
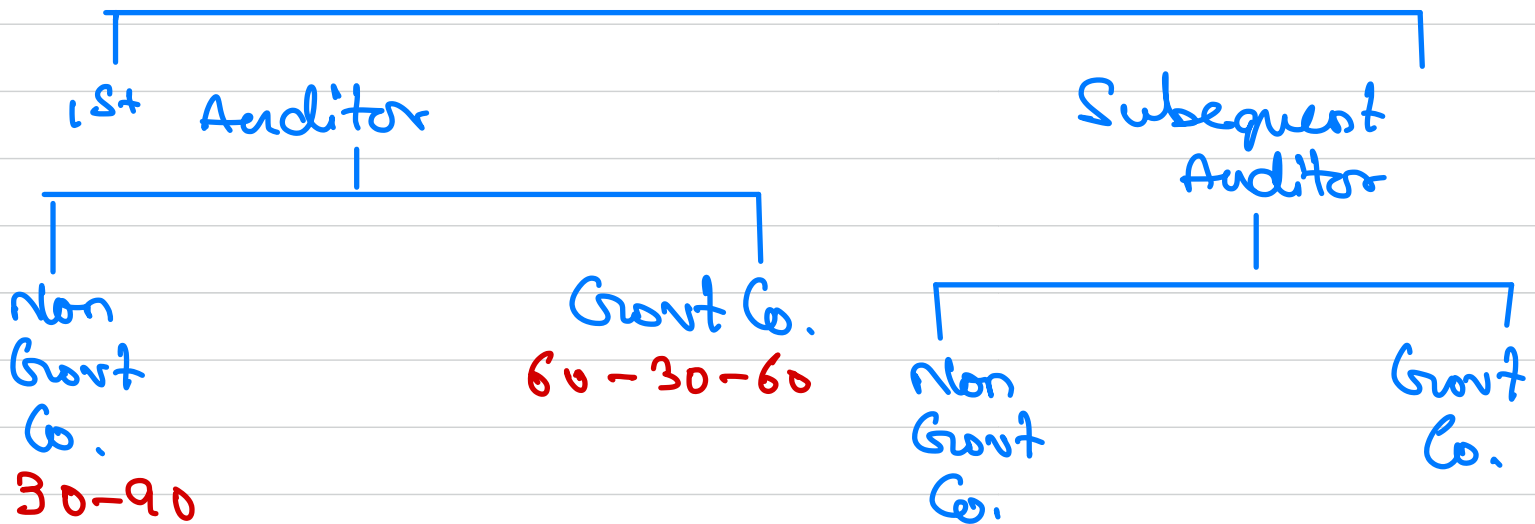


CMA Inter - Audit - June 2025 

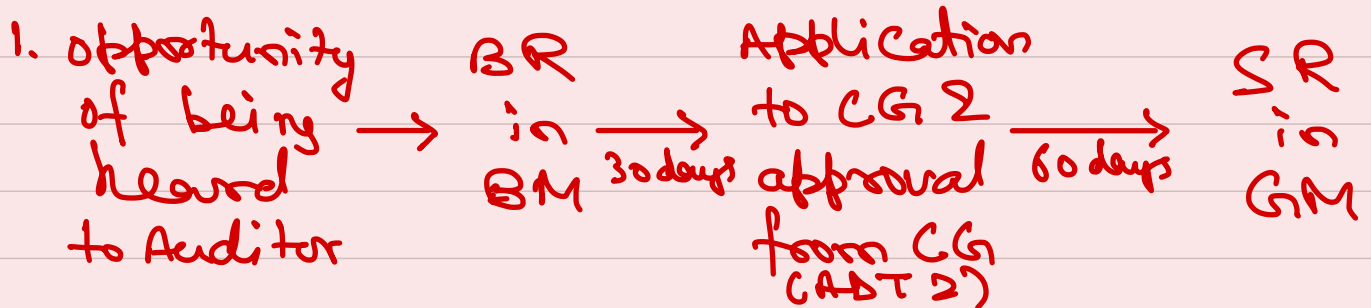
Some important points for final Revision

Appointment of an Auditor



Removal of an Auditor before the expiry of term

Steps:



Duties of Auditor to report Fraud

If an auditor notice a fraud by an officer / employee of the Company:

Fraud < 1 crore

- Inform Audit Committee or BOD within 2 days
 - Nature of Fraud
 - Amount of Fraud
 - Parties involved.
- Included in Board Report:
 - Nature, Amount, Parties
 - Action taken.

Fraud > 1 crore

- Inform Audit Committee or BOD within 2 days:
 - Nature
 - Amount
 - Parties involved.

AND seek reply within 45 days

Reply received

- Report to Central Govt (MCA) within 15 days in ADT-4

- Nature of Fraud
- Amount of Fraud
- Parties involved
- Reply of AC/BOD
- Auditor's comment on reply.

Reply not received

- Report to CG (MCA) within 15 days of expiry of 45 days in ADT-4

- Nature
- Amount
- Parties
- Fact that reply is not received

Company } ADT 1 : Appointment of 1st Auditor
ADT 2 : Removal of Auditor (APPⁿ to CG)

Auditor } ADT 3 : Resignation of Auditor
ADT 4 : Reporting of Fraud to CG

Branch Audit

a. Who Can be the Branch Auditor

<u>Branch in India</u>	<u>Branch outside India</u>
<ul style="list-style-type: none">• Company Auditor or• Other Qualified Auditor	<ul style="list-style-type: none">• Company Auditor or• Other Qualified Auditor as per the law of that Country.

b. Branch auditor submits the report to the Company auditor.

c. Qualifications given by the branch auditor is included in statutory audit report unless:

- qualifications are resolved by the Company
- qualifications are immaterial
- information gets available.

d. Branch auditor is also responsible for fraud reporting.

Responsibility of Joint Auditors

Individual Responsibility

- For work allocated

Joint Responsibility

- For work not allocated
- Decisions regarding nature, timing and extent of audit procedures.
- Matters brought to notice.
- Compliance of Financial Statements with disclosure requirements
- Compliance of audit report as per statute.

Cost Audit

Table A Regulated Sector

- If overall turnover > 50 crore
- Turnover of Product/Service > 25 crore

Table B Non-Regulated Sector

- If overall turnover > 100 crore
- Turnover of Product/Service > 35 crore

Note: Requirement of Cost Audit is not there for:

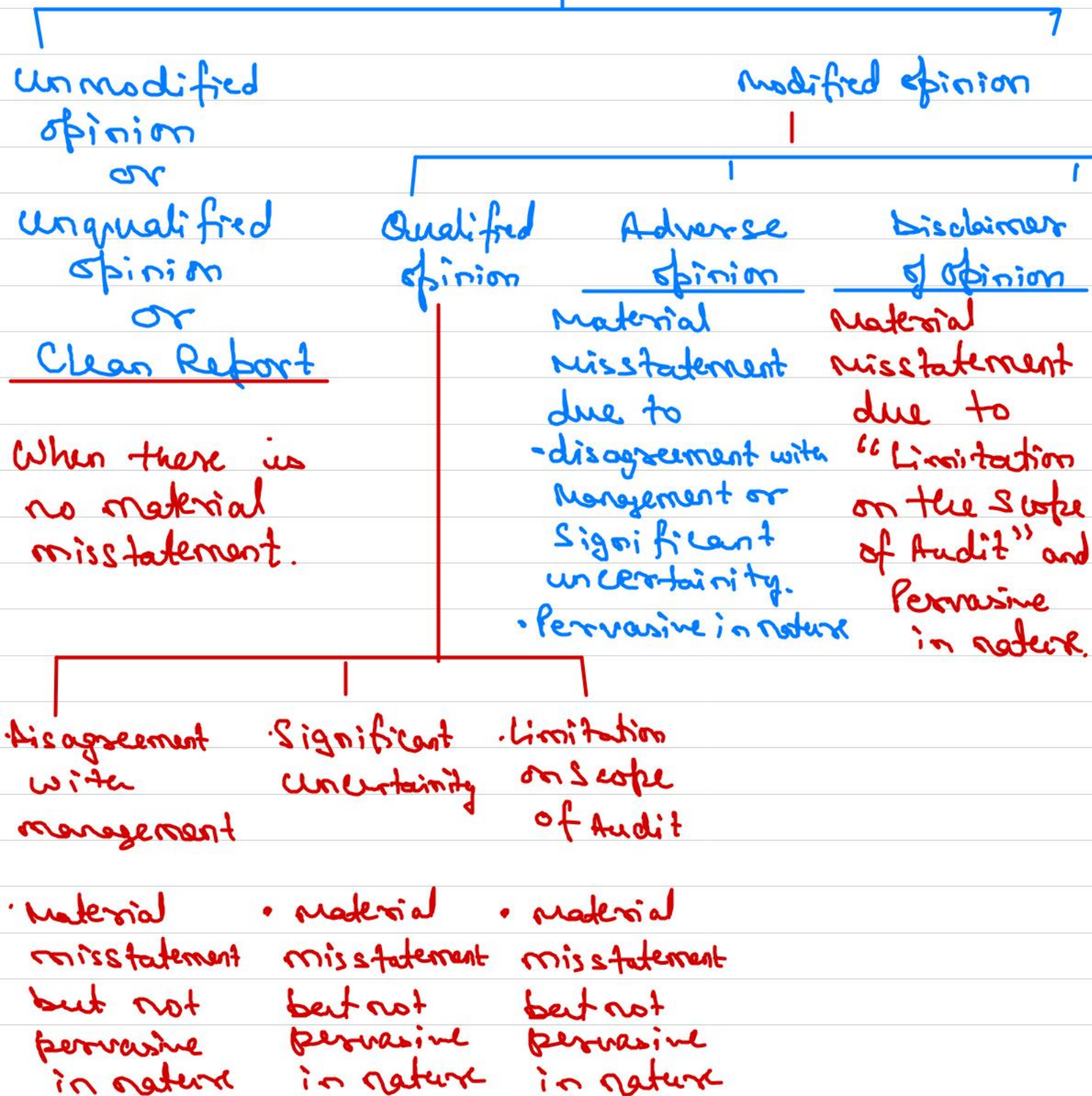
- Exports & turnover in foreign currency $> 75\%$
- SEZ
- Electricity for Captive Consumption.

These Companies still have to maintain Cost Records as per Rule 3

Audit Report

It is a written document through which Auditor expresses opinion on Financial Statements.

Auditor's opinion



Evolution of Audit in India

1913 : Statutory Audit made mandatory by Companies Act.

1956 : Appointment of an independent auditor

1965 : Cost Audit made mandatory

1984 : Tax Audit

Differences between Auditing and Accounting

No	Basis	Accounting	Auditing
1.	Meaning	Recording, Classifying, summarizing the transactions and events.	Independent examination of financial information.
2.	Recording of transactions (Timing)	On occurrence	After occurrence
3.	Responsibility	Management	Independent Auditor.
4.	Purpose	Financial Statements	Audit Report
5.	Independence	By and for Management	Independent
6.	Standards followed	AS / Ind-As	Standards on Auditing.

Differences between Audit and Investigation

S.No	Basis	Audit	Investigation
1.	Meaning	Systematic and Independent examination of financial information to express opinion on financial statements.	Independent examination to ascertain facts for special purpose
2.	Scope	Scope is wide. Covers the financial statements of a particular period.	Scope is narrow. Covers specific areas for a defined period.
3.	Objective	To express opinion on truthfulness and fairness of financial statements.	To ascertain any fact for special purpose.
4.	Periodicity	Routine (annually)	Not routine. Only in special cases).
5.	Approach	Skeptical (Professional skepticism).	Suspicious
6.	Evidence	Persuasive	Conclusive

Basic Principles governing an Audit

Crazy Professional Skillfully Investigates Actions
PLAN, CONCLUDE and DOCUMENT

- a. Confidentiality
- b. Planning
- c. Skills and Competence
- d. Integrity, objectivity and Independence
- e. Audit Evidence
- f. Accounting System and Internal Controls
- g. Audit Conclusion and Reporting
- h. Documentation.

Significance of Audit

Investors rely on the financial statements shared by the companies. Audited financial statements help stakeholders to take economic decisions.

Significance of Audit

Legal

- Compliance of I.T. Return Filing.
- Ease of Borrowings externally.
- Ease of Insurance claim settlement
- Sales Tax / GST Compliances
- Action against Bankruptcy.

Point of
view

Internal Control

- Discovering / detection of Error & Frauds
- Moral check on employees
- Advise to Management
- Uniformity in Accounts

External Affairs

- Settlement of Accounts
- Valuation of assets and Goodwill
- Forecasting of Future trends.

Inherent limitations of Audit

- a. Doesn't guarantee accuracy of financial statement due to test nature. Professional Skepticism doesn't guarantee detection of frauds & errors.
- b. Evidences are obtained which are persuasive in nature and not Conclusive.
- c. Internal Controls have inherent limitations.
- d. Materiality is a key concept in auditing. Immaterial items remain ignored.

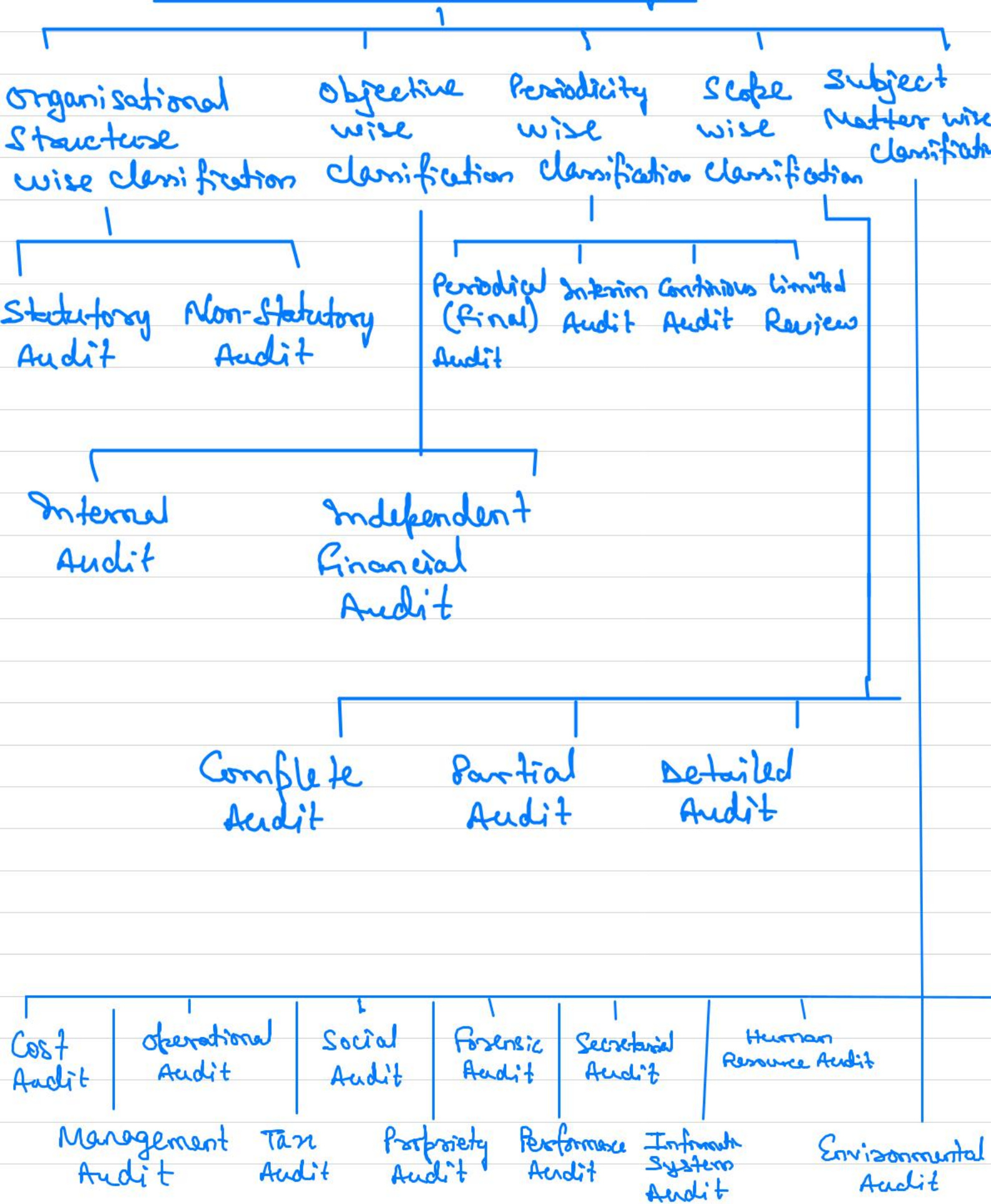
Nature of Auditing (SCRIPT)

- a. Systematic: Auditing is a structured examination of financial information.
- b. Independent: Auditing is conducted by a qualified independent individual.
- c. Proper verification: Ensures accuracy of financial statements.
- d. Critical Review: Evaluates the accounting and internal control system.

e. **Reliable (True)**: Auditing Confirms that financial statements are reliable i.e. it shows true and fair view of financial performance and position.

f. **Examination**: Thorough examination of accounting records, vouchers, documents.

Classification of Auditing



Audit Engagement, Program, Documentation, Audit Evidence and Note Book

1. Audit Engagement

- In Statutory audits, auditor responsibilities are defined by law.
- In other audits, responsibilities are set by agreement between the auditor and the client.
- Agreement outlines the audit's scope, protecting the auditor from liability beyond its duties
- SA 210 requires auditors and clients to agree on terms before starting the audit.
- These terms must be documented in an engagement letter.

2. Form and Content of Audit Engagement Letter

- Objective of Audit
- Scope of Audit
- Responsibility of the Management
- Responsibility of the Auditor
- Restriction on Auditor's Liability

- Inherent limitations of Audit
- Use of work of expert and internal auditor
- Management representations
- Fees and payment terms.

3. Audit Program

Audit program is a **detailed written plan** consisting of details of Audit Procedures to be performed for verification of financial statement line items and estimated time required.

Features of Audit Program (FLOP)

- Materiality: It should cover all material items
- Flexibility: It must allow changes or updates without disrupting the overall plan.
- Pervasiveness: It should include all functions, no matter how small.
- Objective-Oriented: It should align with the audit objectives.
- Logical: Functions should be logically selected and arranged.

4. Audit Documentation (Working Papers) (SA 230)

Working papers are the records of Planning and Execution of Audit.

It is prepared by the auditor for

3 Purposes :

a. Planning and Execution of Audit

b. Supervision of the audit and review

c. For obtaining sufficient and appropriate audit evidences which will ultimately help in forming an opinion.

It is mandatory to be retained by the auditor for 7 years as per SAC 1.

Content of Working Papers depends on:

a. Nature of business of the entity

b. Nature of Audit engagement

c. Nature of records maintained (Manually or electronically)

d. Form of Audit Report

e. Existence and effectiveness of Internal Control.

f. Supervision of the allocated work.

Types of Working Paper

Permanent File

- Relates to multiple years i.e. more than 1 year.

- Documents are of Continued importance

Examples

- Documents of organisation structure like AOA, MOA, Deed.

- Understanding and evaluating Internal Controls and Process

- Long term agreements, Title Deeds or long term Contracts

- Audited financial Statements of previous years.

Current or Temporary File

- Relates to Current period only.

- Documents are not of Continued importance.

Examples

- Management representation / Confirmations

- Audit Program.

- Minutes of BM, GM

- Analysis of transactions and balances.

- Audit Conclusion.

- Significant accounting policies.

5. Audit Evidence (SA 500)

Audit Evidences are the facts and reasons i.e. information used by the auditor to evaluate Management's assertions so that they can form an opinion on the financial statements.

Management's assertion

Management's assertion are explicit and implicit facts that entity claims through its financial statements.

Examples of Management's assertions:

- a. Existence (of assets or controls)
- b. Valuation (of assets & liabilities)
- c. Occurrence (of transactions & events)
- d. Rights & Obligations (of assets & liabilities)
- e. Measurement (of Asset, liabilities, incomes or expenses)

f. Presentation & Disclosures (Notes to Accounts)

g. Effectiveness (of Controls)

h. Continuity (of Accounting Policies and Controls).

6. Importance of Audit Evidence

As per SA 200, to form an unbiased opinion based on reasonable assurance, the auditor should obtain ^{Quantity} **Sufficient** ^{Quality} **Appropriate**

audit evidence so that **Audit Risk** is reduced to acceptably low level.

↓
Risk that auditor will issue clear report in spite of material misstatement.

7. Factors influencing auditor's judgement while obtaining audit evidence

- a. Nature of the assertion audited. ↗ Financial line items
- b. Materiality determined by the auditor.
- c. Type of information being obtained.
- d. Existence and effectiveness of the Internal Controls.
- e. Nature and size of the entity.
- f. Financial position of the entity.
- g. Past experience of the auditor
- h. Results of the audit procedures.

8. Methods of obtaining Audit Evidence

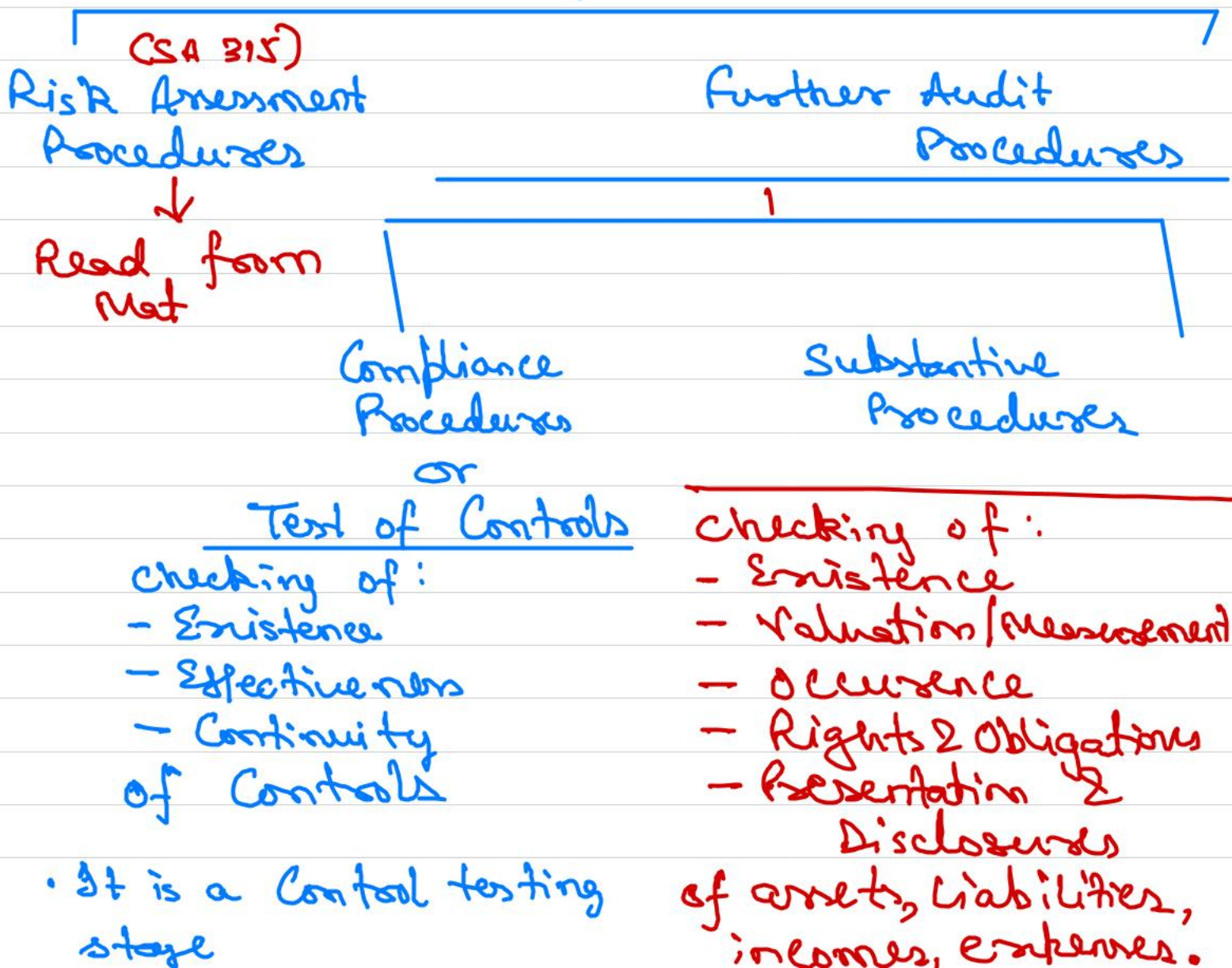
- a. Inspection: Examining documents
- b. Observation: Witnessing the procedures performed by others
- c. Inquiry and Confirmation: Seeking appropriate information from knowledgeable

Concerned person.

d. Computation: Checking arithmetical accuracy. (Eg. Calculation of Depreciation, Statutory dues, bonus calculation).

e. Analytical Review: Comparisons and significant ratios and trends.

9. Audit Procedures to obtain audit evidences



• Evaluation of the operating effectiveness of Controls

• Methods used:

- Observation
- Inspection
- Inquiry
- Reperformance.

• Substantive testing.

• Completeness, validity, accuracy of information

Test of Details

Vouching

verification

Examining assertions at P/L Acc level.

Examining assertions at Balance Sheet level.

Analytical Procedure

Comparing the financial data with Non-financial variables. Eg. Ratios, trends etc.

Comparison between Audit Working Papers and Audit Note Book

Aspect	Audit Working Papers	Audit Note Book
Purpose	Record of all evidence, procedures and conclusions of the audit.	Personal diary for recording important points during the audit.
Contents	Checklist, schedules, trial balances, reconciliations, observations	Observations, irregularities, key discussion, notes on procedures.
Use	Support the audit opinion, facilitate review and assist in future audits.	Help track issues for further investigation during the audit.
Formality	Formal and Comprehensive documentation.	Informal and personal to the auditor.
Ownership	Property of the auditor but part of the formal audit documentation.	Personal record of the auditor to prepare working papers.

Audit Risk (AR)

ROMM

(DR)
Detection Risk

Inherent (IR)
Risk

Control (CR)
Risk

Risk that Audit procedures will fail to detect a misstatement.

Eg. Sample checking, organised fraud.

Risk of misstatement in an item without there being selected Controls in place.

Risk that Controls will not be able to prevent, detect or rectify the misstatement
Eg. IT System Controls failed.

Eg. Inventory of large amount, estimated amounts.

$$AR = IR \times CR \times DR$$

Internal Controls, Internal Check and Internal Audit

a. Internal Controls

Internal Controls are the **process, policies, procedures** designed and implemented by the management and **"those charged with governance"** to achieve the objectives with respect to:

- **safeguarding** the assets
- Adherence to **policies**
- **Reliability** of Financial Reporting
- **Effectiveness and efficiency** of operations.
- **Compliance with laws & regulations.**

Evaluation of Internal Control by Auditor

Understanding the entity and its environment



Risk assessment Procedures

Compliance Procedures



Test of Controls



Procedure Test

Testing the Compliance of procedures and policies implemented by the management.

In-depth Examination

End-to-End vouching and verification of the transactions.

Techniques used by Auditor to evaluate Internal Control



b. Internal Check

It is a part of Internal Control. It involves arrangement of employee duties.

No one employee has exclusive rights over a transaction. Authorisations and reviews are included as part of overall procedures. It helps in preventing frauds and errors.

It is segregation of duties in a manner that there is no duplication of work and at the same time the work of the previous employee is checked by the next employee.

c. Internal Audit

It is an independent appraisal activity by employee or professional and involves review of accounting, financial and other operations & Controls.

It covers mainly 5 areas (Scope)

- a. Reliability & integrity of financial and operations information.
- b. Compliance with Laws, regulations and policies.
- c. Safeguarding of assets
- d. Economic and efficient use of resources.
- e. Accomplishing established objectives and goals.

~~✓~~ Provisions of Section 138 of Companies Act, 2013 read with Rule 13 of Companies (Accounts) Rules, 2014

Mandatory Internal audit by :

- a. Every Listed Company

b. Unlisted public Company which satisfy any of the following conditions:

- o/s deposits \geq 25 crore
- Share Capital \geq 50 crore
- Loans or Borrowings \geq 100 crore
- Turnover \geq 200 crore

c. Private Companies which satisfy any of the following conditions:

- o/s Loans & Borrowings \geq 100 crore
- Turnover \geq 200 crore

at any time during the preceding year.

Audit Sampling (SA 530)

Benefits:

- Reduces the workload of auditor
- Saves time and Cost
- more time can be devoted to high risk areas.
- Results are dependable as sampling is done using statistical sampling methods or tools.

Factors to be Considered when sampling:

- Nature of Population: Whether it is heterogeneous or not
- Internal Control System: Adequate and effective controls reduces samples
- Materiality: For material items, sample size is increased.
- Sampling Risk: Risk of misstatement in samples not selected
- Non-Sampling Risk: Risk due to human factor, i.e. error or fraud could not be detected in selected sample.

Approaches to Sampling

Non-Statistical Sampling
or

Judgemental Sampling

Cost effective but personal judgement is involved.

Statistical Sampling

Random Sampling

Systematic or Interval Sampling

Monetary units Sampling

Multi-Stage Sampling

Each item at specific interval is selected. Eg. every 7th item in population.

Here selection is on the basis of amount of amount instead of intervals.

Here sampling is done at more than 1 Stage. Eg. Spencer's

Simple Random Sampling

For Homogeneous Population.

Stratified Random Sampling

For Heterogeneous Population.

Selection of outlets on the basis of statistical sampling. Then in selected outlets, samples of inventory.

Risks associated with Sampling

Sampling Risk

Non Sampling Risk

↓

Associated with Compliance Procedures

Associated with Substantive Procedure.

Steps in Audit Sampling

Step 1

Step 2

Step 3

Step 4

Sample Design

Sample Size

Sample Selection

Procedure on Audit Samples selected.

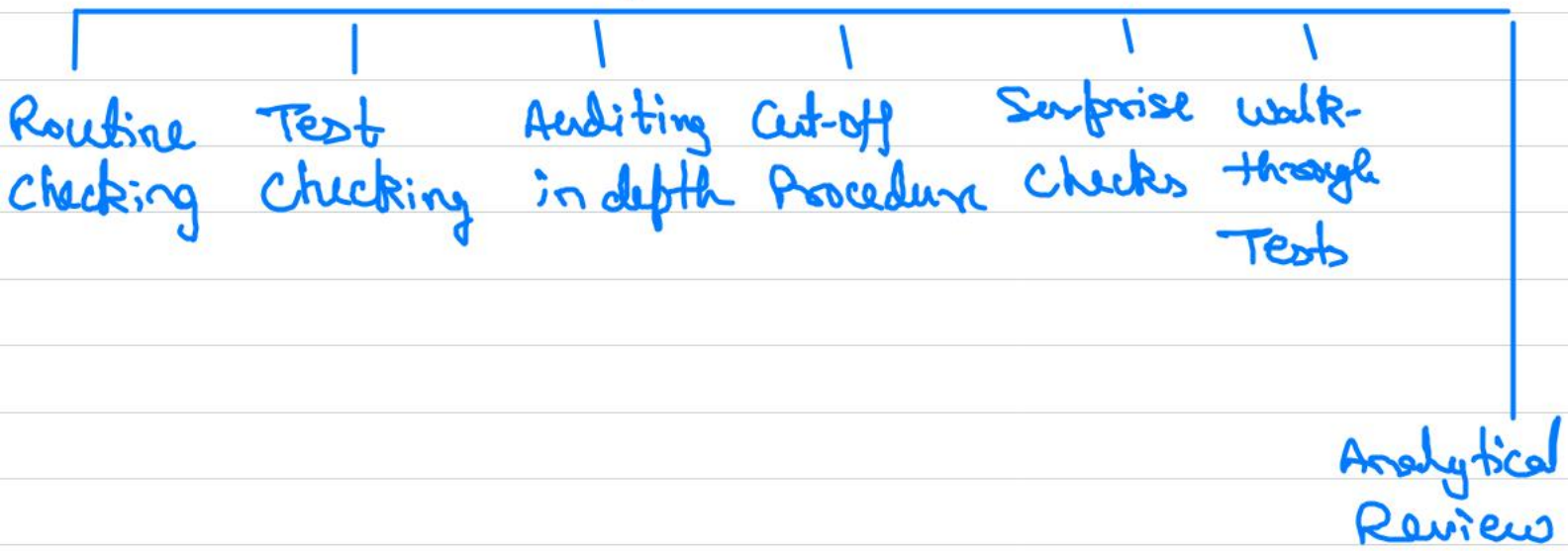
Determination of method of selecting samples

Determination of sample size so that risk is reduced to acceptably low level.

Selecting the samples on the basis of method decided

Performing the audit procedures (RAP, Compliance Procedures, TOB, Analytical Procedures)

Audit Techniques



Abuse of Analytical Procedures

- Comparison of entity's financial information with comparable information of previous years, anticipated results (e.g. budgets or forecasts) and similar information from comparable entities.
- Considering the relationship among different financial data with non-financial information.
- Use of diverse analytical tools ranging from simple comparison to advanced statistical techniques.

Application of Analytical Procedure

Audit
Planning

Substantive
Tests

Investigation
of unusual
items

Overall
Conclusion

Tools and Techniques of Analytical Procedure

Trend
Analysis

Testing of
Reasonableness

Ratio
Analysis

Sources of
information.

