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# Provision Relating to Audit Under Companies Act, 2013

## Company Auditor's Eligibility:

Topic	Content
<b>Qualifications of a Company Auditor</b>	<p>Qualifications under Section 141 of the Companies Act, 2013</p> <ol style="list-style-type: none"> <li>a. Only a Chartered Accountant can be appointed as a company auditor.</li> <li>b. A firm or LLP can be appointed as an auditor if most of its partners in India are qualified as company auditors.</li> <li>c. When a firm is appointed, only Chartered Accountant partners can act and sign for the firm.</li> </ol>
<b>Disqualification of a Company Auditor</b>	<p>Disqualification Criteria under Section 141(3) and Rule 10 of the Company (Audit and Auditor) Rules, 2014:</p> <ol style="list-style-type: none"> <li>a. A body corporate, except a limited liability partnership (LLP) registered under the Limited Liability Partnership Act, 2008.</li> <li>b. Company officers or employees.</li> <li>c. Persons who are partners or employed by company officers or employees.</li> <li>d. Persons (or relatives) holding securities (of &gt; ₹ 1 Lakh), indebted to (of &gt; ₹ 5 Lakh) , or guaranteeing the company, its subsidiaries, or associates (of &gt; ₹ 1 Lakh) beyond specified limits.</li> <li>e. Persons or firms with certain types of business relationships with the company, its subsidiaries, or associates, except for permitted transactions.</li> <li>f. Persons with relatives who are company directors or key managerial personnel.</li> <li>g. Full-time employees or partners of a firm auditing more than twenty companies.</li> <li>h. Persons convicted of fraud within the past ten years.</li> <li>i. Persons providing prohibited services under Section 144 of the Companies Act, 2013.</li> </ol>
<b>Prohibited Services (Section 144)</b>	<p>Auditors cannot provide the following services directly or indirectly to the company, its holding, or subsidiary:</p> <ol style="list-style-type: none"> <li>a) Accounting and bookkeeping services</li> <li>b) Internal audit</li> <li>c) Design and implementation of any financial information system</li> <li>d) Actuarial services</li> <li>e) Investment advisory services</li> <li>f) Investment banking services</li> </ol>

Topic	Content
	g) Rendering of outsourced financial services h) Management services i) Any other prescribed services.

### Appointment of a Company Auditor:

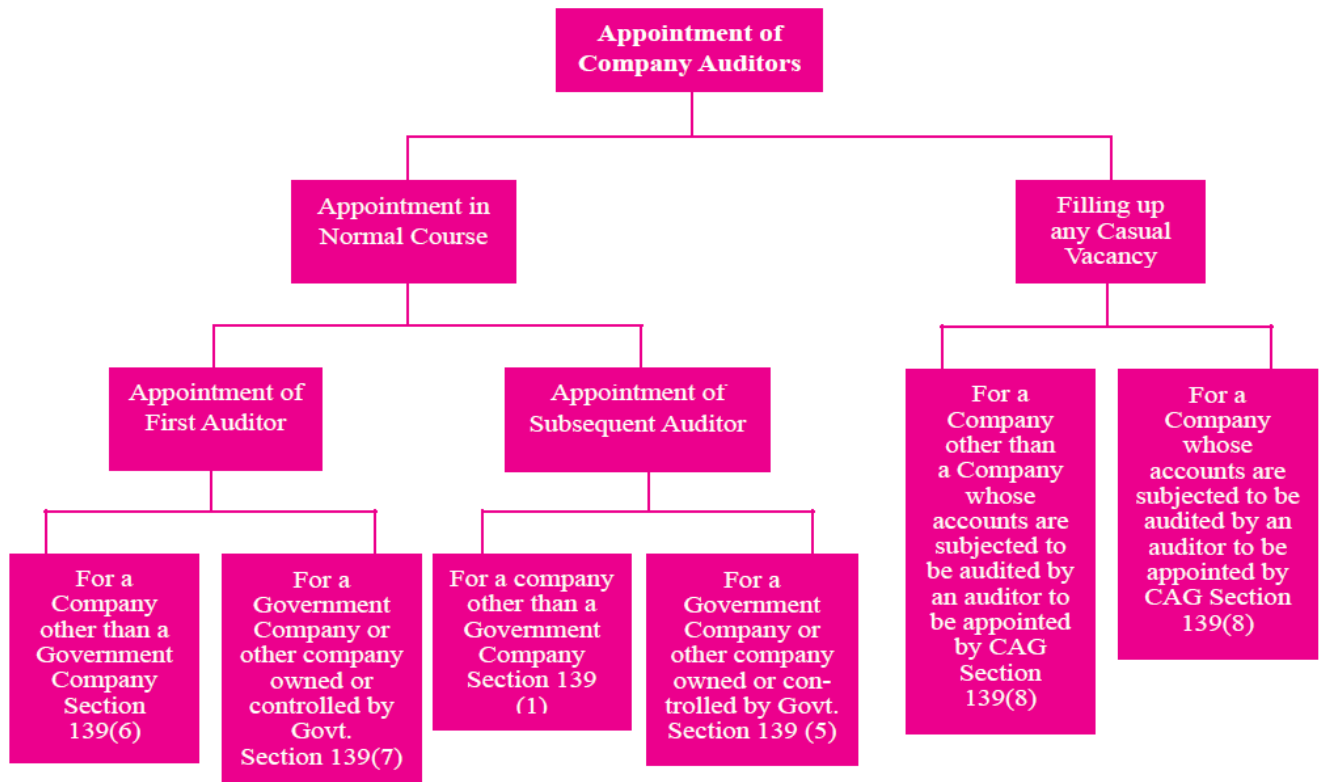


Figure 7.1: Various Instances of Appointment of Company Auditor

Topic	Content
<b>A. Appointment in Normal Course</b>	
<b>(i) Provisions Relating to Appointment of First Auditor</b>	
For a Company Other than a Government Company	[Section 139(6)] The first auditor must be appointed by the Board of Directors within 30 days of company registration. If the Board fails to appoint, the members appoint the auditor within 90 days at an extraordinary general meeting. Serves until the first AGM.
For a Government Company	[Section 139(7)] The Comptroller and Auditor-General of India appoints the first auditor within 60 days of company registration. If not appointed, the Board appoints within the next 30 days; if still not appointed, members appoint within 60 days at an EGM.

Topic	Content
<b>(ii) Appointment of Subsequent Auditor</b>	
For a Company Other than a Government Company	[Section 139(1) & Rule 3 and 4 of Company (Audit and Auditors) Rule 2014] Appointed at the first AGM to serve until the sixth AGM, and then every sixth AGM. Written consent and certificate from auditor confirming criteria satisfaction required.
For a Government Company	[Section 139(5)] Appointed by the Comptroller and Auditor-General of India within 180 days from the start of the financial year. Serves until the conclusion of the AGM.
<b>B. Appointment in Case of Filling a Casual Vacancy [Section 139(8)]</b>	
For Companies Not Audited by CAG	The Board fills any casual vacancy within 30 days. If due to auditor resignation, approval by the company at a general meeting within 3 months of Board recommendation is required. Serves until the next AGM.
For Companies Audited by CAG	The Comptroller and Auditor-General of India fills the vacancy within 30 days. If not filled by CAG, the Board fills it within the next 30 days.
Re-appointment of a Company Auditor	[Section 139(9)] A retiring auditor may be re-appointed at an AGM if not disqualified, if unwillingness to be re-appointed isn't expressed in writing, and if no special resolution is passed for another auditor's appointment.
Automatic Re-appointment of a Company Auditor	[Section 139(10)] If no auditor is appointed or re-appointed at an AGM, the existing auditor continues to serve.
Role of Audit Committee's Recommendation	Companies with an Audit Committee must consider the committee's recommendations for all auditor appointments, including filling casual vacancies.
<b>Ceiling on the Number of Audit Assignments [Section 141(3)(g)]</b>	
<p>a. An individual or partner in a firm cannot be appointed as an auditor if they are in full-time employment elsewhere or hold appointments as auditors for more than 20 companies, except certain companies, or exceed the specified limit on tax audit assignments.</p> <p>b. A qualified chartered accountant not in full-time employment can be the auditor for a maximum of 20 companies. For a partnership firm, the limit is 20 companies per partner.</p> <p>c. If a chartered accountant is a partner in multiple firms, the cumulative limit is 20 companies across all firms for the common partner. If a chartered accountant practices individually and is also a partner in other firms, their limit remains 20 companies.</p> <p>d. A joint audit assignment counts as one unit, and auditing any part of a company's accounts is also one unit. Each auditor, individually or as a firm partner, can accept up to 60 tax audit assignments.</p>	

## Resignation by a Company Auditor:

Topic	Content
<b>Section 140(2) of the Companies Act, 2013 and Rule 8 of Company (Audit and Auditors) Rule 2014</b>	
Steps to be Followed by the Auditor upon Resignation	<ol style="list-style-type: none"> <li>a. The auditor must file a statement in Form ADT-3 with the company and the Registrar within 30 days of resignation.</li> <li>b. The statement should include reasons and relevant facts for the resignation.</li> </ol>
Additional Requirement for Government Companies	For government companies or companies owned or controlled by the government(s), the auditor must also file the resignation statement with the Comptroller and Auditor-General of India.
Penalties for Non-Compliance	If the auditor fails to comply with these provisions, a fine of fifty thousand rupees or an amount equal to their remuneration (whichever is less) may be imposed. For continued non-compliance, a further penalty of five hundred rupees per day applies, up to a maximum of five lakh rupees.

## Rotation of Company Auditor

Topic	Content
A. Eligible Companies for Rotation	Rotation of auditors applies to: <ol style="list-style-type: none"> <li>a. Listed companies (excluding one-person companies and small companies).</li> <li>b. Unlisted public companies with a paid-up share capital of ₹10 crore or more.</li> <li>c. Private limited companies with a paid-up share capital of ₹50 crore or more.</li> <li>d. Companies with public borrowings or deposits of ₹50 crore or more.</li> </ol>
B. Maximum Term	<ol style="list-style-type: none"> <li>a. An individual auditor cannot be appointed or reappointed for more than one term of five consecutive years.</li> <li>b. An audit firm cannot be appointed or reappointed for more than two terms of five consecutive years.</li> </ol>
C. Additional Conditions for Rotation	<ol style="list-style-type: none"> <li>a. An individual auditor or audit firm completing their term is not eligible for reappointment in the same company for five years.</li> <li>b. An audit firm with common partners to an outgoing audit firm cannot be appointed as the auditor for the same company for five years.</li> <li>c. Companies existing before the commencement of the Companies Act must comply with rotation requirements within three years from the Act's commencement.</li> </ol>
D. Rotation of Partners in the Audit Firm	Members may resolve to rotate auditing partners and their teams or have the audit conducted by more than one auditor.

Topic	Content
E. Manner of Rotation	<ol style="list-style-type: none"> <li>The Central Government may prescribe the manner of rotation.</li> <li>In companies with an Audit Committee, the committee recommends an auditor for rotation; in companies without, the Board makes recommendations.</li> <li>A five-year continuous break fulfills the rotation requirement.</li> <li>If a partner who certifies financial statements retires and joins another firm, that firm is ineligible for five years.</li> </ol>

### Remuneration of Company Auditor:

Topic	Content
<b>Provisions in Section 142 of the Companies Act, 2013</b>	
Determination of Remuneration	The remuneration of a company's auditor is generally determined in its general meeting or as otherwise decided in the meeting. For the first auditor appointed by the Board, the Board itself may fix the remuneration.
Scope of Remuneration	Remuneration includes the auditor's fee, any audit-related expenses, and any facilities provided to the auditor. It excludes any payment for other services rendered by the auditor at the company's request.

### Removal of the Company Auditor:

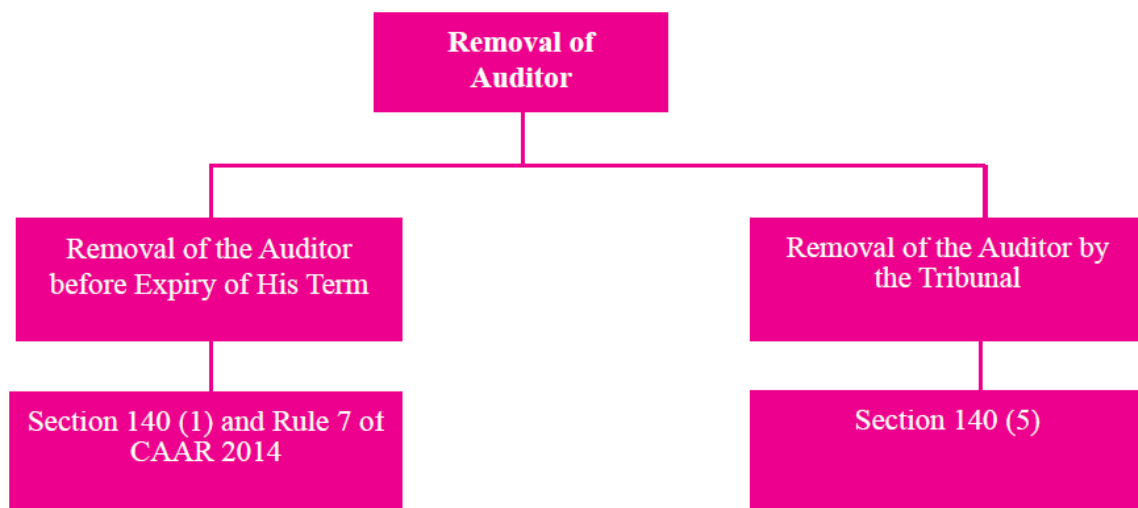


Figure 7.2: Different Ways of Removal of a Company Auditor

Topic	Content
<b>A. Removal of Auditor Before Term Expiry</b>	
Conditions for Removal under Section 140(1) with Rule 7 of CAAR 2014	<ol style="list-style-type: none"> <li>An application in Form ADT-2, along with the required fees, must be submitted to the Central Government.</li> <li>This application must be made within 30 days of the Board's resolution for removal.</li> </ol>

Topic	Content
	<p>c. A general meeting must be held within 60 days of receiving Central Government approval to pass a special resolution for removal.</p> <p>d. The auditor must be given a reasonable opportunity to be heard.</p>
<b>B. Removal of Auditor by the Tribunal</b>	
Procedure under Section 140(5)	<p>a. The Tribunal can order a company to change its auditor on its own or based on an application from the Central Government or any concerned party if it finds that the auditor acted fraudulently or abetted fraud.</p> <p>b. If the Central Government applies for removal and the Tribunal finds it necessary, it must issue an order for the auditor's removal within 15 days.</p> <p>c. The Central Government can appoint a replacement auditor.</p> <p>d. An auditor (individual or firm) removed by Tribunal order is ineligible for appointment as an auditor for any company for five years and is subject to action under Section 447.</p> <p>e. For a firm, liability applies to the firm and any partner involved in fraudulent actions or collusion in fraud concerning the company or its officers.</p>

### Rights and duties of the Company Auditor:

Topic	Content
<b>Rights of the Company Auditor</b>	
(i) Inspect Books and Vouchers	The auditor can access the company's books of account and vouchers, whether at the registered office or elsewhere.
(ii) Obtain Information	The auditor has the right to request information and explanations from company officers as needed for their duties.
(iii) Inspect Branch Offices	The auditor can inspect branch office accounts if necessary, even if a separate auditor was appointed for branch audits.
(iv) Receive Branch Audit Report	If a separate auditor is appointed for branches, the company auditor has the right to receive the branch audit report for inclusion in the overall audit report.
(v) Sign Documents	The auditor can sign the audit report and other company documents in accordance with relevant provisions.
(vi) Present Audit Report	The auditor can have the audit report read at the General Meeting and allow inspection by company members.
(vii) Attend General Meetings	The auditor is entitled to receive notices and attend general meetings, with the right to be heard on relevant matters.
(viii) Audit Committee Meetings	Auditors have the right to attend Audit Committee meetings and be heard on the auditor's report, though they cannot vote.

Topic	Content
(ix) Indemnification	Auditors have the right to be indemnified for expenses incurred in defending themselves in legal actions favouring the company.
<b>Duties of the Company Auditor</b>	
<b>Duty to Inquire</b>	<ol style="list-style-type: none"> <li>a. Verify loans and advances for proper security and terms.</li> <li>b. Scrutinize transactions represented only by book entries.</li> <li>c. Examine the sale of assets (e.g., shares, debentures) below purchase price.</li> <li>d. Confirm loans and advances are correctly shown as deposits.</li> <li>e. Check for personal expenses charged to revenue accounts.</li> <li>f. Verify cash receipt for shares allotted for cash.</li> <li>g. Ensure financial statements' accuracy and absence of misleading information.</li> </ol>
<b>Duty to Report on Financial Statements</b>	<ol style="list-style-type: none"> <li>a. Prepare a report on examined accounts and financial statements.</li> <li>b. Evaluate if financial statements present a true and fair view.</li> <li>c. Assess compliance with accounting and auditing standards.</li> </ol>
<b>Duty Regarding Inclusion in the Audit Report</b>	<ol style="list-style-type: none"> <li>a. Verify proper books of account are maintained.</li> <li>b. Report on audits of branch offices conducted by others.</li> <li>c. Check financial statements against books of account.</li> <li>d. Assess compliance with accounting standards.</li> <li>e. Include observations on adverse financial transactions.</li> <li>f. Report on director disqualifications.</li> <li>g. Mention qualifications or reservations in maintaining accounts.</li> <li>h. Evaluate internal financial controls.</li> <li>i. Comment on pending litigations' impact.</li> <li>j. Assess provisions for foreseeable losses.</li> <li>k. Verify transfers to the Investor Education and Protection Fund.</li> <li>l. Confirm non-advancement of funds to intermediaries.</li> <li>m. Verify non-receipt of funds from funding parties.</li> <li>n. Ensure compliance with dividend declaration regulations.</li> <li>o. Confirm the use of accounting software with audit trail feature.</li> </ol>
<b>Reasons for Negative Remarks/Qualifications (Sec. 143(4))</b>	Auditors must provide reasons if audit matters are answered negatively or qualified in their report.
<b>Compliance with CAG Directions (Sec. 143(5))</b>	Auditors of government or government-controlled companies include CAG directions in their reports.

Topic	Content
<b>Compliance with Auditing Standards (Sec. 143(9))</b>	Auditors must adhere to applicable auditing standards during the audit.
<b>Reporting Fraud to Central Government (Sec. 143(12))</b>	Auditors report fraud exceeding ₹1 crore to the Central Government.
<b>Penalties for Non-compliance (Sec. 143(15))</b>	Penalties for non-compliance with fraud reporting provisions are ₹5 lakh for listed companies and ₹1 lakh for others.
<b>Comments for Audit Committee (Sec. 177(5))</b>	Auditors offer comments on internal control, audit scope, and financial statements when requested by the Audit Committee.
<b>Additional Duties (Companies Act, 2013)</b>	<ul style="list-style-type: none"> <li>a. Reporting on accounts for prospectus (Sec. 26).</li> <li>b. Signing the audit report (Sec. 145).</li> </ul>
<b>Liabilities of the Company Auditor</b>	
<b>A. Statutory Liabilities</b>	
<b>I. Under Companies Act, 2013</b>	
<b>Civil Liabilities</b>	<ul style="list-style-type: none"> <li>a. Liability for misstatement in the prospectus (Section 35).</li> <li>b. Liability for misfeasance during the company's liquidation (Section 340).</li> </ul>
<b>Criminal Liabilities</b>	<ul style="list-style-type: none"> <li>a. Criminal liability for misstatement in the prospectus (Sections 34 and 447).</li> <li>b. Punishment for non-compliance with Sections 139, 144, and 145 (Section 147).</li> <li>c. Punishment for refusal or failure to produce documents (Section 217).</li> <li>d. Fraud in relation to a company in winding-up (Section 336).</li> <li>e. Punishment for false statement (Section 448).</li> <li>f. Punishment for false evidence (Section 449).</li> </ul>
<b>II. Liabilities under Other Acts</b>	<ul style="list-style-type: none"> <li>a. Liabilities under the Income Tax Act, 1961 (Section 278).</li> <li>b. Liabilities under the Chartered Accountants Act, 1949 (Schedule I and II).</li> <li>c. Liabilities under the Life Insurance Act, 1956 (Section 104).</li> <li>d. Liabilities under the Banking Regulation Act, 1949 (Section 46).</li> </ul>
<b>B. Contractual Liabilities</b>	<ul style="list-style-type: none"> <li>a. Auditor's scope of work is determined by a written contract with the client.</li> <li>b. Contravention of contract terms may lead to liability under the Indian Contract Act, 1872.</li> <li>c. Conducting only partial audit when a complete audit is expected can lead to liability.</li> </ul>

Topic	Content
	d. Disclosing client's confidential information to third parties can result in liability.

### Branch Audit

Topic	Content
<b>Section 128(1): Books of Account</b>	<ul style="list-style-type: none"> <li>a. Every company must maintain books of account and financial statements at its registered office for each financial year, including those of its branch offices.</li> <li>b. These records should provide a true and fair view of the company's affairs and follow the double-entry system and accrual basis.</li> <li>c. The Board may decide to keep these records at another location in India and must inform the Registrar of Companies within seven days of the change.</li> </ul>
<b>Section 128(2): Compliance for Branch Offices</b>	For companies with branch offices (in India or abroad), compliance with Section 128(1) can be met by maintaining books of account at the branch and periodically sending summarized returns to the registered office or the alternative location chosen by the Board.
<b>Section 143(8) and Rule 12 of CAAR 2014: Branch Audit</b>	<ul style="list-style-type: none"> <li>a. The branch office accounts can be audited by the company's auditor or another qualified auditor appointed under Section 139.</li> <li>b. For branch offices located outside India, the accounts may be audited by the company's auditor or by an accountant qualified to act as an auditor under that country's laws.</li> <li>c. The powers and duties of the company's auditor, as outlined in Sections 143(1) to (4), apply similarly to branch audits.</li> <li>d. If a separate branch auditor is appointed, their powers and duties are the same as the company auditor's under Sections 143(1) to (4).</li> <li>e. The branch auditor is required to submit their audit report to the company's auditor.</li> <li>f. Provisions regarding fraud reporting by the auditor (Section 143(12)) also apply to the branch auditor regarding the branch's affairs.</li> </ul>

### Joint Audit:

Topic	Content
<b>Concept of Joint Audit</b>	Joint audit involves multiple auditors examining a single organization's financial records. It's common in large companies with complex operations, aiming to efficiently utilize multiple auditors and expedite the audit process.
<b>Benefits of Joint Audit</b>	<ul style="list-style-type: none"> <li>a. <b>Reduced Workload:</b> Workload is distributed, easing the burden on individual auditors.</li> <li>b. <b>Timely Completion:</b> Different auditors can address various aspects, ensuring timely audits.</li> <li>c. <b>Shared Expertise:</b> Auditors collaborate to handle complex issues effectively.</li> </ul>

Topic	Content
	<ul style="list-style-type: none"> <li>d. <b>Improved Quality:</b> Quality of work increases with shared responsibility.</li> <li>e. <b>Healthy Competition:</b> Encourages auditors to maintain high standards.</li> <li>f. <b>Extensive Knowledge:</b> Access to the expertise of multiple auditors enhances insights.</li> </ul>
<b>Limitations of Joint Audit</b>	<ul style="list-style-type: none"> <li>a. <b>Superiority Complex:</b> Experienced auditors may overshadow less experienced colleagues.</li> <li>b. <b>Cost Burden:</b> Joint audits are expensive, making them unsuitable for small entities.</li> <li>c. <b>Lack of Coordination:</b> Poor coordination can slow down the audit.</li> <li>d. <b>Uncertain Liability:</b> Difficulties in assigning liability for specific tasks.</li> <li>e. <b>Neglected Areas:</b> Some areas may be overlooked due to divided responsibilities.</li> <li>f. <b>Shared Fees:</b> Auditors share fees, which can be a drawback.</li> </ul>
<b>Guidelines under SA 299</b>	
<b>A. Division of Work</b>	<ul style="list-style-type: none"> <li>a. Joint auditors should mutually agree on work division, typically by units, specific areas, or time periods. In some cases, assets, liabilities, income, or expenditure may form the basis.</li> <li>b. Certain key areas should be examined by all auditors.</li> <li>c. Division of work and shared responsibility areas should be documented and communicated to the audited entity.</li> </ul>
<b>B. Coordination</b>	Any auditor encountering issues relevant to other auditors' responsibilities should communicate in writing before finalizing the audit, either via a report or note.
<b>C. Responsibility among Joint Auditors</b>	<ul style="list-style-type: none"> <li>a. Each auditor is responsible for their assigned work, regardless of individual reporting.</li> <li>b. All are jointly responsible for undivided work areas, shared decisions on audit procedures, and compliance with statutory requirements.</li> <li>c. Joint auditors are not liable for issues raised by others after report submission.</li> </ul>
<b>D. Dependence on Other Auditors</b>	<ul style="list-style-type: none"> <li>a. Each joint auditor can rely on others to follow standard procedures without verifying their work.</li> <li>b. Auditors should trust that colleagues will report any deviations from accepted practices or material errors.</li> </ul>
<b>E. Reporting Responsibilities</b>	Typically, joint auditors agree on the audit report content. If there are disagreements, each auditor can submit a separate opinion, reflecting their stance independently of the majority.

### Audit Committee:

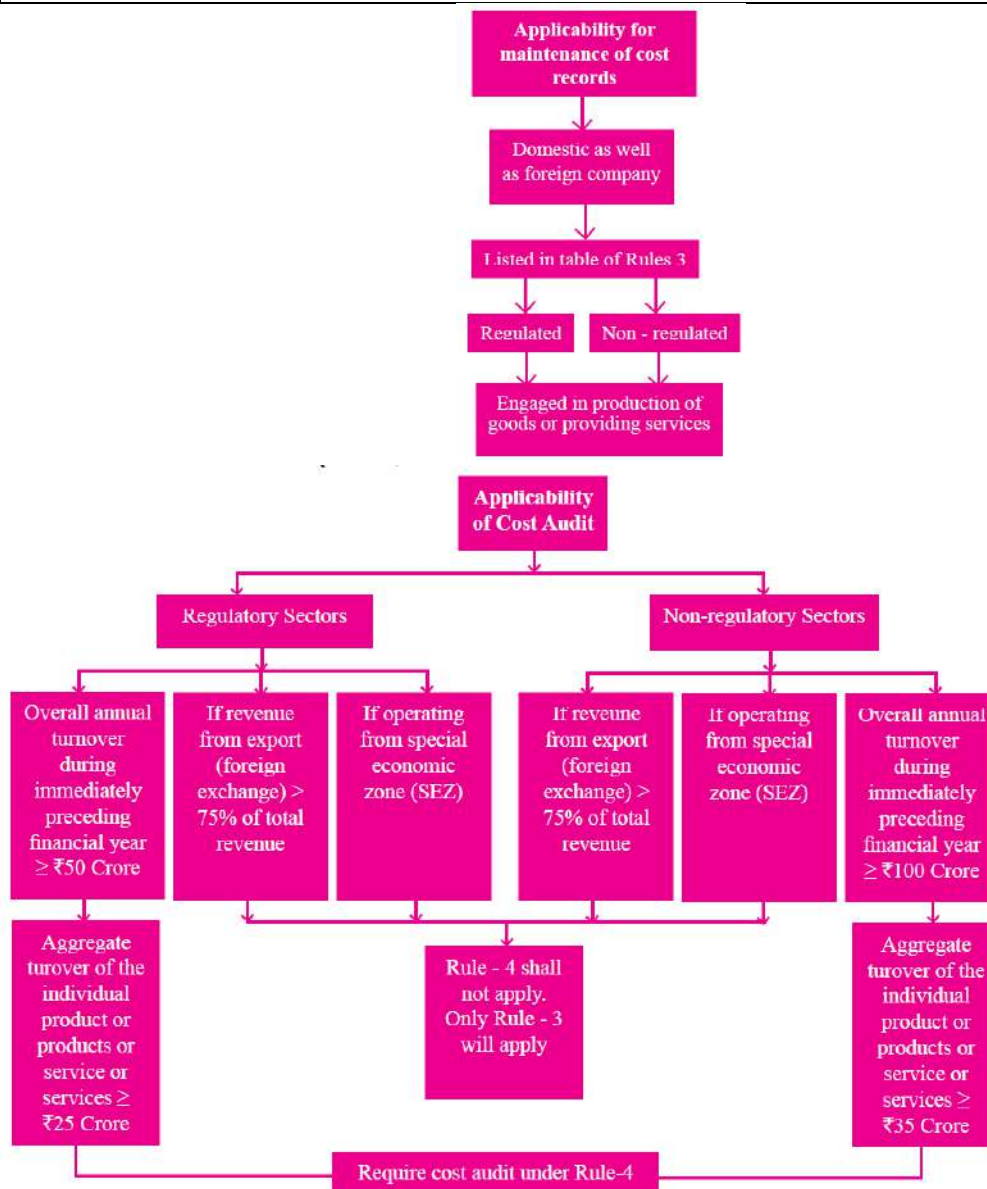
Aspect	Details
<b>Concept of Audit Committee</b>	<p>- <b>Purpose:</b> Established to ensure auditor independence, remove conflicts of interest, review auditor performance, and promote good governance.</p> <p>- <b>Background:</b> Formed as part of corporate governance regulations to reduce corporate fraud.</p>
<b>A. Formation of Audit Committee</b>	<p>- <b>Mandatory for:</b></p> <ol style="list-style-type: none"> <li>All listed companies.</li> <li>Public companies with a paid-up capital of ₹10 crore or more.</li> <li>Public companies with a turnover of ₹100 crore or more.</li> <li>Public companies with loans, borrowings, debentures, or deposits over ₹50 crore.</li> </ol>
<b>B. Composition</b>	<p>- <b>Minimum Requirements:</b></p> <ol style="list-style-type: none"> <li>At least three directors, with a majority being independent.</li> <li>Most members, including the chairperson, must be financially literate (able to read and understand financial statements).</li> </ol>
<b>C. Broad Functions of Audit Committee</b>	<ol style="list-style-type: none"> <li>Recommending auditor appointments, remuneration, and terms of engagement.</li> <li>Reviewing and ensuring auditor independence and performance.</li> <li>Examining financial statements and auditors' reports.</li> <li>Approving or modifying related party transactions.</li> <li>Scrutinizing inter-corporate loans and investments.</li> <li>Valuating company assets or undertakings when required.</li> <li>Evaluating internal financial controls and risk management systems.</li> <li>Monitoring fund utilization from public offers.</li> </ol>
<b>D. Powers of Audit Committee</b>	<p>- <b>Key Powers:</b></p> <ol style="list-style-type: none"> <li>Requesting auditors' input on internal controls, audit scope, findings, and financial statements prior to Board submission.</li> <li>Investigating matters within its scope and seeking professional advice if needed.</li> <li>Accessing company records relevant to its functions.</li> </ol> <p>- <b>Whistle-Blowing Mechanism:</b></p> <ol style="list-style-type: none"> <li>Listed companies and certain others must establish a whistle-blowing policy to report concerns safely, without fear of victimization.</li> <li>The mechanism should be disclosed on the company website and in the Board report.</li> </ol> <p>- <b>Reporting:</b> The Board must disclose the Audit Committee's composition and justify any deviations from the committee's recommendations.</p>

## The maintenance and audit of cost records

Important Provisions of the Companies Act, 2013, and Companies (Cost Records and Audit) Rules, 2014 (as amended):

Provision	Details
<b>1. Application of Cost Records (Rule 3)</b>	<ul style="list-style-type: none"> <li>- <b>Applicability:</b> Covers all companies (regulated and non-regulated) engaged in producing goods or services.</li> <li>- <b>Turnover Threshold:</b> Companies with a turnover of ₹35 crore or more in the preceding financial year must maintain cost records.</li> <li>- <b>Inclusion of Foreign Companies:</b> Foreign companies (as per Section 2(42) of the Companies Act, 2013) meeting the turnover threshold must also maintain cost records.</li> <li>- <b>Exclusion:</b> Micro and Small Enterprises, per MSME Act, 2006, are exempt.</li> </ul>
<b>2. Applicability for Cost Audit (Rule 4)</b>	<ul style="list-style-type: none"> <li>- <b>For Companies in Item (A) of Rule 3:</b> Cost audit required if annual turnover is ₹50 crore or more, with ₹25 crore in products/services requiring cost records.</li> <li>- <b>For Companies in Item (B) of Rule 3:</b> Cost audit required if turnover is ₹100 crore or more, with ₹35 crore in relevant products/services.</li> <li>- <b>Exemptions:</b> Companies with significant (75%) foreign revenue, those in SEZs, or generating electricity for captive use.</li> </ul>
<b>3. Maintenance of Records (Rule 5)</b>	<ul style="list-style-type: none"> <li>- <b>Form CRA-1:</b> Records must be maintained in CRA-1 format, including all units/branches.</li> <li>- <b>Calculation Requirements:</b> Records should facilitate per unit cost calculation, cost of operations, sales, and margins for various time intervals (monthly, quarterly, half-yearly, annually).</li> <li>- <b>Purpose:</b> To enable operational control, cost efficiency, and resource optimization.</li> </ul>
<b>4. Appointment of Cost Auditor (Rule 6)</b>	<ul style="list-style-type: none"> <li>- <b>Eligibility:</b> A Cost Accountant, not appointed under Section 139, conducts cost audits.</li> <li>- <b>Appointment Timeline:</b> Companies must appoint a cost auditor within 180 days of the start of the financial year.</li> <li>- <b>Information to Central Government:</b> Appointment must be communicated to the Central Government within 30 days.</li> <li>- <b>Tenure and Removal:</b> The cost auditor serves until 180 days post-year-end or report submission, removable by Board resolution with valid reasons.</li> <li>- <b>Casual Vacancy:</b> To be filled by the Board within 30 days and reported to the Central Government.</li> </ul>
<b>5. Disqualification of Cost Auditor</b>	<ul style="list-style-type: none"> <li>- <b>Criteria:</b> Persons disqualified under Section 141(3) or those appointed under Section 139 cannot serve as cost auditors.</li> </ul>
<b>6. Remuneration of Cost Auditor</b>	Decided by the Board, recommended by the Audit Committee (if applicable), and ratified by shareholders.
<b>7. Rights and Duties of Cost Auditor</b>	- <b>Rights and Duties:</b> Cost auditors have rights, duties, and obligations similar to those of company auditors.

Provision	Details
	- <b>Company's Obligation:</b> Must provide necessary assistance and access for the cost audit process.
<b>8. Submission of Cost Audit Report</b>	- <b>Form CRA-3:</b> The cost auditor submits the report to the Board within 180 days from the financial year's closure. - <b>Central Government Filing:</b> The company files the report, with explanations for any reservations/qualifications, to the Central Government within 30 days of receipt.
<b>9. Forms Relevant to Cost Records and Cost Audit</b>	- <b>CRA-1:</b> Cost records maintenance. - <b>CRA-2:</b> Notifies Central Government of cost auditor appointment. - <b>CRA-3:</b> Cost audit report. - <b>CRA-4:</b> Filing the cost audit report with the Central Government.
<b>10. Reporting Requirements in Cost Audit (CRA-3)</b>	- <b>Reporting Aspects:</b> The auditor reports on cost record maintenance, returns from unvisited branches, compliance with the Companies Act, internal audit system adequacy, and cost information accuracy.



## Secretarial Audit:

Provision	Details
<b>Applicability and Conduct of Secretarial Audit</b>	
<b>Companies Act, 2013</b>	<ul style="list-style-type: none"> <li>- <b>Mandatory for:</b> <ul style="list-style-type: none"> <li>• Listed companies.</li> <li>• Public companies with ₹50 crore or more in paid-up share capital.</li> <li>• Public companies with a turnover of ₹250 crore or more.</li> <li>• Companies with outstanding loans of ₹100 crore or more.</li> </ul> </li> <li>- The Secretarial Audit Report must be attached to the Board's Report.</li> <li>- <b>Duty:</b> Assist the secretarial auditor in auditing the company's secretarial and related records.</li> <li>- <b>Non-Compliance Penalty:</b> Fine up to ₹2 lakh.</li> </ul>
<b>SEBI Regulations</b>	<ul style="list-style-type: none"> <li>- <b>Applicability:</b> Listed entities and material unlisted subsidiaries must conduct secretarial audits.</li> <li>- <b>Report Requirements:</b> <ul style="list-style-type: none"> <li>• A Secretarial Audit Report by a practicing company secretary must be annexed to the annual report.</li> <li>• A Secretarial Compliance Report must be submitted to stock exchanges within 60 days post-financial year.</li> </ul> </li> </ul>
<b>Qualification of Secretarial Auditor</b>	Only members of the Institute of Company Secretaries of India (ICSI) holding a Certificate of Practice are qualified to be appointed as Secretarial Auditors.
<b>Appointment of Secretarial Auditor</b>	<ul style="list-style-type: none"> <li>- Appointed by Board resolution.</li> <li>- A letter of engagement is recommended.</li> <li>- Changes in the secretarial auditor must be reported to members during the financial year.</li> <li>- Any qualifications or remarks by the auditor in the report should be presented at the AGM with the Board's explanation.</li> </ul>
<b>Secretarial Audit Report</b>	
<b>Format and Rules</b>	<ul style="list-style-type: none"> <li>- <b>Companies Act, 2013:</b> Mandates the report in a specified format.</li> <li>- <b>Form:</b> Form MR-3, per Rule 9(2) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014.</li> </ul>
<b>Reporting Requirements</b>	- <b>Section 134 and Section 204 (3):</b> Require the Board to provide explanations for any qualifications, observations, or remarks in the secretarial audit report.

### National Financial Reporting Authority (NFRA):

Provision	Details
<b>Background</b>	<ul style="list-style-type: none"> <li>- Established by the Central Government under the Companies Act, 2013, replacing NACAS.</li> <li>- NFRA oversees accounting and auditing standards in India.</li> </ul>
<b>Constitution</b>	<ul style="list-style-type: none"> <li>- Formed on October 1, 2018, under Section 132 of the Companies Act, 2013.</li> <li>- Consists of a Chairman and up to 15 members.</li> </ul>
<b>Structure</b>	<ul style="list-style-type: none"> <li>- <b>Committees:</b> NFRA has three committees:               <ul style="list-style-type: none"> <li>• Accounting Standards committee</li> <li>• Auditing Standards committee</li> <li>• Enforcement committee</li> </ul> </li> </ul>
<b>Functions and Duties</b>	<ul style="list-style-type: none"> <li>- Recommends accounting and auditing policies and standards.</li> <li>- Ensures compliance with standards.</li> <li>- Monitors the quality of professional services.</li> <li>- Protects public and investor interests.</li> </ul>
<b>NFRA's Role in Auditing</b>	
<b>A. Recommending Auditing Standards</b>	<ul style="list-style-type: none"> <li>- Recommends auditing policies and standards to the Central Government.</li> <li>- Receives input from ICAI on new or amended standards.</li> <li>- May request further information from ICAI and considers these recommendations before advising the Central Government.</li> </ul>
<b>B. Monitoring and Enforcing Compliance with Auditing Standards</b>	<ul style="list-style-type: none"> <li>- Ensures compliance with auditing standards among companies or corporate bodies under Rule 3.</li> <li>- Reviews audit working papers, quality control systems, and performs necessary testing.</li> <li>- May require auditors to report on governance and risk mitigation practices.</li> <li>- Has authority to summon additional documents or the presence of auditors for review.</li> <li>- Uses experienced officers or experts for monitoring and enforcement.</li> <li>- Publishes findings of non-compliance, unless against public interest.</li> <li>- Shares confidential findings separately with the Central Government.</li> <li>- Decides on further investigations or actions for any violations.</li> </ul>
<b>C. Power to Investigate</b>	<ul style="list-style-type: none"> <li>- Can investigate professional misconduct per Section 132(4) of the Act.</li> <li>- Initiates investigations based on compliance or oversight actions.</li> </ul>

Provision	Details
	<ul style="list-style-type: none"> <li>- May conduct suo-motu investigations into misconduct with recorded reasons.</li> <li>- Reports non-compliance involving fraud over ₹1 crore to the Central Government.</li> <li>- Holds exclusive authority to initiate proceedings against auditors of companies under Rule 3.</li> <li>- Continues proceedings for auditors of non-Rule 3 entities under the Chartered Accountants Act, 1949, and related regulations.</li> </ul>

### Audit Report vs. Audit Certificate

S No.	Point of Distinction	Audit Report	Audit Certificate
1.	Definition	Expresses the auditor's opinion on financial statement reliability and correctness.	Provides a written confirmation of the accuracy of stated facts.
2.	Nature	An expression of opinion about financial statements.	A confirmation of correctness and accuracy about specific matters.
3.	Basis of Audit	Based on assumptions and estimations.	Based on actual figures and facts.
4.	Scope	Has a broad scope, covering financial statements.	Has a limited scope, focusing on specific matters.
5.	Advice	Can include constructive advice to the company.	Typically does not include advice; it's confirmatory in nature.
6.	Guarantee	Does not guarantee the accuracy of financial statements; it's an opinion.	Guarantees the accuracy of the facts stated therein.
7.	Time of Issue	Submitted to the appointing authority after the audit is complete.	Issued as needed, not necessarily after a complete audit.
8.	Auditor's Liability	Auditor may not be held responsible if the opinion is incorrect unless negligence is proven.	Auditor is held responsible if the certificate is incorrect.
9.	Format	Must adhere to a prescribed format.	Not required to follow a standard format.



**Audit Report Content (Section 143):**

Description	Details
Reporting on Financial Statements	Auditor must state if financial statements provide a true and fair view of the company's affairs and financial performance.
Information Verification	Auditor should confirm all necessary information and explanations were obtained from management.
Account Verification	Confirms that proper books of account are maintained and that branch returns are received.
Consistency with Records	Addresses agreement between financial statements and books of account.
Compliance	Must mention compliance with accounting standards.
Highlight Adverse Effects	Reports any adverse effects of transactions on company functioning.
Director's Qualification	Specifies if any director is disqualified from appointment.
Qualifications/Reservations	Includes qualifications, reservations, or adverse remarks on accounting and related matters.
Internal Control System	Assesses the adequacy and effectiveness of the company's internal financial control system.

**Additional Reporting Requirements**

<b>Reasons for Negatives/Qualifications (Section 143)</b>	If any matter is negative or qualified, reasons must be stated.
<b>Government Company Reporting (Section 143)</b>	Must include directions issued by the Comptroller and Auditor General (CAG) and report the action taken.
<b>Fraud Reporting (Section 143)</b>	Any suspected fraud by officers or employees must be immediately reported to the Central Government.
<b>Companies (Auditor's Report) Order</b>	Report to include matters prescribed by the Companies (Auditor's Report) Order.
<b>Rule 11 (Companies (Audit and Auditors) Rules 2014)</b>	<ul style="list-style-type: none"> <li>a. Disclose impact of pending litigations on the company's financial position.</li> <li>b. Provision for material foreseeable losses on long-term contracts.</li> <li>c. Timely transfer of funds to the Investor Education and Protection Fund.</li> </ul>

## Basic Elements/Contents of Audit Report as per SA-700 Revised

Element	Details
<b>Title</b>	The report should have an appropriate title, such as "Independent Auditor's Report," to differentiate it from other reports.
<b>Addressee</b>	The report should be addressed appropriately as per the terms of engagement, which are typically specified by law, regulations, or engagement terms.
<b>Auditor's Opinion</b>	This section includes the auditor's opinion, stating the name of the client, that the financial statements have been audited, titles of financial statements, reference to significant accounting policies, and the date and period of the financial statements audited.
<b>Basis for Opinion</b>	This section explains the basis for the auditor's opinion, including compliance with auditing standards, auditor's independence, and sufficiency and appropriateness of audit evidence.
<b>Going Concern Assumption</b>	If applicable, the auditor reports on the going concern assumption in accordance with SA 570 (Revised).
<b>Key Audit Matters</b>	In the case of listed entities, key audit matters are communicated in accordance with SA 701. These are matters of significance in the audit and may also be required by law or regulation for other entities.
<b>Responsibilities for Financial Statements</b>	This section explains management's responsibility for preparing the financial statements and maintaining internal control, as well as the auditor's responsibility for issuing an opinion.
<b>Auditor's Responsibilities for the Audit</b>	This section states the objectives of the auditor and emphasizes reasonable assurance, professional judgment, and professional scepticism. It lists the auditor's responsibilities, including risk assessment, understanding internal control, evaluating accounting practices, assessing going concern, and performing other audit procedures.
<b>Other Reporting Responsibilities</b>	If the auditor has other reporting responsibilities beyond the auditing standards, they should be addressed in a separate section titled "Report on Other Legal and Regulatory Requirements."
<b>Signature of the Auditor</b>	The report is signed by the auditor; if from a firm, it is signed by the engagement partner in their personal name and the name of the audit firm, including membership numbers and registration numbers.
<b>Place of Signature</b>	The report specifies the city where it is signed.
<b>Date of the Auditor's Report</b>	The date of the auditor's report is the date on which the auditor signs the report expressing their opinion on the financial statements.

## Contents of Audit Report as per Companies (Auditor's Report) Order 2020 (CARO 2020):

Section	Content and Details
<b>A. Notification</b>	Matters specified in CARO 2020 must be included in every auditor's report under Section 143 of the Companies Act, 2013, for eligible companies.
<b>B. Eligible Companies</b>	CARO 2020 applies to every company except: <ul style="list-style-type: none"> <li>• banking companies under the Banking Regulation Act, 1949;</li> <li>• insurance companies under the Insurance Act, 1938;</li> <li>• companies licensed to operate under Section 8 of the Companies Act;</li> <li>• One Person Companies and small companies; and</li> <li>• private limited companies that meet specific criteria related to capital (paid up share capital plus reserves is <math>\leq</math> ₹ 1 crore), borrowings (<math>\leq</math> ₹ 1 crore), and revenue (<math>\leq</math> ₹ 10 crore). Such private company should not be a holding company or a subsidiary company of a public company.</li> </ul>
<b>C. Matters to be Included in Auditor's Report</b>	
<b>1. Non-current Assets</b> (Clause 3(i))	<ul style="list-style-type: none"> <li>- Check if proper records of Property, Plant, Equipment, and intangible assets are maintained.</li> <li>- Verify if these assets are physically verified at reasonable intervals and report any material discrepancies.</li> <li>- Confirm whether immovable property title deeds (except leased ones) are in the company's name; provide details if not.</li> <li>- Assess if Property, Plant and Equipment or intangible assets were revalued during the year and specify significant changes.</li> <li>- Report proceedings related to holding benami properties under the Benami Transactions (Prohibition) Act, 1988.</li> </ul>
<b>2. Inventory</b> (Clause 3(ii))	<ul style="list-style-type: none"> <li>- Ensure physical verification of inventory occurs at reasonable intervals and evaluate management's coverage and procedures.</li> <li>- Report discrepancies of 10% or more.</li> <li>- Check if working capital limits exceeding five crore rupees were sanctioned based on current assets security and if returns align with books.</li> </ul>
<b>3. Investment, Guarantee/Security, Loans</b> (Clause 3(iii))	<ul style="list-style-type: none"> <li>- Review investments, guarantees, or loans to other entities; specify amounts for subsidiaries, joint ventures, associates, and other parties.</li> <li>- Determine if actions are prejudicial to the company's interest.</li> <li>- Examine repayment schedules for loans; report overdue loans over 90 days and recovery steps.</li> <li>- Indicate if loans were renewed, extended, or settled with fresh loans; specify aggregate amounts.</li> <li>- Check for loans or advances repayable on demand or without specified terms.</li> </ul>

Section	Content and Details
4. <b>Loan to Director and Investment</b> (Clause 3(iv))	Ensure compliance with Sections 185 and 186 of the Companies Act regarding loans, investments, guarantees, and security; provide details if not complied with.
5. <b>Acceptance of Deposits</b> (Clause 3(v))	Check compliance with Reserve Bank of India directives and provisions of the Companies Act related to deposit acceptance; report any contraventions.
6. <b>Maintaining Cost Records</b> (Clause 3(vi))	Verify whether cost records specified by the Central Government under Section 148 of the Companies Act have been made and maintained.
7. <b>Statutory Dues</b> (Clause 3(vii))	<ul style="list-style-type: none"> <li>- Assess if undisputed statutory dues are regularly deposited; report any arrears exceeding six months.</li> <li>- Report if any dues have not been deposited due to disputes, specifying amounts and pending forum.</li> </ul>
8. <b>Disclosure of Unrecorded Income</b> (Clause 3(viii))	Check if any unrecorded transactions were disclosed as income in tax assessments under the Income Tax Act, 1961; confirm proper recording.
9. <b>Loan Repayment</b> (Clause 3(ix))	<ul style="list-style-type: none"> <li>- Check for loan defaults; report on period and amount.</li> <li>- Determine if the company is declared a wilful defaulter.</li> <li>- Verify if term loans were used for intended purposes.</li> <li>- Identify if short-term funds were used for long-term purposes.</li> <li>- Report on any funds received on behalf of subsidiaries, associates, or joint ventures.</li> <li>- Note if loans are secured by securities in subsidiaries; report defaults.</li> </ul>
10. <b>IPO/Further Public Offer</b> (Clause 3(x))	<ul style="list-style-type: none"> <li>- Ensure funds raised were used for intended purposes.</li> <li>- Confirm compliance with IPO/private placement regulations.</li> </ul>
11. <b>Reporting of Fraud</b> (Clause 3(xi))	<ul style="list-style-type: none"> <li>- Report detected or reported fraud.</li> <li>- Check for submission of auditors' reports on fraud to the Central Government.</li> <li>- Consider whistle-blower complaints.</li> </ul>
12. <b>Nidhi Company</b> (Clause 3(xii))	<ul style="list-style-type: none"> <li>- Check compliance with Net Owned Funds to Deposits ratio.</li> <li>- Verify maintenance of unencumbered term deposits.</li> <li>- Report any defaults in interest or deposit repayment.</li> </ul>
13. <b>Related Party Transactions</b> (Clause 3(xiii))	<ul style="list-style-type: none"> <li>- Ensure compliance with Companies Act sections.</li> <li>- Verify disclosure in financial statements.</li> </ul>
14. <b>Internal Audit</b> (Clause 3(xiv))	<ul style="list-style-type: none"> <li>- Assess adequacy of the internal audit system.</li> <li>- Confirm if internal audit reports were reviewed by statutory auditors.</li> </ul>
15. <b>Non-Cash Transaction</b> (Clause 3(xv))	<ul style="list-style-type: none"> <li>- Identify non-cash transactions with directors.</li> <li>- Check compliance with Section 192 of the Companies Act.</li> </ul>

Section	Content and Details
16. <b>Registration &amp; Nature of Company</b> (Clause 3(xvi))	<ul style="list-style-type: none"> <li>- Verify registration under RBI Act.</li> <li>- Ensure compliance with RBI regulations for NBFCs.</li> <li>- Confirm the company's status as a Core Investment Company.</li> <li>- Report the number of CICs in the Group.</li> </ul>
17. <b>Cash Losses</b> (Clause 3(xvii))	Determine if the company incurred cash losses in the current and previous financial years.
18. <b>Resignation of Statutory Auditor</b> (Clause 3(xviii))	Report any auditor resignations and consideration of outgoing auditors' concerns.
19. <b>Financial Assets and Liabilities</b> (Clause 3(xix))	Assess the company's ability to meet liabilities in the next year.
20. <b>Unspent CSR Expenditure</b> (Clause 3(xx))	Check for timely transfer of unspent CSR funds.
21. <b>Qualification/Adverse Remarks</b> (Clause 3(xxi))	<ul style="list-style-type: none"> <li>- Check for qualifications or adverse remarks in CARO reports of companies in consolidated financial statements.</li> <li>- Provide details of companies and CARO report paragraph numbers with qualifications or adverse remarks.</li> </ul>
<b>Reasons for Unfavourable or Qualified Answers</b> (Clause 4)	<ul style="list-style-type: none"> <li>- State the basis for unfavourable or qualified answers in the auditor's report.</li> <li>- Indicate reasons for inability to express an opinion on specific matters.</li> </ul>

### Auditor's Opinion in Audit Report:

Topic	Details
<b>Different Types of Opinion</b>	<p>The opinions expressed in audit reports can be broadly divided into:</p> <p>A. <b>Unmodified (Clean) Opinion:</b> Given when financial statements are deemed true and fair.</p> <p>B. <b>Modified Opinion:</b> Given when there are material misstatements or insufficient evidence.</p>
<b>Types of Modified Opinions</b>	<ol style="list-style-type: none"> <li>1. <b>Qualified</b></li> <li>2. <b>Adverse</b></li> <li>3. <b>Disclaimer of Opinion</b></li> </ol>
<b>1. Qualified Opinion</b>	<ul style="list-style-type: none"> <li>- Given when material but not pervasive misstatements are identified.</li> <li>- May also be given when there's insufficient audit evidence and potential material misstatements exist.</li> <li>- "Pervasive" means misstatements not confined to specific elements, accounts, or items, or if confined, represent a substantial proportion, or are fundamental to user understanding.</li> </ul>
<b>2. Adverse Opinion</b>	<ul style="list-style-type: none"> <li>- Given when material and pervasive misstatements are identified.</li> <li>- Indicates serious issues with financial statements.</li> <li>- Requires modification of the 'Basis for Opinion' paragraph.</li> </ul>

Topic	Details
<b>3. Disclaimer of Opinion</b>	<ul style="list-style-type: none"> <li>- Issued when the auditor can't obtain sufficient appropriate audit evidence.</li> <li>- May result from multiple uncertainties that interact and have a cumulative effect.</li> <li>- The 'Basis for Disclaimer' must be included in the audit report.</li> </ul>
<b>Deciding on Appropriate Modified Opinion</b>	<ul style="list-style-type: none"> <li>- According to SA 705, the auditor's objective is to express clearly an appropriately modified opinion on financial statements if required.</li> <li>- The decision on the appropriate modified opinion depends on:                             <ul style="list-style-type: none"> <li>a) The nature of the matter that gives rise to the modification.</li> <li>b) The auditor's judgement about the pervasiveness of the effects on the financial statements.</li> </ul> </li> </ul>

Material but not pervasive Material as well as pervasive	Auditor's judgement about the pervasiveness of the effects on the financial statements	
	Material but not pervasive	Material as well as pervasive
Financial statements are misstated	Qualified Opinion	Adverse Opinion
Inability to obtain sufficient appropriate audit evidence	Qualified Opinion	Disclaimer of Opinion

### Audit Report with 'Emphasis of Matter' and 'Other Matter' Paragraphs:

Topic	Details
<b>A. 'Emphasis of Matter' Paragraph</b>	<ul style="list-style-type: none"> <li>- Used when the auditor wants to draw attention to a matter in the financial statements that is of fundamental importance to users' understanding.</li> <li>- The auditor is not required to modify the opinion as per SA 705.</li> <li>- The matter should not be a key audit matter under SA 701.</li> <li>- The 'Emphasis of Matter' paragraph should be included in a separate section with a clear heading.</li> <li>- It should reference the matter being emphasized and where relevant disclosures can be found in the financial statements.</li> <li>- The auditor's opinion is not modified concerning the emphasized matter.</li> </ul>
<b>Examples of Circumstances</b>	<ul style="list-style-type: none"> <li>- Uncertainty regarding litigation or regulatory action.</li> <li>- Significant subsequent events between the financial statement date and the auditor's report.</li> <li>- Early adoption of a new accounting standard with a material impact.</li> <li>- Major catastrophes affecting the entity's financial position.</li> </ul>

Topic	Details
<b>B. 'Other Matter' Paragraph</b>	<ul style="list-style-type: none"> <li>- Used when the auditor needs to communicate a matter not presented or disclosed in the financial statements but relevant to users' understanding.</li> <li>- This communication is not prohibited by law or regulation.</li> <li>- The matter should not be a key audit matter under SA 701.</li> <li>- The 'Other Matter' paragraph should be in a separate section with an appropriate heading.</li> </ul>
<b>Circumstances for 'Other Matter'</b>	<ul style="list-style-type: none"> <li>- When the matter is relevant to users' understanding of the audit.</li> <li>- When the matter is relevant to users' understanding of the auditor's responsibilities or the auditor's report.</li> <li>- When reporting on more than one set of financial statements.</li> <li>- When there is a restriction on the distribution or use of the auditor's report.</li> </ul>

### Audit of Financial Statement Items - Vouching and Verification:

Topic	Details
<b>Vouching</b>	<p>Vouching is the process of examining the accuracy, authority, and authenticity of transactions recorded in the company's books of accounts using vouchers as supporting evidence. It examines whether:</p> <ul style="list-style-type: none"> <li>(i) All transactions are properly recorded.</li> <li>(ii) Transactions are validated with documentary evidence.</li> <li>(iii) Fraudulent transactions are detected and prevented.</li> <li>(iv) Transactions are confirmed within the correct accounting period.</li> <li>(v) Necessary vouchers are present.</li> <li>(vi) Transactions are properly authorized.</li> <li>(vii) Transactions are recorded at the correct value.</li> <li>(viii) Transactions relate to the organization.</li> <li>(ix) Proper accounting entries are validated.</li> </ul>
<b>Verification</b>	<p>Verification involves substantiating the existence, ownership, possession, classification, and valuation of assets and liabilities recorded in the books of accounts through physical inspection, examination of legal documents, and forming an expert opinion. It covers the following aspects:</p> <ul style="list-style-type: none"> <li>(i) Confirming the existence of assets or liabilities on the reporting date.</li> <li>(ii) Verifying ownership and control of assets or liabilities.</li> <li>(iii) Checking possession of assets on the reporting date.</li> <li>(iv) Examining any charges against the assets.</li> <li>(v) Reviewing the accounting treatment of assets or liabilities.</li> <li>(vi) Confirming the accuracy of the valuation of assets or liabilities.</li> <li>(vii) Assessing the adequacy of required disclosures as per relevant regulations.</li> </ul>

## Management Assertions:

Management Assertion	Details
<b>1. Completeness Assertion</b>	<p>- <b>Management Assertion:</b> All transactions and events that should be recorded have been included in the financial statements.</p> <p>- <b>Role in Audit Procedure Design:</b> Auditors design procedures to ensure that no material transactions or events are omitted from the financial statements, including testing supporting documentation and tracing transactions from source documents to financial statements.</p>
<b>2. Cut-off Assertion</b>	<p>- <b>Management Assertion:</b> Transactions are recorded in the correct accounting period.</p> <p>- <b>Role in Audit Procedure Design:</b> Auditors verify that transactions are recorded in the appropriate period, involving testing the timing of transactions and cutoff procedures to prevent misstatements.</p>
<b>3. Existence/Occurrence Assertion</b>	<p>- <b>Management Assertion:</b> Assets, liabilities, and equity interests exist, and recorded transactions have occurred.</p> <p>- <b>Role in Audit Procedure Design:</b> Auditors design procedures to confirm the existence of assets, liabilities, and equity, and to verify that recorded transactions actually took place, using physical inspections and confirmation letters.</p>
<b>4. Valuation/Measurement Assertion</b>	<p>- <b>Management Assertion:</b> Assets, liabilities, and equity interests are recorded at appropriate amounts.</p> <p>- <b>Role in Audit Procedure Design:</b> Auditors assess whether the values assigned to assets, liabilities, and equity are accurate and compliant with accounting standards, reviewing valuation methods and testing for impairment.</p>
<b>5. Rights and Obligations Assertion</b>	<p>- <b>Management Assertion:</b> The entity has legal rights to assets and obligations for liabilities.</p> <p>- <b>Role in Audit Procedure Design:</b> Auditors ensure that the entity has proper ownership or rights to assets and that the obligations recorded are valid and accurate, reviewing contracts and agreements.</p>
<b>6. Presentation Assertion</b>	<p>- <b>Management Assertion:</b> Financial statements are presented fairly and in accordance with accounting standards.</p> <p>- <b>Role in Audit Procedure Design:</b> Auditors review the presentation of financial statements to ensure compliance with accounting standards and regulations, assessing the consistency of presentation and disclosure.</p>

Assertions with respect to Revenue and Expenses	Example (Purchase of Goods)
Occurrence	Recorded purchases represent goods actually received during the year.
Completeness	All purchases made during the year have been recorded and there is no understatement.
Cut-off	Purchase shall include all goods received and in transit as they belong to the relevant period.
Measurement	All purchases have been measured appropriately based on supporting vouchers.
Presentation and Disclosure	Required disclosures as per regulation, if any, have been appropriately done.

Assertions with respect to Assets and Liabilities	Example (Machinery)
Existence	The machinery included under the head 'Property, Plant and Equipment' as shown in the Balance Sheet do exist as at the period end.
Rights and Obligations	Company owns and controls the machinery.
Cut-off	Purchase and sale of machinery during the year are only included and affected in the machinery balance.
Completeness	All machinery owned and controlled by the organisation are included under the head 'Property, Plant and Equipment'.
Valuation	The machinery has been valued accurately following the valuation principles and depreciation charge is appropriate.
Presentation and Disclosure	Required disclosures as per the regulations, if any, have been appropriately done.

## Audit of Income Statement Items:

Topic	Details
<b>A. Revenue from Operation</b>	<p><b>Comprises sale of goods, sale of services, and other operating revenues (e.g., Discount Received, Bad Debt Recovery). For finance companies, primarily includes interest income and income from financial services.</b></p> <p><b>Audit Procedure:</b></p> <p><b>Occurrence:</b></p> <ul style="list-style-type: none"> <li>• Verify authenticity of recorded revenue.</li> <li>• Test a sample of invoices.</li> <li>• Review sales invoice sequences.</li> <li>• Verify return transactions.</li> <li>• Confirm transactions with customers.</li> <li>• Prevent fake sales.</li> </ul> <p><b>Cut-off:</b></p> <p>Ensure only current year sales are included.</p> <p><b>Completeness:</b></p> <ul style="list-style-type: none"> <li>• Verify all sales are recorded.</li> <li>• Apply cut-off procedures.</li> <li>• Prevent tampering with year-end transactions.</li> </ul> <p><b>Measurement:</b></p> <ul style="list-style-type: none"> <li>• Measure revenue per Accounting Standards.</li> </ul>

Topic	Details
	<ul style="list-style-type: none"> <li>• Check trade discounts and record sales tax separately.</li> </ul> <p><b>Presentation and Disclosure:</b></p> <ul style="list-style-type: none"> <li>• Ensure separate disclosure for each class of goods and other operating revenues.</li> </ul>
<b>B. Other Income</b>	<p><b>Includes interest income (for non-finance companies), dividend income, net gain on sale of investments, and other non-operating income (e.g., royalties, lease rentals).</b></p> <p><b>Audit Procedure:</b></p> <p><b>Occurrence:</b></p> <ul style="list-style-type: none"> <li>• Obtain a list of new fixed deposits.</li> <li>• Confirm interest income with banks.</li> <li>• Investigate investment ledger for securities.</li> <li>• Trace dividend/interest from cash book.</li> </ul> <p><b>Cut-off:</b> Ensure interest income includes only accrued interest.</p> <p><b>Completeness:</b> Verify that all interest and dividend income is recorded.</p> <p><b>Measurement:</b></p> <ul style="list-style-type: none"> <li>• Check accuracy of interest and dividend calculations.</li> </ul> <p><b>Presentation and Disclosure:</b> Classify as:</p> <ul style="list-style-type: none"> <li>• Interest Income</li> <li>• Dividend Income</li> <li>• Net gain/loss on investments.</li> </ul>
<b>C. Purchases</b>	<p><b>Includes raw materials for manufacturing and merchandise for trading organizations. Ensures accurate reporting of purchases and accounts payable.</b></p> <p><b>Audit Procedure:</b></p> <p><b>Occurrence:</b></p> <ul style="list-style-type: none"> <li>• Verify genuineness of recorded purchases.</li> <li>• Examine purchase orders, goods received notes, invoices.</li> </ul> <p><b>Cut-off:</b> Confirm recognition of purchases for the year only.</p> <p><b>Completeness:</b></p> <ul style="list-style-type: none"> <li>• Apply cut-off procedures.</li> <li>• Verify return transactions.</li> <li>• Correct accounting for goods in transit.</li> </ul>

Topic	Details
	<p><b>Measurement:</b></p> <ul style="list-style-type: none"> <li>• Confirm accurate purchase calculations, including trade discounts.</li> </ul> <p><b>Presentation and Disclosure:</b> Ensure appropriate disclosure as per Schedule III.</p>
<p><b>D. Employee Benefit Expenses</b></p>	<p><b>Includes significant costs related to employee remuneration, recruitment, and retirement policies.</b></p> <p><b>Audit Procedure:</b></p> <p><b>Occurrence:</b></p> <ul style="list-style-type: none"> <li>• Verify genuineness of all expenses.</li> <li>• Obtain a complete employee list and remuneration details.</li> <li>• Examine payroll register for irregularities.</li> </ul> <p><b>Cut-off:</b> Confirm only current year expenses are recognized.</p> <p><b>Completeness:</b></p> <ul style="list-style-type: none"> <li>• Ensure all employee expenses are recorded.</li> </ul> <p><b>Measurement:</b></p> <ul style="list-style-type: none"> <li>• Verify correctness of total remuneration and statutory deductions.</li> </ul> <p><b>Presentation and Disclosure:</b> Ensure compliance with Schedule III disclosure requirements.</p>
<p><b>E. Depreciation and Amortization</b></p>	<p><b>Charges for the allocation of the cost of tangible and intangible assets over their useful lives.</b></p> <p><b>Audit Procedure:</b></p> <p><b>Occurrence:</b></p> <ul style="list-style-type: none"> <li>• Obtain fixed asset register and verify depreciation rates.</li> </ul> <p><b>Cut-off:</b> Ensure depreciation is charged from the date it becomes available for use.</p> <p><b>Completeness:</b></p> <ul style="list-style-type: none"> <li>• Verify depreciation charged on eligible assets.</li> <li>• Check revaluation reserves.</li> </ul> <p><b>Measurement:</b></p> <ul style="list-style-type: none"> <li>• Confirm rates align with Schedule II.</li> </ul> <p><b>Presentation and Disclosure:</b> Ensure compliance with Schedule III disclosures.</p>
<p><b>F. Finance Cost</b></p>	<p><b>Includes interest on structured debt instruments and traditional loans.</b></p> <p><b>Audit Procedure:</b></p>

Topic	Details
	<p><b>Occurrence:</b></p> <ul style="list-style-type: none"> <li>• Verify interest provision on eligible loans.</li> <li>• Reconcile interest payments with bank statements.</li> </ul> <p><b>Cut-off:</b> Ensure interest is only for the period the loan was outstanding.</p> <p><b>Completeness:</b> Confirm that all accrued interest is accounted for.</p> <p><b>Measurement:</b></p> <ul style="list-style-type: none"> <li>• Verify interest calculations for accuracy.</li> </ul> <p><b>Presentation and Disclosure:</b> Ensure compliance with Schedule III disclosures.</p>
<b>G. Other Expenses</b>	<p><b>Includes various operational expenses essential for business operations.</b></p> <p><b>Audit Procedure:</b></p> <p><b>Occurrence:</b></p> <ul style="list-style-type: none"> <li>• Verify genuineness of all expenses with documentation.</li> <li>• For rent, validate against agreements.</li> </ul> <p><b>Cut-off:</b> Ensure expenses relate to the current year.</p> <p><b>Completeness:</b></p> <ul style="list-style-type: none"> <li>• Authenticate transactions per company policy.</li> </ul> <p><b>Measurement:</b></p> <ul style="list-style-type: none"> <li>• Verify calculations of monthly expenses and reasonableness.</li> </ul> <p><b>Presentation and Disclosure:</b> Ensure compliance with Schedule III disclosures for classification of expenses.</p>

**Audit of Balance Sheet Items:**

Topic	Details
<b>A. Property, Plant and Equipment (PPE)</b>	<p><b>PPE includes tangible assets like land, buildings, machinery, etc., used over multiple periods. Audit follows AS 10 or Ind AS 16.</b></p> <p><b>Audit Procedure:</b></p> <p><b>Existence:</b></p> <ul style="list-style-type: none"> <li>• Physically verify PPE.</li> <li>• Match with asset register.</li> <li>• Investigate discrepancies.</li> <li>• Ensure proper accounting of non-operational assets.</li> </ul>

Topic	Details
	<p><b>Rights and Obligations:</b></p> <ul style="list-style-type: none"> <li>• Verify approvals for additions.</li> <li>• Check adherence to procurement processes.</li> <li>• Verify ownership documents.</li> </ul> <p><b>Cut-off:</b></p> <ul style="list-style-type: none"> <li>• Confirm all assets included on reporting date.</li> </ul> <p><b>Completeness:</b></p> <ul style="list-style-type: none"> <li>• Reconcile PPE schedule with books.</li> </ul> <p><b>Valuation:</b></p> <ul style="list-style-type: none"> <li>• Carry at cost less depreciation.</li> <li>• Verify installation certificates and depreciation methods.</li> </ul> <p><b>Presentation and Disclosure:</b></p> <ul style="list-style-type: none"> <li>• Disclose as 'Tangible Assets' under Non-current Assets.</li> </ul>
<p><b>B. Patent and Copyright</b></p>	<p><b>Patents grant exclusive rights for inventions; copyrights protect authors' works, lasting the author's life plus 50 years.</b></p> <p><b>Audit Procedure:</b></p> <p><b>Existence:</b></p> <ul style="list-style-type: none"> <li>• Obtain schedule of patents/copyrights.</li> <li>• Verify registration documents.</li> <li>• Ensure active use in production/services.</li> </ul> <p><b>Rights and Obligations:</b></p> <ul style="list-style-type: none"> <li>• Verify ownership via certificates.</li> <li>• Check renewal receipts.</li> <li>• Ensure copyrights are valid.</li> </ul> <p><b>Cut-off:</b></p> <ul style="list-style-type: none"> <li>• Confirm asset values include all owned on reporting date.</li> </ul> <p><b>Completeness:</b></p> <ul style="list-style-type: none"> <li>• Verify patent/copyright register accuracy.</li> </ul> <p><b>Valuation:</b></p> <ul style="list-style-type: none"> <li>• Show at cost less amortization.</li> </ul> <p><b>Presentation and Disclosure:</b></p> <ul style="list-style-type: none"> <li>• Disclose as 'Other Intangible Asset'.</li> </ul>
<p><b>C. Investments</b></p>	<p><b>Investments include assets for earning income, categorized as non-current or current.</b></p> <p><b>Audit Procedure:</b></p>

Topic	Details
	<p><b>Existence:</b></p> <ul style="list-style-type: none"> <li>• Obtain schedules of investments.</li> <li>• Verify schedule with balance sheet.</li> <li>• Physically verify investment certificates.</li> </ul> <p><b>Rights and Obligations:</b></p> <ul style="list-style-type: none"> <li>• Verify authority to invest.</li> <li>• Confirm interest and dividend rights.</li> </ul> <p><b>Cut-off:</b></p> <ul style="list-style-type: none"> <li>• Confirm investments owned on reporting date.</li> </ul> <p><b>Completeness:</b></p> <ul style="list-style-type: none"> <li>• Ensure comprehensive investment schedule.</li> </ul> <p><b>Valuation:</b></p> <ul style="list-style-type: none"> <li>• Capitalize all purchase costs.</li> </ul> <p><b>Presentation and Disclosure:</b></p> <ul style="list-style-type: none"> <li>• Disclose under 'Financial Assets'.</li> </ul>
<p><b>D. Inventories/Stock in Trade</b></p>	<p><b>Includes raw materials, work-in-progress, and finished goods. Management is responsible for their quantity and value.</b></p> <p><b>Audit Procedure:</b></p> <p><b>Existence:</b></p> <ul style="list-style-type: none"> <li>• Review inventory verification plan.</li> <li>• Confirm stock count sheets signed.</li> </ul> <p><b>Rights and Obligations:</b></p> <ul style="list-style-type: none"> <li>• Verify recorded purchases.</li> <li>• Obtain confirmations from third parties.</li> </ul> <p><b>Cut-off:</b></p> <ul style="list-style-type: none"> <li>• Confirm inventories owned on reporting date.</li> </ul> <p><b>Completeness:</b></p> <ul style="list-style-type: none"> <li>• Conduct analytical procedures.</li> </ul> <p><b>Valuation:</b></p> <ul style="list-style-type: none"> <li>• Evaluate inventory valuation methods.</li> </ul> <p><b>Presentation and Disclosure:</b></p> <ul style="list-style-type: none"> <li>• Disclose under 'Inventories' in Current Assets.</li> </ul>
<p><b>E. Loans</b></p>	<p><b>Loans represent long-term and short-term loans and advances as per Schedule III.</b></p>

Topic	Details
	<p><b>Audit Procedure:</b></p> <p><b>Existence:</b></p> <ul style="list-style-type: none"> <li>• Verify schedules of all borrowings.</li> <li>• Check loan agreements for accuracy.</li> <li>• Obtain confirmations from banks regarding outstanding amounts.</li> </ul> <p><b>Rights and Obligations:</b></p> <ul style="list-style-type: none"> <li>• Verify compliance with articles and regulations.</li> <li>• Review loan agreements.</li> </ul> <p><b>Cut-off:</b></p> <ul style="list-style-type: none"> <li>• Confirm outstanding loans on reporting date.</li> </ul> <p><b>Completeness:</b></p> <ul style="list-style-type: none"> <li>• Ensure all loan information is provided.</li> </ul> <p><b>Valuation:</b></p> <ul style="list-style-type: none"> <li>• Assess accounting policies for recording loans.</li> </ul> <p><b>Presentation and Disclosure:</b></p> <ul style="list-style-type: none"> <li>• Verify classification under non-current or current liabilities.</li> </ul>
<p><b>F. Trade Receivable</b></p>	<p><b>Trade receivables arise from goods and services rendered in normal business operations.</b></p> <p><b>Audit Procedure:</b></p> <p><b>Existence:</b></p> <ul style="list-style-type: none"> <li>• Verify schedule of debtors.</li> <li>• Examine validity and recoverability of balances.</li> </ul> <p><b>Rights and Obligations:</b></p> <ul style="list-style-type: none"> <li>• Ensure valid claims for amounts listed.</li> </ul> <p><b>Cut-off:</b></p> <ul style="list-style-type: none"> <li>• Confirm sundry debtors held on reporting date.</li> </ul> <p><b>Completeness:</b></p> <ul style="list-style-type: none"> <li>• Ensure all debtors included.</li> </ul> <p><b>Valuation:</b></p> <ul style="list-style-type: none"> <li>• Recompute provisions for bad debts.</li> </ul> <p><b>Presentation and Disclosure:</b></p> <ul style="list-style-type: none"> <li>• Sub-classify trade receivables and disclose allowances.</li> </ul>
<p><b>G. Cash and Cash Equivalent</b></p>	<p><b>Includes cash in hand, bank balances, and other liquid assets.</b></p> <p><b>Audit Procedure:</b></p> <p><b>Existence:</b></p>

Topic	Details
	<ul style="list-style-type: none"> <li>• Physically verify cash balances.</li> <li>• Check accuracy of cash books.</li> </ul> <p><b>Rights and Obligations:</b></p> <ul style="list-style-type: none"> <li>• Verify deposits are in the client's name.</li> </ul> <p><b>Cut-off:</b></p> <ul style="list-style-type: none"> <li>• Ensure cash balances represent amounts on reporting date.</li> </ul> <p><b>Completeness:</b></p> <ul style="list-style-type: none"> <li>• Confirm bank balances.</li> </ul> <p><b>Valuation:</b></p> <ul style="list-style-type: none"> <li>• Restate foreign currency holdings at current exchange rate.</li> </ul> <p><b>Presentation and Disclosure:</b></p> <ul style="list-style-type: none"> <li>• Ensure compliance with relevant accounting standards.</li> </ul>
<p><b>H. Share Capital</b></p>	<p><b>Share capital represents the initial capital a company raises, often by inviting the public to subscribe to shares through a prospectus. Auditors must carefully examine all aspects of this process, including the issuance, allotment, and any involvement of underwriters.</b></p> <p><b>Audit Procedure:</b></p> <p><b>Existence:</b></p> <ul style="list-style-type: none"> <li>• Reconcile opening and closing balances of share capital to identify changes.</li> <li>• Ensure compliance with authorized capital limits and board/shareholder resolutions.</li> </ul> <p><b>Rights and Obligations:</b></p> <ul style="list-style-type: none"> <li>• Verify compliance with Companies Act, 2013, and SEBI regulations.</li> <li>• Confirm that no shares have been issued at a discount.</li> </ul> <p><b>Cut-off:</b></p> <ul style="list-style-type: none"> <li>• Ensure balance of share capital represents amounts on reporting date.</li> </ul> <p><b>Completeness:</b></p> <ul style="list-style-type: none"> <li>• Verify all changes in share capital are recorded with adequate accounting entries.</li> </ul> <p><b>Valuation:</b></p> <ul style="list-style-type: none"> <li>• Verify correctness of proceeds collected from share issuances.</li> </ul> <p><b>Presentation and Disclosure:</b></p>

Topic	Details
	<ul style="list-style-type: none"> <li>• Ensure compliance with Schedule III disclosures, including authorized shares, issued shares, par value, and rights attaching to each class.</li> </ul>
<p><b>I. Other Equity</b></p>	<p><b>Other Equity consists of components like share application money pending allotment, reserves, surpluses, revaluation surplus, and money received against share warrants. Some can be used for dividends; others serve specific purposes.</b></p> <p><b>Audit Procedure:</b></p> <p><b>Existence:</b></p> <ul style="list-style-type: none"> <li>• Trace and reconcile balances of reserves and other equity items.</li> <li>• Verify authenticity and authorization of additions to reserves.</li> </ul> <p><b>Rights and Obligations:</b></p> <ul style="list-style-type: none"> <li>• Ensure compliance with laws and regulations for additions and utilization of balances.</li> </ul> <p><b>Cut-off:</b></p> <ul style="list-style-type: none"> <li>• Ensure balances represent amounts as of the reporting date.</li> </ul> <p><b>Completeness:</b></p> <ul style="list-style-type: none"> <li>• Verify that all changes in other equity items are recorded correctly.</li> </ul> <p><b>Valuation:</b></p> <ul style="list-style-type: none"> <li>• Confirm accurate calculations for additions and utilizations of other equity balances.</li> </ul> <p><b>Presentation and Disclosures:</b></p> <ul style="list-style-type: none"> <li>• Ensure compliance with Schedule III disclosures for "Other Reserves" and retained earnings.</li> </ul>
<p><b>J. Borrowings</b></p>	<p><b>Borrowings represent loans of both long-term and short-term nature, for business expansion or working capital financing.</b></p> <p><b>Audit Procedure:</b></p> <p><b>Existence:</b></p> <ul style="list-style-type: none"> <li>• Collect a schedule of all borrowings.</li> <li>• Examine loan agreements for client name accuracy.</li> <li>• Obtain confirmations from banks regarding outstanding loan amounts.</li> </ul> <p><b>Rights and Obligations:</b></p> <ul style="list-style-type: none"> <li>• Review Articles of Association for borrowing rules.</li> <li>• Verify authorization of loan procurement through board resolution.</li> </ul> <p><b>Completeness:</b></p> <ul style="list-style-type: none"> <li>• Ensure all loan information is provided.</li> </ul> <p><b>Valuation:</b></p> <ul style="list-style-type: none"> <li>• Assess accounting policies for recording loans.</li> </ul>

Topic	Details
	<p><b>Presentation and Disclosure:</b></p> <ul style="list-style-type: none"> <li>• Verify classification of outstanding loans under liabilities.</li> </ul>
<b>K. Trade Payable</b>	<p><b>Trade Payables comprise trade creditors and bills payable, representing an organization's liability to suppliers.</b></p> <p><b>Audit Procedure:</b></p> <p><b>Existence:</b></p> <ul style="list-style-type: none"> <li>• Review internal control systems related to transactions.</li> <li>• Collect a schedule of trade creditors and reconcile.</li> <li>• Obtain confirmations from selected creditors.</li> </ul> <p><b>Rights and Obligations:</b></p> <ul style="list-style-type: none"> <li>• Examine compliance with supplier contracts.</li> </ul> <p><b>Cut-off:</b></p> <ul style="list-style-type: none"> <li>• Ensure balances represent only those outstanding as of reporting date.</li> </ul> <p><b>Completeness:</b></p> <ul style="list-style-type: none"> <li>• Confirm that no trade creditor is excluded.</li> </ul> <p><b>Valuation:</b></p> <ul style="list-style-type: none"> <li>• Verify the total balance matches individual accounts.</li> </ul> <p><b>Presentation and Disclosure:</b></p> <ul style="list-style-type: none"> <li>• Confirm total balance under Current Liabilities and disclose in "Notes to Accounts."</li> </ul>

**Audit of Some Special Transactions:**

Item	Audit Procedures
<b>A. Alteration of Share Capital [Section 61]</b>	<ul style="list-style-type: none"> <li>- Confirm that the alteration was authorized by the company's articles of association.</li> <li>- Verify the minutes of the Board meeting and the ordinary resolution passed in the general meeting where member approval was obtained.</li> <li>- Check that the alteration has been accurately reflected in copies of the Memorandum and Articles of Association.</li> <li>- Obtain the reasons for altering the company's memorandum.</li> <li>- Verify if the alteration affects the voting percentage of shareholders.</li> <li>- Confirm that the altered share capital denomination is greater than one rupee.</li> <li>- Check that proper accounting entries have been made, and the Register of Members has been updated accordingly.</li> </ul>
<b>B. Issue of Bonus Shares [Section 63]</b>	<ul style="list-style-type: none"> <li>- Confirm that the issue of bonus shares was authorized by the company's articles.</li> </ul>

Item	Audit Procedures
	<ul style="list-style-type: none"> <li>- Verify the minutes of the Board meeting and the ordinary resolution passed in the general meeting where member approval was obtained.</li> <li>- Ensure that the bonus shares are fully paid-up and issued to the company's members only.</li> <li>- Confirm that bonus shares are not issued by capitalizing reserves created through asset revaluation.</li> <li>- Check if the company has defaulted on payments of interest or principal related to fixed deposits or debt securities.</li> <li>- Verify if the company has defaulted on statutory dues for employees, such as provident fund, gratuity, and bonus.</li> <li>- Ensure that any partly paid-up shares are converted to fully paid-up status.</li> <li>- Confirm that bonus shares are not issued in lieu of dividends.</li> </ul>
<b>C. Splitting of Shares</b>	<ul style="list-style-type: none"> <li>- Confirm that the alteration was authorized by the company's articles of association.</li> <li>- Verify the minutes of the Board meeting and the ordinary resolution passed in the general meeting where member approval was obtained.</li> <li>- Check that the alteration has been accurately reflected in copies of the Memorandum and Articles of Association.</li> <li>- Verify that proper accounting entries have been made, and the Register of Members has been updated accordingly.</li> </ul>
<b>D. Re-issue of Forfeited Shares</b>	<ul style="list-style-type: none"> <li>- Ascertain that the company's Articles of Association authorize the re-issue of forfeited shares.</li> <li>- Verify the amounts collected from individuals to whom the shares have been allotted and review the re-allotment entries.</li> <li>- Ensure that the total amount received for the shares, including amounts received before forfeiture, is not less than the par value of the shares.</li> <li>- Verify the computation of surplus arising from the reissue of shares and confirm that it has been credited to the Capital Reserve Account.</li> <li>- For partly paid shares forfeited for non-payment of calls and subsequently reissued as fully paid, ensure compliance with Section 53's provisions regarding allotment at a discount.</li> </ul>
<b>E. Issuance of Debentures</b>	<ul style="list-style-type: none"> <li>- Verify the filing of the prospectus with the registrar before debenture allotment.</li> <li>- Cross-check the cash collected with receipt counterfoils and application/allotment records.</li> <li>- Examine the debenture trust deed for issuance and repayment terms.</li> <li>- Confirm registration of charge if debentures are secured and compliance with SEBI guidelines.</li> <li>- If debentures are issued as part of purchase consideration, review related contracts.</li> </ul>
<b>F. Redemption of Debentures</b>	<ul style="list-style-type: none"> <li>- Inspect debentures and trust deed for redemption terms.</li> <li>- Review board minutes authorizing debenture redemption.</li> <li>- Verify redemption with cancelled debenture bonds and cash book.</li> <li>- Examine the accounting treatment for redemption.</li> </ul>

Item	Audit Procedures
<p><b>G. Payment of Dividend</b></p>	<p><b>I. Dividend Sources:</b></p> <ul style="list-style-type: none"> <li>- Confirm dividends are paid from current year profits after depreciation, previous undistributed profits, or government funds.</li> <li>- Ensure the company can transfer profits to reserves before declaring dividends.</li> </ul> <p><b>II. Payment from Accumulated Profits:</b></p> <ul style="list-style-type: none"> <li>- Check dividends declared from accumulated profits if there are no current year profits.</li> <li>- Ensure the rate does not exceed the average of the last three years and conditions for declaration are met.</li> </ul> <p><b>III. Interim Dividend:</b></p> <ul style="list-style-type: none"> <li>- Verify the board's authority to declare interim dividends during the financial year.</li> <li>- Confirm the rate does not exceed the average of the last three years if there are losses.</li> </ul> <p><b>IV. Dividend Payment Procedure:</b></p> <ul style="list-style-type: none"> <li>- Ensure dividends are deposited in a scheduled bank within five days of declaration.</li> <li>- Confirm dividends are paid to registered shareholders only in cash.</li> </ul> <p><b>V. Restriction on Dividend:</b></p> <ul style="list-style-type: none"> <li>- Check compliance with sections 73 and 74 to allow dividend declarations.</li> </ul> <p><b>VI. Unpaid Dividend:</b></p> <ul style="list-style-type: none"> <li>- Confirm transfer of unpaid dividends to an Unpaid Dividend Account after 30 days.</li> <li>- Ensure a statement of unpaid dividends is published within 90 days.</li> <li>- Verify transfer of unclaimed dividends to the IEPF after seven years.</li> </ul> <p><b>VII. Punishment for Failure to Distribute Dividends [Section 127]:</b></p> <ul style="list-style-type: none"> <li>- Ensure dividends are paid within 30 days of declaration to avoid penalties.</li> </ul>
<p><b>Audit Procedure for Final Dividend</b></p>	<ul style="list-style-type: none"> <li>- Review Articles of Association to understand shareholder rights.</li> <li>- Verify the board's recommendation and shareholder resolution for dividend payment.</li> <li>- Confirm accurate dividend calculations.</li> <li>- Ensure compliance with the Companies Act, 2013, and related rules.</li> <li>- Verify transfer of the dividend to a separate bank account within five days of declaration.</li> <li>- Confirm dividend payment to rightful shareholders.</li> <li>- Reconcile outstanding dividend warrants with the register and bank</li> </ul>

Item	Audit Procedures
	balance. - Investigate cases where dividends couldn't be paid within 30 days.
<b>Audit Procedure for Interim Dividend</b>	<ul style="list-style-type: none"> <li>- Check if the company's Articles of Association permit interim dividends.</li> <li>- Review board meeting minutes approving interim dividend.</li> <li>- Assess justification for interim dividend based on interim accounts.</li> <li>- Ensure the amount is deposited in a separate bank account within five days of declaration.</li> <li>- Verify dividend payment to rightful shareholders.</li> <li>- Reconcile outstanding dividend warrants with the register and bank balance.</li> </ul>
<b>Audit Procedure for Unpaid Dividend</b>	<ul style="list-style-type: none"> <li>- Collect a detailed statement of unpaid dividends, including shareholder names and amounts.</li> <li>- Investigate any faults on the company's part and actions taken.</li> <li>- Verify accuracy of unpaid dividend calculations.</li> <li>- Confirm transfer of unpaid dividends to the Unpaid Dividend Account.</li> <li>- Ensure interest and penalties, if applicable, are deposited by the company.</li> <li>- Confirm publication of unpaid dividend details on the company's website and government-approved websites.</li> <li>- Verify payments made for previously unpaid dividends to rightful owners.</li> <li>- Confirm transfers of unpaid dividends and accrued interest to the IEPF.</li> <li>- Ensure shares related to unpaid dividends have been appropriately transferred to the IEPF.</li> </ul>

# Auditing of Different Types of Undertakings

## Audit of Different Undertakings:

Topic	Key Points
<b>Audit of Educational Institutions</b>	
<b>Establishment and Regulation</b>	<ul style="list-style-type: none"> <li>- Established under the Societies Registration Act 1960 or Public Trust Act (state-specific).</li> <li>- Central educational institutions regulated by the Ministry of Education or special legislation.</li> </ul>
<b>Audit Considerations</b>	
a) Understand the Constitution	<ul style="list-style-type: none"> <li>- Study the Trust deed, Regulation, or Act.</li> <li>- Examine provisions for account maintenance.</li> <li>- Review university-specific regulations under Special Act.</li> </ul>
b) Assess the Internal Control System	<ul style="list-style-type: none"> <li>- Evaluate internal controls for asset management and authorization.</li> <li>- Assess before finalizing audit program.</li> </ul>
c) Consult the Minute Book	<ul style="list-style-type: none"> <li>- Review meeting minutes affecting finances.</li> <li>- Ensure compliance with financial decisions.</li> </ul>
d) Consult the Budget	<ul style="list-style-type: none"> <li>- Check budget allocations and approvals for over-budget expenditures.</li> </ul>
e) Verify Receipts Related Transactions	<ul style="list-style-type: none"> <li>- Verify tuition, admission fees, and other fees.</li> <li>- Check recording, late fees, bank deposits, and arrears.</li> <li>- Confirm grants, donations, and rental income.</li> </ul>
f) Verify Payments Related Transactions	<ul style="list-style-type: none"> <li>- Verify salaries, wages, special events expenses, and regular expenses.</li> <li>- Ensure proper handling of purchases, grants, and hostel expenses.</li> <li>- Verify management of endowment funds.</li> </ul>
g) Verification of Assets and Liabilities	<ul style="list-style-type: none"> <li>- Physically verify assets and investments.</li> <li>- Check depreciation, TDS refunds, and inventory management.</li> </ul>
h) Verification of Financial Statements	<ul style="list-style-type: none"> <li>- Ensure financial statements comply with regulatory standards.</li> </ul>
<b>Audit of Healthcare Organizations</b>	
<b>Types of Healthcare Organizations</b>	<ul style="list-style-type: none"> <li>- Include hospitals and nursing homes, which may be government-funded, charitable, or private.</li> </ul>
<b>Audit Procedure for Healthcare Organizations</b>	

Topic	Key Points
a) Understand the Constitution	- Examine trust deed, partnership agreement, or other documents to determine rules.
b) Assess the Internal Control System	- Evaluate internal controls for asset management and authorization.
c) Consult the Minute Book	- Review meeting minutes for decisions impacting accounting.
d) Verify Receipts Related Transactions	- Vouch grants, patient fees, donations, and income from services. - Ensure funds for specific purposes are not diverted.
e) Verify Payments Related Transactions	- Verify capital expenditures, staff salaries, purchases, and overhead expenses.
f) Verification of Assets and Liabilities	- Verify stock registers, assets, investments, and perform physical asset verification.
g) Verification of Financial Statements	- Ensure statements align with organizational structure and ownership type.
<b>Audit of Organizations in Hospitality Sector</b>	
<b>Types of Hospitality Organizations</b>	- Include Food and Beverages (Restaurants), Travel and Tourism, Lodging (Hotels, Guest Houses), and Recreation (Cinema Halls, Theme Parks).
<b>Common Audit Steps for All Organizations</b>	
a) Understand Ownership Structure	- Determine ownership (sole proprietorship, partnership, etc.). - Identify regulatory requirements.
b) Evaluate Internal Control System	- Assess to determine audit procedures' nature, timing, and extent.
c) Check for Valid License	- Ensure valid operational license.
<b>Specific Audit Steps by Category</b>	
A. Restaurants (Food and Beverages)	- Verify revenue, payments to suppliers, petty cash, and expenses. - Verify salaries, stock valuation, and asset depreciation.
B. Travel and Tourism	- Vouch customer collections, booking revenue, cancellations, and discounts. - Verify salaries, assets, and liabilities.
C. Hotels and Guest Houses (Lodging)	- Vouch collections, room rent, daily occupancy, and special events. - Verify income, expenses, stock, and asset management.
D. Recreations (Cinema Halls, Amusement Parks)	- Control over ticket sales, verify payments, salary payments, and asset depreciation.
<b>Audit of Co-Operative Societies</b>	

Topic	Key Points
<b>Unique Features</b>	<ul style="list-style-type: none"> <li>- Formed for a common economic goal; voluntary, democratically controlled, and risk-sharing.</li> <li>- Types: Consumers', Housing, Industrial, Urban/Rural Co-operative Banks.</li> </ul>
<b>Statutory Audit Requirement (Section 17 of Co-Operative Societies Act, 1912)</b>	<ul style="list-style-type: none"> <li>- Registrar audits every registered society annually, including overdue debts and asset/liability valuations.</li> <li>- Registrar and authorized persons have access to society's records.</li> </ul>
<b>Key Audit Points</b>	
(i) Qualifications of Auditor	- Chartered accountant or government diploma holders (in some states).
(ii) Appointment of Auditor	- Appointed by the Registrar; report submitted to Registrar and society.
(iii) Books of Accounting Records	- Records required include cash book, stock register, asset registers, and surety registers.
(iv) Restrictions	- Shareholding and loans restricted by Act; borrowing and investment must align with bye-laws.
(v) Appropriation of Profits	- 25% of profits to Reserve Fund before dividends; Registrar approval needed for charitable contributions.
<b>Steps for Auditors of Co-Operative Societies</b>	
(a) General Points	- Ensure bye-law compliance, review member registers, and assess internal controls.
(b) Audit of Income	- Verify cash receipts with supporting documents.
(c) Audit of Expenditure	- Validate expenses with authorizations and receipts.
(d) Other Points	- Classify and report overdue debts, and obtain authorization for writing off bad debts.
<b>Audit of Local Self-Government</b>	
<b>Overview</b>	- Local governance below state level, formalized by 73rd and 74th constitutional amendments.
<b>Types</b>	<ul style="list-style-type: none"> <li>- Urban: Municipal Corporation, Municipality, Notified Area Council.</li> <li>- Rural: Gram Panchayat, Panchayat Samiti, Zilla Parishad.</li> </ul>
<b>Functions and Funding</b>	<ul style="list-style-type: none"> <li>- Functions delegated by the state; funded by grants and local taxes.</li> <li>- Include administration, public health, education, revenue collection.</li> </ul>
<b>Objectives of Audit</b>	- Ensure fairness in statements, assess internal controls, verify expenditures, and detect fraud/errors.

Topic	Key Points
<b>General Audit Considerations</b>	- Appointment approval, compliance with rules, review of documents, grant utilization checks, fraud risk assessment, and economic evaluation.

## Audit of Banks:

Topic	Key Points
<b>Importance of Banking Institutions in the Economy</b>	<ul style="list-style-type: none"> <li>- Banks are essential for the economy and financial system.</li> <li>- Serve as key agents of financial intermediation.</li> <li>- RBI regulates the banking industry in India.</li> <li>- The industry has seen financial deepening and growth.</li> </ul>
<b>Different Types of Banks in India</b>	<ul style="list-style-type: none"> <li>- <b>Commercial Banks</b></li> <li>- <b>Regional Rural Banks</b></li> <li>- <b>Co-operative Banks</b></li> <li>- <b>Development Banks</b></li> <li>- <b>Payment Banks</b></li> <li>- <b>Small Finance Banks</b></li> <li>- Each type has unique characteristics and customer focus.</li> </ul>
<b>Regulatory Framework of Banks in India</b>	<ul style="list-style-type: none"> <li>- Governed by Banking Regulation Act, Companies Act, State Bank of India Act, etc.</li> <li>- RBI Act also plays a critical role in bank regulation.</li> </ul>
<b>Form and Content of Financial Statements of a Bank</b>	<ul style="list-style-type: none"> <li>- Banking companies must prepare Balance Sheets and Profit and Loss Accounts.</li> <li>- Financial statements follow the Banking Regulation Act, 1949 format.</li> <li>- Statutory provisions govern statement form and content.</li> </ul>
<b>Statutory Audit in Banks</b>	<ul style="list-style-type: none"> <li>- Banking Regulation Act, 1949 mandates audits.</li> <li>- Auditors must be duly qualified per law.</li> <li>- Auditor appointments vary by bank type.</li> <li>- Auditor remuneration determined by RBI or Central Government.</li> </ul>
<b>Auditor's Report - Content</b>	<ul style="list-style-type: none"> <li>- Assess and report on the financial statements' fairness.</li> <li>- Review transactions for compliance.</li> <li>- Include matters for relevant authorities if needed.</li> <li>- Procedures similar across bank types.</li> </ul>
<b>Additional Reporting Requirements for Bank Auditors</b>	<ul style="list-style-type: none"> <li>- Auditors submit Long Form Audit Reports (LFAR) to RBI for Public, Private, and Foreign Banks and branches.</li> <li>- Issue various certificates as per RBI and regulatory requirements.</li> </ul>
<b>Auditing Aspects of Banks' Financial Statements</b>	
<b>General Issues</b>	- Understand the bank's structure and control environment to assess risks.

Topic	Key Points
	<ul style="list-style-type: none"> <li>- Know the bank's accounting process (computerized/manual).</li> <li>- Comprehend risk management for financial and operational risks.</li> <li>- Develop a detailed audit plan.</li> </ul>
	<ul style="list-style-type: none"> <li>- Determine audit materiality.</li> <li>- Know the relevant BASEL framework for the bank.</li> <li>- Decide on reliance on reports from previous auditors, RBI, and internal audit reports.</li> </ul>
<b>Specific Issues</b>	
<b>A. Advances</b>	<ul style="list-style-type: none"> <li>- Review internal controls over advances.</li> <li>- Scrutinize subsidiary, ledger, and control accounts.</li> <li>- Ensure proper documentation.</li> <li>- Examine overdue accounts and recovery schemes.</li> </ul>
<b>B. Cash in Hand</b>	<ul style="list-style-type: none"> <li>- Verify internal controls.</li> <li>- Physically inspect branch cash and reconcile with cash book.</li> <li>- Verify foreign currency holdings and their market translation.</li> </ul>
<b>C. Balance with RBI</b>	<ul style="list-style-type: none"> <li>- Inspect ledger balances with RBI confirmation certificates.</li> <li>- Review reconciliation statements.</li> </ul>
<b>D. Balance with Other Banks</b>	<ul style="list-style-type: none"> <li>- Examine reconciliation statements.</li> <li>- Check interest debit/credit for accuracy.</li> <li>- Review large transactions and foreign bank balances.</li> <li>- Ensure conversion at market rates.</li> </ul>
<b>E. Money at Call &amp; Short Notice</b>	<ul style="list-style-type: none"> <li>- Evaluate authorization for these funds.</li> <li>- Prevent netting off of call loans.</li> <li>- Categorize money market lending correctly.</li> </ul>
<b>F. Fixed and Other Assets</b>	<ul style="list-style-type: none"> <li>- Verify accounting methods and ownership documents.</li> <li>- Review new asset acquisitions and sale deeds.</li> <li>- Assess basis of revaluation.</li> <li>- Ensure compliance with Section 9 of the Banking Regulation Act, 1949.</li> </ul>
<b>G. Borrowings</b>	<ul style="list-style-type: none"> <li>- Confirm proper disclosure of RBI and foreign borrowings.</li> <li>- Verify interest rates match borrowing duration.</li> <li>- Authenticate authorizations for money at call and short notice.</li> </ul>
<b>H. Deposits</b>	<ul style="list-style-type: none"> <li>- Confirm interest accruals on deposits.</li> <li>- Detect window dressing cases.</li> </ul>
<b>I. Capital</b>	<ul style="list-style-type: none"> <li>- Review opening capital balances.</li> <li>- Check resolutions for authorized capital increases.</li> <li>- Inspect prospectuses for changes in subscribed/paid-up capital.</li> <li>- Verify government notifications for contributions.</li> </ul>

<b>Topic</b>	<b>Key Points</b>
<b>J. Reserve and Surplus</b>	<ul style="list-style-type: none"> <li>- Examine balances and reasons for additions/deductions from reserves.</li> <li>- Ensure foreign branch compliance with relevant laws.</li> </ul>
<b>K. Bills Payable</b>	<ul style="list-style-type: none"> <li>- Evaluate internal controls over bills payable.</li> <li>- Ensure drafts, mail transfers, and traveler's cheques use standard forms.</li> <li>- Secure unused forms under a responsible officer's custody.</li> <li>- Verify signatures on demand drafts.</li> </ul>
<b>L. Contingent Liabilities</b>	<ul style="list-style-type: none"> <li>- Identify and value contingent liabilities.</li> <li>- Ensure non-fund-based facilities are extended to regular constituents.</li> <li>- Assess LC payments to overseas suppliers and record obligations through audit tests.</li> </ul>
<b>M. Bills for Collection</b>	<ul style="list-style-type: none"> <li>- Ensure bills drawn on other branches aren't in bills for collection.</li> <li>- Inspect inward bills on the closing day and verify with outward bills.</li> <li>- Review post-balance sheet date collections for bill evidence.</li> </ul>
<b>N. Treasury Operation - Foreign Exchange and Derivatives</b>	<ul style="list-style-type: none"> <li>- Identify and manage risks from innovative trading products.</li> <li>- Assess treasury operation controls as part of audit.</li> <li>- Obtain an overview of treasury operations before the statutory audit.</li> <li>- Conduct risk assessments and ensure accuracy in financial statements related to treasury.</li> </ul>

# Basic Concepts of Auditing

## Nature, Scope, Objectives and Significance of Auditing:

Topic	Details
<b>Essential Features of Auditing</b>	<ol style="list-style-type: none"> <li>1. Evaluation and verification of evidence for verifiable information (e.g., vouchers, documents).</li> <li>2. Analytical, critical, and investigative review of Accounting and Internal Control systems.</li> <li>3. Applies to both financial and non-financial information.</li> <li>4. Uses standards or criteria for systematic evaluation.</li> <li>5. Requires a competent and independent auditor with prescribed qualifications.</li> <li>6. Ensures reliability and authenticity of financial statements.</li> <li>7. Aims to form an opinion on the true and fair view of business affairs and profit/loss.</li> </ol>
<b>Nature of Auditing</b>	<ol style="list-style-type: none"> <li>1. Traditional Emphasis: Historically related to accounting and financial records.</li> <li>2. Financial Audit Objective: Express opinion on adherence to reporting framework (IAASB).</li> <li>3. Verification Focus: Concerns verifying accounting data accuracy (Mautz).</li> <li>4. Verification Process: Uses internal and external evidence sources.</li> <li>5. Expanded Scope: Includes compliance, costing, and performance records.</li> <li>6. Comprehensive Definition: Systematic, independent examination of records (ICAI).</li> <li>7. Evidence Evaluation: Assesses correspondence with established criteria.</li> <li>8. Independence and Competence: Auditor must be competent and independent.</li> <li>9. Critical Evaluation: Analytical rather than mechanical.</li> <li>10. Rooted in Logic: Relies on logic and analytical methods.</li> </ol>
<b>Scope of Auditing</b>	<ul style="list-style-type: none"> <li>- Scope has evolved and expanded.</li> <li>- Determined by engagement terms, laws, and standards.</li> <li>- Auditor must cover all aspects, even if not explicitly mentioned.</li> <li>- Engagement terms cannot limit scope set by law or standards.</li> <li>- SA-200 scope: Assess information reliability, ensure proper disclosure, and exercise judgment.</li> <li>- Auditor duties extend to transaction authenticity, recording accuracy, and compliance.</li> </ul>
<b>Basic Principles Governing an Audit</b>	<ol style="list-style-type: none"> <li>1. Integrity, Objectivity, and Independence: Auditor must be honest, impartial, and independent.</li> <li>2. Confidentiality: No disclosure of client information without permission.</li> <li>3. Skills and Competence: Conducted by a trained professional.</li> <li>4. Supervision: Auditor oversees work done by subordinates or other auditors.</li> <li>5. Documentation: Proper working papers maintained.</li> </ol>

Topic	Details
	<p>6. Planning: Understand client business for audit.</p> <p>7. Audit Evidence: Sufficient and appropriate evidence obtained.</p> <p>8. Accounting System &amp; Internal Controls: Client's systems inform audit procedures.</p> <p>9. Audit Conclusions &amp; Reporting: Unqualified, qualified, adverse, or disclaimer report based on evidence.</p>
<b>Objectives of Auditing</b>	<ul style="list-style-type: none"> <li>- <b>Overall Objectives:</b> Obtain reasonable assurance on absence of material misstatements; report findings.</li> <li>- <b>Primary Objective:</b> Determine if financial statements provide a "true and fair view."</li> <li>- <b>Secondary Objective:</b> Detect frauds and errors in records.</li> <li>- <b>Social Objectives:</b> Protect shareholders' interests, prevent tax evasion, safeguard capital, ensure fair returns and prices, fair compensation for workers, and comply with corporate social responsibility policies.</li> </ul>
<b>Significance of Auditing</b>	<ul style="list-style-type: none"> <li>- Management provides reports, including financial statements, to owners.</li> <li>- Credibility issues: Errors, fraud, misleading information, and non-compliance.</li> <li>- Solution: Independent auditor investigation.</li> <li>- For complex companies, audits verify consolidated accounts.</li> <li>- Audits ensure legal compliance (e.g., Companies Act, Accounting Standards).</li> </ul>
<b>Significance Expected from Auditing</b>	<ul style="list-style-type: none"> <li>- <b>Legal:</b> Facilitates tax filing, borrowing, insurance claims, sales tax authority acceptance, and bankruptcy actions.</li> <li>- <b>Internal Control:</b> Enables quick error/fraud discovery, moral check on employees, management advice, and uniformity in accounts.</li> <li>- <b>External Affairs:</b> Facilitates account settlement for deceased partners, assists asset and goodwill valuation, and helps assess business trends.</li> </ul>
<b>Advantages of Audit</b>	<ul style="list-style-type: none"> <li>- Protects stakeholders' interests.</li> <li>- Deters fraud and embezzlement.</li> <li>- Promotes vigilance among employees.</li> <li>- Enhances reliability for government and tax purposes.</li> <li>- Detects wastage and losses.</li> <li>- Supports corporate restructuring and valuations.</li> <li>- Required by banks, financial institutions, and government.</li> <li>- Aids in settling disputes among partners.</li> </ul>
<b>Inherent Limitations of an Audit</b>	<ul style="list-style-type: none"> <li>- Does not guarantee detection of all material misstatements.</li> <li>- Audit evidence is persuasive, not conclusive.</li> <li>- Internal controls have limitations.</li> <li>- Professional scepticism necessary but not foolproof.</li> <li>- Materiality is key in auditing.</li> </ul>

## Differences between Accounting and Auditing

Srl No.	Aspect	Accounting	Auditing
1.	<b>Meaning</b>	It is the collection, classification and summarization of data for preparation of books of accounts, and to make financial statements.	Auditing is an analytical and critical examination of books of accounts, financial records and the financial statements prepared thereon.
2.	<b>Recording Transactions</b>	Records transactions at the time of occurrence	Analyzes recorded transactions post facto
3.	<b>Purpose</b>	Prepares financial statements	Verifies the accuracy of financial statements
4.	<b>Responsibility</b>	Management's responsibility	Independent auditor's responsibility
5.	<b>Reporting</b>	Reports compilation of records to management	Issues an opinion on the authenticity of financial statements
6.	<b>Accountability</b>	Works for the management	Independent and accountable to owners/shareholders
7.	<b>Liability</b>	No specific liability	Potential liability to third parties
8.	<b>Mandatory Requirement</b>	May not be mandatory for small individuals or partnership firms	May be exempt for various individuals or small partnerships, depending on laws
9.	<b>Regulatory Standards</b>	Follows Indian Accounting Standards (Ind AS)	Follows standards on auditing

## Audit and Investigation

Srl No.	Aspect	Auditing	Investigation
1.	<b>Meaning</b>	Independent and systematic examination of evidence to ascertain the true and fair view of financial statements.	Examination of accounts and records for a specific purpose, which can vary.
2.	<b>Scope</b>	Generally has a wide scope, influenced by relevant laws or client requirements.	Limited scope, focused on specific areas or periods.

3.	<b>Objective</b>	Verify accounts and records for truth and fairness.	Conducted for special purposes, such as on behalf of incoming partners.
4.	<b>Audit Procedure</b>	Follows generally accepted auditing principles.	Involves extended auditing procedures.
5.	<b>Evidence</b>	Relies on persuasive evidence.	Relies on substantial or conclusive evidence.
6.	<b>Approach</b>	Auditor is sceptical but not suspicious.	Investigator starts with suspicion and collects evidence to confirm or dispel it.
7.	<b>Periodicity</b>	Often conducted routinely, typically annually.	May extend over a longer period than one year.

### Classification of Auditing:

Classification of Auditing	Details
<b>I. Organisational Structure-wise Classification</b>	
<b>A. Statutory Audit</b>	<ul style="list-style-type: none"> <li>- Mandated by law; specific procedures and formats.</li> <li>- Applies to companies, government bodies, insurance companies, nationalized and co-operative banks.</li> <li>- Auditors appointed by shareholders.</li> <li>- Requires Chartered Accountant with COP.</li> <li>- Advantages: Independent opinion, reliable financial statements; used in shareholder and legal matters.</li> </ul>
<b>B. Non-Statutory Audit</b>	<ul style="list-style-type: none"> <li>- Conducted voluntarily; follows internal rules.</li> <li>- Common among sole proprietors, partnerships, non-profits.</li> <li>- Advantages for Sole Proprietors: Enhances internal controls, reliability, facilitates funding, employee oversight.</li> <li>- Advantages for Partnerships &amp; Others: Aids in account settlements, protects partner interests, assists in goodwill settlement, loan approval.</li> </ul>
<b>II. Objective-wise Classification of Audit</b>	
<b>A. Internal Audit</b>	<ul style="list-style-type: none"> <li>- Independent management function; aims to improve governance.</li> <li>- Covers financial and policy matters.</li> <li>- Different from Statutory Audit.</li> <li>- Enhances transparency and risk management.</li> </ul>
<b>B. Independent Financial Audit</b>	<ul style="list-style-type: none"> <li>- Conducted by qualified auditor.</li> <li>- Verifies Financial Statements' truth and fairness.</li> <li>- May be legally required under governing Acts.</li> </ul>
<b>III. Periodicity-wise Classification of Audit</b>	

<b>Classification of Auditing</b>	<b>Details</b>
<b>A. Periodical or Final Audit</b>	<ul style="list-style-type: none"> <li>- Conducted at year-end.</li> <li>- Advantages: Cost-effective, planned.</li> <li>- Limitations: Delays in fraud detection, reliance on sample testing.</li> </ul>
<b>B. Interim Audit</b>	<ul style="list-style-type: none"> <li>- Conducted periodically, e.g., quarterly.</li> <li>- Useful for interim profit/loss assessment, partner changes, valuations.</li> </ul>
<b>C. Continuous Audit</b>	<ul style="list-style-type: none"> <li>- Frequent, tech-driven; 100% transaction testing.</li> <li>- Features: Year-round, focuses on early error detection.</li> <li>- Necessity: Inadequate controls, high transactions.</li> <li>- Advantages: Early detection, client guidance, employee oversight.</li> <li>- Demerits: Record alteration risk, higher costs, duty clashes.</li> </ul>
<b>D. Limited Review</b>	<ul style="list-style-type: none"> <li>- Required by SEBI for listed companies.</li> <li>- Companies submit financial results quarterly, semi-annually, and annually.</li> <li>- Limited scope; does not follow all auditing standards.</li> </ul>
<b>IV. Scope-wise Classification of Audit</b>	
<b>A. Complete Audit</b>	- Checks all business aspects; rarely practiced due to extensive nature.
<b>B. Partial Audit</b>	- Non-statutory; scope limited by engagement terms.
<b>C. Detailed Audit (Audit-in-depth)</b>	- Examines transactions from recording to financial impact; in-depth at each accounting stage.
<b>V. Subject Matter-wise Classification of Audit</b>	
<b>A. Cost Audit</b>	- Examines cost books and statements; verifies production cost accuracy; reviews Cost Accounting system.
<b>B. Management Audit</b>	- Reviews management process, including planning and control; aids in managerial improvements.
<b>C. Operational Audit</b>	- Examines entity operations; focuses on efficiency and standard adherence in production, marketing, etc.
<b>D. Tax Audit</b>	- Ensures accurate taxable profit calculations; prevents tax evasion.
<b>E. Social Audit</b>	- Evaluates business's social responsibility; voluntary but assesses social impact.
<b>F. Propriety Audit</b>	- Reviews management decisions with public interest and standards in mind; ensures proper fund utilization.
<b>G. Forensic Audit</b>	- Combines propriety, regularity, investigative, and financial audits; focuses on fraud detection.
<b>H. Performance Audit</b>	- Independent evaluation of goal achievement; used by government agencies for accountability.
<b>I. Secretarial Audit</b>	- Ensures corporate compliance; identifies non-compliances for timely correction.
<b>J. Human Resource Audit</b>	- Reviews HR policies and practices; helps improve regulatory compliance.

Classification of Auditing	Details
<b>K. Information Systems Audit</b>	- Verifies control effectiveness in computer systems; ensures data integrity and system efficiency.
<b>L. Environmental Audit</b>	- Examines environmental impact; mandatory reporting in some cases under Indian law.

### Statutory Audit vs. Non-Statutory Audit

Srl No.	Points of Distinction	Statutory Audit	Non-Statutory Audit
1.	<b>Legal Compulsion</b>	Compulsory, mandated by law.	Voluntary, not legally required.
2.	<b>Scope</b>	Determined by relevant statute or law.	Determined by agreement between auditor and organization.
3.	<b>Qualification of Auditor</b>	Requires specific academic or professional qualifications.	No specific qualifications required.
4.	<b>Powers, Rights, and Duties of Auditor</b>	Dictated by the statute.	Defined by agreement between auditor and organization.
5.	<b>Independence</b>	Auditor has independence in status and mental attitude.	Auditor may not necessarily have the same level of independence.
6.	<b>Auditor's Liability</b>	Liability under Common Law and relevant statute governing audit.	Liability under Common Law for negligence.
7.	<b>Publication of Audit Report</b>	Audit report is published for the public.	Audit report is made known to employers or partners.

### Difference between Continuous Audit and Periodical Audit

Srl No.	Points of Distinction	Continuous Audit	Periodical Audit
1.	<b>Timing</b>	Conducted throughout the year	Conducted after preparation of final accounts
2.	<b>Cost</b>	More expensive	Less expensive
3.	<b>Detection of Errors and Frauds</b>	Errors and frauds are detected early	Errors and frauds are detected late
4.	<b>Scope</b>	Detailed checking is possible	Detailed checking is not possible

5.	<b>Interim Dividend</b>	Facilitates in the finalization of interim accounts and declaration of interim dividend	Does not facilitate the declaration of interim dividends
6.	<b>Monotony of the Audit Staff</b>	May lead to monotony among audit staff as they are engaged in the same work throughout the year	Does not lead to monotony of the audit staff as they work with different organizations
7.	<b>Efficiency of the Client's Staff</b>	Improves the efficiency of the client's accounting staff	May lead to laziness and inefficiency among the client's accounting staff
8.	<b>Collusion</b>	There is a possibility of collusion between audit staff and employees of the organization	There is hardly any possibility of collusion between audit staff and employees of the organization
9.	<b>Moral Pressure</b>	Maintains moral pressure on the client's staff due to continuous engagement	Less moral pressure on the client's staff as the auditor visits only after finalizing accounts
10.	<b>Applicability</b>	Applicable for large organizations	Applicable for small organizations
11.	<b>Report</b>	Facilitates timely submission of the audit report	Takes time to prepare and submit the audit report under periodical audit

### Auditing Standards:

Topic	Details
<b>Concept of Standards of Auditing</b>	Standards of Auditing are guidelines auditors follow for client account audits. Created by professional bodies with input from industry, academia, and regulators, they provide principles and techniques to enhance audit quality.
<b>Purpose of Standards of Auditing</b>	a. <b>Procedural Reference:</b> Guide for audit procedures. b. <b>Risk Reduction:</b> Lowers audit risk. c. <b>Defense Against Allegations:</b> Standards help defend auditors against negligence claims. d. <b>Quality Improvement:</b> Improves audit quality, fostering public trust.
<b>International Auditing and Assurance Standards Board (IAASB)</b>	- Founded under IFAC in 1977 to harmonize global accounting. - IAASB develops high-quality standards, promotes convergence, and enhances audit quality worldwide.
<b>Auditing and Assurance Standards Board (AASB)</b>	- Formed by ICAI as the Auditing Practices Committee in 1982; renamed AASB in 2002.

Topic	Details
	<ul style="list-style-type: none"> <li>- Includes members from various professional backgrounds.</li> <li>- Contributes to global standard harmonization and formulates guidelines under ICAI's authority.</li> </ul>
<b>Objectives and Functions of AASB</b>	<ul style="list-style-type: none"> <li>a. <b>Developing New Standards:</b> Identifies areas for Quality Control, Engagement Standards, and Statements on Auditing.</li> <li>b. <b>Formulating Standards:</b> Develops standards for ICAI issuance.</li> <li>c. <b>Reviewing Standards:</b> Revises standards as needed.</li> <li>d. <b>Guidance Notes:</b> Issues notes on specific audit issues.</li> <li>e. <b>Technical Guides:</b> Provides additional resources for accountants.</li> </ul>
<b>Importance of Auditing Standards</b>	- Standards ensure quality and integrity of audit work, and bodies like IAASB and AASB develop, maintain, and promote these standards. Standards are critical in building trust in the auditing profession.
<b>Structure of AASB Pronouncements</b>	<ul style="list-style-type: none"> <li>- Issued under ICAI Council's authority.</li> <li>- Effective since April 1, 2008.</li> <li>- Two categories: Engagement Standards and Standards on Quality Control.</li> </ul>
<b>A. Engagement Standards</b>	<ul style="list-style-type: none"> <li>- <b>Standards on Auditing (SAs):</b> For historical financial audit.</li> <li>- <b>Standards on Review Engagements (SREs):</b> For financial information review.</li> <li>- <b>Standards on Assurance Engagements (SAEs):</b> For assurance engagements.</li> <li>- <b>Standards on Related Services (SRSs):</b> For agreed-upon procedures, compilations, and related services.</li> </ul>
<b>B. Standards on Quality Control (SQC)</b>	<ul style="list-style-type: none"> <li>- Applied to all services covered by Engagement Standards.</li> <li>- Additional Pronouncements: <ul style="list-style-type: none"> <li><b>Statements on Auditing:</b> Mandatory for compliance on critical matters.</li> <li><b>General Clarifications:</b> Clarifies standards issues.</li> <li><b>Guidance Notes:</b> Helps apply Engagement Standards and Quality Control Standards.</li> </ul> </li> </ul>
<b>Procedure for Issuing Standards on Auditing</b>	<ul style="list-style-type: none"> <li>a. <b>Identify Need:</b> AASB prioritizes areas for new standards.</li> <li>b. <b>Draft Preparation:</b> Study groups or task forces assist in drafting.</li> <li>c. <b>Exposure Draft:</b> Shared for member feedback.</li> <li>d. <b>Finalization:</b> AASB finalizes after comments.</li> <li>e. <b>Council Approval:</b> ICAI Council approves and issues standards.</li> </ul>
<b>Considerations in Formulating Standards</b>	Takes into account International Standards on Auditing (ISA), Indian laws, customs, business practices, and environment.

### List of standards issued by the AASB in India:

Category	Standard	Description	
<b>Standards on Quality Control (SQC)</b>	SQC 1	Quality Control for Firms performing Audit and Review of Historical Financial Information, and other Assurance Engagements	
<b>Audits and Reviews of Historical Financial Information</b>	<b>Introductory Matters (100-199)</b>		
	<b>General Principles and Responsibilities (200-299)</b>		
	SA 200	Overall Objectives of the Independent Auditor and Conduct of an Audit in Accordance with Standards on Auditing	
	SA 210	Agreeing the Terms of Audit Engagements	
	SA 220	Quality Control for an Audit of Financial Statements	
	SA 230	Audit Documentation	
	SA 240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	
	SA 250	Consideration of Laws and Regulations in an Audit of Financial Statements	
	SA 260	Communication with Those Charged with Governance	
	SA 265	Communicating Deficiencies in Internal Control to Governance and Management	
	SA 299	Joint Audit of Financial Statements	
	<b>Risk Assessment and Response to Assessed Risks (300-499)</b>	SA 300	Planning an Audit of Financial Statements
		SA 315	Identifying and Assessing the Risks of Material Misstatement
		SA 320	Materiality in Planning and Performing an Audit
	SA 330	The Auditor's Responses to Assessed Risks	
	SA 402	Audit Considerations Related to an Entity Using a Service Organisation	
	SA 450	Evaluation of Misstatements Identified During the Audit	

<b>Category</b>	<b>Standard</b>	<b>Description</b>	
<b>Audit Evidence (500-599)</b>	SA 500	Audit Evidence	
	SA 501	Audit Evidence – Specific Considerations for Selected Items	
	SA 505	External Confirmations	
	SA 510	Initial Audit Engagements – Opening Balances	
	SA 520	Analytical Procedures	
	SA 530	Audit Sampling	
	SA 540	Auditing Accounting Estimates, Including Fair Value and Related Disclosures	
	SA 550	Related Parties	
	SA 560	Subsequent Events	
	SA 570	Going Concern	
	SA 580	Written Representations	
	<b>Using Work of Others (600-699)</b>	SA 600	Using the Work of Another Auditor
		SA 610	Using the Work of Internal Auditors
SA 620		Using the Work of an Auditor’s Expert	
<b>Audit Conclusions and Reporting (700-799)</b>	SA 700	Forming an Opinion and Reporting on Financial Statements	
	SA 701	Communicating Key Audit Matters in the Auditor’s Report	
	SA 705	Modifications to the Opinion in the Auditor’s Report	
	SA 706	Emphasis of Matter and Other Matter Paragraphs	
	SA 710	Comparative Information—Corresponding Figures and Comparative Financial Statements	
	SA 720	The Auditor’s Responsibilities Relating to Other Information	
<b>Specialized Areas (800-899)</b>	SA 800	Special Considerations—Audits under Special Purpose Frameworks	
	SA 805	Audits of Single Financial Statements and Specific Elements	
	SA 810	Engagements to Report on Summary Financial Statements	

Category	Standard	Description
<b>Standards on Review Engagements (SREs) (2000-2699)</b>	SRE 2400	Engagements to Review Historical Financial Statements
	SRE 2410	Review of Interim Financial Information Performed by the Independent Auditor
<b>Standards on Assurance Engagements (SAEs) (3000-3699)</b>	<b>Applicable to All Assurance Engagements (3000-3399)</b>	
	SAE 3400	Examination of Prospective Financial Information
	SAE 3402	Assurance Reports on Controls at a Service Organisation
	SAE 3420	Engagements to Report on Compilation of Pro Forma Financial Information in a Prospectus
<b>Standards on Related Services (SRSs) (4000-4699)</b>	SRS 4400	Engagements to Perform Agreed-upon Procedures Regarding Financial Information
	SRS 4410 (Revised)	Compilation Engagements

### Audit Engagement, Program, Documentations, Evidence, Note Book:

Topic	Key Details
<b>Audit Engagement</b>	
Statutory vs. Agreement-Based	In statutory audits, auditor appointment and responsibilities are defined by statutes; in others, through agreements between auditor and client.
Importance of Agreement	Agreements set boundaries, prevent auditor responsibility beyond scope, and help avoid misunderstandings.
SA-210 Requirements	SA-210 mandates that terms of engagement are agreed upon and documented in an engagement letter or written agreement before audit commencement.
<b>Contents of Engagement Letter</b>	Objective and scope, management responsibilities, inherent limitations, internal auditor reliance, confirmations, auditor liability, audit fees, report format, and restrictions.
<b>Audit Programme</b>	
Definition	A detailed written plan that specifies audit procedures and helps avoid omissions, acting as a guide for the audit.
SA 300 Requirements	As per SA 300, auditors should prepare an audit programme, taking internal controls into account.
Timing Flexibility	Auditors can choose when to perform procedures unless specific timing is required, like stocktaking.

Topic	Key Details
<b>Types of Audit Programmes</b>	General programmes (common to all audits) and special programmes (specific to certain entities like partnerships or companies).
<b>Advantages of Audit Programme</b>	Checklist, work allocation, progress tracking, accountability, consistency, planning tool, evidence and defense in case of charges.
<b>Disadvantages of Audit Programme</b>	Mechanical nature, potential redundancy for small businesses, inefficient responsibility allocation, and rigidity.
<b>Audit Documentation (Audit Working Papers)</b>	
Definition	Audit working papers include records of evidence, procedures, and conclusions documented during an audit.
SA-230 Requirements	SA-230 defines audit documentation as records covering procedures, evidence, and conclusions, maintained in physical or electronic form.
<b>Purpose of Audit Working Papers</b>	Basis for conclusions, compliance with standards (SAs), planning aid, supervision, accountability, reference for future audits, quality control, and external inspections.
<b>Contents of Working Papers</b>	Timely preparation, sufficiency for review, documentation of procedure details, discussions, addressing inconsistencies, and handling SA departures.

### Types of Working Paper Files:

Srl No.	Permanent Audit File	Current Audit File
a)	Legal and organisational structure of the entity, e.g., Memorandum of Association and Article of Association in case of a company.	Correspondence relating to acceptance of annual reappointment.
b)	Extracts or copies of legal documents, agreements and minutes relevant to the audit.	Extracts of important matters in the minutes of Board Meetings and General Meetings relevant to the audit.
c)	A record of study and evaluation of internal controls.	Copies of management letters.
d)	Analysis of significant ratios & trends.	Analysis of transactions and balances.
e)	Copies of the audited financial statements of previous year(s).	Copies of communication with other auditors, experts and third parties.
f)	Notes regarding significant accounting policies.	Audit programme.
g)	Significant audit observations of the earlier years.	Conclusions reached on significant aspects of audit.

## Ownership and Custody of Audit Working Papers:

Topic	Details
Ownership	Audit working papers are the property of the auditor, who controls the release of any portions or extracts.
Safe Custody	Working papers should be securely stored and kept confidential for a suitable period to meet legal and professional requirements.
Legal Requirements	Legislation may require auditors to provide working papers to regulatory authorities if mandated.
Ownership Confirmation	<i>Chantery Martin &amp; Co.</i> established that audit working papers belong to the auditor, granting them retention rights.
ICAI Guidelines	ICAI mandates that members retain working papers for at least 7 years per SQC 1, with failure potentially leading to professional misconduct charges.
<b>Audit Evidence</b>	
Definition	Information an auditor uses to evaluate management assertions and form an opinion on financial statements. SA-500 defines audit evidence as including information from accounting records and other sources.
Importance	Essential for an unbiased opinion on financial performance and state of affairs; inadequate evidence may lead to undetected misstatements, fraud, or negligence claims.
Reasonable Assurance (SA-200)	Achieved by obtaining sufficient appropriate audit evidence to reduce audit risk to an acceptably low level. <b>Sufficiency</b> refers to quantity, <b>appropriateness</b> to quality.
Auditor's Judgment	Judgment is influenced by factors like the nature of the item, internal controls, business size, management influence, financial position, materiality, past audit experience, auditing results, available information, and accounting ratios.
<b>Types of Audit Evidence</b>	
Internal Evidence	Includes documents within the organization, like sales invoices, cash memos, and credit notes.
External Evidence	Includes evidence from external sources, such as debtor and creditor confirmations.
<b>Relevance and Reliability of Audit Evidence</b>	
Relevance	Must connect logically with audit procedures' purpose, influenced by testing direction.
Reliability	Reliability depends on the source (internal or external) and type (visual, documentary, oral). External evidence is generally more reliable; internal evidence is more reliable with strong internal controls. Written evidence is usually more reliable than oral evidence.
<b>Methods to Obtain Audit Evidence</b>	
Inspection	Examines records, documents, or tangible assets, with reliability depending on nature, source, and internal controls.

Topic	Details
Observation	Involves witnessing processes or procedures by others.
Inquiry and Confirmation	Involves seeking information from knowledgeable individuals; confirmation corroborates information in records.
Computation	Checks arithmetic accuracy or performs independent calculations.
Analytical Review	Analyzes ratios, trends, and investigates unusual fluctuations and items.
<b>Audit Procedures to Obtain Evidence</b>	
Risk Assessment Procedures	Obtain understanding of the entity and its environment to assess risks of material misstatement due to fraud or error.
Compliance Procedures (Test of Controls)	Compliance procedures test operational effectiveness of internal controls, helping auditors assess if fewer evidence checks are needed for account balance completeness, validity, and accuracy.
Substantive Procedures	Tests validity, completeness, and accuracy of balances and transactions through analytical procedures and tests of detail. Examples include inventory examination, payable confirmations, and debtor collectability checks.
<b>Audit Note Book</b>	
Definition	A record maintained during an audit with information on misstatements, frauds, and issues for clarification. Separate books are kept for each client.
Contents of Audit Note Book	Business name, organization structure, MOA and AOA provisions, prior auditor communication, management instructions, account book list, accounting methods, internal controls, key personnel, errors/fraud, issues needing explanations, special audit report points.

### Audit Risk:

Topic	Details
<b>Audit Risk Definition</b>	The risk that an auditor may issue an incorrect opinion on financial statements containing significant errors.
<b>Illustrative Example</b>	If a company incorrectly records machinery repair costs as a revenue expense and the auditor does not identify this error, it exemplifies audit risk.
<b>What Audit Risk Does Not Include</b>	Audit risk excludes the risk of an auditor incorrectly stating that financial statements are materially incorrect when they are not. It also does not cover business risks unrelated to auditing.
<b>Types of Audit Risk</b>	Audit risk is divided into <b>Risk of Material Misstatement</b> and <b>Detection Risk</b> .
<b>A. Risk of Material Misstatement</b>	
Definition	The risk that financial statements contain material misstatements prior to the audit, due to either errors or fraud.
Levels	<ul style="list-style-type: none"> <li>- <b>Overall Financial Statement Level:</b> Misstatements affecting the entire financial statement.</li> <li>- <b>Assertion Level:</b> Misstatements in classification, balance calculation, or disclosure.</li> </ul>

Topic	Details
<b>Components at Assertion Level</b>	
Inherent Risk	Risk due to complex transactions or fraud; exists naturally in business transactions.
Control Risk	Risk from ineffective internal controls, which can be mitigated but not entirely eliminated.
<b>B. Detection Risk</b>	
Definition	The risk that audit procedures will fail to identify material misstatements.
Example	If an auditor verifies invoice accuracy but misses checking the occurrence of specific sales, detection risk arises.
<b>Audit Risk Formula</b>	
Formula	<b>Audit Risk = Risk of Material Misstatement × Detection Risk</b>
Risk of Material Misstatement Formula	<b>Risk of Material Misstatement (at assertion level) = Inherent Risk × Control Risk</b>
Expanded Audit Risk Formula	<b>Audit Risk = Inherent Risk (I) × Control Risk (C) × Detection Risk (D)</b>

### Audit Risk Assessment, Internal Control, Internal Audit, and the Interplay with Statutory Audit:

Topic	Details
<b>Audit Risk Assessment</b>	
Definition	Identifies and assesses the risks of material misstatement at financial statement and assertion levels.
Key Procedures	<ol style="list-style-type: none"> <li><b>Inquiries</b> of management and entity personnel</li> <li><b>Analytical procedures</b> (analysis of financial/non-financial data)</li> <li><b>Observation and inspection</b> of the entity and its environment</li> </ol>
Role of Procedures	Assist in understanding the entity, risks, and controls, aiding in audit procedure design.
Additional Factors	Past audit experience, audit team discussions, understanding industry and regulations, and internal control systems.
Use of Information	Information from risk assessment contributes to audit evidence; any contradictory new information requires adjusting procedures.
<b>Internal Control</b>	
Definition	A process by entity leaders and staff to provide reasonable assurance in three areas:
Key Areas	<ol style="list-style-type: none"> <li><b>Reliability of Financial Reporting</b></li> <li><b>Effectiveness and Efficiency of Operations</b></li> <li><b>Compliance with Laws and Regulations</b></li> </ol>

Topic	Details
Scope	<b>Administrative Control:</b> Adherence to processes, quality, pricing. <b>Accounting Control:</b> Proper transaction recording, adherence to policies, accurate records (includes Internal Check & Audit).
Basic Elements	<ol style="list-style-type: none"> <li>1. Financial and organizational plans</li> <li>2. Competent personnel</li> <li>3. Division of work</li> <li>4. Separation of responsibilities and custody</li> <li>5. Authorization</li> <li>6. Managerial supervision and regular review</li> </ol>
Objectives (SA-315)	<ol style="list-style-type: none"> <li>1. Authorization compliance</li> <li>2. Proper recording</li> <li>3. Asset protection and verification</li> </ol>
Advantages	Ensures efficiency, accuracy, fraud prevention, employee satisfaction.
Types	<b>Preventive Controls:</b> Proactive measures like segregation of duties, approval, asset security. <b>Detective Controls:</b> Identifying errors via performance reviews, reconciliations, physical verification.
Evaluation Techniques	<ol style="list-style-type: none"> <li>1. <b>Narrative Record:</b> Detailed control system description</li> <li>2. <b>Checklist:</b> Question-based review</li> <li>3. <b>Flow Chart:</b> Visual system representation</li> <li>4. <b>Internal Control Questionnaire:</b> Structured Q&amp;A for control analysis</li> </ol>
Limitations	Can be ineffective due to errors, override, collusion, routine limitation, high cost without adequate benefit.
<b>Internal Check</b>	
Definition	A control mechanism where duties are allocated to allow cross-verification, preventing and detecting errors or fraud.
Essential Characteristics	Division of work, provision of checks, clear responsibilities, technology use, employee rotation, supervisory control, periodic review.
Advantages	Saves audit time and costs, enables test checking, smooth workflow, promotes honesty, accelerates final accounts preparation.
Auditor's Liability	Reliance on an effective internal check increases audit efficiency but does not reduce statutory liability for undetected errors or fraud.
<b>Internal Audit</b>	
Definition	Independent management function assessing entity operations to improve governance, risk management, and controls.
Scope and Objectives	Varies by entity, involving monitoring controls, financial review, operational efficiency, compliance, risk management, and governance.
Advantages	Assists in management oversight, detects and prevents errors/fraud, identifies weaknesses, safeguards assets, enhances efficiency.
<b>Internal Audit in India</b>	

Topic	Details
Legal Framework	<b>Companies Act, 2013 (Section 138)</b> mandates internal auditors for certain companies (e.g., listed companies, large unlisted and private entities meeting specified financial criteria).
Eligibility	Internal auditors may be Chartered Accountants, Cost Accountants, or other professionals chosen by the Board.
Scope Determination	The Audit Committee/Board, in consultation with the internal auditor, defines the scope, frequency, and methodology.
<b>Interplay with Statutory Audit</b>	
Reliance on Internal Audit	External auditors may rely on internal audit work based on an evaluation of scope, qualifications, technical standards, and more.
Process	External auditors discuss plans with internal auditors, review their reports, and conduct audit procedures.
Responsibility	Relying on internal audit work does not reduce the statutory auditor's liability for material misstatements. External auditors remain responsible for the audit opinion.

### Comparison between Checklist and Internal Control Questionnaire:

Srl No.	Basis	Checklist	Internal Control Questionnaire
1.	Point of Time	Issued at the commencement of audit and reported back after completion of audit.	Can be issued at any point of time and reported back immediately.
2.	Issued To	Issued to the audit staff to be followed by them during audit and reported back at completion.	Issued to various people at different levels in the organization.
3.	Contents	Contains instructions to be followed by audit assistants.	Contains questions to be answered by the employees of the organization.
4.	Objective	Serves as a guideline for audit staff to ensure critical issues are not overlooked.	Used to collect information about the internal control system and evaluate weaknesses therein.

### Internal Control vs. Internal Check vs. Internal Audit:

The differences between internal audit, internal control and internal check are as follows:

S No.	Point of Distinction	Internal Audit	Internal Control	Internal Check
i.	Mode of Checking	Each component of work is checked.	Work of one person is automatically checked by another.	Continuous checking during the occurrence and recording of transactions.
ii.	Objective	Evaluate the internal control system and detect frauds and errors.	Ensure adherence to management policies, safeguard assets, prevent/detect frauds/errors, maintain accurate and complete accounting records.	Prevent errors, ensure no single employee has exclusive control over transactions, and avoid duplication.
iii.	Point of Time	Checked after the work is done.	Simultaneous checking as work is conducted, with immediate verification of transactions.	Continuous checking as transactions occur, avoiding delayed verification.
iv.	Thrust of System	Focused on detecting errors and frauds.	Emphasizes adherence to policies, safeguarding assets, and maintaining accuracy.	Concentrates on preventing errors and ensuring division of work.
v.	Cost Involvement	Involves additional cost due to specialized checking.	Can be costly for small businesses due to more employees involved.	Part of internal control and division of work, doesn't add extra cost.
vi.	Report	The internal auditor submits reports to management.	Internal controls provide built-in MIS reports.	The summary of daily transactions serves as a report for senior management.

### Risk-Based Internal Audit (RBIA):

Topic	Details
<b>Definition of RBIA</b>	RBIA aligns internal audit efforts with an organization’s risk management framework, providing assurance on the effectiveness of risk management beyond just control processes.
<b>Key Components</b>	<ul style="list-style-type: none"> <li>- <b>Risk Identification:</b> Recognizes inherent risks within the organization.</li> <li>- <b>Risk Assessment:</b> Evaluates the likelihood and impact of risks.</li> <li>- <b>Risk Response:</b> Ensures responses align with risk appetite.</li> </ul>
<b>Role of Internal Audit in RBIA</b>	<ul style="list-style-type: none"> <li>- Confirms that risk management responses fall within the organization’s risk appetite.</li> <li>- Takes actions to address any misalignment with the risk appetite.</li> <li>- Monitors risk management processes.</li> </ul>
<b>Board Assurance</b>	<p>Provides the board with assurance on the following:</p> <ul style="list-style-type: none"> <li>- Effectiveness of risk management processes.</li> <li>- Management of 'key' risks.</li> <li>- Accuracy of risk reporting.</li> </ul>
<b>Advantages of RBIA</b>	<ul style="list-style-type: none"> <li>- <b>Consistency:</b> Promotes a consistent approach to risk management adaptable to changing conditions.</li> <li>- <b>Transparency:</b> Enhances risk visibility and control measures.</li> <li>- <b>Specificity:</b> Allows for tailored risk management.</li> </ul>

### Internal Financial Control (IFC) and Internal Financial Control over Financial Reporting (IFC-FR):

Topic	Details
<b>Background of IFC</b>	The Satyam Scam in 2009 exposed regulatory weaknesses, leading India to adopt global best practices (e.g., Sarbanes Oxley, Turnbull Guidance, JSOX) and the introduction of IFC regulations under the Companies Act, 2013.
<b>Concept of IFC</b>	<p>As per Section 134(5)(e) of the Companies Act, 2013, IFC encompasses policies and procedures that ensure:</p> <ul style="list-style-type: none"> <li>- Efficient business conduct</li> <li>- Adherence to policies</li> <li>- Safeguarding of assets</li> <li>- Fraud prevention</li> <li>- Accurate accounting records</li> <li>- Timely financial reporting</li> </ul>
<b>Statutory Provisions Regarding IFC</b>	<p><b>For Listed Entities:</b></p> <p>a. Directors must confirm the establishment of IFC and its effectiveness in the Directors’ Responsibility Statement (Section 134(5)(e)).</p> <p><b>For All Entities (Listed or Unlisted):</b></p> <p>b. Auditors must report on the adequacy and effectiveness of IFC</p>

Topic	Details
	<p>(Section 143(3)(i)).</p> <p>c. Directors' report must detail adequacy of internal financial controls (Rule 8(5)(viii)).</p> <p><b>For Companies with Independent Directors:</b></p> <p>d. Independent directors ensure integrity of financial information and robust controls (Section 149(7) and Schedule IV).</p> <p><b>For Entities with an Audit Committee:</b></p> <p>e. The Audit Committee can seek auditor comments on internal controls (Section 177).</p>
<p><b>Benefits of Internal Financial Control</b></p>	<ul style="list-style-type: none"> <li>- Senior Management Accountability</li> <li>- Enhanced Controls Over Financial Reporting Process</li> <li>- Improved Investor Confidence</li> <li>- Culture of Openness and Transparency</li> <li>- Accountability Extended to Operational Management</li> <li>- Increased Engagement of Board, Audit Committee, and Senior Management</li> <li>- Enhanced Accuracy and Reliability of Financial Statements</li> <li>- Comprehensive Audits</li> <li>- Fresh Perspective on Business Processes</li> <li>- Identification of Operational Opportunities</li> <li>- Updated Internal Financial Controls Documentation</li> <li>- Support for CEO/CFO Certifications</li> <li>- Enhanced Control Environment and Risk Mitigation</li> <li>- Understanding of Control Risks</li> <li>- Smart and Automated Controls</li> <li>- Standardized Policies for Multi-location/Multi-business Companies</li> <li>- Fostering a Control-Conscious Work Culture</li> <li>- Assurance for CEO/CFO and Improved Business Performance</li> </ul>
<p><b>Internal Financial Control over Financial Reporting (IFC-FR)</b></p>	<ul style="list-style-type: none"> <li>- Focuses specifically on controls related to financial reporting.</li> <li>- Aims to provide reasonable assurance about the reliability of financial reporting and compliance with accounting principles.</li> <li>- Includes policies and procedures for accurate record maintenance, transaction authorization, and asset safeguarding.</li> <li>- IFC-FR has a narrower scope than IFC, which includes operational controls and anti-fraud measures.</li> </ul>

## Report on “Internal Financial Control Over Financial Reporting”:

Topic	Details
<b>Concept of Internal Financial Control (IFC)</b>	<ul style="list-style-type: none"> <li>- IFC is implemented to promote risk management and governance within the organization, reducing instances of organized fraud.</li> <li>- As per Section 134(5)(e) of the Companies Act 2013, IFC encompasses policies and procedures for:               <ul style="list-style-type: none"> <li>- Orderly and efficient business conduct.</li> <li>- Adherence to company policies.</li> <li>- Safeguarding assets.</li> <li>- Fraud prevention and detection.</li> <li>- Accounting record accuracy.</li> <li>- Timely financial information preparation.</li> </ul> </li> <li>- Sound IFC reduces the auditor's burden and provides reasonable assurance about the appropriateness of accounts and results.</li> </ul>
<b>Report on Internal Financial Control</b>	<ul style="list-style-type: none"> <li>- As per Section 143(3)(i) of the Companies Act 2013, the auditor's report should state whether the company has adequate IFC and its operating effectiveness.</li> <li>- Rule 8(5)(viii) of the Companies (Accounts) Rules, 2014 mandates the Board of Directors' report to include details on IFC adequacy concerning the financial statements.</li> </ul>
<b>Auditor's Responsibility for Reporting on IFC</b>	<ul style="list-style-type: none"> <li>- The auditor's objective is to express an opinion on the effectiveness of the company's IFC over financial reporting.</li> <li>- Reporting on IFC is typically done concurrently with reporting on financial statements.</li> <li>- IFC over financial reporting ensures the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles.</li> <li>- It includes maintaining accurate records, ensuring transactions are recorded properly, and preventing or detecting unauthorized asset acquisition, use, or disposition that could materially affect financial statements.</li> </ul>
<b>Applicability of Reporting on IFC</b>	<ul style="list-style-type: none"> <li>- Reporting on the adequacy and operating effectiveness of IFC applies to consolidated financial statements only if a company under the 2013 Act is included.</li> <li>- It does not apply to interim financial statements, except when required by other laws or regulations.</li> </ul>

### Audit Sampling:

Topic	Details
<b>Audit Sampling</b>	The application of audit procedures to a subset of items within a population to draw conclusions about the entire population. Essential for large organizations with numerous transactions.
<b>Benefits of Audit Sampling</b>	<ul style="list-style-type: none"> <li>- Reduces auditor workload</li> <li>- Saves time and cost</li> <li>- Allows focus on critical issues</li> <li>- Evaluates effectiveness of internal control systems</li> <li>- Identifies weaknesses</li> <li>- Provides dependable results using statistical sampling methods.</li> </ul>
<b>Factors to Consider for Audit Sampling</b>	<ul style="list-style-type: none"> <li>- Audit objectives</li> <li>- Nature of the population</li> <li>- Internal control system</li> <li>- Materiality of items</li> <li>- Sampling risk</li> <li>- Non-sampling risk</li> <li>- Tolerable error limits.</li> </ul>
<b>Approaches to Sampling</b>	<p><b>A. Non-Statistical Sampling (Judgemental Sampling):</b></p> <ul style="list-style-type: none"> <li>- Sample size and composition based on auditor's experience</li> <li>- No statistical tools used</li> <li>- Simple but subjective.</li> </ul> <p><b>B. Statistical Sampling:</b></p> <ul style="list-style-type: none"> <li>- Scientific approach, not reliant on personal judgment</li> <li>- Various methods: <ul style="list-style-type: none"> <li>- Random Sampling: <ul style="list-style-type: none"> <li>- Simple Random Sampling</li> <li>- Stratified Sampling</li> <li>- Systematic/Interval Sampling</li> </ul> </li> <li>- Monetary Unit Sampling</li> <li>- Multi-Stage Sampling.</li> </ul> </li> </ul>
<b>Risk Associated with Sampling</b>	<p><b>A. Sampling Risk:</b></p> <ul style="list-style-type: none"> <li>- Arises because the sample may not fully represent the population.</li> <li>- Types: <ul style="list-style-type: none"> <li>(i) Compliance Procedure Risk</li> <li>(ii) Substantive Procedure Risk.</li> </ul> </li> </ul> <p><b>B. Non-Sampling Risk:</b></p> <ul style="list-style-type: none"> <li>- Errors due to improper data processing and lack of analytical expertise</li> <li>- Avoidable through experienced audit personnel.</li> </ul>
<b>Stages in Audit Sampling</b>	<p><b>a. Sample Design:</b> Select appropriate method.</p> <p><b>b. Sample Size Determination:</b> Minimize sampling risk.</p> <p><b>c. Sample Selection:</b> Draw units from the population.</p>

Topic	Details
	<b>d. Performance of Audit Procedure:</b> Conduct procedures on selected units and replace if needed.
<b>Audit Techniques</b>	<p><b>a. Routine Checking:</b> Ensures proper entry and posting of transactions.</p> <p><b>b. Test Checking:</b> In-depth examination of representative samples.</p> <p><b>c. Auditing in Depth:</b> Detailed examination of selected transactions.</p> <p><b>d. Cut-off Examination:</b> Ensures proper separation of transactions at accounting period ends.</p> <p><b>e. Surprise Checking:</b> Conducted without prior notice.</p> <p><b>f. Walk Through Tests:</b> Traces transactions through internal controls.</p>
<b>Analytical Procedures</b>	Innovative techniques to assess complex errors or planned frauds by evaluating relationships among financial and non-financial data.
<b>Nature of Analytical Procedures</b>	<p>According to SA 520:</p> <ul style="list-style-type: none"> <li>- Comparison with prior periods, anticipated results, and similar entities.</li> <li>- Consideration of relationships among financial data items and between financial and non-financial information.</li> <li>- Use of diverse analytical tools.</li> <li>- Application on standalone or consolidated statements.</li> </ul>
<b>Application of Analytical Procedure</b>	<p>Applied at various stages:</p> <ul style="list-style-type: none"> <li>- <b>Audit Planning:</b> Understanding client's business.</li> <li>- <b>Substantive Tests:</b> Reducing audit risk.</li> <li>- <b>Investigation of Unusual Items:</b> Investigate inconsistencies.</li> <li>- <b>Overall Conclusion:</b> Assess consistency of conclusions.</li> </ul>
<b>Tools and Techniques of Analytical Procedures</b>	<p><b>a. Trend Analysis:</b> Analyzes fluctuations over time.</p> <p><b>b. Testing of Reasonableness:</b> Compares items for reasonableness.</p> <p><b>c. Ratio Analysis:</b> Calculates relationships between items.</p> <p><b>d. Sources of Information:</b> Analyzes interim financials, budgets, management accounts, etc.</p>

### Scrutiny of Trial Balance and Grouping Schedule:

Topic	Details
<b>A. Scrutiny of Trial Balance</b>	<p><b>Concept of Trial Balance:</b></p> <ul style="list-style-type: none"> <li>- A statement listing debit and credit balances of general ledger accounts.</li> <li>- Verifies arithmetic accuracy and facilitates financial statement preparation.</li> <li>- Prepared at the end of an accounting period.</li> <li>- Detects clerical errors but not errors of principle, compensating errors, or omissions.</li> <li>- Aids in budgetary control.</li> </ul>
<b>Scrutiny by Auditor</b>	<ul style="list-style-type: none"> <li>- Assures arithmetic accuracy when trial balance tallies.</li> <li>- Identifies areas for analytical procedures based on unusual changes or balances.</li> <li>- Auditor must ensure:                             <ul style="list-style-type: none"> <li>a) Prepared after declared cut-off date.</li> </ul> </li> </ul>

Topic	Details
	b) Adherence to codification logic. c) Prepared strictly on 'As the Books written' basis. d) Ledger accounts are corrected before grouping schedule preparation.
<b>B. Scrutiny of Grouping Schedule</b>	<b>Concept of Grouping Schedule:</b> - Clusters related ledger account heads under specified account groups. - Prepared before carrying forward aggregated financial numbers to financial statements. - Essential for compliance with accounting frameworks.
<b>Objectives of Grouping Schedule</b>	a) <b>Compilation of Heads of Accounts:</b> Organizes accounts per regulations. b) <b>Preparation of Notes to Accounts:</b> Clusters ledger accounts for disclosure requirements. c) <b>Budgetary Control:</b> Facilitates budgetary control at granular and group levels. d) <b>Automating Financial Analyses:</b> Automates financial presentations for stakeholders.
<b>Auditor's Role</b>	- Ensures adherence to relevant regulations in grouping schedules. - Verifies composition determined by authorized personnel. - Ensures accounting software meets organizational requirements. - Checks that grouping schedule compositions are not altered without authorization.
<b>Auditor's Tasks</b>	- Scrutinizes the Grouping Schedule for appropriate computation of line items in compliance with laws/regulations. - Administers analytical audit procedures, including relational analyses, to identify complex errors or planned frauds across periods.

### Application of Technology in Auditing and Audit Trail:

Topic	Details
<b>Application of Technology in Auditing</b>	<b>Auditing in an Automated Environment:</b> - Increasing use of computer-assisted information systems for processing and storing accounting records. - Revolutionizes accounting, controls, information flow, and annual accounts preparation. - Many organizations operate in an automated environment.
<b>Advantages of an Automated Environment</b>	a) <b>Accurate Data Processing:</b> Ensures reliable computation. b) <b>High Transaction Volume:</b> Efficiently processes numerous transactions. c) <b>Speed:</b> Accelerates business processes. d) <b>Control and Security:</b> Enhances control efficacy and security. e) <b>Reduced Errors:</b> Minimizes human errors. f) <b>Integration:</b> Improves integration among business processes.
<b>Components of Automated Environment</b>	- Includes databases, operating systems, hardware, storage devices, network devices, and physical infrastructure. - Application software: Package Software (e.g., Tally), Small ERPs (e.g.,

Topic	Details
	Tally ERP, SAP), ERP applications for medium to large enterprises (e.g., SAP ECC, Oracle).
<b>Areas of Computer Use in Auditing</b>	a) <b>Audit Programming:</b> Preparation of audit programs. b) <b>Audit Planning:</b> Scheduling and manpower assignment. c) <b>Data Validation:</b> Validating entries. d) <b>Internal Control Review:</b> Reviewing internal controls. e) <b>Data Retrieval:</b> Retrieving key information. f) <b>Arithmetical Computations:</b> Performing calculations. g) <b>Analytical Review:</b> Analyzing data. h) <b>Selection for Vouching:</b> Selecting representatives for verification. i) <b>Flowchart Preparation:</b> Creating flowcharts. j) <b>Audit Reporting:</b> Preparing reports and documenting working papers.
<b>Controls in an Automated Environment</b>	- <b>Application Controls:</b> Related to transaction and standing data; must be evaluated by auditors. - <b>Input Controls:</b> Ensure input is authorized, complete, accurate, and timely (e.g., range checks, validity checks). - <b>Processing Controls:</b> Ensure correct data processing. - <b>Output Controls:</b> Ensure proper data distribution to authorized users. - <b>Master File Controls:</b> Maintain integrity of standing data; require stringent security.
<b>Auditor's Role</b>	- Evaluate the effectiveness of various controls in an automated environment. - The evaluation helps assess the risk of material misstatement in financial statements.
<b>Testing Methods in an Automated Environment</b>	a) <b>Walkthrough of an Automated Transaction:</b> Understanding transaction processing from start to finish. b) <b>Observation of User Transactions:</b> Assessing user-level controls through observation. c) <b>Inspection of Application Controls:</b> Inspecting configurations and technical manuals. d) <b>Reperformance:</b> Independently re-executing transactions to verify accuracy.
<b>Audit Trail</b>	<b>Concept of Audit Trail:</b> - A systematic record of transactions allowing auditors to trace transaction history from source documents to final reports. - Involves digital records in an automated environment.
<b>Statutory Requirement for Audit Trail</b>	- Companies must use accounting software that records an audit trail for every transaction, including an edit log for changes, per Companies (Accounts) Rules, 2014.
<b>How Does an Audit Log Operate?</b>	- Automatically records activities, capturing details of actions performed, based on the organization's IT infrastructure.
<b>Benefits of Audit Trail</b>	- <b>User Accountability:</b> Discourages unauthorized actions. - <b>Data Security:</b> Protects data from unauthorized access.

Topic	Details
	<ul style="list-style-type: none"><li>- <b>Event Reconstruction:</b> Helps reconstruct events for understanding user operations.</li><li>- <b>Error Detection:</b> Detects system failures and errors.</li></ul>
<b>Auditor's Duty to Report on Audit Trail</b>	<ul style="list-style-type: none"><li>- Auditors must report on the presence and operation of the audit trail, including compliance with statutory requirements.</li><li>- Must confirm if accounting software has an audit trail feature, whether it's been used throughout the year, and if it has been tampered with or preserved as required by law.</li></ul>