

## Module 7: Provision Relating to Audit under Companies Act, 2013

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## \* Qualification of Company Auditor

(520)

- (i) A person if he is a Chartered Accountant
- (ii) A firm of qualified persons, the majority of partners can be practicing in India.
- (iii) The LLP of Chartered Accountants
- (iv) Any person who has passed the examination of government diploma in Accountancy is qualified as auditor of company
- (v) A person fulfills the condition of the central govt. can be eligible to do audit.

## \* Disqualification of Company Auditor

(521)

- (1) A body corporate excluding LLP
- (2) An officer or employee of the company
- (3) A person who is partner in the company
- (4) A person who or whose relative are partner in Co.
- (5) A person or whose relative or partner is
  - (i) Is having security or interest in the Co. or its subsidiary
  - (ii) Is given debt to the company or its subsidiary
  - (iii) Is given guarantee to the company in excess of 1 lac (cooling period 60 days)
- (6) A person who has direct relationship with business, its subsidiary, associate company, Holding company
- (7) A person whose relative are director or is in employment of the company
- (8) A person is in full time employment elsewhere & partner in firm & this firm can not do audit
- (9) A person who is auditor in more than 20 company
- (10) A person who has been convicted by court of law
- (11) A person who is directly or indirectly renders service to the company.

# \* Appointment of a Company Auditor

(522)

## \* Appointment of First Auditor

↓  
Other than Govt Co.

↓  
Appointed by BOD within 30 days from incorporation

↓  
If BOD fails to appoint then appoint by members in AGM within 90 days

↓  
Auditor appointed by members can hold office till AGM

30 + 90  
BOD member

↓  
For Govt Co.

↓  
First auditor shall be appointed by CAG within 60 days from registration date of company

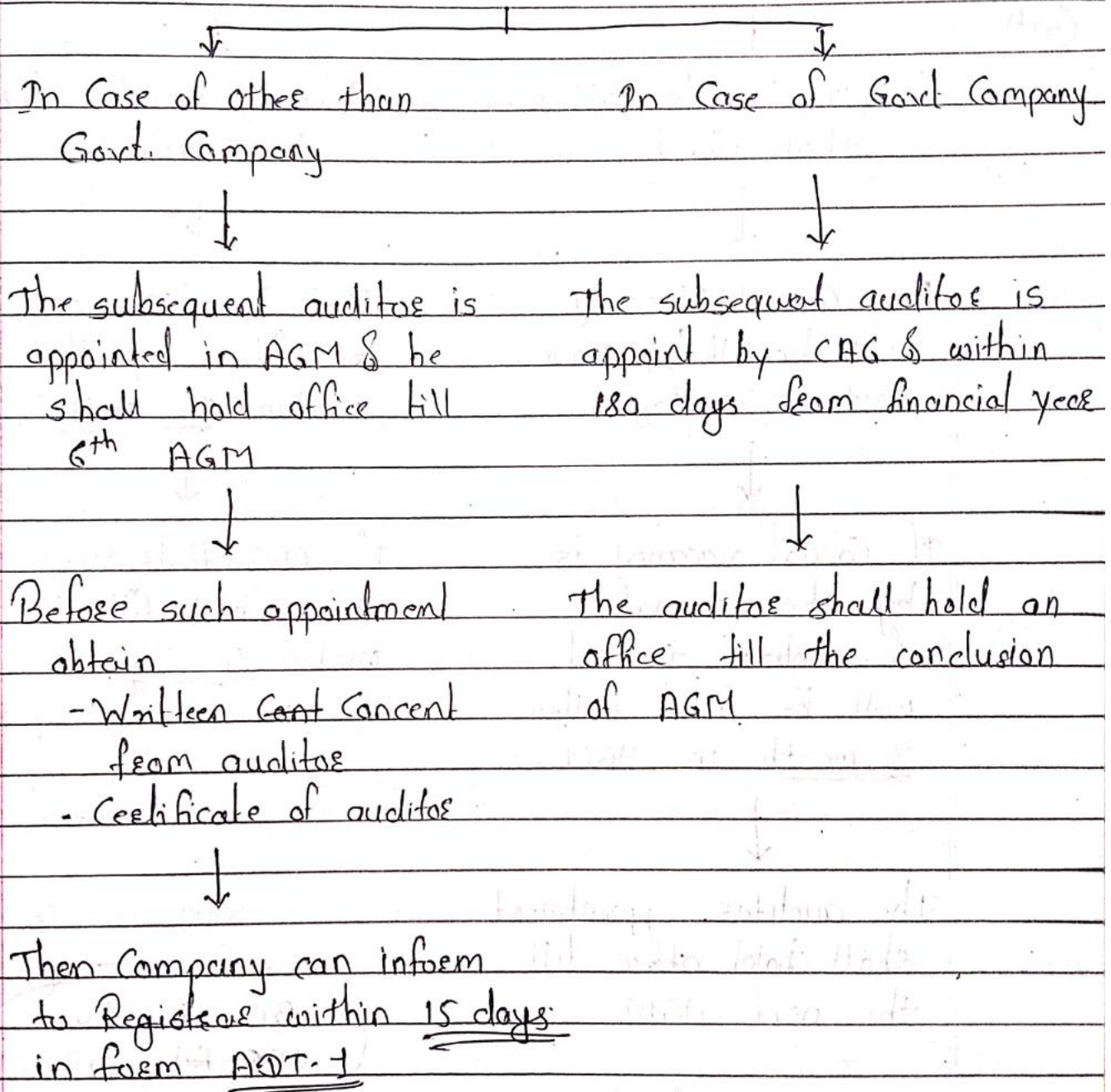
↓  
If CAG fails to appoint then BOD can appoint within next 30 days

↓  
If BOD fails then appointed by members within 60 days

↓  
He can hold office till AGM

60 + 30 + 60  
CAG BOD member

## Appointment of Subsequent Auditor



6<sup>th</sup> AGM → 15 day → ADT-1

180 days from FY

# \* Appointment in Case of Filling Casual Vacancy

(524)

Company auditor other than Govt

Company auditor by the CAG

Any Casual Vacancy will be fill by BOD within 30 day

The Casual Vacancy will be filled by the CAG within 30 days

If Casual vacancy is by the resignation of auditor then it will be filled within 3 month in AGM

If CAG fails then the BOD shall fill the vacancy within 30 days

The auditor's appointment shall hold office till the next AGM

30 + 30  
CAG - fail BOD

30 day  
BOD

3 month members approval

## \* Ceiling limit for No of Audit

(524)

- ① Every qualified Chartered Accountant in practice can be auditor of maximum 20 companies
- ② In case of firm of CA's then max 20 companies individually ex. 5 partners =  $5 \times 20 = 100$  audits
- ③ ~~In~~ 20 Co. exclude
  - ① OPC ② Dormant Co ③ Small Co
  - ④ Pvt Co. Paid up capital  $< 100$  Cr.
- ③ In partnership firm of CA if any partner in fulltime employment then he will not be considered
- ④ If a CA is partner in many firms then individual not more than 20 audits.
- ⑤ the joint audit is considered as one unit
- ⑥ Every auditor individually can accept maximum 50 Tax audit.

## \* Resignation by Company Auditor.

- ① An auditor within 30 days gives a statement in forms ADT-3 indicating reason of his resignation
- ② In case of Govt company the auditor shall file such statement with the CAG.
- ③ If the auditor not file statement then fine of 50,000 or equal to remuneration of auditor whichever is less. If continue  $\$ 500$  per day may 2,00,000

# \* Rotation of Company Auditors

(526)

## \* Eligible Companies

- Every ~~listed~~ listed Co. except OPC & small Co.
  - Every unlisted company having paid up share capital of 10 Cr or More
  - Every private ltd company having paid up share capital 50 Cr or More
  - All the above companies have borrowings  $\geq$  50 Cr or More
- listcd  $\rightarrow$  Unlistd (10 Cr)  $\rightarrow$  Pvt (50 Cr)  $\rightarrow$  50 Cr or more  
Paid-up capital

## \* Maximum Term

- For individual not more than one term of 5 consecutive years
- For Audit Firm not more than two terms of 5 consecutive year (5+5 = 10 years)

## \* Provision

- ① No any individual after retiring by rotation has not be eligible to appointed as auditor for next 5 years
- ② In case of audit firm any partner completed 5 year in particular company then he is not eligible

M. J. W.

# \* Removal of Company Auditor

527

↓  
Removal of auditor before expiry of his term

↓  
Removal of auditor by Tribunal

↓  
An application is made in CG along with fees in Form No. ADT-2.

↓  
The Tribunal can remove auditor suo-moto or on application by CG

↓  
The application made to CG within 30 days of Resolution passed

↓  
The application made by CG within 15 days of receipt

↓  
The Company has to Pass SR in GM to remove the auditor of company

↓  
The central Govt can appoint new auditor on behalf of that

↓  
The auditor have an opportunity of being heard

↓  
If an auditor removed by Tribunal then he is not eligible to appoint as auditor in any company till 5 years

CG-ADT-2 → SR in GM → OOBH

Tribunal → 15 day CG

Not appoint any Company till 5 years

## \* Rights and Duties of Company Auditor

(528)

### \* Rights

- ① Inspect books of accounts & Vouchers
- ② Obtain information & explanations.
- ③ Inspect branch office & branch Accounts
- ④ Receive the report of branch audit from branch auditor
- ⑤ Sign the audit report & other documents
- ⑥ Read the audit report in AGM
- ⑦ Receive notices & attend GM
- ⑧ Attend the meeting of audit committee
- ⑨ Right to be indemnified.

(529)

### \* Duties

- ① Duty to Inquiry
- ② Duty to report on Financial statements
- ③ Duty to provide Reason for any negative remark
- ④ Duty to comply with directions of CAG
- ⑤ Duty to comply with auditing standards
- ⑥ Duty to report any fraud to CG.
- ⑦ Duty to pay penalty.
- ⑧ Duty to make comments on certain matters.
- ⑨ other duties as per companies act 2013

\* Liabilities of Company Auditor

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Company Act, 2013 \* Statutory liabilities

- Sec 340 (Liab of Misfeasance)
- Sec 35 (For Misstatement in the Prospectus)
- Sec 34 (Criminal liab for Misstatement in Prospectus)
- Sec 147 (Punishment for non-compliance) with Sec 139, 144, 145
- Sec 217 (Punishment for Refusal or Failure to produce Documents)
- Sec 336 (Fraud in Relation to company in winding up)
- Sec 447, 448, 449

→ Punishment for false statement

→ Punishment for false evidence.

\* Contractual liabilities

- For breach of Contract
- Non-completion of audit
- Disclosure of secret information to 3rd Party

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\* Punishment for Non-Compliance (Sec 147)

\* Sec 147 Non comply with 139 to 146 (Company)

Company punishable with → Min 25,000

Max 5,00,000

Every officer → Imprisonment - Max 1 year OR

Fin. Min 10,000, Max 1,00,000

\* Non comply with 139, 143, 144, 145 - (Auditor)

Auditor punishable with → Min 25,000

Max : ① 5,00,000

② 4<sup>th</sup> of remuneration

} which ever is less

Refund

Remuneration

Pay for  
demog-1

147(3)

\* If willfully

Imprisonment : Max 1 year AND

Fine Min : 50,000

Max : ① 25,00,000

② 8<sup>th</sup> time of Remuneration

} which ever is less

## \* Branch Audit

(535)

- ① Every company shall keep register at its registered office books of account
- ② A branch audit is done by a company auditor or a person qualified as appointment of auditor.
- ③ If the branch is out of india the audit is done by the person in accordance with that country law
- ④ The duties & powers of branch auditor is same as company auditor.
- ⑤ The branch auditor may submit his report to the company auditor.

## \* Joint Audit

(536)

- ① Joint audit means a audit of single organisation is done by more than one auditor.
- ② Basically it is done to the big size organisation
- ③ It increases efficiency with lesser time.

### \* Benefits of Joint Audit

- ① It reduces workload of single auditor
- ② There is timely completion of audit
- ③ Experience sharing is done in Joint audit
- ④ There may be healthy competition among the auditors which improves the quality of audit
- ⑤ The work is gets separated in various departments

## \* Limitations of Joint Audit

- ① Experienced auditor has superiority over the less exp.
- ② It has vast cost burden
- ③ If there is lack of co-ordination then it slows down the work
- ④ The auditor has no share of fees.

## \* Audit Committee

(538)

Audit committee is a separate committee which helps to minimize the corporate frauds

## \* Formation of Audit Committee

The board of directors of every listed company shall form the audit committee

- All public companies with a paid capital of ₹ 10 Cr or more
- All public companies having turnover of 100 Cr or more
- All public companies having loans & advances more than ₹ 50 Cr or more

## \* Functions of Audit Committee

- ① Appointment, Remuneration of the auditors
- ② Review & monitor the auditor performance
- ③ Examination of auditor's report
- ④ Scrutiny of inter-corporate loans & investments
- ⑤ Valuation of assets or undertakings
- ⑥ Evaluation of internal control
- ⑦ Monitoring the end use of fund raised through public offers

## \* Power of Audit Committee

- ① Committee may ask for auditor's comments
- ② Investigation
- ③ Board's Reports & Audit committee
- ④ Whistle blowing policy
- ⑤ Safeguard against victimization

## (541) 7.2 → Cost Audit (Sec 148)

Cost audit is a verification of cost accounting records such as accuracy of cost accounts, cost reports etc

### (541) \* Importance of Cost Audit

- ① The cost audit provides authentic data on cost records that helps to making decisions on pricing policy, product mix, outsourcing.
- ② Cost audit identifies the inefficiencies & hence it is helpful for improving product productivity.
- ③ Cost audit helps to optimum utilization of limited resources.
- ④ The cost audit is helpful in cost control of organisation.
- ⑤ Govt provides certain policies on viewing cost data.

\* The central Govt may mandatory to keep cost audit on certain industries.

## \* Appointment of Cost Auditor

(547)

- ① The company shall within 180 days of commencement of every financial year shall appoint ~~an~~ a cost auditor
- ② The company take a written consent from the cost auditor & certificates also
- ③ Every company can file a notice of appointment of cost auditor to the central Govt within 30 days of board meeting
- ④ The tenure of cost auditor is
  - till closure of 180 days
  - Or till the submission of audit report
- ⑤ The Cost auditor can be removed through BR by giving him an 'Opportunity to being heard'
- ⑥ Any casual vacancy arise the board of directors may fill ~~it~~ it within 30 days

## \* Remuneration of Cost Auditor

(548)

- ① The remuneration of cost auditor is decided by the board recommended by the audit committee
- ② If the board fails then shareholders can decide the remuneration of cost auditor

## \* Submission of Cost audit Report

- ① Every cost auditor shall submit his cost audit report in the form CRA-3
- ② The cost auditor shall submit of Cost audit Report to the BOD within 180 days from the closure of the financial year
- ③ The Company should submit a Cost audit report to central Govt within 30 days in form CRA-4.

## \* Secretarial Audit

(550)

### \* Applicability

- ① Every listed Company
- ② Every public Company having paid up share capital of 50 cr or more
- ③ Every public Company having T10 of 250 cr or more
- ④ Every company having O/S loans & advances of 100 cr or more

### \* Qualification

Only the members of the Institute of company secretaries of India holding practice certificate.

### \* Appointment

By passing the resolution in the board meeting.

### \* Secretarial Audit Report

- ① The format of Secretarial audit report shall be in form TR-3
- ② Every listed Co. can do secretarial audit is mandatory by SEBT

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## 7.5 → Audit Report Vs Audit Certificate

Point of Distinction	Audit Report	Audit Certificate
① Definition	An audit report is an expression of auditor	An Audit certificate is a written facts of confirmation of facts
② Nature	It is an expression on the financial statement	It is the confirmation of correctness of matters
③ Basis of Audit	The audit report is based on assumption & estimate's	The audit certificate is based on Actual figures
④ Scope	Its scope is large	Its scope is <del>small</del> limited
⑤ Advice	Advice to the company	No advice given
⑥ Basis	It is based on facts & assumption	Audit certificate is based on Actual figure
⑦ Guarantee	It does not guarantee of accuracy	It give guaranteed accuracy
⑧ Time of issue	After the audit is completed	Issued when it required
⑨ Liability of Auditor	Mostly auditor is not liable	Auditor is liable
⑩ Formal	Prescribed formal	Not having any formal

(584)

## \* Essential characteristics of Good Audit Report

- ① Simplicity
- ② Brevity
- ③ clarity
- ④ Firmness
- ⑤ objectivity
- ⑥ Disclosure
- ⑦ Impartiality
- ⑧ Information based
- ⑨ Timeliness

## \* Contents of Audit Report as per SA (standards auditing)

(586)

- ① Title
- ② Address
- ③ Auditor's opinion
- ④ Basis of operation
- ⑤ Report on going concern assumption
- ⑥ key Audit matters
- ⑦ Responsibilities for the financial statement
- ⑧ Auditor's responsibility for the audit of FS
- ⑨ Signature of the auditor
- ⑩ place of signature
- ⑪ the date of the Auditor's Report

(602)

## \* National Financial Reporting Authority (NFRA)

- ① The NFRA is created by the central government.
- ② A NFRA has one chairperson & max 15 members.
- ③ The NFRA can create accounting & auditing policies by ~~apprec~~ approval by CG.
- ④ Monitor & enforce compliance with auditing & accounting statement.
- ⑤ NFRA can create or modify new accounting standards or auditing standards with ~~recommendation~~ recommendation of ICAI.
- ⑥ Review the working paper.
- ⑦ Evaluate the quality control.
- ⑧ NFRA has an power to investigate.

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Section B

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Module 6

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Basic Concepts of Auditing

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## \* Essential features of Auditing

- ① It involves evaluation & verification of documents, Vouchers & informations.
- ② It is ~~critical~~ critical investigative review of accounting & internal controls
- ③ The information audited is may be financial or non-financial
- ④ There are ~~set~~ standards or criteria's to evaluate the information
- ⑤ The auditor should be independent while doing an audit
- ⑥ The auditor should give true & fair view on the FS
- ⑦

## \* Signification level of Audit

### ① From legal point of view

- (i) Filling of income tax Return
- (ii) borrowing of money from external source
- (iii) statement of insurance claim
- (iv) Sale Tax Payments
- (v) Actions against Bankruptcy

### ② From Internal Control point of view

#### ~~② From~~ (i) Quick discovery of errors & frauds

- (i) Moral check on the employees
- (ii) Advice to the management
- (iii) Uniformity Accounts

### ③ ~~From~~ From external affairs point of view

- (i) settlements of Accounts
- (ii) Valuation of Assets & Goodwill
- (iii) Future Trend of Business

# \* Audit Vs Investigation

Basis	Audit	Investigation
Meaning	Auditing is an systematic evaluation & verification of FS	It is an evaluation or verification for special purpose
Scope	The audit has wider scope	The investigation has narrower scope
Objectives	Verification for true & fair view	Verification for some special purpose
Audit Procedure	Audit is conducted by GAAP principles	Investigation is extend of audit procedures
Evidence	Audit report is done through given Resources	Evidence is crucial factor in investigation
Approach	Auditor is not suspicious	Investigator is suspicious
Periodicity	Auditing is Routine exercise	Investigation is done when there is any suspicious activity done

## \* Basic Principles Governing Audit

### ① Integrity, Objectivity & Independence

The auditor should be straight forward, Honest, Sincere & free from any influence

### ② Confidentiality

The auditor should not disclose the clients information to anybody without client permission.

### ③ Skill & Competence

The audit should be made by experienced trained, skillful experts

### ④ Work Performed by others.

The auditor will supervise to the his subordinates

### ⑤ Documentation

The proper audit working papers can be maintain by auditors it is the evidence to the audit work

### ⑥ Planning

The auditor should obtain the knowledge about the clients business & make a planning according to this.

### ⑦ Audit Evidence :

The auditor should obtain sufficient appropriate audit evidences through performing the audit

### ⑧ Accounting System & Internal Controls

An understanding of accounting systems & the internal control system of business is necessary for auditors.

### ⑨ Audit Conclusion & Reporting

The auditor has to give a report that may be -

- Qualified Audit Report
- Unqualified Audit Report

### \* Objective of Auditing

Primary objective

Secondary objective

#### ① Primary objective

- (i) The primary objective of auditing is to check the financial statement is have 'True & fair' view.
- (ii) The Balance sheet given on particular date is true.
- (iii) The profit & loss A/c given is to be checked.

#### ② Secondary Objective

(i) The auditor also responsible to detect the frauds & errors in the financial records such detection is called secondary objective

- |   |  |
|---|--|
| (ii) To protect shareholder interest        | (viii) Complying with policies regarding CSR |
| (iii) To stop evasion of Taxes              |  |
| (iv) To safeguard against capital erosion   |  |
| (v) To ensure fair return on investment     | (Corporate Social Responsibility)            |
| (vi) To ensure reasonable price to customer |  |
| (vii) To ensure fair compensation to worker |  |

## \* Classification of Audit

Pg. No.

## ① Organisation structure wise classification

- |                          |    |
|--------------------------|----|
| (i) Statutory Audit      | 33 |
| (ii) Non-statutory Audit | 33 |

## ② Objective wise classification of Audit

- |                                  |    |
|----------------------------------|----|
| (i) Internal Audit               | 34 |
| (ii) Independent Financial Audit | 34 |

## ③ Periodicity wise classification

- |   |    |
|---|----|
| (i) Periodical / Final Audit                      | 34 |
| (ii) Interim Audit                                | 35 |
| (iii) Continuous Audit (Advantage / Disadvantage) | 35 |
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## ④ Scope wise classification of Audit

- |                      |    |
|----------------------|----|
| (i) Complete Audit   | 36 |
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## ⑤ Subject matter wise classification of Audit

- |                         |    |
|-------------------------|----|
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- |              |                          |    |                        |      |
|--------------|--------------------------|----|------------------------|------|
| Pa. No. (38) | (8) Performance Audit    | 38 | (12) Secretarial Audit | (39) |
| (39)         | (9) Human Resource Audit | 39 |                        |      |
| (39)         | (10) Info. System Audit  | 39 |                        |      |
| (39)         | (11) Environmental Audit | 39 |                        |      |

## ① Organisational structure wise classification

### (i) Statutory Audit (Law ke baad krane ke krane ki.....)

- statutory audit is the checking of accounts as required by law
- It is annual checking of FS in specified manner
- statutory audits are mandatory in nature
- In the case of company incorporated under companies Act the audit is done by auditor.
- In the case of Govt company the audit is done by the CAG
- A statutory auditor can be appointed by CG if shareholders failed to appoint auditor
- The statutory audit is done by the CA in practice with valid certificate of practice.

### (ii) Non-statutory Audit

- When the audit is conducted without any legal requirement is as non-statutory audit
- It is an audit done by firm voluntarily

#### \* Advantages of Non-statutory Audit

- ① It evaluates the internal control system
- ② It increases the correctness of FS
- ③ It helps to timely filling of tax returns
- ④ It keeps an moral check on employees
- ⑤ To take funds from institutions by doing audit

## ② Objective wise classification of audit

### (i) Internal Audit

- Internal audit provides assurance that there is transparency in working
- Internal audit is being based on principle of 'Early detection & prevention of further damages'
- It is done before the statutory audit

### (ii) Independent Financial Audit

- It is done by an qualified auditor on request of client, which may be -
  - Sole proprietorship
  - Partnership
  - Not profit organisation etc.

## ③ Periodicity wise classification of Audit

### (i) Periodical or Final Audit

- Final audit is conducted at the end of FY after the books of Accounts are closed
- The auditor may use statistical sampling technique
- Final audit is cost effective & certificate effective for planning & focus
- The disadvantage of final audit is all the errors are founded at the end of FY

## (ii) Interim Audit

- Interim audit is conducted between two annual audits
- It is done such as quarterly or half yearly.
- It is carried out by professionals i.e. CA/ICMA
- It ascertain interim profit & loss & declaration of interim dividend
- On the occasion of change in structure of partnership firm
- For determine the goodwill & net worth of business
- Investigation for any suspected fraud.
- Obtaining loan from financial institutions.

## (iii) Continuous Audit

- It is a testing of 100% of transactions
- It is the verification of transactions continuously throughout the year
- It is to control the risk
- It is conducted throughout the year
- The surprise visit by auditor is involved.

### \* Advantages

- ① Early location of errors & frauds
- ② Quick Rectification
- ③ Guidance
- ④ Finalization of Accounts in time.
- ⑤ Moral check of employees
- ⑥ Improve statutory auditors

### \* Disadvantages

- ① It is more expensive
- ② It is repetitive work
- ③ Frequently visits by auditors is inconvenient for the employees.

#### (iv) Limited Review

- As per SEBI guidelines the company have to submit the audit Report to the stock exchange
- The company has to file FS to stock exchange within 45 days from end of each quarter
- Hence if there is no audit ready, company can send the non audited FS to the stock exchange it is unappropriate
- In case of limited Review the GAAP principles are not followed
- Limited Review is narrower than an actual audit

#### (4) Scope wise classification of Audit

##### (i) Complete Audit

The complete audit is an audit whose the scope of audit not confined to specific limit, which may be set by the management or any authority

##### (ii) Partial Audit

- A partial audit is an non statutory audit
- It is restricted to auditor in certain areas

##### (iii) Detailed Audit

- Detailed audit is know as in-depth-audit
- In every stage the transaction going the checking is done.

## ⑤ Subject Matter wise classification of Audit

### ① Cost Audit

- ① Cost audit involves an examination of cost books, cost accounts, cost statement to represent the true & fair view of cost of production.
- ② It is done to identify the areas of wastage & inefficiency.

### ② Management Audit

- ① Management audit means examination & review of management process.
- ② It covers the tools of management like planning, organising, co-ordination, & control.
- ③ Management audit is forward looking, independent & systematic evaluation of the activities.
- ④ It helps to increase efficiency of Mngt.

### ③ Operation Audit

- ① The operational audit is an examination of the control system.
- ② It concerns with formulation & implementation of control system.
- ③ Operational audit has a wider scope & it covers all the operations set such as production & marketing too.

#### ④ Tax Audit

- ① It is an examination of calculation of taxable profit
- ② The taxable income has big difference from accounting profit because tax deduction
- ③ Tax audit is done to stop tax evasion

#### ⑤ Social Audit

- ① The business is earning profit from the society, so in return the business has to pay back to society
- ② For the social welfare the social audit is <sup>done</sup>
- ③ It involves the checking of social <sup>done</sup> responsibilities of the company.

#### ⑥ Propriety Audit

- ① The objective of propriety audit is to safeguard assets
- ② The separate audit is not done is done in the statutory audit

#### ⑦ Forensic Audit

- ① To find the correctness or true value of business the forensic audit is done
- ② To ~~find~~ find out any fraud the forensic audit is to be done.

#### ⑧ Performance Audit

- ① Performance audit is done to check the statuted goals achivement
- ② This audit is ~~money~~ mostly associated with the Govt Agencies.

⑨

Human Resource Audit

- HR auditor can be internal or external auditor

⑩ Information System Audit

(i) It is about to store the organisational data

(ii) The management of data is concluded in this audit

⑪ Environmental Audit

(i) It is related to management relating to pollution control

(ii) Environmental audit is done to check the environmental receipts, income from Natural Resources

(iii) It is the process of management of Hazardous process

⑫ Secretarial Audit

(i) Secretarial audit keeps the entity under the compliance of law

(ii) It safeguards company from heavy penalties

## \* Audit Engagement

According to SA-210 it is an agreement between the auditor & the client

### \* Content of Audit Engagement letter

- ① Objective & scope of engagement
- ② Management's Responsibility
- ③ Existence of inherent limitations
- ④ Need for use of internal auditors
- ⑤ Management Confirmation letter
- ⑥ Auditor's liabilities
- ⑦ Audit fees computation
- ⑧ Billing Arrangements
- ⑨ Form of report
- ⑩ Validity of report
- ⑪ Limitations for report

### \* Audit Documentation / Audit Working papers

As per SA - 230

① Audit documentation means a record of the audit done is maintained.

② It is also a evidence

### \* Purpose of Audit working papers

① It is conclusion of overall audit

② It is an evidence that audit is done as per SA

③ It provides the 'Quality Control for an Audit of FS'

④ The team is to be accountable for its work

⑤ Maintenance of records for future audit

⑥ Maintain external controls

## \* Audit Programme

- ① An audit programme is detailed plan of verification & checking of financial statements
- ② As per SA 300 the auditor should prepare written audit programme.

## \* Advantages of Audit Programme

- ① It has a already pre-ready checklist
- ② Audit work is properly allocated to each assistant or clerk
- ③ The progress of work done can be checked
- ④ It provides each an every person its individual responsibility
- ⑤ An uniformity in the work usual be follow
- ⑥ It is useful to selection of team members & allocate them their responsibilities
- ⑦ It is used as evidence by the auditor
- ⑧ It improves skills & save time.

## \* Disadvantages of Audit Programme

- ① The auditor may lose its interest
- ② It is ~~un-necessary~~ unnecessary for small concerns
- ③ Un-necessary burden on staff
- ④ Rigid programmes cannot be laid down for each type of business.

## \* Contents of Audit Working papers (Recd from Pg. 40)

- ① The ~~ent~~ auditor shall prepare audit working papers on time to time basis.
- ② The auditor shall maintain that there shall not any previous connection of any audit
- ③ The date & time of each performance
- ④ The changes in the auditor's final conclusion.

## \* Audit Evidence

The evidences collected by the auditor from the various sources based on FS is called Audit Evidence.

## \* Auditor's Judgement while obtaining audit evidence

- ① The nature of the item
- ② The adequacy of internal controls
- ③ The nature & size of business entity
- ④ The financial position of entity
- ⑤ The Materiality of items
- ⑥ The experience gained in previous audit
- ⑦ Frauds & errors detection
- ⑧ The type of available information available
- ⑨ The accounting ratio & analysis trend

## \* Types of audit Evidences

① Internal Evidences: These evidence are called within the organisations.

(Ex. Sales invoice, Cash etc.)

② External Evidence: These evidence are collected from outside of orgno organizations

(Ex. Confirmation from debenture-holder & Creditors)

## \* Audit Note-Book

While auditing the staff can record the information in separate notebook is called as audit notebooks.

## \* Contents of Audit Notebook

- ① Name of the business entity
- ② Organisational structure
- ③ Provisions of MOA & AOA
- ④ Communication with previous Auditor if any
- ⑤ List of books maintained by management
- ⑥ Internal control system
- ⑦ Key management personnel
- ⑧ Any error & fraud discovered
- ⑨ Any explanation made
- ⑩ Special point that needs attention

## \* \* Audit Risk - (Module Pg. 481)

### ④86 \* Internal Control

It is the control system established by the management to achieve the organisation goals.

### \* Elements of Internal Control.

- ① Financial & other planning
- ② ~~Competent person~~ Competent personnel
- ③ Division of work
- ④ proper authority appointment
- ⑤ Record keeping & responsibilities are separate
- ⑥ Easy to supervision & management

## \* Objective of Internal Control System

- ① Transaction of business are takes place by proper authority
- ② To make sure that record keeping is done in systematic manner
- ③ To check the all economic events are lawful in nature
- ④ To check that accounting policies are followed or not
- ⑤ To Review the working of business & locate weak points
- ⑥ To check is there optimum utilization of the resources

## \* Advantages of Internal Control

- ① Increases efficiency
- ② Prevention of errors
- ③ Safeguarded the business
- ④ Employee satisfaction & productivity

## \* Types of Internal Control

### ① Preventive Control

- Segregation of duties
- Approvals, Authorisation & Verification
- Security of assets

### ② Detective Control.

- Reviews of Performances
- Reconciliation
- Physical Verification

## \* Techniques for Evaluation of Internal Control System

### ① Narrative Records

- (i) It is used in small business firms
- (ii) Gaps in the control system is difficult to identify

### ② Check List

- (i) checklist includes a question to auditors
- (ii) The answers of checklists are in form of (Yes or No or Not applicable)

### ③ Flow chart

- (i) The evaluation of process becomes easier with the flow chart
- (ii) Flow chart provides the broad picture of all the controls

### ④ Internal Control Questionnaire:

- (i) It is a pre designed format including questions regarding the industry
- (ii) The answers of these questions are in Yes or No or Not applicable type.

## \* Limitations of Internal Control

- ① Breakdown
- ② Judgements
- ③ Management override
- ④ Collusion
- ⑤ Control over common Business Activity
- ⑥ Costly System

## \* Internal check

- ① Internal control system is a system of instituting checks of day-to-day transaction of the entity.
- ② It is the allocation of duties within the staff.

## \* Objective of Internal check

- ① Lessen the possibility of fraud & errors
- ② Identify the frauds & errors at an early stage
- ③ Make division of work & improve efficiency
- ④ Receive confirmation facts
- ⑤ Reduce the workload

## \* Essential characteristics of Internal check

- ① Division of work
- ② Provision of check
- ③ Responsibility
- ④ Use of Technology
- ⑤ Rotation of employees
- ⑥ Control over employees
- ⑦ Supervision
- ⑧ Periodical review

## \* Internal Audit

Internal Audit is continuous appraisal of books of accounts

## \* Scope and objectives of Internal Audit

- ① Monitoring of Internal control
- ② Examination of Financial & operating information
- ③ Review of operating activity
- ④ Review of compliance with law & regulation
- ⑤ Risk Management
- ⑥ Governance

## \* Advantages of Internal Audit

- ① Assistance to the management
- ② Detection of errors & frauds
- ③ Prevention of errors & frauds
- ④ Reduction in wastages
- ⑤ Safeguarding assets
- ⑥ Increased efficiency

## \* Internal Audit in India

Compulsory to -

- ① Every listed company
- ② Unlisted company having → paid up sh. Cap 50 Cr  
→ T/A 200 Cr  
→ O/S loans 100 Cr  
→ O/S deposit 25 Cr
- ③ Every private company
  - (i) T/A of 200 Cr
  - (ii) O/S loans & Advances 100 Cr

## \* Risk Based - Internal Audit

(Module pg. 445-495)

## \* Audit Sampling

- (i) In the large organisation there is not possible to check each & every transaction to an auditor
- (ii) However the auditor selected certain samples to check the transaction

## \* Benefits of Audit Sampling

- (i) It reduces the workload of the auditor
- (ii) It saves the time & cost
- (iii) In this process any weakness of internal control is identified.
- (iv) It gives dependable results

## \* Factors to be considered for Audit Sampling

- (i) Keep in mind the objective of audit
- (ii) The nature of population (i.e. transactions)
- (iii) Adequate internal system helps the auditor to reduce the samples
- (iv) For material items the sample size will be increases
- (v) Sampling Risk

## \* Approaches to Sampling

### (i) Non statistical Sampling

- (i) The ~~size~~ sample size are based on the auditor's own experience & knowledge
- (ii) Not any statistical tool is applied to select the sample

(iii) Not any method is even but subject to personal judgement

## ② Statistical Sampling

### Ⓐ Random Sampling

Each item of the group has equal chance of selection

#### ⑴ Simple Random Sampling

① Under this each unit has an equal chance of selection

② Here, the selection is done through the random numbers using manually or using computer.

#### ⑵ Stratified Sampling

① Here, the population is divided into sub-population & then selected

### Ⓑ Systematic / Interval Sampling

The selection of item is done through the using the interval pattern.

### Ⓒ Monetary Unit Sampling

This method used the monetary value of the transactions to select the sample

#### ⑴ Multi stage Sampling

① This method is used when the data is stored in more than one unit

② The area is randomly selected

## \* Stage's in Audit Sampling

① Sample design

② Sample Size Determination

③ Sample Selection

④ Performance of Audit Procedure

## \* Audit Technique

### ① Routine checking

- (i) Routine checking is normally performed by audit clerks
- (ii) In this there is checking done of the ~~case~~ correctness of entries posted, balances c/f, Trial Balance, ledgers, B/S, P&L A/c
- (iii) It checks the accuracy of the arithmetical transactions

### ② Test checking

- (i) In large organisation there are large no. of transactions then the auditor has to comply the same nature of transactions this procedure is known as test checking
- (ii) It uses the sampling theory of statistics
- (iii) It helps to the auditor for limited checking of the transactions

### ③ Auditing in Depth

The transactions are checked from beginning to the end

In this there are three steps -

- ① The auditor firstly check the internal control system.
- ② Then select some transactions
- ③ Finally make examination of these transactions from start to end

### ④ Cut-off examination

- ① For some special items that are which carry over to next period.  
(Ex. Good in transit, WIP, )
- ② The auditor may record properly these transactions it is known as cut-off examination

### ⑤ Surprise checking

- ① To Increase efficiency of audit procedure & employees. The auditor may make an surprise visit to checking
- ② Non routine transaction can be checked here

### ⑥ Walk Through tests

- ① Walk through test means tracking of one or more transaction through an accounting system.

\* Analytical Procedures  
(Read Module Pg. 504 & 505)

### ⑤09 \* Application of Technology in Auditing

- ① It enables accurate data processing
- ② It can process high volume transaction easily
- ③ It makes business process faster
- ④ It improves security
- ⑤ It minimizes the human error
- ⑥ It offers better business process

## 510 \* Areas of Computer use in Auditing

- ① Preparation of audit programming
- ② Preparation of audit planning
- ③ checking of validity of entries
- ④ Reviewing the internal control system
- ⑤ checking of Arithmetical computations
- ⑥ Doing analytical Review of data
- ⑦ Preparation of flow charts
- ⑧ Preparation of audit Reports

## \* Audit Trail

Audit trail means arranging the data in the chronological order

## \* Statutory Requirement

The every company who has record the their transaction using accounting software that shall have an feature of audit trail of each & every transaction.

## \* Benefits of Audit Trail

① User Accountability : It maintains the accounting records of each & every user

② Promotes Organisation & Data Security :

A well functioned audit trail system can be prevents data security.

③ Allows Reconstitution of Events :

An excellent audit trail system provides an reconstitution of events after the cyber attacks

④ Detection of Errors : The well audit trail system can prevent from the errors.

10% Module 8: Auditing of Different Types of Undertakings

Module Pg

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\* 8.1 → Audit of Educational Institutions

(614)

- ① Firstly understand the constitution of educational institutions
- ② Understand the internal control system
- ③ Consult the minute books of educational institution
- ④ Consult the budget

\* ~~Verify~~ Verify the Receipt Related transaction

(614)

- ① Tally the tuitions fees with collection with regular register.
- ② check admission fees with admission slips
- ③ check the other fees like library, sport etc.
- ④ check the assess fees.
- ⑤ check the free students acc. kept by an proper authority.
- ⑥ check the all details regarding Hostel
- ⑦ Verify Grants received by the Govt.
- ⑧ Verify Donation received
- ⑨ check income from letting out of property.

### \* Verify the Payment Related Transactions

(615)

- ① Verify the Salary & wages paid to the employees
- ② check the expenses associated with the seminars and concerts
- ③ Vouch the regular expenditures like (ex. electricity, travelling exp.)
- ④ Vouch capital expenditure (Ex. purchase of building)
- ⑤ Vouch the refunds provided to the students
- ⑥ Examination the payments provided to Hostel facility
- ⑦ check the payment made for the investments

### \* Verify Verification of Assets & Liabilities

(615)

- ① Verify the tangible assets
- ② Verify the depreciation & amortization provided
- ③ verify the refunds of TDS
- ④ Carefully examine outstanding liabilities
- ⑤ Verify the physical value of asset with the book value
- ⑥ Verify the provision made

### \* ~~Verify~~ Verify the financial statement

(i.e. Income & Expenditure A/c etc.)

## \* S.2 → Audit of Healthcare Organisations

616

- ① Firstly understand the constitution of the Healthcare organisation
- ② Understand the internal control system
- ③ Consult the Minute books of healthcare org

### \* ~~Verify~~ Receipt Related Transact<sup>n</sup>

- ① If the hospital Run by the local authority or state Govt the verify the Grant receipt
- ② Vouch the collection by the patient admission
- ③ Verify the pathological tests collection with copies of receipt / bill.
- ④ Vouch the donations received with the receipt
- ⑤ If the hospital has guest house then verify collection form it
- ⑥ Vouch the interest & dividend income
- ⑦ If there any legacy or donation received for any special purpose then check it is not used for any other purpose.

### \* Verify the Payment Related Transactions

- ① Verify all the capital expenditures
- ② Vouch salary paid to staff.
- ③ Verify the doctors Remuneration
- ④ Verify the purchase of pathological kits
- ⑤ Vouch other expenditures.

### \* Verify of assets & ~~liabilities~~

- ① Verify the value of assets & depreciation
- ② check the value of assets medical stock
- ③ check all the liabilities

\* Verify  
Financial  
statements.

### 618 8.3 → Audit of Hospitality Sector

- ① Check the ownership structure
- ② Evaluate the internal control system
- ③ Check the organisation has a valid licence.

### \* \* Restaurants Audit

618

- ① Verify the total city revenue & monthly revenue
- ② Verify that all revenue is banked or not or have any arrears.
- ③ Vouch all the payments made to the supplies
- ④ Carefully examine the petty cash book
- ⑤ Vouch all the operating expenses.
- ⑥ Carefully examine the value of stock
- ⑦ Conduct the physical verification of assets & the deprec. depreciations
- ⑧ Check all the liabilities / arrears bills

### \* Travel & Tourism Co. Audit

619

- ① Vouch the collection from the ~~box~~ bookings
- ② Vouch the revenue from tourism ~~parties parties~~
- ③ Vouch the transaction related with cancellation of booking.
- ④ Vouch the salary paid to the staff
- ⑤ Check discounts offered to the customers
- ⑥ Vouch the other overhead expenses
- ⑦ Verify the physical verification of assets & liabilities
- ⑧ Collect the list of liability of the org.

## \* Hostel & Guest House (lodging) Audit

(60)

- ① Vouch the collection from check-in & check-out
- ② Verify the room rent receipt
- ③ Verify the collection from concerts, wedding etc.
- ④ check income from bar, casino etc.
- ⑤ check the transaction relating to the purchase of food materials etc.
- ⑥ Verify the salary paid to the staff
- ⑦ check all other overhead expenses
- ⑧ Examine the value of stock
- ⑨ Conduct physical verification of assets & dep<sup>n</sup>
- ⑩ Vouch all the liabilities of company

## \* Audit of Cinema Hall

(61)

- ① check all the bookings of tickets from the websites & physically.
- ② check the advance booking by the customer
- ③ Payment related to hiring of films
- ④ Payment related to advertising
- ⑤ Collection from drinks, sale of popcorns etc.
- ⑥ Asset & Dep<sup>n</sup>      ⑦ Liabilities

## \* Amusement Parks

(62)

- ① Verify the tickets sold & unsold
- ② Advance booking collections
- ③ Payment to suppliers for drink & others
- ④ Payment to advertisement
- ⑤ Assets & dep<sup>n</sup>
- ⑥ Liabilities

## \* 8.4 → Audit of Banks

(62)

- ① Understand the banks and its environment
- ② Understand the accounting process
- ③ Understand the risk management process
- ④ Develops a detailed audit plan
- ⑤ Check the licence of the banks

\* To check the followings items for Banking Co.

- ① Advance
- ② Cash in hand
- ③ Balance with RBI
- ④ Balance with other bank
- ⑤ Money at call & short notice
- ⑥ Fixed & other assets
- ⑦ borrowings
- ⑧ Deposits
- ⑨ Capital
- ⑩ Reserve & Surplus
- ⑪ Bills payable
- ⑫ Contingent liabilities
- ⑬ Bill for collection
- ⑭ Treasury operation - Foreign exchange & derivatives

## \* 8.5 → Audit of Co-Operative Society

### \* Qualification of Auditor

- A qualified CA within CA Act 1949
- A person holding Government diploma in co-operative account. ~~Account~~ (GDCA)

### \* Appointment of the auditor

The register of Co-operative societies can appoint auditor

### \* Co-operative society's book of Accounts

- ① Cash book
- ② Stock ledger
- ③ Register of Assets & Investments
- ④ Register of Fixed deposits
- ⑤ Register of Surety.

### \* Restricting of shareholding

① No any member can hold 20% or more shares of the co-op society.

② Not value exceed more than ₹ 1000

③ The co-operative society can not make any by laws regarding shareholdings

### \* Restriction on loan

A registered co-operative society can only grant loans to its member with the prior approval of register.

(628)

### \* Restriction on borrowings

The co-operative society can accept loans from its members & non-members.

### \* Appropriations of Profit

- Transfer 25% in Reserve fund.
- But in some cases it will reduce but not less than 10%.

(629)

### \* Steps taken by Auditor.

- (1) Audit of Income
- (2) Audit of expenditure
- (3) Bad debts
- (4) Provisions
- (5) Debts

## \* 8.6 → Audit of Local Self-Govt.

(63)

### \* Objective :

- ① To ensure the fairness & correctness of contents of the financial statements
- ② To check the adequacy of internal control
- ③ To ensure that the value of money is received on amount spent
- ④ To detect the fraud & errors

\* Auditors can consider the followings general point while doing Audit

- ① Ensure that he is appointed by the appropriate authority
- ② To obtain all the rules & regulations
- ③ Consult the relevant minuts, documents
- ④ The Government scheme implementation
- ⑤ Depth investigation in the areas where can make potential frauds.
- ⑥ check the ~~rent~~ transaction that have huge financial expenditure
- ⑦ checks the provision relating to funds etc