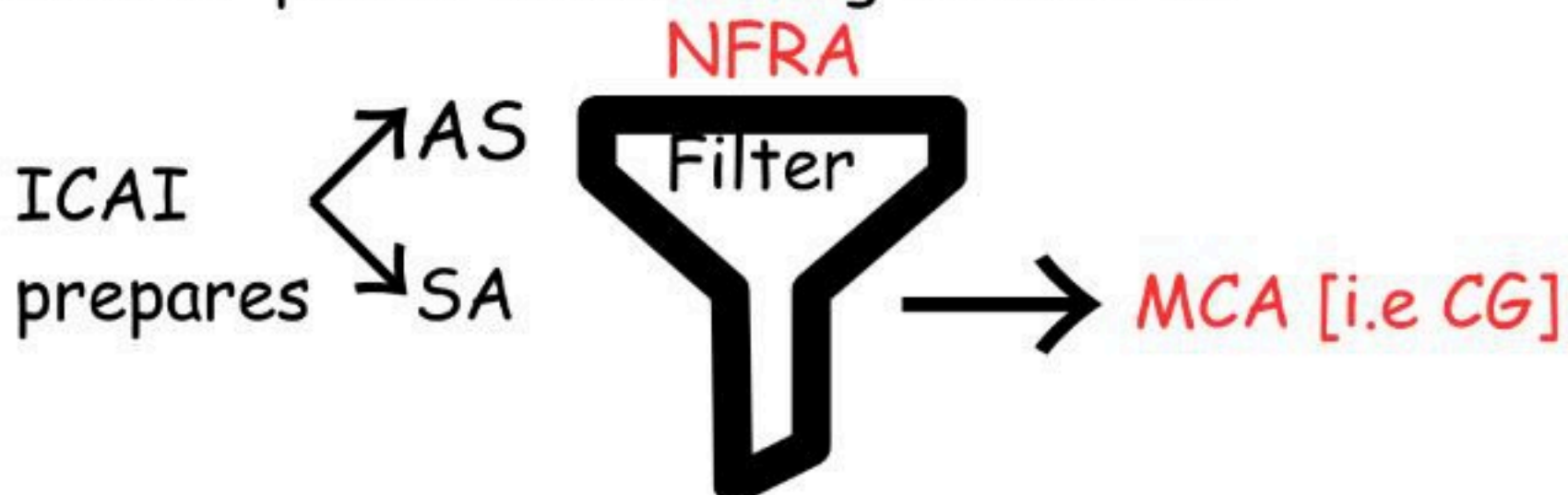


SEC 143(8) AUDIT OF BRANCH ACCOUNTS

SEC 143(9),(10) Compliance with Auditing Standards

Every Auditor shall comply with Auditing Standards

- ⇒ **1st stage** ICAI recommends SA
- ⇒ **2nd stage** SA's examined by NFRA & also make it's own recommendations
- ⇒ **3rd stage** CG examines the recommendations made by NFRA & prescribe auditing standards



SEC 145 SIGNING OF AUDIT REPORT

- ⇒ **Sign** the auditor's report
- ⇒ **Sign** or certify other company documents
- ⇒ **Read any comments**, observations, or qualifications about financial transactions that may negatively impact the company's operations in a general meeting
- ⇒ Make these comments available for **inspection** by any company member

SEC 146 Auditor to attend general meeting

- ⇒ All **notices and communications** relating to general meetings **must be sent** to the company's auditor.
- ⇒ The auditor must attend the meeting, unless the company **exempts them**. They can attend in person or through an authorized representative who is also qualified to be an auditor.
- ⇒ The auditor has the right to be **heard at the meeting** on any part of the business that concerns them

SEC 147 PUNISHMENT FOR CONTRAVENTION

PENALTY

When company violates 139 to 146(Any).

Co ↗ Min. 25k
↘ Max. 5l

OID ↗ Min. 10k
↘ Max. 1l

When Auditor violates 139,143,144,145 146

Min. 25k
Max. 5l
(or)

4* Remuneration received intentional cheating

Max. 25l
(or)

Min. 50k

8* Remuneration received

} WEL
} WEL
(Or) 1 year jail
(or) both



SEC 143(11) CARO, 2020

Relevant date:-
25.02.2020



⇒ The Companies (Auditor's Report) Order, 2020 (CARO 2020) is a set of **guidelines for auditors** to follow when reporting on a company's financial statements

Applicability:

To **all companies** in India including **Foreign Co.** U/s 2(42)

Non Applicability:

- B - Banking company
- I - Insurance company
- S - Small company (**with PSC ≤ ₹4 crore & Turnover ≤ ₹40 crore**)
- S - Section 8 Licensed Company
- O - One Person Company
- P - Private Limited Company



TRICK:-
BISSOP 😎

Condition : paid-up share capital ≤ ₹1 crore, borrowings ≤ ₹1 crore, and Turnover ≤ ₹10 crore)

CHEAT - CODE

FILLeD – CS		U – Different- NRI		BiNoCulaR GUCci	
F	Fixed Assets	U	Unrecorded Income	B	Barter
I	Inventory	D	Defaulter Company	N	NBFC
L	Loans & Investments	I	Issue Proceeds	C	Cash Losses
L	Loans & Investments	F	Fraud	R	Resignation
D	Deposits	N	Nidhi Company	G	Going Concern
C	Cost Records	R	RPT Disclosure	U	Unspent CSR
S	Statutory Dues	I	Internal Audit	C	Consolidated FS

REPORTING CLAUSES UNDER PARA 3 OF THE ORDER

1. Fixed Assets



- ⇒ **Proper records** maintained for Property, Plant, and Equipment (PPE) and intangible assets
- ⇒ **Physical verification** at regular intervals by MGT
- ⇒ Disclose any **revaluation** of PPE if the change is $\geq 10\%$.
- ⇒ Details of **disputed/benami properties**
- ⇒ The **ownership** of immovable properties held in the company's name.

↓ If not

Description of property	Gross Carrying value	Held in name of	Whether promoter, director or their relative or employee	Period held- indicate range, where appropriate	Reason for not being held in name of company

2. INVENTORY

- ⇒ **Physical verification** at regular intervals
- ⇒ **Regular Records**(R/M, W-I-P ,FG)
- ⇒ taken working capital **loans > 5 crores**



Verify if the quarterly stock statements filed with the bank/financial institution are in agreement with BOA.

3. RELATED PARTY LOANS

- ⇒ How much **total loans** [Related party & Non related party]
- ⇒ Check whether the **T&C** of these loans prejudicial to the company's interest.
- ⇒ If amount is **overdue > 90 days** → Did you take any remedial actions
- ⇒ Any related party loan(**Renewal, Fresh loan, Extension**)



4. Compliance with Section 185 & 186

- ⇒ Verify if loans or guarantees given to directors or related parties comply with:

SEC 185 : loans to director

SEC 186 : loans to other companies
(Inter Corporate loans)



5. Public Deposits

- ⇒ Did you accept public deposits (networth ≥ 100 cr , T/O ≥ 500 cr)
- ⇒ Are you following sec 73 to sec 76 A
- ⇒ Did you follow RBI guidelines?
- ⇒ Default of repayment (36 months) → NCLT → order?



6. Cost Records

- ⇒ Whether maintenance of cost records has been specified by the CG u/s 148(1) of the Companies Act, 2013 and whether such accounts and records have been so made and Maintained



7. Statutory Dues

- ⇒ **Undisputed dues:**

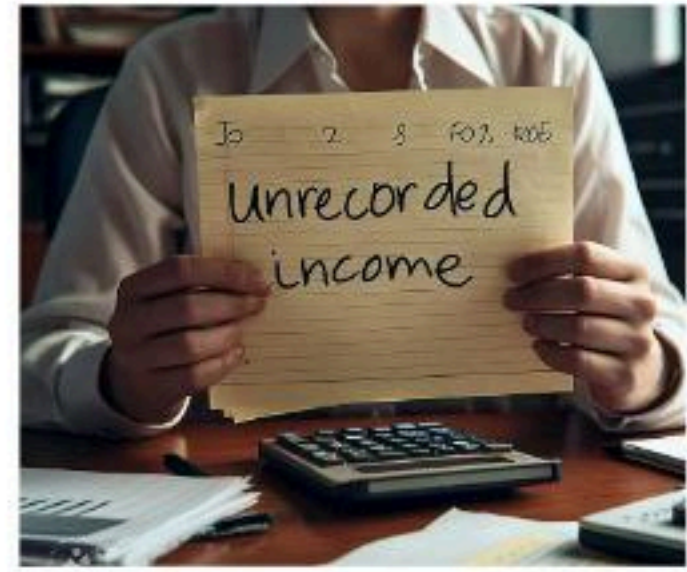
- Regular in payment of undisputed taxes
- Ensure that there are **no outstanding statutory dues** overdue for more than **6 months**.

- ⇒ **Disputed dues:**

- Report the **amount** and in which **court/forum** the dispute is going on

8. Unrecorded Income

- ⇒ Did you **surrender any undisclosed** income detected during income tax assessments?
- ⇒ Did you **recorded** it your **BOA**?



9. Repayment of loans

- ⇒ Report **any defaults** in repayment of loans or borrowings, including "list of defaults & lenders"
- ⇒ Ensure that loans obtained are used for the **intended purpose**.
- ⇒ Report if funds raised for **short-term** use have been **used for long-term purposes**.
- ⇒ If **parent taken borrowing** but to repay obligations of subsidiary/associate/joint venture
- ⇒ If **parent obtained loans** & pledged securities in it's subsidiary/associate/joint venture



10. Money Raised by Public Issue or Term Loans

- ⇒ Check if money raised by **public issue** or term loans has been applied for the **intended purpose**
- ⇒ Report **compliance with Section 42 & 62** of the Companies Act for the funds raised



11. Fraud Reporting

- ⇒ Report if any **fraud was identified** by the company or on the company
- ⇒ Report whether fraud was filed by the auditor under **Section 143(12)**
- ⇒ Check if any **whistleblower complaints were received**



12. NIDHI COMPANIES

- ⇒ Maintain **10% unencumbered term deposits**.
- ⇒ maintain the **net-owned funds to deposit ratio of 1:20**.
- ⇒ Report any defaults in payment of interest on deposits.



13. Related Party Txn

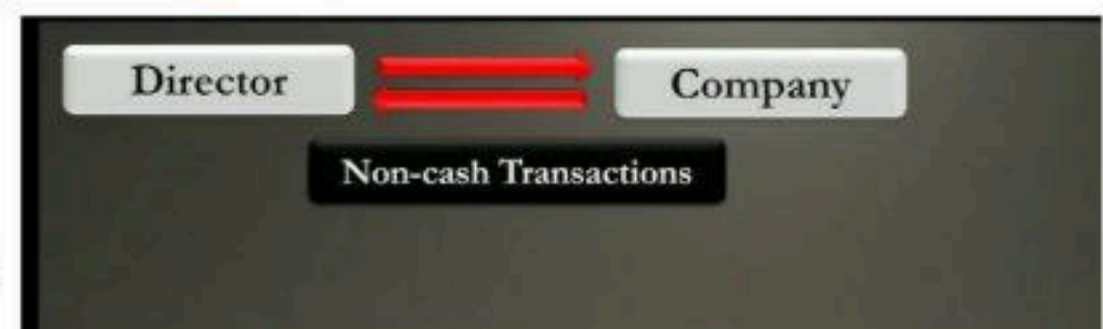
- ⇒ Ensure all related party transactions **comply** with Sections **177 and 188** of the Companies Act.

14. Internal audit system

- ⇒ Verify if the company has an **adequate internal audit system**
- ⇒ Confirm that the internal audit reports are **reviewed** by the statutory auditor

15. Non cash Txn with directors

Confirm that any non-cash transactions between the company and its directors **comply** with Section **192** of Co. Act



16. NBFC

- ⇒ Whether the company is required to register under the RBI Act, 1934.
- ⇒ Whether the company has a **valid Certificate of Registration (CoR)** from the Reserve Bank of India
- ⇒ Whether the company is a **Core Investment Company (CIC)**
- ⇒ Whether the company **meets the criteria** to be a CIC
- ⇒ Whether the group has more than **one CIC**



17. Cash losses

- ⇒ Report if the company has incurred any cash losses in the current financial year or the preceding year.

18. Resignation of Statutory Auditor

- ⇒ Whether there was a resignation of statutory auditors during the year, and if so, whether the auditor **considered** the outgoing auditors' **concerns, issues, or objections**

19. Ability to pay Liabilities

- ⇒ The auditor must state whether they believe the company can meet its liabilities within **one year** of the **balance sheet date**.

- ⇒ The auditor must consider the financial ratios, the aging of financial assets, and the expected dates of payment of financial liabilities



20. CORPORATE SOCIAL RESPONSIBILITY

Sec 135 2% of Last 3 years Average Net profit

Ongoing projects

⇒ The auditor must report whether the remaining unspent amount has been transferred to a special designated bank A/c within 30 days from end of FY.



Other than ongoing projects

⇒ The auditor must report whether the unspent amount has been transferred to a **fund** specified in **Schedule VII** of the Companies Act within **six months** of the financial year's end

21. Qualification/Adverse Remarks

⇒ If there are any qualifications or adverse remarks, the auditor must include the details of the companies and the paragraph numbers of the CARO report containing the qualifications or adverse remarks.

⇒ The CARO requirement does not apply to the auditor's report on consolidated financial statements, except for this clause

PARA 4

OPINION PARA

⇒ Where, in the auditor's report, the answer to any of the questions referred to in Para 3 is **unfavourable** or **qualified**, the auditor's report shall also **state the basis** for such unfavourable or qualified answer, as the case may be

⇒ Where the auditor is **unable to express** any opinion on any specified matter, his report shall indicate such fact together with the **reasons** as to why it is not possible for him to give his opinion on the same.

Janav & Ankitha

SECTION 204 SECRETARIAL AUDIT

It's like a health check for company's legal and administrative processes

1 Applicability

- ⇒ compulsory for all listed companies
- ⇒ For unlisted companies
 - Either PUSC \geq 50 cr
 - T.O \geq 250 cr
 - O/s borrowing \geq 100 cr

Who can do it : Practicing company secretary

2 Audit Report Form : MR-3

- ⇒ Company must give all assistance & facilities to secretarial auditor
- ⇒ In case of adverse or negative remarks, the BOD shall justify & explain in their Board report.

3 Appointment of **SECRETARIAL AUDITOR**

- ⇒ Secretarial auditor is appointed by BOD by passing Board Resolution
- ⇒ It is advisable for secretarial auditor to get letter of engagement from the Co.
- ⇒ The company shall report any change in the secretarial auditor during the financial year to the members through the Board's Report.

4

SECRETARIAL AUDIT REPORT

- ⇒ In case of listed companies and its material unlisted subsidiaries along with Audit report, an annual report is also required to be attached which is known as "secretarial compliance report" and should be filed with stock exchange within 60 days from end of financial year

SEC 148 COST AUDIT

COST AUDIT



- ⇒ Cost audit is an **independent Examination of cost** and other related information
- ⇒ in respect of **product or group of products** of an entity
- ⇒ whether **profit oriented or not**
- ⇒ irrespective of it's legal size or legal form
- ⇒ when such examination is conducted with view to express an opinion.



"JANAV"

here

IMPORTANCE OF COST AUDIT

Cost Reduction

Cost Optimisation

Identify Inefficiencies

Reduction in Wastages

subsidies from Govt by cost audit

Cost audit appraises the cost control mechanisms

Cost records [SEC 148(1)]

Cost records means **BOA** relating to **utilisation of materials**, **labour**, and **other items of cost** as applicable to production of goods or provision of services.

APPLICABILITY OF COST RECORDS

Companies including foreign companies → Engaged in → production of goods or providing services as specified [Table A & Table B]

Trick:- **STEP FATHER DAUGHTER**

Regulated Sector (Table A)	Non Regulated Sector (Table B)
◆ Telecommunication	◆ Iron
◆ Electricity	◆ Steel
◆ Petroleum	◆ Rubber
◆ Sugar	◆ Cement
◆ Drugs and Pharma	◆ etc.
◆ Fertilisers	

During immediate preceding FY → Having T/o > 35 cr
 ↓
 Shall include **Cost records** in their BOA

EXCEPTION

- Foreign companies having one **liaison office in India** and are engaged in production, import, and supply of trading of medical are exempted.
- Companies classified as **Micro-enterprise or medium enterprise** as per MSME act, 2006 are exempted.



Liaison office established by Company or organisation in foreign country to facilitate communication & Coordination

APPLICABILITY OF COST AUDIT

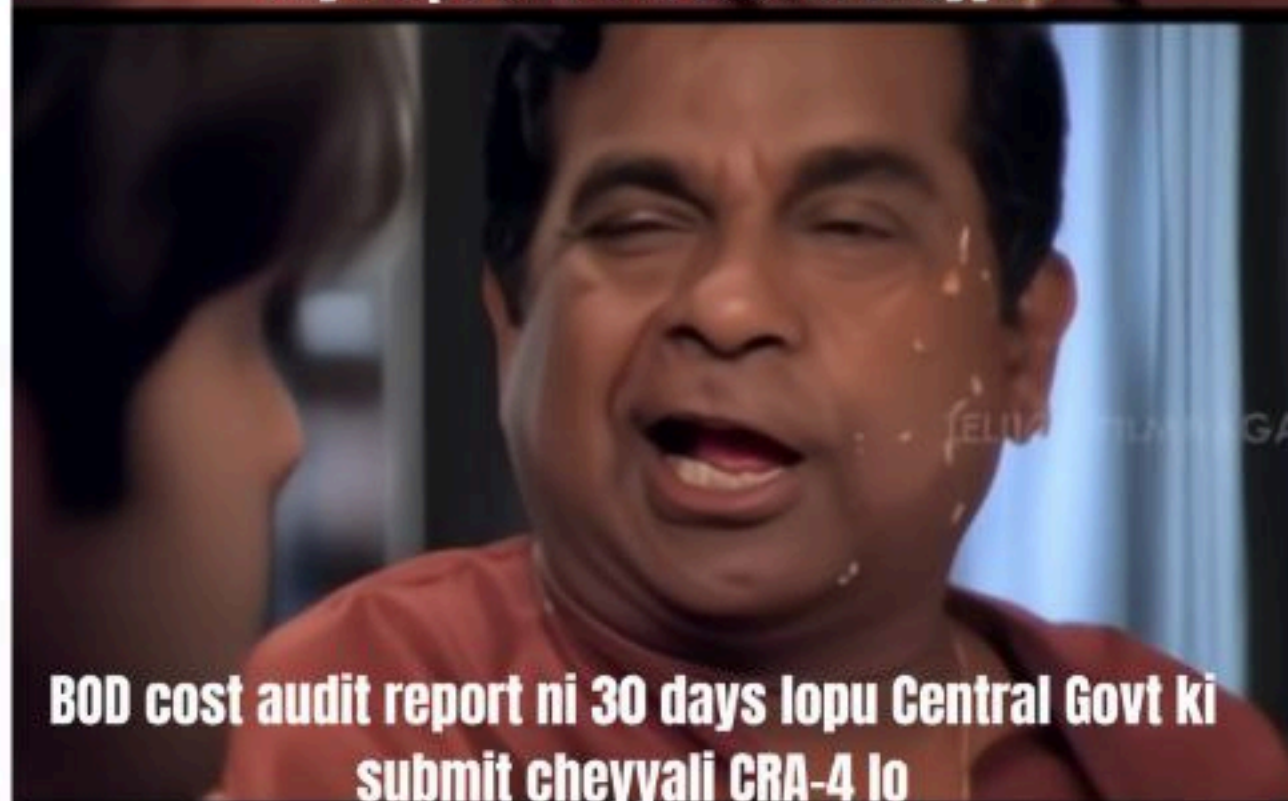
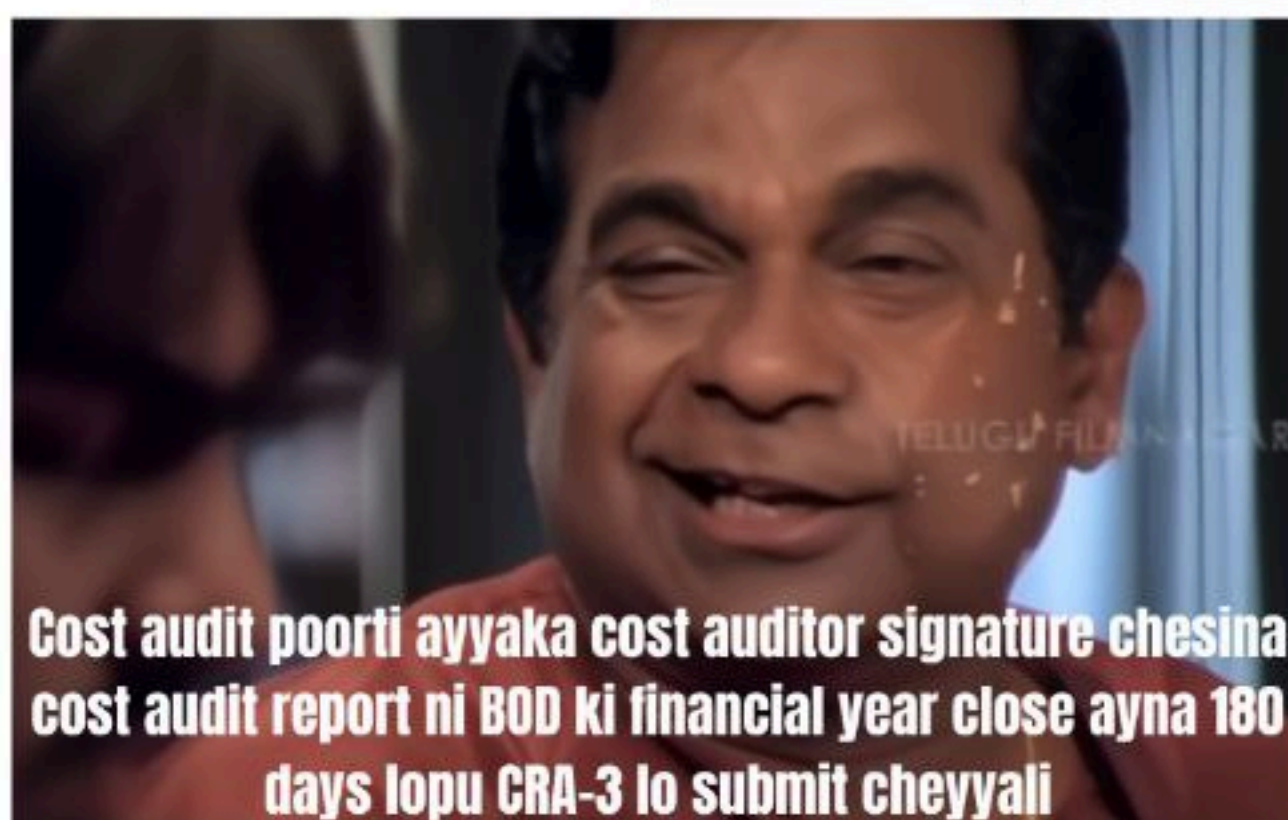
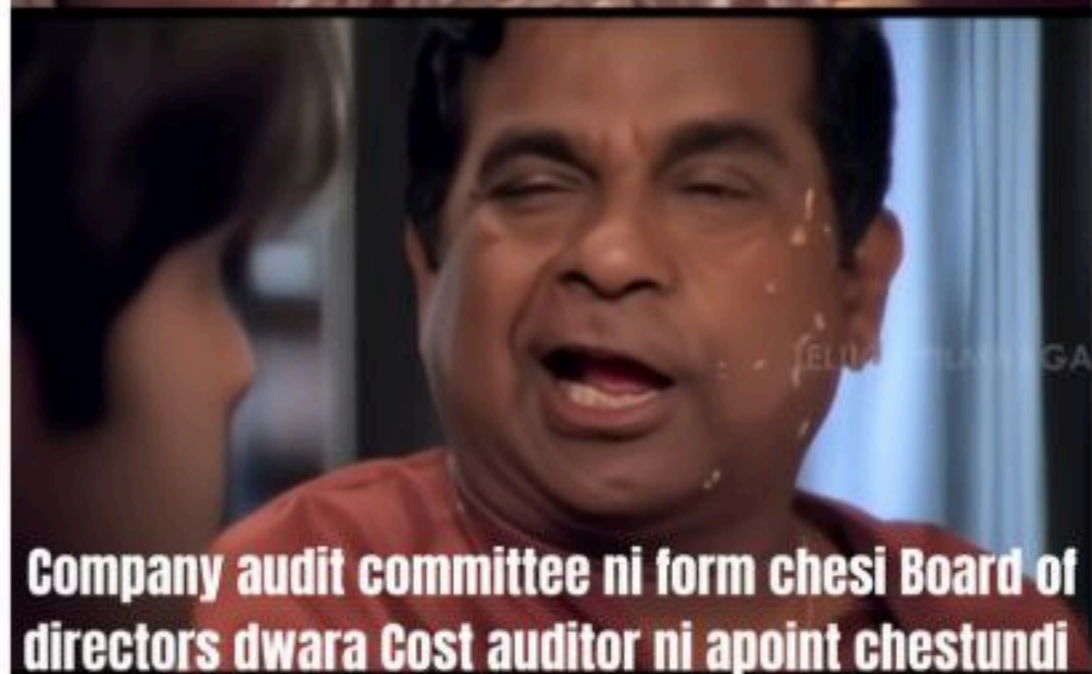
⇒ The Companies (Cost Records and Audit) Rules of 2014 apply to all companies registered under the Companies Act that manufacture goods or provide services listed in **Table A** or **Table B** of Rule 3

The aggregate turnover from the individual product or service for which cost records are required must be at least **INR 25 crore for regulated sectors** and **INR 35 crore for non-regulated sectors**

The company's total annual turnover from all products and services must be at least **INR 50 crore for regulated sectors** and **INR 100 crore for non-regulated sectors**



Appointment, Remuneration & Reporting of cost Auditor



Who can be appointed as Cost Auditor

- Cost accountant who holds a
- ⇒ valid certificate of practise
 - ⇒ whole time practise
 - ⇒ includes a firm of cost accountants and LLP of cost accountants.



CMA ✗
PCMA ✓

Statutory auditor ≠ Cost Auditor

PROCEDURE

Person shall be appointed as cost Auditor within **180 days** of commencement of every financial year → Before appointment **written consent & certificate** to be obtained → Co inform cost auditor of his appointment → co file notice with CG [**CRA2**] within 30 days of Board meeting or within 180 days of commencement of FY whichever earlier

Tenure :

180 days of closure of FY or till submission of cost audit report

Authority to fix Remuneration

In case Companies required to constitute an audit committee

AUDIT COMMITTEE $\xrightarrow{\text{Considered \& approved by}}$ BOD $\xrightarrow{\text{Ratified by}}$ SHAREHOLDERS

In case Companies not required to constitute an audit committee

BOD $\xrightarrow{\text{Ratified by}}$ SHAREHOLDERS

Rights & duties : same as statutory auditor

COST AUDIT REPORT

COST AUDITOR submit report → In **CRA 3** forward duly signed report to BOD → within 180 days of closure of FY

Report Along with info & explanation → to CG in CRA 4[XBRL format]

Penalty: CO → between 25k & 5L OI → between 10k & 1 L

BRANCH AUDIT



DEFINITION

A branch audit is an examination of a company's branch office accounts and affairs.

MAINTENANCE OF BOOKS OF ACCOUNTS[128(1)]

- ⇒ There can be independent branches/dependent branches
- ⇒ In case of dependent branches, the Books Of Accounts shall be maintained at Head office/Registered office.
- ⇒ In case of foreign branches, the summarised returns of their Books Of Accounts must be sent to India at registered office periodically

Who can audit the Branch

As per Section 143

Sub-section 8

In case of Indian branch - Audit can be done by same company auditor (or)
Another PCA/PCMA

In case of Foreign branch - Audit can be done by company auditor (or)
Auditor/Accountant of that country

Sub-section 1 to 4

- ⇒ Same duties are applicable to branch auditor like company auditor [Refer Co. Audit]

Section - 143(12)

- ⇒ Duty to report fraud :-same duty applicable to branch auditor like co. auditor

SA 299 JOINT AUDIT



DEFINITION

Audit of one company conducted by more than one persons or firm.

Division Of Work

- ⇒ Before starting an Audit, Joint auditors must divide their work with mutual discussions among themselves
- ⇒ Some works which are not divided, all Joint auditors will be held jointly liable.

Co-ordination

- ⇒ When one joint auditor come across matter relating to another joint Auditor, he/she shall communicate to another joint auditor in writing to draw attention.

RESPONSIBILITY OF JOINT AUDITOR

Individually Responsible

- ⇒ For work divided among them
- ⇒ Audit Procedures done individually

Jointly Responsible

- ⇒ Work not divided
- ⇒ Audit procedures carried out jointly
- ⇒ Matters brought to notice of each other
 - ⇒ Disclosure requirement of F.S
 - ⇒ Audit Report

Dependence Of Other Auditors

⇒ Each joint auditor shall assume that other joint auditor has done his work effectively, efficiently & with competence.. we shall not doubt each other's abilities and capabilities.

REPORTING RESPONSIBILITY

- ⇒ If each Joint auditor agreed with each other, they can give single/common Audit report.
- ⇒ If they disagree with each other, in such case they are allowed to give separate Audit report.
- ⇒ One joint auditor shall not be bound by views of majority of other joint Auditors.

ADVANTAGES

- ⇒ Reduces Workload
- ⇒ Timely completion of work
- ⇒ Improve quality of work
- ⇒ Sharing of expertise
- ⇒ Sharing of each other staff

DISADVANTAGES

- ⇒ Superiority Complex
- ⇒ Costly
- ⇒ Work fixation difficult
- ⇒ Sharing of fees
- ⇒ Clash of egos
- ⇒ Lack of co-ordination

JANAV & ANKITHA

AUDIT COMMITTEE



A subgroup of a company's Board of Directors ensuring accuracy, transparency, and compliance in financial reporting, internal controls, and risk management.

APPLICABILITY

- ✓ Listed Company → Compulsory
- ✓ Unlisted Public Co.
 - Any Of 3 conditions
 - ⇨ PUSC \geq 10 Cr (or)
 - ⇨ O/s borrowings \geq 50 cr (or)
 - ⇨ T.O \geq 100 cr
- ✓ Private Co. → Exempted

COMPOSITION

- ✓ Minimum: 3 Directors → majority Independent director
Chairman → Independent Auditor

Functions

- ✓ Recommend action on auditors (Appointment , Remuneration, Terms of Engagement
- ✓ Monitoring Auditor (performance, independence, effectiveness)
- ✓ Review of F.s & Audit report
- ✓ Approval for related party Txn
- ✓ Approval for inter-corporate loans
- ✓ Valuation (undertakings, Assets)
- ✓ Checking End use of funds raised through Public Offer .

Powers Of Audit Committee

- ✓ Ask for auditor comments on I.C.S
- ✓ Investigation On any entity or any person of entity or ask any information
- ✓ To review F.s & audit report before board & if Board doesn't follow recommendation of audit committee → Give reasons in writing
- ✓ Whistle blower policy :- Let Staff & employee to report against unethical things happening in entity.
- ✓ Safeguard against victimisation:- To allow direct access to chairman of audit committee to take appropriate action against victimisation

Victimization:- Unfair treatment of a whistleblower (employee/stakeholder) who reports concerns, including Demotion ; suspension ; termination; harrasment.

JANAV & ANKITHA

BRIEF INTRODUCTION TO AUDITING STANDARDS

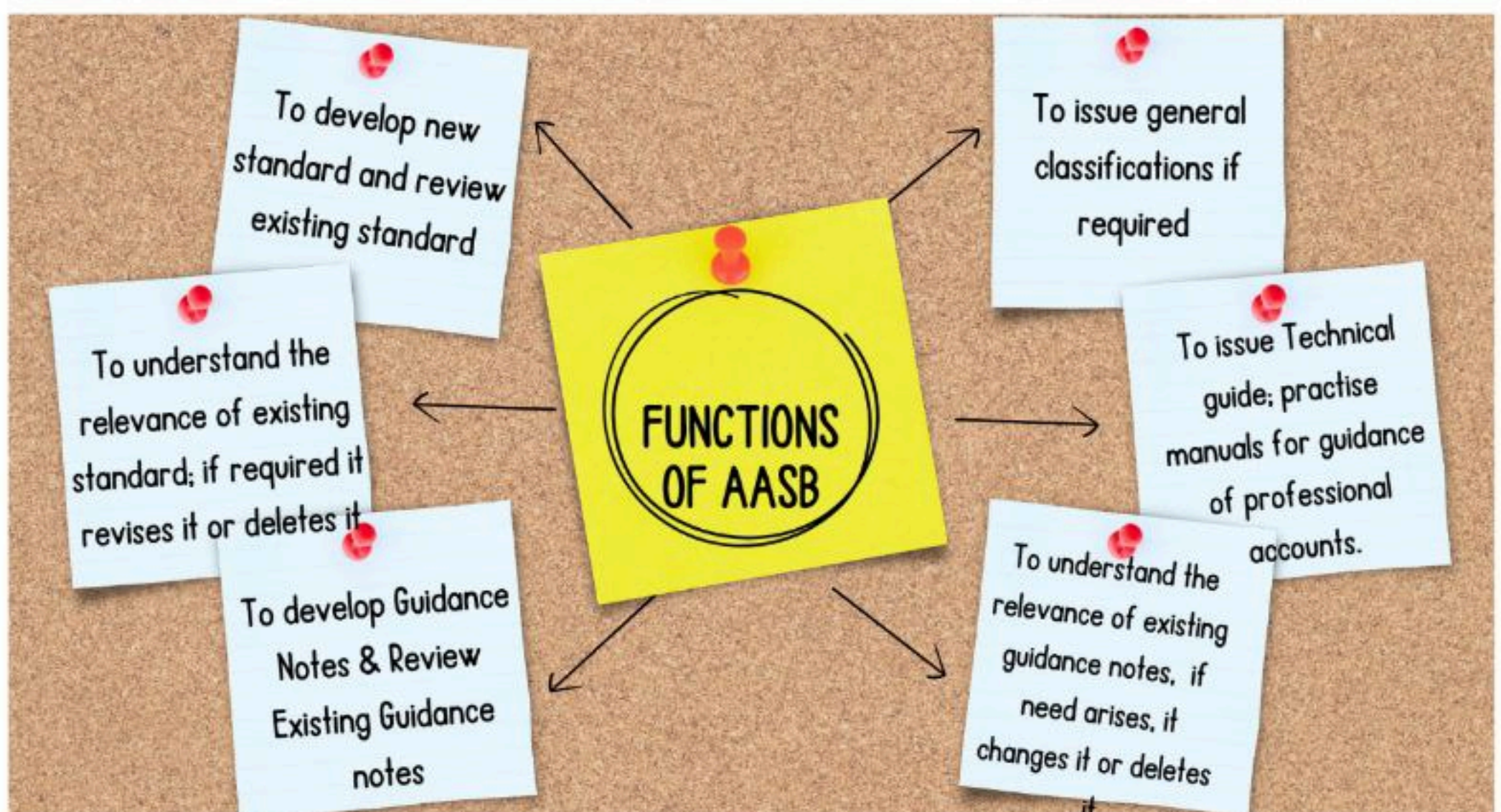


- ⇒ ICAI has introduced AASB board in 2002 which was earlier known as APC IN 1982
- ⇒ AASB is constituted to match international auditing standards issued by IAASB
- ⇒ IAASB is constituted by IFAC
- ⇒ In IAASB , chartered accountants from ICAI, professionals from SEBI, RBI, IRDA, IIMS, & industry association are also included.

AASB-auditing & assurance standards board

APC- auditing practices committee

IFAC- International federation of accountants



Purpose of Standards of Auditing

- ⇒ To bring uniformity in every situation.
- ⇒ To reduce Audit risks
- ⇒ Acting as self defencing tool against gross negligence charges
- ⇒ To improve quality of audit work so that public trust can be increased

TYPES OF STANDARDS

1. Standards on Auditing [SA's]
2. Standards on assurance engagement [SAE]
3. Standards on review engagement [SRE]
4. Standard on Related Services [SRS]
5. Standards on quality control [SQC]

Procedures for Issuing Standards

1. AASB identify the areas.
2. It prepares Auditing standards on that particular area.
3. An express draft of proposed Standards will be sent to ICAI
4. After taking comments from ICAI, AASB finalises it on behalf of ICAI
5. AASB forwards it to NFRA
6. NFRA will consider it & recommends it to MCA
7. MCA notifies it in official gazette

SA 210 AUDIT ENGAGEMENT



Formal agreement between an auditor and a client to perform an audit, reviewing financial statements, records, and operations.

Audit Engagement Letter

- ⇒ It is letter which is drafted by proposed auditor defining his terms & conditions
- ⇒ It is forwarded to MGT before commencement of audit so that Future misunderstandings & conflicts can be avoided.
- ⇒ Terms & conditions are decided by the agreement between auditor & auditee and it is the starting point of relationship between them.

No of copies

- ⇒ Generally " Two Copies" are made and forwarded it to MGT out of which one will be kept by the MGT . The 2 nd copy shall be signed & acknowledged and should be send back to auditor which can keep as an evidence of agreement

CONTENTS OF AUDIT ENGAGEMENT LETTER

Objective & Scope

Roles & responsibilities of both parties

Limitations of Audit

Use of internal auditor if need arises


Basis of audit fees & billing arrangements

Validity of Report

Form of Report & other communications

Declaration that Audit is not a guarantee

AUDIT PROGRAM



WHAT IS AUDIT PROGRAM?

An audit program (or audit plan) is a detailed document outlining the procedures to be performed during an audit.

It includes

- ⇒ Audit work to be performed
- ⇒ Audit Procedures to be performed
- ⇒ Audit techniques to be adopted
- ⇒ Audit Evidences to collected.
- ⇒ Allocation of work
- ⇒ Timings of doing audit
- ⇒ when to direct, revise, supervise & manage the work

TYPES

General Audit Program It is applicable to all types of audit.

Special Audit Program It is applicable to particular type of audit

Trick:- SCARCE FUND

ADVANTAGES

- ⇒ **Supervision & Control**
- ⇒ Proper **Allocation** of resources
- ⇒ Fixing Individual **Responsibilities**
- ⇒ Ready **Checklist**
- ⇒ **Evidence** in event of charge
- ⇒ **Following** year plan
- ⇒ **Uniformity** of work
- ⇒ No **negligence** proved
- ⇒ **Delegation** of authority

Trick:- DRUM

DISADVANTAGES

- ⇒ In efficient staff may **defend** themselves as such matter was not included in program.
- ⇒ Inflexible & **rigid** in nature
- ⇒ **unnecessary**
- ⇒ It makes audit **mechanical** & robotic in nature due to which interest will be lost

SA 230 AUDIT DOCUMENTATION



Records and Papers that auditors prepare and maintain during an audit process .

As per SA 230 Audit Documentation refers to

- Audit procedures performed
- Audit Evidence Collected
- Audit Conclusions reached/drawn
- All communication which happened between both parties
- Every piece of planning & strategy followed.
- Audit Programme followed during the Audit.

Audit documentation is also known as working papers

Preservation Time :- **7 years from the date of signing of audit report.**

Assembling Time:- **Within 60 days from the date of signing of audit report.**

Ownership & Property

- Working Papers are auditor's property, Auditor is the absolute owner
- It is his right whether he wants to show it to anyone/not, except if there is statutory requirement of law.

PURPOSE:-

- lays the groundwork for future audits
- helps the engagement team be accountable for their work
- helps plan and perform an audit.

Contents Of Audit Documentation

- Audit procedures performed
- *Audit Evidence Obtained*
- *Professional Judgements made*
- *Audit works performed*
- *TOT & TOB done*
- *All the communications had with the MGT*
- *Any alternative procedures performed with reasons.*

TYPES OF AUDIT WORKING PAPERS FILE

**PERMANENT
AUDIT FILE**

VS

**CURRENT
AUDIT FILE**

It is a file which includes documentation of previous years & records of such years which auditor & engagement team refers before commencement of current year audit.

The age of this file is "7 years"

CONTENTS

- MOA copy
- AOA copy
- COI
- Partnership deed copy
- Pasy year Audit reports
- Pasy year Audited F.S

This file includes documents, planning, strategies, evidences, obtained during the course of current year audit

It's age is "1 year" (after one year it automatically turns into permanent audit file)

CONTENTS

- planning
- strategy
- Evidence
- Programmes
- Current year affairs
- Engagement Letter

KEY DIFFERENCES

AUDIT PROGRAMME VS AUDIT DOCUMENTATION

FUTURE

PAST

Work to be performed

Work performed

Evidence to be obtained

Evidence obtained

Techniques to be adopted

Techniques adopted

AUDIT NOTE BOOK

01

An audit notebook is a record of an auditor's observations and findings during an audit

02

Sometimes while doing Audit, audit staff may come across various frauds, errors, issues etc... which needs clarification from MGT.

03

It is broadly classified into 3 columns.

1. queries raised
2. MGT response (satisfactory/non satisfactory/not applicable)
3. Auditors Remarks

04

It is part of permanent audit work file

CONTENTS OF AUDIT NOTE BOOK

- ⇒ Name of client
- ⇒ Client's organisation structure
- ⇒ Important Provisions of MOA/AOA
- ⇒ Communication with previous auditor
- ⇒ Errors and frauds discovered
- ⇒ Accounting system and ICS maintained
- ⇒ Areas which need special attention
- ⇒ Matters requiring Explanations & clarifications

AUDIT WORKING PAPER

FORMAT OF AUDIT WORKING PAPER	
XYZ & Co.	
Chartered Accountants	
AUDIT WORKING PAPER	
	Page No.....
CLIENT	
ACCOUNTING YEAR	
WORKING PAPER TITLE/HEAD OF ACCOUNT	
SAMPLE/DATA CHECKED	
AUDIT TESTS DONE	
AUDIT QUERIES	
AUDIT FINDINGS	
.....	
.....	
CONCLUSION	
RECOMMENDATION	
.....	
SIGNATURE OF AUDITOR	REVIEWED BY

SA 500 AUDIT EVIDENCE



Information used by the auditor in arriving at the conclusions on which **auditor's opinion is based**.

AUDITORS JUDGEMENT WHILE OBTAINING AUDIT EVIDENCE

⇒ The auditor should evaluate whether he has obtained Sufficient Appropriate Audit Evidence [SAAE]

Sufficiency → quantum of evidence obtained

Appropriateness → relates to reliability & relevance

⇒ The following factors influence the auditors judgement while obtaining Audit Evidence

- ① **Nature** Of item
- ② **Adequacy** of internal controls
- ③ **Nature & size** of business Carried on by the entity
- ④ **Financial Position** of the entity
- ⑤ **Materiality** of item
- ⑥ **Experience** gained during previous audit
- ⑦ Results of Auditing procedures
- ⑧ **Trend** indicated by accounting ratios & analysis

TYPES OF AUDIT EVIDENCE

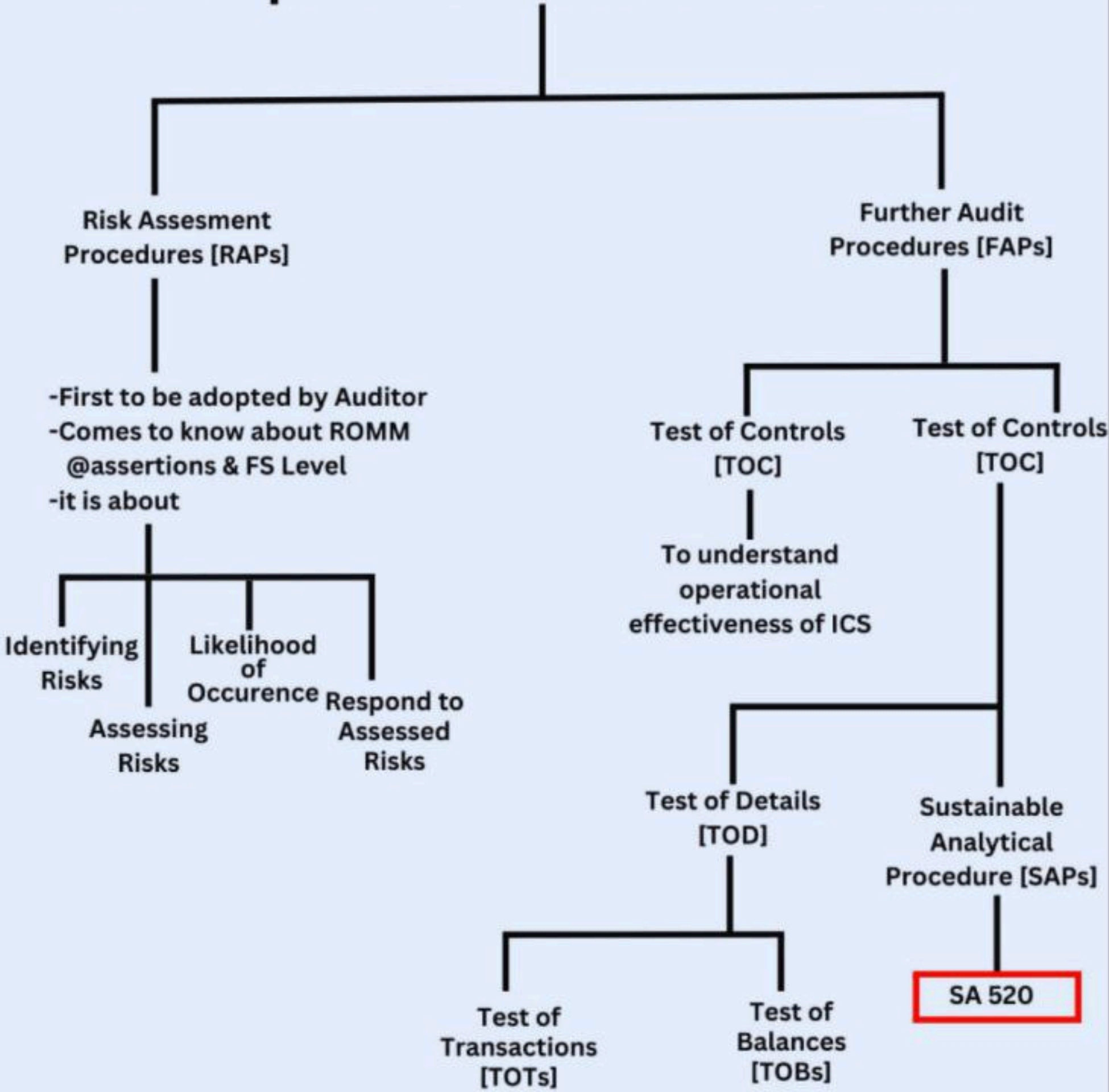
INTERNAL EVIDENCE

Originates from within the organisation
Eg:- Financial Statements,
accounting records, sales invoices

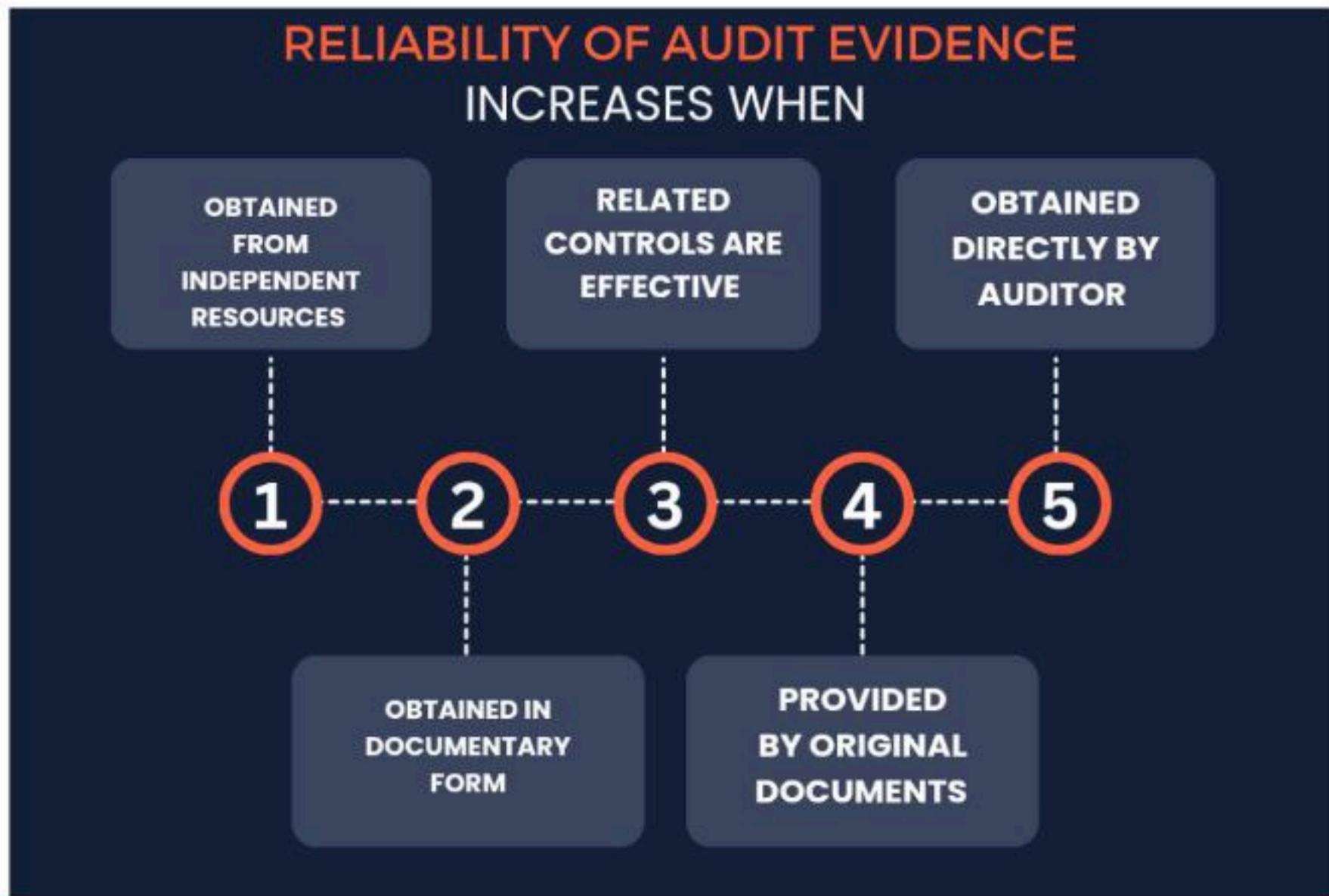
EXTERNAL EVIDENCE

Originates from Outside the organisation
Eg:- Bank statements, supplier bills,
Tax returns, customer receipts

Audit procedures to obtain SAAE



RELEVANCE AND RELIABILITY OF AUDIT EVIDENCE



➤ In order to arrive at an appropriate conclusion regarding the truthfulness and fairness of financial statements, the audit evidences under examination must be relevant and reliable

- ❶ Audit evidence obtained from **independent sources** outside the entity are more reliable.
- ❷ Audit evidence obtained **directly by auditor** is more reliable
- ❸ Audit evidence in **documentary form** is more reliable than oral evidence
- ❹ Audit evidence provided by **original Documents** is more reliable than photocopies

Methods To obtain Audit evidence

External confirmation
seeking appropriate info. from knowledgeable persons

Recalculation
Checking arithmetical accuracy

Inspection
Examining documents

Observation
witnessing procedures performed by others

Analytical Review
Studying Significant ratios&trends

SA 530 AUDIT SAMPLING



- Now a days due to **large sized organisations**, the number of transactions are growing larger & larger ; therefore it is not possible to auditors to verify each & Every transaction.
- so to express his opinion auditor has to be dependent up on **part checking** which is known as sample checking
- As per SA 530; Audit sampling means **application of audit procedures to less than 100% of items within a population.**
- As auditor need not give absolute assurance, but sampling helps him to give Reasonable assurance.

- ### ADVANTAGES
- Reduces workload of an auditor
 - Less time consuming & cost effective
 - Auditor can devote his more time on special areas
 - give us reliable results by using statistical sampling method

Population
entire set of data from which sample is detected

- ### FACTORS AFFECTING AUDIT SAMPLING
- Objective of audit
 - Nature of population
 - ICS
 - Materiality of items
 - sampling risk
 - Non sampling risk
 - Tolerable error

NON STATISTICAL SAMPLING

⇒ Auditor select sample based on experience & knowledge but not considering calculated risk. It should be avoided by auditor

STATISTICAL SAMPLING

- ⇒ Scientific approach
- ⇒ calculated risk by auditor
- ⇒ doesn't depend on auditor personal judgement

TYPES OF STATISTICAL SAMPLING

RANDOM SAMPLING

- ⇒ used in **homogeneous nature**
- ⇒ Every item has an **equal chance** of selection.
Eg:- picking 10 students from class with 100 students

STRATIFIED SAMPLING

- ⇒ used in **heterogeneous nature.**
- ⇒ Big population is divided into small sub- population and each sub-population known as stratum. & then random selection will be done from each stratum.
Eg:- Surveying 100 people : 50 from city ; 30 from sub-urban ; 20 from rural.

INTERVAL SAMPLING

- ⇒ AKA **SYSTEMATIC SAMPLING**
- ⇒ sample will be selected using constant intervals between selections.
Eg :- selecting every 10 th Txn from list of 1000

MONETARY UNIT SAMPLING

⇒ sample is selected on the basis of **monetary value** of the transaction

Eg;- diamonds having high value ; therefore no scope of sampling (full checking)

MULTI STAGE SAMPLING

⇒ useful when data is stored more than one level

Eg;- Stock stored at multiple locations; First auditor selects randomly the location & then randomly items in those locations

SAMPLING RISK

⇒ A Risk of selecting wrong sample size due to which auditor ends up giving wrong calculations due to following reasons.

- Auditor trusted more than actually it is & ends up selecting lower sample size (**over trust of ICS**)
- Auditor trust less than actually it is & ends up selecting more sampling size (**under trust of ICS**)
- Auditor assumed **less Frauds & Errors** than actually existing & ends up selecting lower sample size
- Auditor assumed **more Frauds & Errors** than actually existing & ends up selecting more sampling size

NON SAMPLING RISK

- ⇒ Risk is associated with auditor poor judgement in selection of
- Procedures to be performed
 - Evidences to be collected
 - Techniques to be adopted

NSR+SR = DETECTION RISK

STAGES OF SAMPLING

① SAMPLE DESIGN

② SAMPLE DETERMINATION

③ SAMPLE SELECTION

④ Application of audit Procedures

AUDIT TECHNIQUES

⇒ While conducting the audit of an organisation, an auditor resorts to various techniques. some of the common techniques which have wide application are discussed below.

Routine Checking

- ⇒ To check whether **Txn are properly entered** in BOA
- ⇒ whether the posting and carry forwards are done accurately.
- ⇒ To check arithmetical accuracy by **Audit clerks**

Test Checking

- ⇒ In large organisations, it becomes difficult for an auditor to conduct a detailed examination of all accounts.
- ⇒ If there is sound ICS of client, auditor can follow test checking after selecting sample he can do indepth examination
- ⇒ Saves time, cost, effort of auditor

KEY DIFFERENCES

Scope: Routine (all) vs Test (sample)

Purpose: Accuracy (Routine) vs Assurance (Test)

Audit Indepth

- ⇒ Auditor will select particular Txn & will conduct in-depth examination of that txn, by checking each and every single aspect of Txn.

Cut -off examination

⇒ Separating the transactions of one financial year from another financial year.

Eg:- sales of 31st March but recorded on 5 th April, sometimes wrongly will be considered as sale of next year due to which financial results will be affected and misleads the decision maker

⇒ It is very much required to eliminate any scope of manipulation.

Surprise Checking

⇒ It is an examination of client's ICS , Accounting & book-keeping without giving prior intimation to the client

⇒ It increases the efficiency of audit work

⇒ Auditor must do atleast one surprise check in every entity.

Walk Through Test

⇒ audit procedure that involves tracing a transaction through a company's accounting system from start to finish.

⇒ The purpose of a walkthrough test is to evaluate the effectiveness of a company's ICS.

⇒ identify any potential weaknesses or inefficiencies

SA 520 ANALYTICAL PROCEDURES

⇒ Traditionally we use to follow test checking & routine checking techniques but in modern times MGT is so clever that they end up doing Audit planned Frauds & Complex Erros. due to which innovative procedures are required which is known as "ANALYTICAL PROCEDURES".

AS PER SA 520 It means

- ⇒ Evaluation of financial information
- ⇒ by understanding the acceptable relationship
- ⇒ between financial & non financial data

NATURE OF ANALYTICAL PROCEDURES

- ⇒ It includes **comparisons**
eg::- comparison of own data of prior periods, comparisons of actuals & budgets
- ⇒ It includes the **understanding the relationship**
eg:- No of employees relationship with employee cost; Sales relationship with gross profit.
- ⇒ It includes **application of analytical techniques**
eg:- Trend analysis; Ratio analysis etc..
- ⇒ It would be applied on individual financials & consolidated financials

STAGES OF ANALYTICAL PROCEDURES

STAGE 01

AUDIT PLANNING

STAGE 02

SUBSTANTIVE TEST

STAGE 03

INVESTIGATION OF UNUSUAL ITEMS

STAGE 03

OVERALL CONCLUSION

TECHNIQUES OF ANALYTICAL PROCEDURES

TREND ANALYSIS

- ⇒ Comparison of current data with the prior period balance
- ⇒ Analysing account fluctuations by comparing current year to prior year information..

eg:- The auditor may compare the salary paid by the company during the year under audit with the salary paid by the company for several earlier years. There may be some percentage increase in the salary expense over the years. However, an unusual increase in such expense amount may indicate that fraudulent payments are being made to fake employees.

RATIO ANALYSIS

- ⇒ Calculating significant accounting ratios like Gp ratio to understand profitability; Current ratio to understand profitability; Debt equity to understand solvency.

REASONABLE TEST

- ⇒ These tests are made by reviewing the relationship of certain account balances to other balances for reasonableness of amounts.

eg:- 1.Raw Material Consumption to Production
2.Sales discounts and commissions against sales volume
3. Rental revenue based on occupancy of premises

Source Of Information

- ⇒ Source of data & information available to auditor is highly important and must be reliable to perform such procedures

STRUCTURAL MODELLING

- ⇒ A statistical model from financial and/or non-financial data of prior accounting periods to predict current account balances

SA 315 AUDIT RISK

AUDIT RISK

- ⇒ The possibility that auditor fails to detect material misstatements in financial statements
- ⇒ Audit risk appears due to human error & human judgement which can be on both sides
- ⇒ As auditor doesn't give guarantee, sometimes due to sampling technique, it becomes difficult to detect all frauds & Errors which leads to Audit risk.

Audit Risk doesn't include

- ⇒ Business risk of clients like
 - Lack of goodwill
 - Lack of customers
 - More legal cases
 - Negative publicity
- } Only MGTs Fault
- ⇒ Auditors giving negative opinion where in actual F.S were True & Fair [only auditor's fault]

TYPES OF AUDIT RISK

$$\text{AUDIT RISK} = \text{ROMM} \times \text{DETECTION RISK}$$

$$\text{ROMM} = \text{INHERENT RISK} \times \text{CONTROL RISK}$$



WHY ROMM & DETECTION RISK are inversely related?

High ROMM (complex business) → Low DR (detailed audit)

Low ROMM (simple business) → High DR (less detailed audit)

ROMM- RISK OF MATERIAL MISSTATEMENT

INHERENT RISK

⇒ This Risk occurs due to **Non-existence of ICS** in client's Entity

eg:- A bank without surveillance system; It means Frauds & Errors will definitely occur & it's purely MGT responsibility.

CONTROL RISK

⇒ This Risk occurs due to existence of **poor ineffective & limited ICS** in client's Entity

eg:- A bank with surveillance system but the cameras are not working. It is purely the MGT responsibility

DETECTION RISK

⇒ Auditor's procedures failed to detect a MS that existed due to following reasons

- Over Trust on ICS
- under trust on ICS
- Over assumption of Frauds & Errors
- Under assumption of Frauds & Errors

EXAMPLE TO ILLUSTRATE RELATIONSHIP

Janav, a friend of Ankitha, who owns a small bakery. Ankitha asks Janav to check if his employee, Teju, is correctly counting the daily cash sales. You agree to help.

Audit risk is like the chance that you Janav might not catch Teju making a mistake (or cheating) when counting the cash.

There are three key factors that affect audit risk:

1. Inherent Risk: This is like Teju's honesty level. If Teju is dishonest, there's a higher chance she'll make a mistake or cheat. [unavoidable risk & no ICS]
2. Control Risk: This is like the effectiveness of Ankitha's oversight. If Ankitha doesn't regularly monitor Teju, there's a higher chance Teju will make a mistake or cheat. [avoidable risk & poor ICS]
3. Detection Risk: This is like Janav attention to detail when checking Teju's work. If you're not thorough, you might miss mistakes or cheating. [possibility that an auditor will not detect a material misstatement in a company's FS]

ASSESSMENT OF AUDIT RISK

⇒ Audit risk can be assessed by performing Risk Assessment Procedures (RAPs)

⇒ Following are techniques of RAPs

(i) **Inquiry of MGT & others within the entity**

- Most of information which auditor needs, can be obtained from MGT & others in entity at different levels

(ii) **ANALYTICAL PROCEDURES**

(iii) **Observation & Inspection**

There are other relevant things what auditor can perform :-

a. Information obtained in previous year:-

Auditor's past experience with the client helps in understanding client in a better manner

b. Discussion among engagement team:-

Auditor must hold discussions with his engagement team members so that he can share his insights & knowledge with team members for better understanding of ICS

c. Acquiring knowledge of client's business (AKOCB)

INTERNAL CONTROL



INTERNAL CONTROL (The Audit Avenger)

Finding and Fixing mistakes before they become disasters.

DEFINITION

It is plan of action of MGT adopted by whole entity to fulfill following objectives-

Trick:- **SAPOT**



- ⇒ **S**afeguarding Of assets.
- ⇒ **A** orderly & efficient conduct of business
- ⇒ **P**revention & detection of Frauds & Errors
- ⇒ **O**ccuracy & completeness of A/Cing records
- ⇒ **T**imely preparation of reliable financial information

SCOPE OF INTERNAL AUDIT

a. ADMINISTRATIVE CONTROLS :-

Controls in relation to production process, quality control, pricing strategies.

b. ACCOUNTING CONTROLS

Controls related to BOA, A/C ing system, A/C ing policy etc..
It is again divided into 2 sub-sections

- ⇒ Internal Check
- ⇒ Internal Audit

ELEMENTS/FEATURES OF INTERNAL CONTROL

- ⇒ **Financial & Organisational plans** should be known to everyone in the entity
- ⇒ **Competent & Qualified** staff will be hired
- ⇒ **Proper division** of work among employees
- ⇒ There shall be **proper separation** between Operational responsibility & Book keeping
- ⇒ There shall be **proper separation** between custody of assets & A/C ing.
- ⇒ **Continuous supervision** & review over employee & staff



ADVANTAGES OF INTERNAL CONTROL

- ⇒ Helps in achieving EEE In operations & activities by minimising losses, spoilages, wastes
- ⇒ Prevention of Irregularities & Errors on timely basis
- ⇒ safeguarding of assets from misappropriation
- ⇒ helps in employee satisfaction & productivity
- ⇒ Resource utilisation

EEE - EFFECTIVENESS, EFFICIENCY, ECONOMY

note:- Advantages are same as objectives

TYPES OF INTERNAL CONTROL SYSTEM

PREVENTIVE CONTROLS [Discourage Erros, Prevent Irregularities]

eg: ✓ Segregation Of Duties (internal check)

✓ approvals & authorisation (To prevent unauthorised access to others information)

✓ security of assets (only authorised person should be allowed to have access cash, inventory, other assets etc..)

DETECTIVE CONTROLS [Detect frauds & errors ; Irregularities]

eg: ✓ Comparing actual performance with budgeted performance to find variances

✓ Reconciliation (investigating the differences & taking corrective measures)

✓ physical verification of inventory (To detect misuse & misappropriation of inventory)

CORRECTIVE CONTROLS [Correct Errors & Irregularities]

eg: ✓ Implementing missing controls

✓ improving existing controls

NOTE:- Both preventive & Detective controls are important where preventive controls proactive in nature but at the same time Detective controls let us know whether preventive controls are functioning or not

INHERENT LIMITATIONS

- ⇨ Human errors & judgement
- ⇨ Highly costly in nature
- ⇨ Not every company can afford it
- ⇨ If not updated, it is useless
- ⇨ Cost of ICS > Benefits
- ⇨ If it's purpose is unknown, effective utilisation is impossible



TECHNIQUES FOR EVALUATION OF ICS

NARRATIVE RECORD

- ⇒ written description of an organization's internal control system
- ⇒ useful for **smaller entity**
- ⇒ where no ICS developed formally

INTERNAL CONTROL CHECKLIST



AUDIT CHECKLIST FOR BUSINESS DEVELOPMENT			
DATE		Auditor	
Site		Auditee	
S. No.	Points to be verified	Yes/No/NA	Remarks
1	Are proposals prepared as per defined format?		
2	Have a central repository been identified and work products placed under version control?		
3	Does proposal take care of major issues like scope, deliverables, environment, payment terms etc.?		
4	Are proposals reviewed before being sent to the prospect?		
5	Is estimation carried out before preparation of proposal?		
6	Is review of estimation evident?		
7	Is estimation approved by COO?		

- ⇒ Set of questions prepared by senior auditor handed over to audit staff for ICS evaluation
- ⇒ After evaluation It shall be answered in form of "YES/NO/NA"
- ⇒ but problem with this method the staff can **easily manipulated** [Being semi- competent & semi qualified]

INTERNAL CONTROL QUESTIONNAIRE



- ⇒ set of questions & queries prepared by senior auditor handed over to MGT staff & executives for answering queries.(Yes/No/NA)

Flow chart

- ⇒ **Visual representation** of internal control systems, showing operations, processes, and controls
- ⇒ Highly used method
- ⇒ Only precaution what an auditor shall use simplified symbols/signs instead of technical signs

INTERNAL CHECK

[DOUBLE CHECK SYSTEM]

⇒ Arrangement of Jobs/staff duties in such a way that one person job is automatically checked by another person
 eg: Internal check in a bank

Ankitha submits withdrawal request to Janav; Janav verifies Ankitha's ID and account balance; Teju approves withdrawal.; Harini counts and hands over cash; Hasini reviews transaction records.

FEATURES

- ⇒ Proper division of work
- ⇒ everyone responsible for their own work
- ⇒ Good use of technology to minimise human errors
- ⇒ Rotation of jobs at regular intervals
- ⇒ Good control over the employees
- ⇒ supervision on work of employee

Reduces Frauds & Errors

Frauds & Errors are detected at earlier stages

Makes employees more accountable

OBJECTIVES OF INTERNAL CHECK

Improve efficiency of workforce

Reduce workload of auditor

ADVANTAGES TO Auditor & Improvements

TO AUDITOR:

- ⇒ Saves time & cost
- ⇒ He may apply sample checking
- ⇒ can devote more time on critical areas
- ⇒ Improves quality of his Audit work

TO CLIENT:

same as objective of Internal check

INTERNAL AUDIT SYSTEM [REFER SEC 138]

⇒ New internal audit approach is different from traditional approach because now a days Internal auditor not only focuses on FINANCIAL AREAS but also focuses on OPERATIONS of entity "

Role/scope/Objective of Internal Auditor



ADVANTAGES OF INTERNAL AUDIT

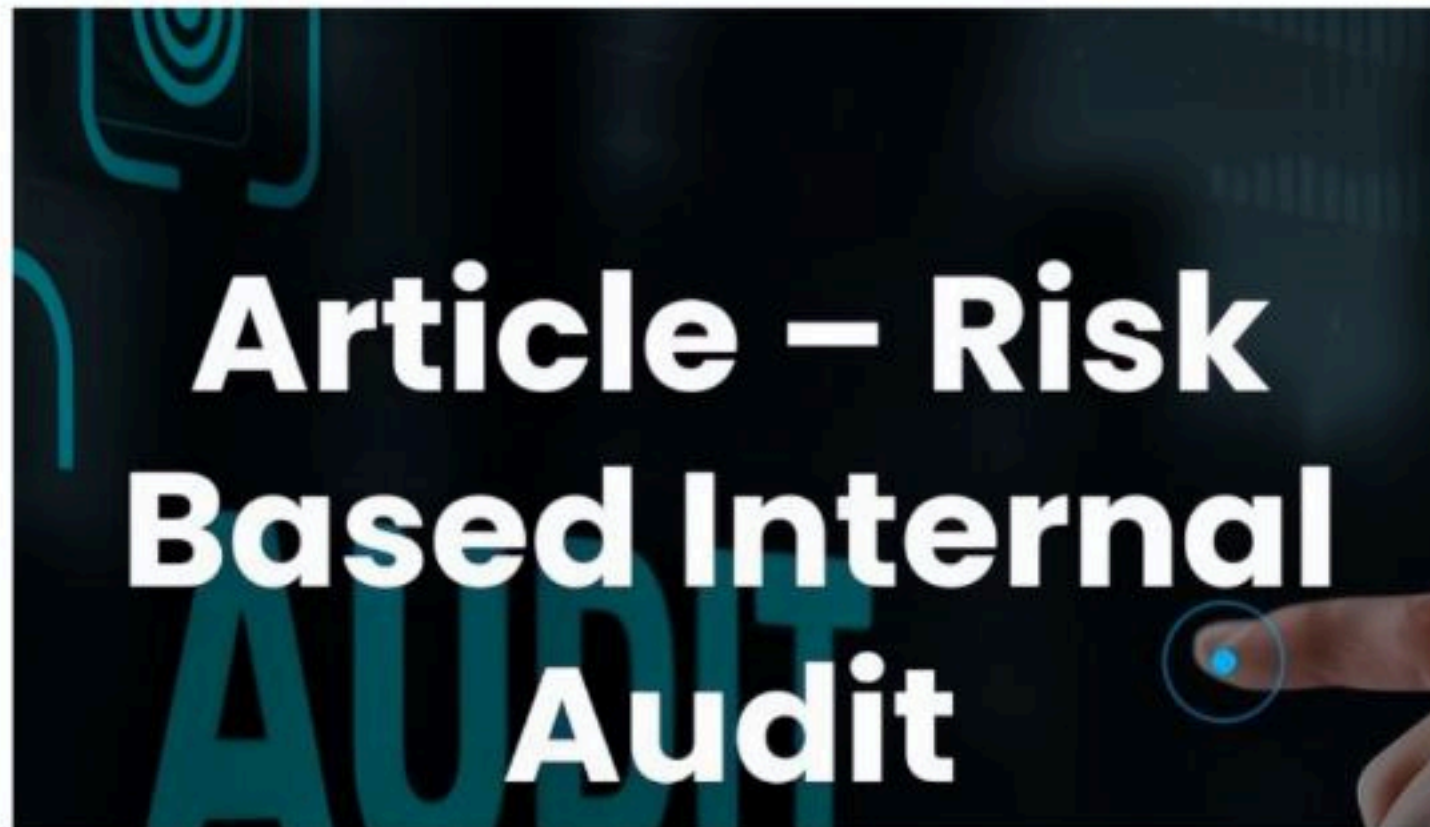
- ⇒ Helps in EEE of operations
- ⇒ Assistant of MGT
- ⇒ Helps in detection & prevention of Frauds & Errors
- ⇒ Reduction in wastages/spoilages/losses
- ⇒ Helps in safeguarding of assets

EEE - ECONOMY, EFFECTIVENESS, EFFICIENCY

RISK BASED INTERNAL AUDIT[RBIA]

Background

⇒ Organizational success depends on managing inherent risks. Recent corporate failures highlight the importance of robust risk management.



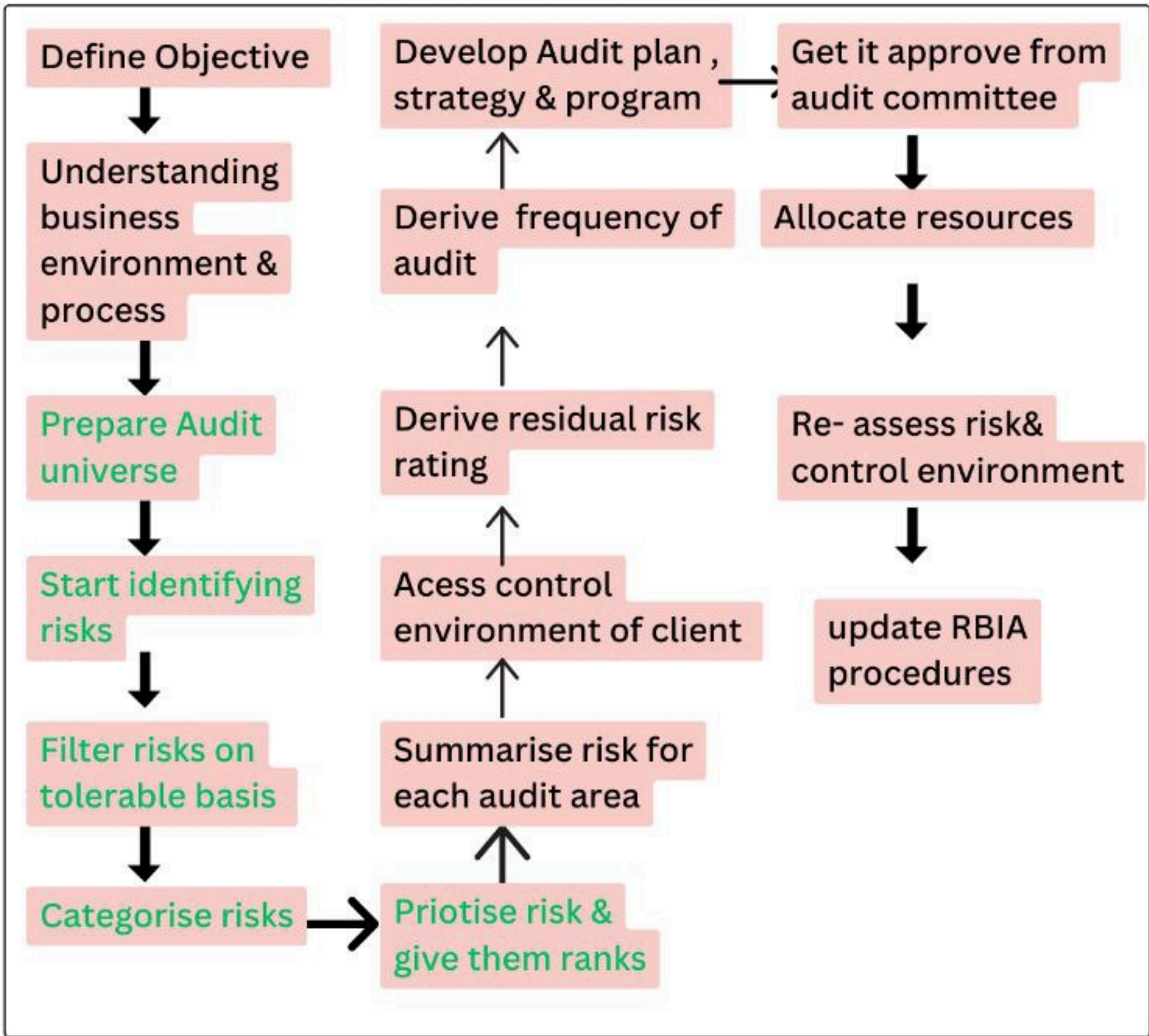
DEFINITION

- ⇒ As per Institute of internal Auditor [IIA] RBIA is a methodology that **links internal auditing to an organisation's overall risk management framework.**
- ⇒ Traditional Internal Audit- control assistance
RBIA- Risk MGT process+control assistance
- ⇒ RBIA helps MGT in
 - Identifying, Assessing & responding to Risks
 - Helps in completion of actions
 - Helps in designing the risk MGT process
 - Helps MGT in identifying key risks
 - Helps in completing Report accurately & approximately

ADVANTAGES

- ⇒ **Consistency:** developing consistent approach towards Risk MGT which makes client more adoptive to changes
- ⇒ **Transparency:** Better understanding & Management of such risks
- ⇒ **Specificity:** management to draw attention on those unique risks which are critical than other risks

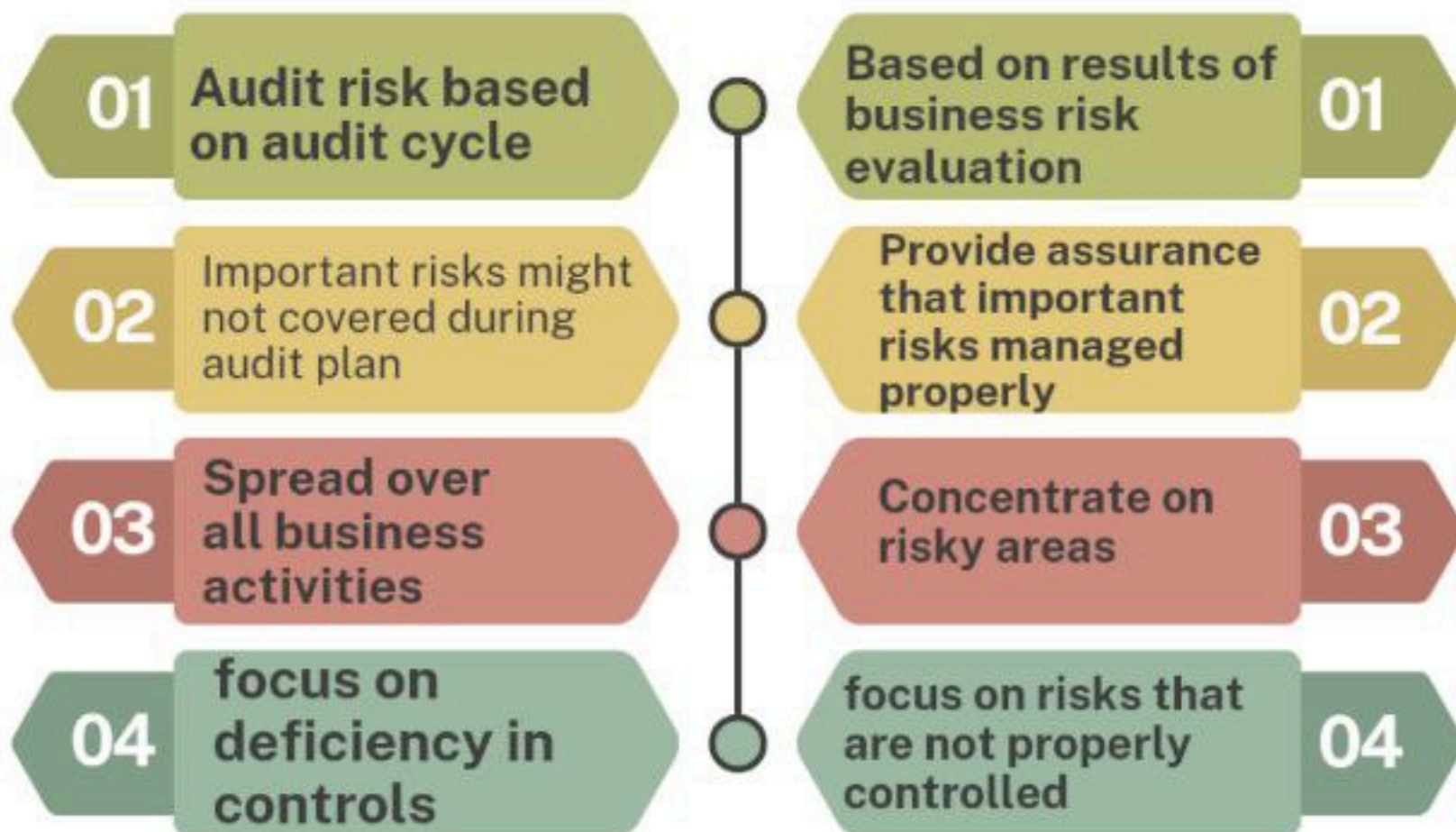
RBIA PROCESS PLAN



TRADITIONAL IA

VS

RBIA



INTERNAL FINANCIAL CONTROL



Background

- ⇒ The Satyam Scam of 2009 was a major corporate fraud in India
- ⇒ This scam exposed weaknesses in the statutory audit process and led to a loss of investor confidence.
- ⇒ To prevent similar scams, Indian regulators looked to global best practices, such as the Sarbanes-Oxley regulations in the US and JSOX in Japan
- ⇒ Consequently this motivated to introduce IFC regulations within Scope of companies act , 2013.

Concept Of IFCS

- ⇒ The policies and procedures adopted by company
 - For **orderly and efficient** conduct of business
 - **Safeguarding** Of assets
 - **Prevention & detection of** Frauds & Errors
 - **Accuracy & completeness** of A/C ing records.
 - **Timely preparation** of reliable information.

ADVANTAGES OF IFCS

- ⇒ Reduction in workload of auditor
- ⇒ More accurate & reliable F.s
- ⇒ Increase investors confidence
- ⇒ Improve ICS
- ⇒ Improve accountability

Statutory Provisions Regarding IFC

⇒ There are 4 sections in Companies act which talks about IFCS



- ❶ **Sec 143(5)(e)** : For every Listed Company, in it's board report it should be mention that " The IFCS of Co. is adequate & operating effectively. This treatment should be made by BOD
- ❷ **Sec 177** : For every Co. which has Audit committee; it is mandatory that such Committee shall call statutory auditor & internal auditor to comment on IFCS of the company.
- ❸ **Sec 149(7)** : Companies which have independent directors - of such company should satisfy themselves whether IFCS is working properly adequately, effectively.
- ❹ **Sec 143 (3)(i)** : Refer Company audit



INTERNAL FINANCIAL CONTROL OVER FINANCIAL REPORTING

Background

⇒ Regulators want companies to have strong financial management but Auditor's Role is to Check financial reporting accuracy, not overall business operations. As a result this led to **Introduction of Internal Financial Control over Financial Reporting (IFC-FR/ICFR)**

⇒ IFC-FR is guidance note issued by ICAI which provides reasonable assurance on FR and also provides assurance on FS preparation.

⇒ IFC-FR = Maintenance of financial records

+
Authorisation of TXN
+
GAAP
+
Safeguarding of assets

⇒ IFCS = IFC-FR

+
Operational controls
+
Anti- fraud controls

APPLICATION OF TECHNOLOGY IN AUDITING



- ⇒ **Automated environment**, a set up where various processes, systems, or tasks automatically controlled monitored by using technology.
- ⇒ Now a days business are growing larger & larger and geographically as well, therefore processing and storage of records manually is not possible that is reason we need Automated environment

ADVANTAGES

- ⇒ **Accurate data processing** (like calculators)
- ⇒ **Computations & calculations** become easy & reliable
- ⇒ Makes **business faster**
- ⇒ improve **security**
- ⇒ **minimise human errors.**
- ⇒ Process high volume of **TXNs easily** as compared to manual check
- ⇒ provide **latest information**

Trick: BCD HOSTEI
"BCD HSTL"



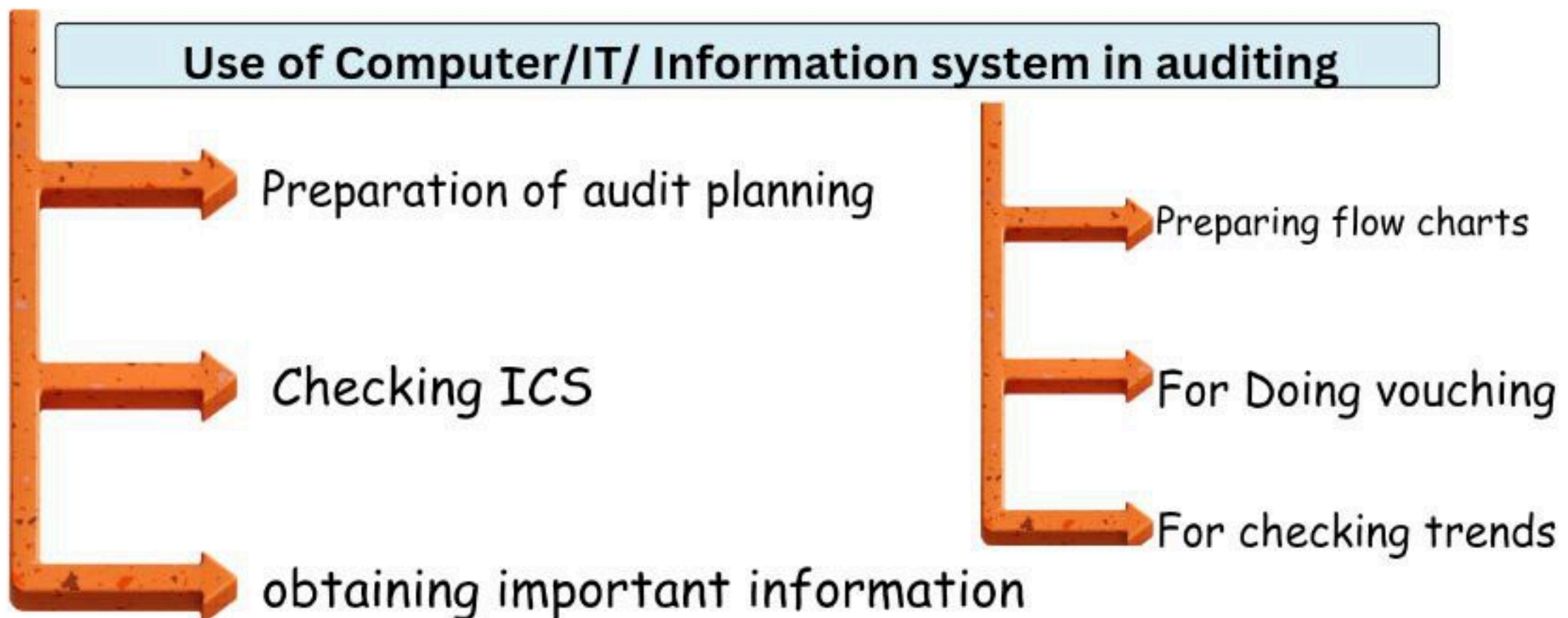
COMPONENTS OF AUTOMATED ENVIRONMENT

- ⇒ Database
- ⇒ Operating system (os)
- ⇒ Hardware and storage issues
- ⇒ Network devices
- ⇒ Networks
- ⇒ physical & environment landscape

Trick: H.PONND



Use of Computer/IT/ Information system in auditing



CONTROLS IN AUTOMATED ENVIRONMENT

APPLICATION CONTROLS

- ⇒ Combination of **Manual+ automated** controls connected with particular application.
- ⇒ Auditor evaluate that application controls are well placed for determining ROMM

INPUT CONTROLS

- ⇒ controls should be authorised, complete , accurate & timely
- ⇒ following input controls Auditor need to check → **Range checks, sequence checks, control totals, digit verification checks.**

PROCESSING CONTROLS

⇒ Auditor check audit properly done with input.

Input data must be accurately & correctly updated & processed on timely basis

OUTPUT CONTROLS

⇒ Once data input is done & processing is over, It is to be checked that output is distributed only to authorised & responsible users, it should be kept confidential also.

MASTER FILES CONTROLS

⇒ It is very important to have strict security controls over all master files because if master files are tampered without authorisation, then it will be big loss to organisation and workload of auditor will increase

AUDIT TRIAL

⇒ ACCOUNTING SOFTWARE TOOL/FEATURE by which auditor able to trace TXN right from it's starting point to ending point which will serve as a proof of TXN history.

STATUTORY REQUIREMENT FOR AUDIT TRIAL Refer Co. audit Sec 143(3)

BENEFITS OF AUDIT TRIAL

- ⇒ Ensure accountability
- ⇒ Detects potential security threats
- ⇒ Enhance transparency
- ⇒ Detection of system interference and Errors

AUDIT REPORT



a **written opinion** of an auditor regarding an entity's financial statements. The preparation of audit report is **last step** in Audit assignment.

AUDIT CERTIFICATE



Audit certificate is a document that verifies the **accuracy and reliability** of a company's **financial statements**. It's issued by an independent auditor and is usually included in the company's annual report.

AUDIT REPORT

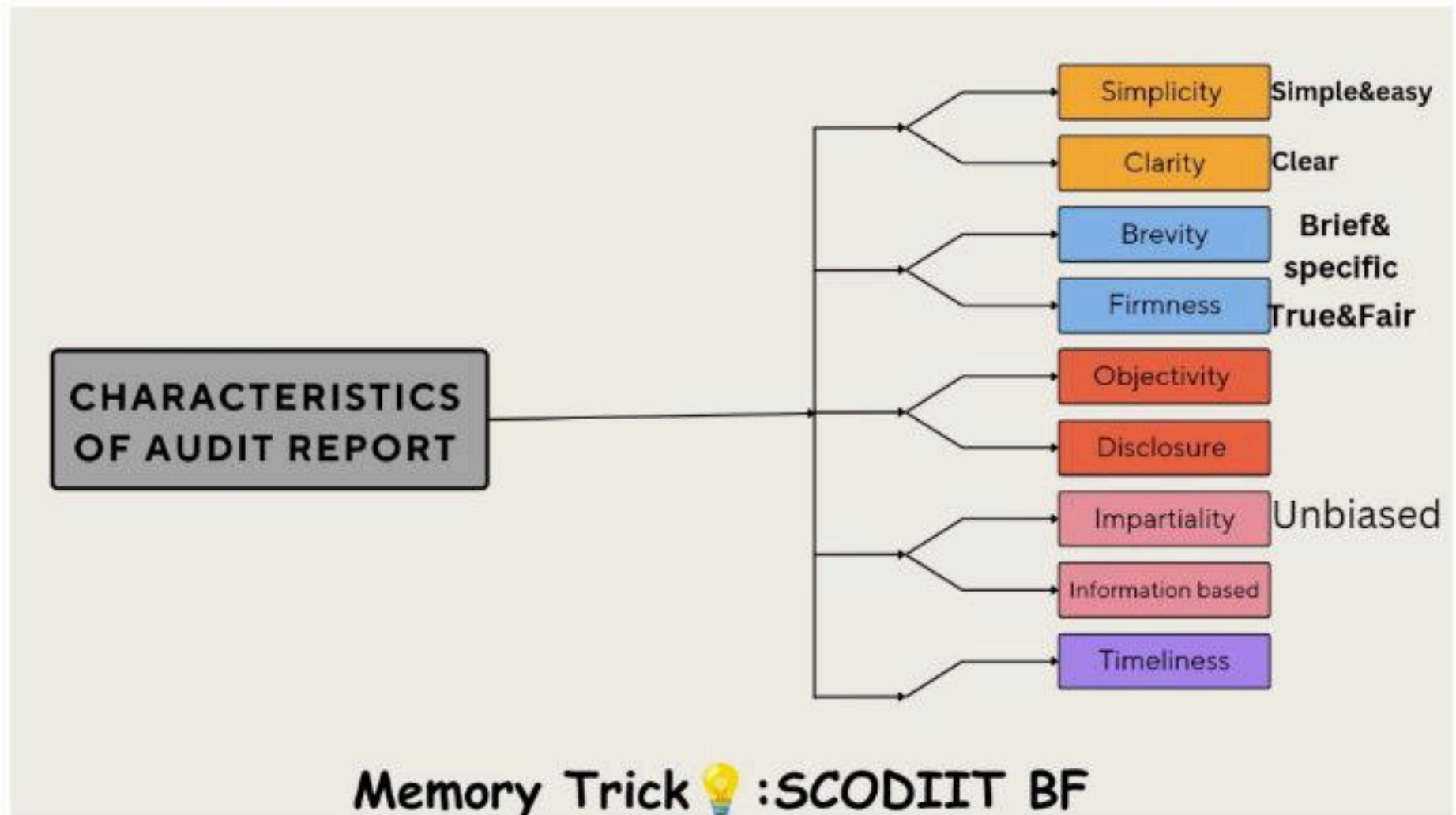
VS

AUDIT CERTIFICATE

1. True & Fair
2. Sample checking
3. Reasonable assurance
4. Opinion of entity's F.s
5. wide



1. True & Correct
2. 100% checking
3. Absolute assurance
4. Accuracy of facts
5. Narrow



CONTENTS OF AUDIT REPORT

- As per standards on auditing
- As per companies act, 2013
- As per CARO 2020

CONTENTS OF AUDIT REPORT as per standards on Auditing

ELEMENTS OF AUDIT REPORT	
1. Title	7. MGT Responsibility
2. Addressee	8. Auditors Responsibility
3. Auditors Opinion	9. Other Reporting Responsibility
4. Basis For Opinion	10. Signature Of Auditor
5. Going concern	11. Place of Signature
6. Key Audit Matters	12. Date Of Auditor's Report

1. TITLE ; INDEPENDENT AUDITORS REPORT

2. ADDRESSEE: To the members of the Co.

3. Auditors Opinion: The first section of Auditor's report shall include opinion of Auditor and shall named accordingly and opinion section shall mention name of client and fact that financial statements have been audited

4. Basis for opinion: In this para Basis for opinion included

- ⇒ I followed applicable SA
- ⇒ I followed my auditor's responsibilities
- ⇒ I followed ethical requirements issued by institute
- ⇒ I obtained SAAE

5. GOING CONCERN: As per SA 570

6. KEY AUDIT MATTERS PARA: this para includes those matters auditor want to include in his report to communicate it to users of FS for their better understanding

7. MGT RESPONSIBILITY: ⇒ Preparation of FS
⇒ MAINTENANCE of good ICS

8. Auditor Responsibility: ⇒ Expression of Opinion
⇒ Doing Sample checking
⇒ Following SA's

9. Other Reporting Responsibilities: refer sec 143(3) of Co act.

10. SIGNATURE PLACE & AUDIT

- ⇒ Firm name and Registration no
- ⇒ Signature and name & designation of engagement partner
- ⇒ Membership no
- ⇒ UDIN
- ⇒ place of signature
- ⇒ date of signature

AUDITOR'S OPINION ON AUDIT REPORT

Clean Report

Qualified Report

Adverse Report

Disclaimer Report

THERE ARE 2 TYPES OF AUDIT REPORT

⇒ UNMODIFIED AUDIT REPORT

⇒ MODIFIED AUDIT REPORT

⇒ UNMODIFIED audit report includes "clean opinion" which is also known as UNMODIFIED opinion

UNMODIFIED OPINION

SAAE obtained → FS are free from material misstatements

MODIFIED OPINION

SAAE obtained → There are misstatements → material & not pervasive

ADVERSE OPINION

SAAE obtained → There are misstatements → material & pervasive

DISCLAIMER OPINION

SAAE not obtained → possible effects of undetected misstatements → material & pervasive



ANKITHA

here

"pervasive" refers to the impact and extent of misstatements on financial statements.

SA 705 Modifications to the Opinion in the Independent Auditor's Report.

Suhaa and Ankitha are roommates sharing a kitchen. Suhaa, the "Auditor", conducts a "Kitchen Audit" 😊 to ensure they're using their shared space efficiently. After the audit, Suhaa gives Ankitha an "Audit Opinion" - a thumbs up or thumbs down on their kitchen habits.

There are four possible opinions:

1. Clean Bill of Health (Unqualified Opinion): Suhaa gives a thumbs up, indicating their kitchen habits are excellent, and they're following all the rules. [SAAE ✓ Fs are free from Material misstatements]

2. Room for Improvement (Qualified Opinion): Suhaa gives a thumbs up with a note, indicating some areas need improvement, but overall, they're doing well. [SAAE ✓ → misstatement ✓ → material & not pervasive]

3. Major Issues (Adverse Opinion): Suhaa gives a thumbs down, indicating significant problems, such as a dirty kitchen or expired food. [SAAE ✓ → misstatement ✓ → material & pervasive]

4. Can't Decide (Disclaimer of Opinion): Suhaa can't give an opinion, as they didn't have enough information or access to the kitchen. [SAAE ✗ → possible effects of undetected misstatements → material & pervasive]

Ankitha uses Suhaa's audit opinion to adjust their kitchen habits and improve their shared space.

SA 706 EMP & OMP

EMPHASIS OF MATTER PARAGRAPH [EMP]

An emphasis of matter paragraph is a section in an auditor's report that **highlights a significant matter in the financial statements** that the auditor believes is important for users to understand.

Purpose:

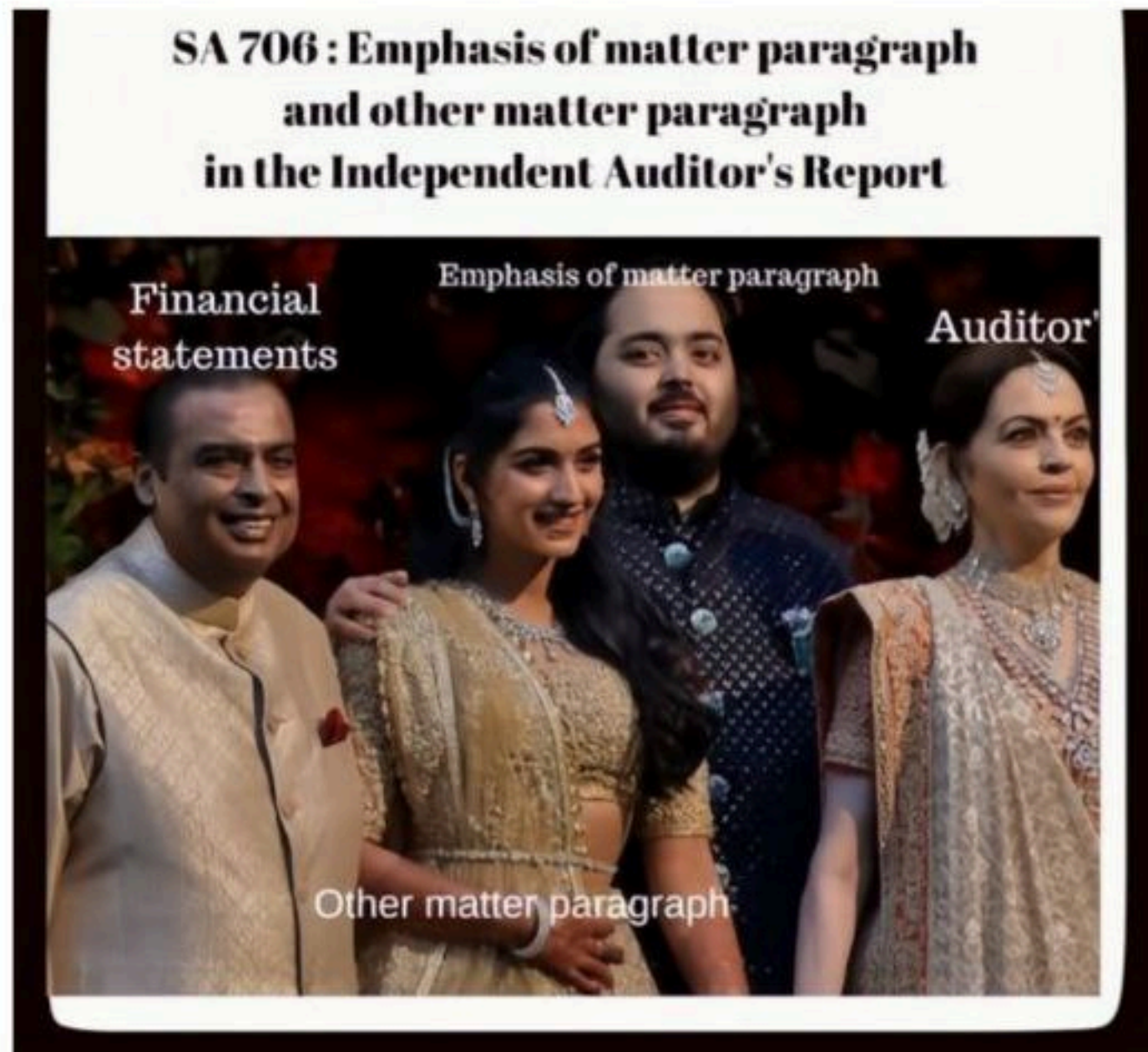
To **draw attention** to a matter that is already disclosed in the financial statements, but the auditor believes is fundamental to the user's understanding

Examples where auditor may consider it necessary to include an EMP

1. **Major Catastrophe:** Natural disasters impacting finances.
Eg: Hurricane damage reduced inventory value by 20%.
2. **Related-Party Transactions:** Significant deals with insiders.
Eg: Company sold assets to CEO's affiliated firm for 1 Cr.
3. **Litigation Uncertainty:** Ongoing court cases affecting finances.
Eg: ending lawsuit may result in 5 Cr liability.
4. **Subsequent Events:** Important happenings after reporting period.
Eg: Merger with Tarun Corp. on April 15, post-reporting period."

OTHERS MATTER PARAGRAPH [OMP]

An other matter paragraph is a section in an auditor's report that **highlights a matter** that is **relevant to the audit**, the auditor's responsibilities, or the auditor's report, but is **not disclosed in the financial statements**.



Eg: Imagine a company, Kaaav Inc., that makes shoes. They're now starting a new clothing line.

Audit Report:

"Other Matter"

We want to mention that kaaav Inc. is launching a clothingn division, which may impact future sales and profits."

SA 706 and OMP work together:

1. Emphasis of Matter (EOM) paragraphs highlight significant issues within financial statements.
2. Other Matters Paragraphs (OMP) address inconsistencies outside financial statements.

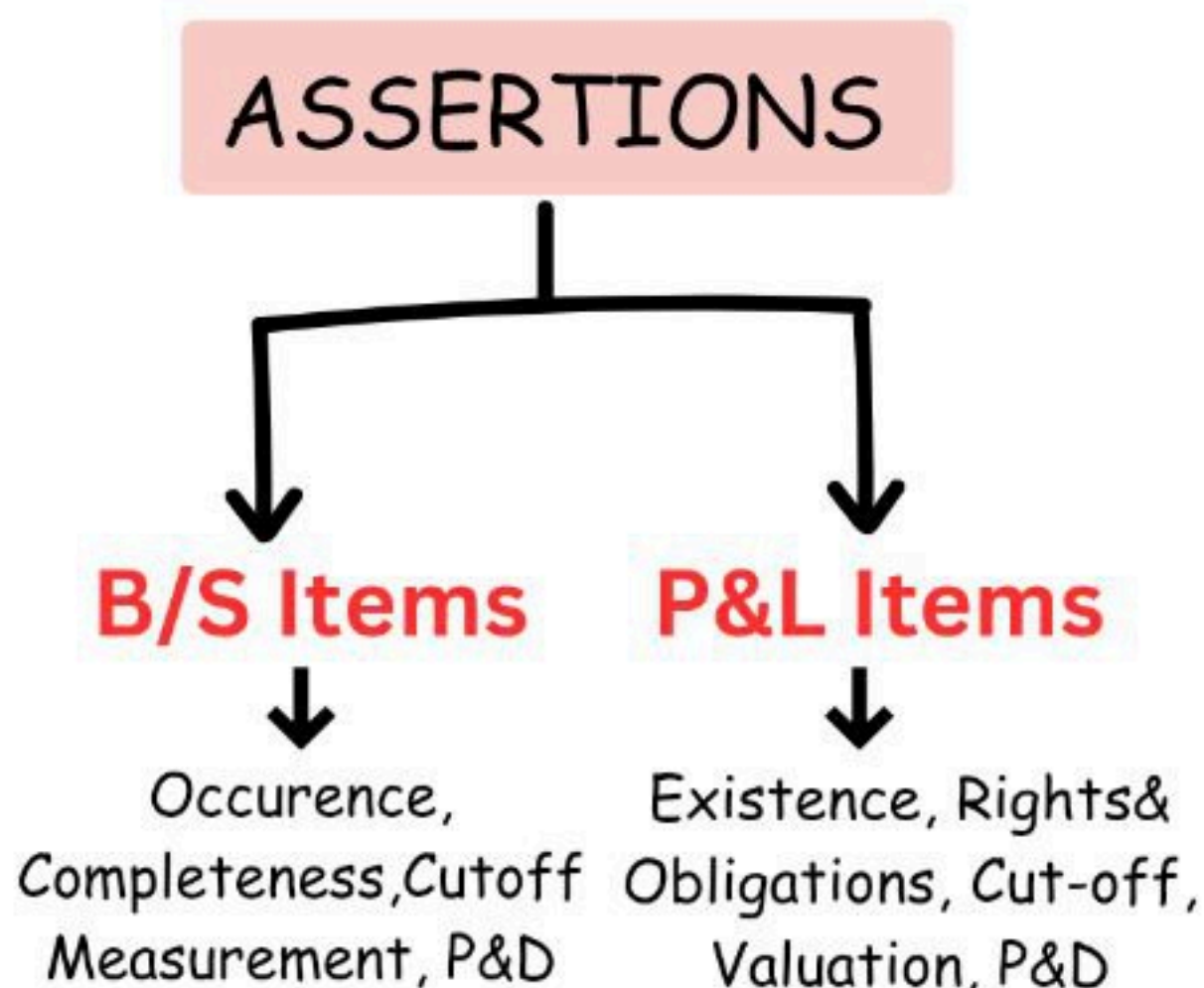
AUDIT OF ITEMS OF FS

ASSERTIONS:

- (1) **REPRESENTATIONS** by management that are **embodied** in the financial statements AND
 (2) **REPRESENTATIONS** used by the auditor to consider the different types of the **potential misstatements** that may occur

In preparing Financial Statements, company's management makes various implicit or explicit claims (i.e. assertions) about Assets, Liabilities, Equity, Income, Expenses and Disclosures in accordance with the applicable Accounting Standards.

COMPLETENESS No Omission
CUT-OFF Proper Accounting period
EXISTENCE/OCCURENCE Not Fake
VALUATION/MEASUREMENT Correct Value
RIGHTS & OBLIGATIONS Ownership
PRESENTATION & DISCLOSURE SCH -III , AS, Ind AS



INCOME STATEMENT ASSERTIONS (OCM – PRESENTATION)

1. **Occurrence** – Transactions recorded have actually occurred , & relate to the entity . Eg-Sales , Purchases
2. **Completeness** – All transactions that have occurred are recorded and nothing has been omitted . There is no understatement or overstatement
3. **Cut-off** – Whether all the income / expenses are reported in correct accounting period
4. **Measurement** – Transactions are recorded at correct amount in the financial statements
5. **Presentation & Disclosure** – Transactions have been classified and presented fairly in the financial statements

Audit of Revenue from operation

Occurrence



Cutoff

Completeness

Measurement

Presentation

And

Disclosure

- All revenue items recognised are genuine by and nothing is recorded in twice
 - Check the sequence of sales invoices, review the recording of unusual transactions, verify the return transactions with sales invoice, challan, credit note and stock records.
 - Obtain confirmation from few customers to check whether the transactions are genuine
 - For services, he must see that revenue has been recognised based on the policy undertaken.
-
- Revenue from the sale made during the year only
-
- All sales effected during the year is included in revenue
-
- Revenues are accurately measured based on applicable AS
 - Trade discount allowed to the customers should be checked. No separate entry for trade discount should be passed in the books.
-
- Disclosure should be available for each class of goods.
 - Revenue from operations shall disclose - (a) Sale of products; (b) Sale of services; (c) Other operating revenues;

Audit of Purchases

Occurrence



- Only genuine purchases have been recorded
- He may examine the purchase orders, GRN and invoices
- Photocopy of purchase invoices should not be allowed & purchase invoices must be in the name of the entity
- All the purchases are approved by the relevant authority.
- The same is extremely important for purchases from related parties.

Cut-off

- Only purchases during the year are recognised as expense

Completeness

- Purchases effected during the year are only recognised in the current accounting period
- The auditor should see that purchase invoice should be booked only once the risk and reward has been transferred.
- He shall ensure correct accounting for goods-in-transit.

Measurement

- auditor shall see that purchase transaction values have been correctly calculated considering the trade discount.
- Information relating to input tax credit shall be verified.

PRESENTATION AND DISCLOSURE

- In the case of manufacturing companies, raw materials under broad heads; goods purchased under broad heads
- In the case of trading companies, purchases in respect of goods traded in by the company under broad heads
- Transactions with related parties.

Audit of Depreciation & Amortization

Occurrence

➤ The auditor shall obtain the fixed asset register and identify the items of assets acquired, sold and discarded during the year to determine the items of assets eligible for depreciation and amortisation during the year

Cut-off

➤ It is charged on the assets from its date of put to use

Completeness

➤ He must ensure that depreciation and amortisation have been charged on all eligible tangible and intangible assets and no fake assets have been considered for this purpose

➤ Depreciation on revalued amount has been properly accounted from revaluation reserve

➤ Any retrospective change in the method of depreciation, due effect has been given in the Income Statement.

Measurement

➤ The auditor shall see that the rate of depreciation is consistent with the rates suggested in Schedule II and the amount of depreciation and amortisation has been calculated accurately based on the rates and time involved

➤ In case of change in estimation of useful life or in case of impairment, the amount of depreciation has been calculated appropriately.

PRESENTATION AND DISCLOSURE

➤ Accounting policy for depreciation and amortisation.

➤ Useful life of assets as per Schedule II.

➤ Residual value and the method of depreciation.

Audit Of Property plant & equipment (PPE)

Existence

- Physical verification to confirm that they exist and are under the possession of the client & tally the physical verification report with the asset register maintained
- Additions up to the date of verification are updated
- Deletions include assets not in the working condition

RIGHTS AND OBLIGATIONS (ownership)

- Verify that PPE additions have been approved by the responsible official & are as per budget
- The auditor shall check that PPE purchase invoices are **in the name of the client**
- In relation to all deletions, he shall verify management's rationale, report from the technical expert etc.

Cut-off

- The Net Block of assets comprises all assets existed and under the ownership of Co. on the reporting date & depreciation pertains to the **current period only**

Completeness

- He shall also verify the PPE schedule (asset class wise) and tally the closing balances He should check the **arithmetical accuracy** of the movement in PPE schedule and reconcile the opening balance with the closing balance of each class of asset by considering the **additions and disposals** during the year

Valuation

- **Cost - Accumulated Dep - Accumulated impairment loss.**
- The cost, includes all costs incurred to acquire or construct and all subsequent costs to replace part of it does not include Day-to-day servicing cost
- Verify the date of installation with installation certificate. It is important in calculating depreciation
- Depreciation is charged on all asset except land

PRESENTATION AND DISCLOSURE

- All items of PPE have been disclosed in the balance sheet as Non-current Assets' and subhead 'Fixed Assets' as 'Tangible Asset' **as per Schedule III**

Patent and Copyright

Existence

- A schedule of patents and copyright should be procured
- The document of each patent & contract paper of each copyright should be **physically verified** to ensure that it has been duly registered.
- Ensure that patent are **actively use in production**

RIGHTS AND OBLIGATIONS (ownership)

- The ownership of patents and copyrights should be **verified by inspection** of the certificate of patent **issued in the name of the client** and the contract paper of copyright.

Cut-off

- The auditor shall see that the value of these assets comprises all assets existed and under the ownership on the reporting date & amortization is for current period

Completeness

- Verify that all the items have been **properly included** therein including items acquired & items lapsed during the year has been removed properly.

Valuation

- Cost less amortisation charges.
- Amortisation rate follows the pattern in which the benefits are expected to be consumed
- In case it is purchased, the cost is the acquisition cost. Also, the cost of registration should be included in the valuation, while the renewal fees for patents should be charged off to revenue.
- If the patent has been developed by the client in house, all development expenses and other direct costs should be capitalized

PRESENTATION AND DISCLOSURE

- Patents and copyright have been disclosed in the balance sheet of the company under the head '**Non-current Assets**' and subhead '**Other Intangible Asset**' as per Schedule III of the Companies Act 2013.
- He shall also ensure that all the relevant information has also been disclosed in the 'Notes to Accounts' section.

Borrowings

Existence

➤ The auditor should collect a schedule of all borrowings with details regarding the date of procurement of the loan, period of loan, rate of interest, amount of loan and assets pledged against the loan, if any.

➤ He shall examine the loan agreements to ensure that the loans have been taken in name of the client.

➤ He must examine the AOA MOA and take note of the rules and regulations in this respect.

➤ He shall verify that the procurement of loan has been properly authorised.

➤ He shall examine the loan agreements and take note of the conditions of such loan

➤ The auditor should collect a certificate from the lender regarding the asset pledged

RIGHTS AND OBLIGATIONS (ownership)

Completeness

➤ The auditor shall ensure that information regarding all loans has been produced before him and no loan that was paid earlier in full has been shown as outstanding.

➤ He shall verify all new loans taken during the year and check the minutes of the meetings of the Board for authorisation of the same

Valuation

➤ The auditor shall check whether the accounting policies and methods of recording the loan are appropriate and applied consistently

➤ He shall also examine whether the interest payable on such loan has been paid in due time and the same has been accounted for accordingly.

PRESENTATION AND DISCLOSURE

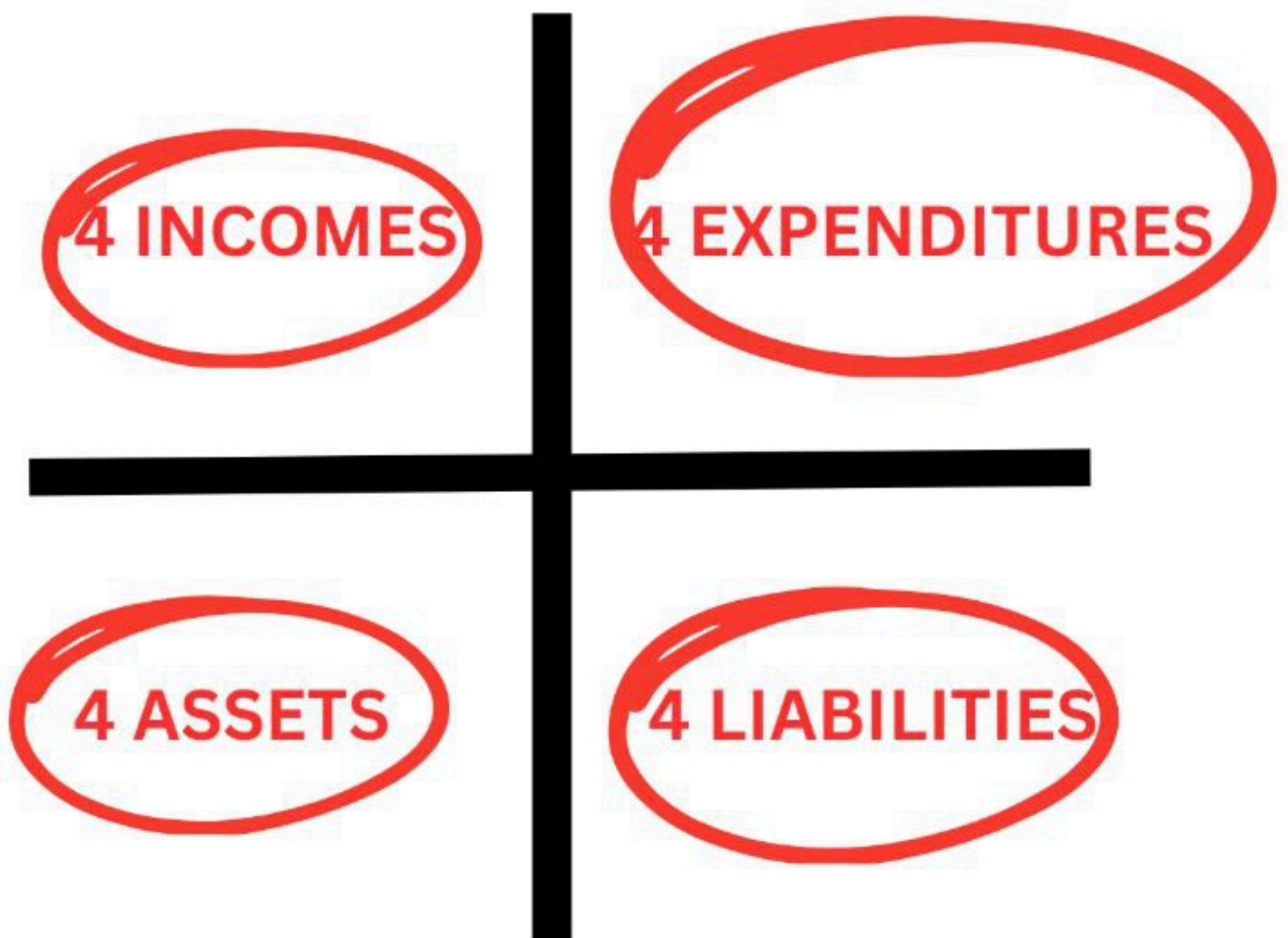
➤ The outstanding amount of loan (non-current portion) has been shown under Non- Current Liabilities or Current Liabilities and under subhead Borrowings

➤ The auditor shall also see that the charge has been appropriately reported in the Balance Sheet.

AUDIT OF DIFFERENT ENTITIES

HOSPITAL NGO CLUBS/HOTELS SCHOOL/COLLEGE/ UNIVERSITY CINEMA

FUNCTIONAL AUDITS



SCHOOL

16 points → 7 Marks

INCOMES

- Admission fee
- Transportation
- Uniform
- Library income

EXPENDITURE

- Teacher Salary
- Staff Salary
- Rent Exp
- Bonus/Gratuity/PF

ASSETS

- Fixed Assets(As-10)
- Investments(As-13)
- Cash
- Bank balance

LIABILITIES

- Loan [Long term (or) short-term]
↳ Cross Verify bank statements
- Creditors (books, uniform, canteen)
- Salary payable
- Gratuity

HOSPITAL

INCOMES

- Patient Income (Outbound & Inbound)
- Pharma Income
- Canteen Income
- Ambulance Services

EXPENDITURE

- Doctor Remuneration
- Fuel & Power
- Repairs & Maintenance
- Purchase of oxygen/consumables

ASSETS

- Fixed Assets(As-10)
- Investments(As-13)
- Cash
- Bank balance
- Debtors

LIABILITIES

- Loan [Long term (or) short-term]
↳ Cross Verify bank statements
- Creditors (medicine, equipment)
- Salary payable
- Other Current Liabilities

AUDIT OF CO-OPERATIVE SOCIETIES



[Buyer- In same society
Seller- in same society]

- Do not allow middleman
- Don not allow outsiders

General Points In Co-operative Society

- ⇒ Under Co-operative Societies Act, 1912 [Central Act]
- ⇒ Popular States: West Bengal, Odisha, Maharashtra
- ⇒ Industries: Dairy products, Pulp industries, Weaving, Water distillation, Sugar etc.,

- ⇒ Objectives:
 - ↔ Elimination Of middleman
 - ↔ Elimination of exploitation of outside forces
 - ↔ To promote Self help & mutual help

AUDIT PROVISIONS

- 1. Who Can be Auditor
 - ↔ PCA/PCMA
 - ↔ Govt. diploma holder in course of Co-operative A/Cing
 - ↔ Experience in working as Auditor Of any Govt. Co-operative dept.

- 2. Who appoints By Register Of Co-operative Societies [Rocs]

- 3. Whom Auditor Reports
 - ↔ To Rocs
 - ↔ To Society

- 4. Remuneration By Rocs based upon Category/class/rank of Co-operative Societies

5. WHAT TO AUDIT

A. **BOOKS OF ACCOUNTS** : Same as per Sec 128 of Co. Act , 2013

+

Additionally



Daily cash sales summary register
Loan Disbursement register
Loan recovery Register
Stock Register
collection from debtors register

B. **Restriction On Shareholding**



Individual member

Max. 1000
or
20% of Shareholding

Registered Society Member

No Restriction

C. **Restriction On Borrowing**

From members

No Restriction

From Non Members

Subjective to rules, regulations & byelaws



D. **Restriction On lending loans & Advances**

members
(Individual & Society)

No Restriction

Non Members

Individual → Not Allowed
Society → Allowed within
in special permission of
Rocs

E. Restriction On Investments

1. Open Bank A/C; Savings A/C in State/central co-operation bank

↓ If there is no Co-operative bank in that state

2. In Other Co-operative banks → prior approval of Rocs

3. **Sec 20** Securities under Indian Trust Act, 1882.

4. **Bonds/securities** issued/guaranteed by **CG/SG**

5. In **security** issued by **Limited liability co-operative society**[LLCs]

F. Transfer to Reserve Fund

➤ After Audit of Co-operative Society → Portion of it's net profit shall be transferred to **Reserve Fund** after which any **dividend** or any **bonus** to members

G. Restriction On Charity:


➤ Only allowed after Compulsory transfer to Reserve funds

➤ **Max. 10%** of Post transfer profits

H. Education Fund Contribution

➤ Actually Some amount of profits shall be contributed towards education fund under "**state federal society** [SFC]

I. Restriction On Utilisation Of Reserve Fund

Reserve Fund 

- To meet working capital requirements
- To invest as per above criteria
- To meet it's objectives

SPECIAL AUDIT REPORT

➤ In case if there are serious irregularities , Frauds while doing cooperative society Audit, it shall be brought to the Notice to ROCs for immediate/necessary actions to be taken.

Eg : Personal profiteering
Overpricing of Cl.srock
Evasion Of Taxes
Reckless advancing
Non recovery of loans from borrower
Non adherence of society principles.....

SPECIAL POINTS IN CO-OPERATIVE SOCIETY AUDIT

1. Overdue Debts

- classification [From 6 months To 5 yrs and more than 5 yrs]
- Adequate provisioning on Overdue Debts
- Are there any chances of recovery [bad or good debt]
- Is it affecting working postion of society
- Remedial actions taken (or) not?

2. OVERDUE INTEREST

- To be credited to it's revenue statement only if it's recovered [Accrual system]
- If already credited → Shall be reversed/adequate provisioning

3. CERTIFICATION OF BADDEBTS/WRITEOFF

- If it is provided in byelaws → Auditor shall certify whether it's a good/bad debt.
- Otherwise → Members of MGT committee shall decide

4. Verification of Assets/Liabilities/Incomes/Expenses

- Assets [Existence, ownership, valuation, Disclosure]
- Liabilities [Nature Extent]
- Income & Expenses [correctness, completeness, occurrence]

5. ADHERENCE TO GUIDELINES/BYELAWS/PROVISIONS

- Auditor shall verify whether co-operative society is running as per it's byelaws provisions/not

6. MEMBERS PASSBOOK

- Auditor needs to check that on every repayment "Necessary entries" of settlement must have been passed.

7. DRAFT AUDIT REPORT

- Auditor shall prepare preliminary Audit report & shall discuss the same with MGT committee for any objections/minor issues to be resolved before finalising main Audit report.

8. In case the Rank/class/category awarded by an auditor is not satisfactory to MGT committee of Co-operative Society ; then may raise appeal to it within ROCs who may in turn asks auditor to reconsider it again. it is finally going to be decided by an auditor of Co-operative Society.

AUDIT OF NGO



- Examine the **incorporation Status** of an "NGO"
 - is it a society
 - is it a Trust(Sec 8 rules)
 - is it a Company
- Obtain it's byelaws to determine **purpose** of NGO
 - Free education
 - Free medical relief camp
 - Disaster MGT
 - Upliftment Of poor section
 - Free food distribution
- If it is a
 - ↗ **Corporate NGO** → Only Accrual System
 - ↘ **Non corporate NGO** → Accrual & Cash system
- Examine the sources/receipts & expenditure
 - Donations
 - ↗ **General**
 - ↘ **Specific**
 - contribution
 - Contribution in kinds
 - Legacies
 - Income from publication of journal
 - Gifts
 - Endowments/corpus contribution
 - Other Income, INVST income, Rental income

EXPENDITURES

- Salaries & Wages
- Administration & MGT cost
- EPF/ gratuity/Bonus etc..
- Establishment cost
- Donation to other NGO

➤ Examine it's Assets & Liabilities

ASSETS

- If there are **Fixed Assets**[Existence, Ownership, Valuation]
- **Investments** as per As-13
- Verify Tax exemptions & benefits
- Examine **inventory** physically verified and as per As 2
- Ensure there is no bonus/dividend distribution to member
- verify **cash & bank** balances

LIABILITIES

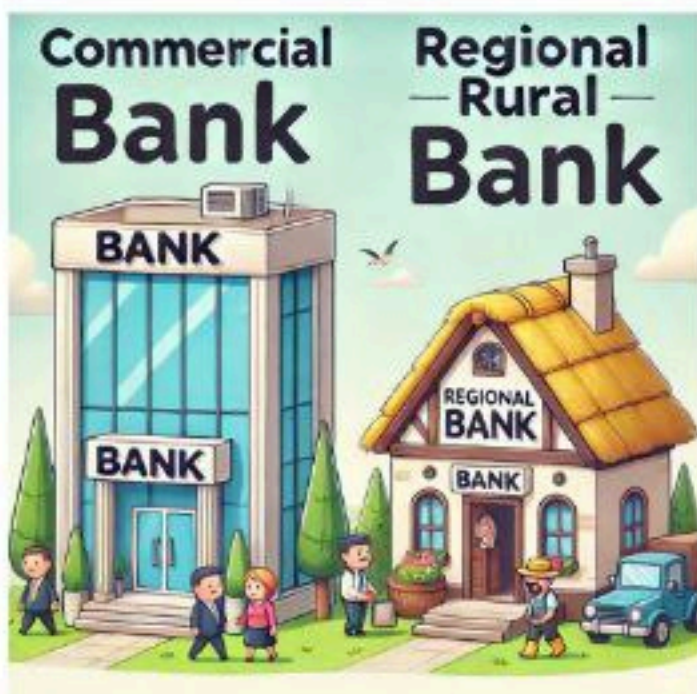
- Examine it's promoter's Contribution/capital.
- Verify special Donations & Charities
- Verify any creditors, provisions or current liabilities
- Examine if taken any loans/borrowings obtain sanction letter to check it's (loan amt, interest rate, repayment schedule, Security provided etc.,)

AUDIT OF BANKS



- Banking industry is crucial for economic growth & supports economy and financial system
- RBI is the India's Central Bank
- RBI acts as monetary authority , regulating economy.

Types of Banking Institutions In India



6 PAYMENT BANKS OF INDIA

airtel Payments Bank



Fino

paytm payments bank

NSDL Payments Bank



1. Commercial Banks
2. Regional Rural Banks
3. Co-operative Banks (Co-op. society Act, 1912)
4. Development Banks (NABARD, IDBI)
5. Payment Banks (Airtel & Paytm)
6. Small Finance banks (MSME bank)

LEGAL FRAMEWORK

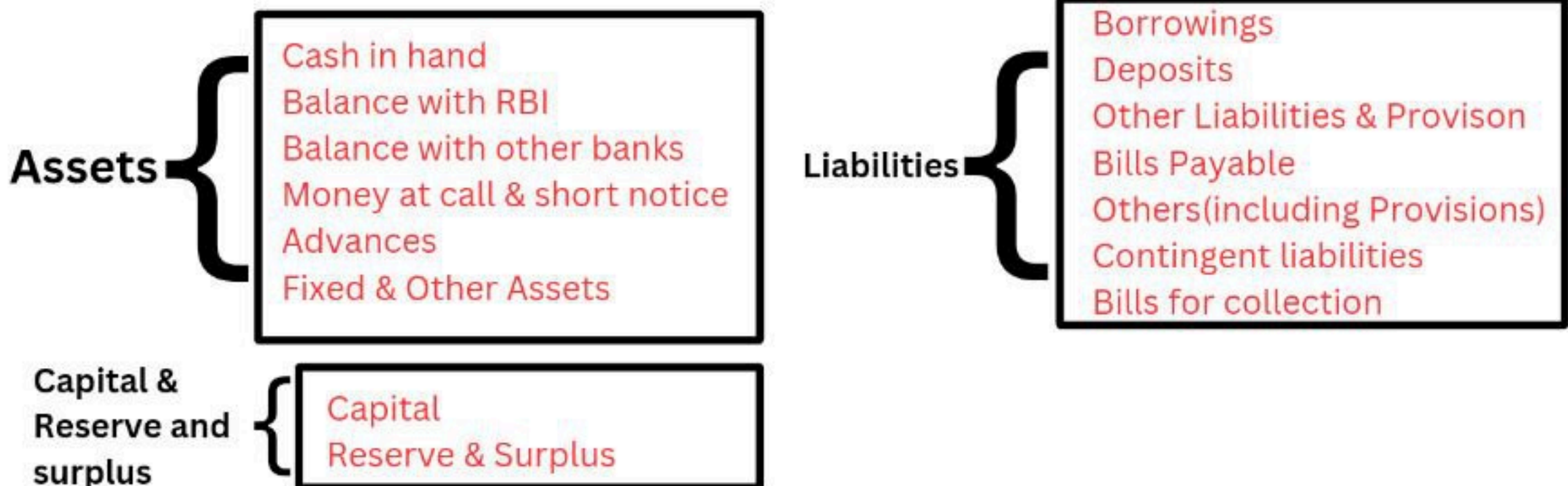
Principal enactments governing functioning of bank are



- Banking Regulation Act, 1949
- Companies Act, 2013
- SBI Act, 1955
- RRB Act, 1976
- IT Act, 2000
- Payments & Settlement act, 2007
- RBI Act, 1934
- SARFAESI Act, 2002

General Issues

- Understand **Bank & Environment**: Identify risks [i.e Acquiring knowledge of client's business]
- Understand **Accounting Process**: Manual or computerized.
- Understand **Risk Management Process**: Financial & operational risks
- Develop Detailed **Audit Plan**
- Determine **Audit Materiality**
- Understand Relevant **BASEL Framework**.
- Review **Previous Auditor Reports**: RBI, internal audit report etc.,



ASSETS

A. Cash

- Ensure that Internal Control is in place
- Visit bank branch Inspect physical cash and ensure it will tally with bank's cash book balance
- Verify amount of foreign currency held by the bank

B. Balance with RBI

Inspect Ledger balance in each A/C with

- Bank confirmation certificate from RBI
- Reconciliation Statement

C. Balance with other banks

- Inspection of Reconciliation Statement to ensure that no debit or credit for interest has been taken to revenue account to the year.
- Examine large transition and balances with banks outside India. Ensure that they are converted at market rate

D. Monet at call & short notice

- Verify authorization system for withdrawals.
- Ensure call loans made are not offset against call loans received
- Ensure that those money market lendings for more than 6 days are not classified under this head but as a deposit or advance based on their nature of learning

E. Advances

- Ensure Internal control control is in place
- Ensure proper documentation
- Scrutinize subsidiary, ledger & control accounts.

F. Fixed and Other Assets

- Accounting method of bank
- Ownership Document
- Purchases
- Sales
- Ensure appropriateness of Revaluation
- Compliance with Sec 9 of Banking Regulation Act

CAPITAL & RESERVE AND SURPLUS

A. Capital

- Examine Opening balance
- Examine Special resolution of SH or MOA about increase in authorised capital during year
- Examine prospectus about increase in subscribed/PUC
- Examine With govt notification for any fresh contribution from them

B. Reserve & Surplus

- Examine opening balance
- Examine Additions/deduction from reserves
- Reasons for appropriation of any fund from such A/C
- Dividend paid by bank
- Ensure Compliance with foreign laws for foreign branch

LIABILITIES

A. Borrowings

- Ensure amt have properly done disclosed for borrowing **In India & Outside India**
- Ensure rate of interest paid/payable with duration
- **Verify whether borrowings at call and short notice are properly authorised**

B. Deposits

- Ensure interest accrued but not due on deposit is not under other Liabilities and Provison
- Check whether is there any instances of window dressing reported in LFAR

C. Other Liabilities & Provisions

1. Bills payable

The Auditor should evaluate existence and continuity of internal controls over bills payable . such controls include

- a) drafts, mail transfers traveler's cheque should made out in printed form
- b) Unused forms relating to drafts, traveler's cheque should kept under custody of responsible officer.
- c) The signatures on DD should checked by officer with specimen signature book
- d) Telegraphic tranfers and DD issued by branch should be immediately confirmed by advice to branches concerned

2. Contingent Liabilities

- Verify system for extending non-fund based facilities only to regular customers.
- Check internal controls for authorized transactions.
- Examine import LCs:
 - Payment made based on shipping documents.
 - Documents conform to LC terms.
- Ensure adequate records are maintained.
- Review year-end contingent liabilities:
 - Compare with previous experience.
 - Consider current year's activities.

3. Bills for collection

- Bills drawn on other branches of bank are not included in bills for collection
- Auditor should also examine collection made subsequent to date of balance sheet to obtain further evidence about existence and completeness of bills for collection
- In regards to bills for collection, the Auditor examine the procedure for crediting the party on whose behalf the bill has been collected.

STATUTORY AUDIT IN BANKS

- As per section 30(1) of Banking Regulation act, 1949 the balance sheet and P&L A/C of banking company should be audited by a person duly qualified under any law for time being in force to be an auditor of companies

APPOINTMENT

Banking Co. → Appointed at the AGM of the shareholders

Nationalised bank → appointed by concerned bank acting through its BOD

In either case, approval of RBI is required before appointment is made

SBI → appointed by C&AG in consultation with CG

Regional rural banks are to be appointed by concerned bank with approval of CG

REMUNERATION

1. Banking companies: Fixed under Companies Act 2013 (Section 142)

2. Nationalized banks: Fixed by RBI with Central Government consultation

- The Powers of an auditor in a bank is almost similar to that of company auditor

Auditor's Report - Contents

- Whether FS present T&F view of affairs of bank and whether all necessary Explanation and information has been provided to auditor
- Whether or not Txn of bank which have come to notice, have been found adequate for purpose of audit
- Whether or not the returns received from offices and branches of bank have been found adequate for purpose of audit
- Any other matter which he consider should brought to notice of CG

CARO → BR Act ✗

TYPES OF AUDIT

Classification on the Basis of Structure

STATUTORY AUDIT

- Statutory audit is the mandatory checking of accounts as required by law
- It is performed by a qualified Chartered Accountant holding a valid Certificate of Practice (COP) who is the principal auditor of the company

NON-STATUTORY AUDIT



- Audit conducted without any legal requirement is called non-statutory audit or private audit.
- This audit is arranged purely voluntarily or sometimes as per internal rules of the organisations.

Classification on the Basis of Objective

INTERNAL AUDIT

- Internal Audit being an independent appraisal function ensures objectivity and consultation which enhances the value and improves an organization's operations.
- It not only includes matters related to finance but also critical appraisal of the policies and procedures of the company.

INDEPENDENT FINANCIAL AUDIT

- An independent financial audit may be conducted by a qualified auditor at the request of a client, which may be a sole-proprietorship, partnership, non-profit organization or any other entity.
- Its objective is to comment on the truthfulness and fairness of the Financial Statements, and it may be compulsory under some Acts which govern the entity.

TYPES OF AUDIT

Classification on the Basis of Timing

PERIODICAL/FINAL AUDIT

- It takes Every year
- takes place when accounts are finalised.
- The auditor may use statistical sampling methods and techniques which lead to time effectiveness.

INTERIM AUDIT



- Interim audit is the audit conducted between two annual audits.
- It is carried out by professionals, but has no legal status as the figures may be altered subsequently.

CONTINUOUS AUDIT

- Audit takes place on continuous basis (i.e. daily basis)
- It focuses on testing 100 % of Txn.

LIMITED REVIEW

- As per Clause 33 of SEBI (LODR) Regulations 2015, a Co. shall submit its audited or unaudited quarterly, year-to-date and annual financial results to the stock exchange in the prescribed manner within 45 days from the end of each quarter (other than the last quarter).
- Here, the auditor finds little time to conduct thorough examination of books and other documents. This system of review is called Limited Review.

Classification On the basis of Scope

COMPLETE AUDIT

- Checking Complete everything may be detailed/ in detailed

PARTIAL AUDIT

- Something Checked & Something not be checked.
- The auditor's powers to enquiry are restricted by his terms of engagement

DETAILED AUDIT

- Checking something which is detailed
- It involves checking of transactions from the time of their recording till their final effect on the Financial Statements.

Classification On the basis of Subject Matter

COST AUDIT [Refer Sec 148]

MANAGEMENT AUDIT:- MANAGEMENT KA AUDIT

- Focuses on the effectiveness of the management team and their decision-making processes. It evaluates the organizational structure, leadership style, and overall strategic direction of the company

OPERATIONAL AUDIT:- MANAGEMENT KELIYE AUDIT

- Focuses on the quality of operations. It evaluates processes, systems, and operations to determine if internal controls are in place and operating effectively

TAX AUDIT Sec 44 AB of IT Act , 1961

SOCIAL AUDIT

➤ The system of Independent evaluation of operations of an organisation, examination of records relating to social responsibility accounting and critical appraisal of impact of organisations on the society

Eg: Reliance built Schools for supporting 20,000 students

PROPRIETY AUDIT

➤ A propriety audit in India is a type of audit that examines the wisdom and economy of government expenditure. It is used to identify cases of improper or wasteful spending, even if the expenditure was made in accordance with existing rules and regulations. The goal of a propriety audit is to ensure that an organization's expenditures are reasonable and do not harm the public interest.

FORENSIC AUDIT [Audit skills + A/Cing skills + Investigating mentality]

➤ A forensic audit is a detailed examination of a company's or individual's financial records to uncover evidence of criminal activity, such as fraud or embezzlement

PERFORMANCE AUDIT

➤ An independent assessment of an entity's operations to determine if specific programs or functions are working as intended to achieve stated goals.

SECRETARIAL AUDIT [REFER SEC 204]

HUMAN RESOURCE AUDIT

➤ A human resource (HR) audit is an objective review of an organization's HR policies, practices, and procedures to identify strengths and weaknesses

INFORMATION SYSTEM AUDIT

➤ Information systems auditing is an organizational function that evaluates asset safeguarding data integrity system effectiveness/ and system efficiency in computer-based information systems.

ENVIRONMENT AUDIT

- Environmental audit is an excellent management tool for relating productivity to pollution.
- Environmental audit is the examination of the correctness of environmental accounts.



pothaaru !! mottham pass aipothaaru

NFRA



⇒ NFRA shall protect the public interest and the interests of investors, creditors and others associated with the companies or bodies corporate governed under Rule 3 by establishing high quality accounting and auditing standards and exercising effective oversight performed by companies and bodies corporate and auditing functions performed by Auditors

- ⇒ **Established By** CG on 10th Oct 2018 u/s 132(1) of Co. Act. 2013
- ⇒ **Constitution:** 1 chairman : having competence in accounts, audit, finance & law & Other members - Max 15
- ⇒ **Quasi-Judicial Organization** established to monitor the Quality of Accounting & Auditing professionals to incorporate governace
- ⇒ **Structure:** Accounting Standards Committee, Accounting Standards Committee, Enforcement Committee

FUNCTIONS

- Recommend accounting & auditing standards for approval of CG
- Monitor their compliance by companies
- Oversee quality of services by professionals w.r.t compliance with standards & suggest improvement

IMPORTANT QUESTIONS

1. Difference between Statutory & Non Statutory Audit
2. Techniques while doing Internal Control
3. Traditional and Risk Based Internal Audit
4. What are the various principles governing an Audit?
5. Essential Elements of Internal Control (Internal Check and Internal Audit)
6. Discuss different types of Internal Control system?
7. Does reliance on internal auditor reduce the risk of the statutory audit? Discuss.
8. Audit program, Audit documentation and its advantages
9. Distinguish between IFC and IFC- FR
10. Different types of controls in an automated environment
11. Checklist & Questionnaire are not the same- Discuss
12. Define Audit Evidence. Discuss the methods of obtaining Audit Evidence.
13. Discuss the provisions under Section 139(7) relating to the appointment of the auditor in a Government and Non Government Company
14. List down the certain services which are not to be rendered by the Auditor of a Company
15. Qualifications and Disqualifications of Auditor
16. With reference to the Companies (Cost records and Audit) Rules 2014, as amended, discuss provisions relating to maintenance of cost accounting records and cost audit
17. Discuss briefly some of the situations calling for qualifications in Audit Report
18. Discuss the features of Cost Audit Report
19. Functions and role of NFRA
20. Discuss the functions and power of the Audit Committee.
21. Discuss the relevant provisions of Companies (Cost Records and Audit) Rules 2014 on applicability of Cost Audit to different sectors
22. What do you mean by Joint Audit? Discuss the advantages and disadvantages of Joint Audit.
23. Audit procedure to be followed for the audit of-
 1. Inventory
 2. Revenue from Operations
 3. Auditor's duty regarding unclaimed dividend
 4. Auditor's duty regarding Issue of Debentures
 5. Auditor's duty regarding bonus issue
 6. Property, Plant and Equipment
24. Discuss the provisions of Companies Act regarding remuneration of an auditor.
25. While carrying an audit of Bank how will you deal with each of the following?
 - a) Advances
 - b) Balance with other banks
 - c) Money at call and short notice
 - d) Fixed Assets
26. Audit of Cinema Hall
27. Audit Of Hospital
28. Audit Of Hotel