

CMA STUDENT CORNER

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Auditing

Study Note - 6

Acc. SA200 → "Basic Principles Governing an Audit"

1. Definition → Audit is an Systematic independent Examination of financial System Statement to form an opinion whether financial Statement giving True & fair view or not.

2. Financial Statement Includes :-

- Balance Sheet
- Profit & Loss Statement
- Cash flow Statement
- Note's to Account

There is No Relation Between management and External auditor
∴ there are Chances of fraud. So auditor should always

Auditor Never give True & Correct view to Shareholder

Reasons → There are Chances of fraud by management, Employee or third party.

independent Examination

3. Essential features of Auditing →

1) It involves Evaluation & verification of Relevance, Reliability and adequacy of Evidence in support of verifiable information such as vouchers, documents, Explanations.

2) It is analytical, Critical and Investigative review of Systems of Accounting & Internal Controls.

3) The information audited may be financial or Non-financial.

- 4) There should be standards or Criteria for Evaluation of the Information in a systematic & Scientific manner
- 5) The auditor should be Competent and Independent, qualified & Possessing Prescribed qualification & Certificate of Practice.
- 6) It Ensures reliability of Information and assertions (Representations made by Mgt. in financial statement items) related to Enterprises, whether profit-oriented or not and whether it is required by law or not to enable the auditor to form his opinion on these statements with regard to true & fair view of state of affairs of Business and of profit or loss made during financial period disclosed there in.

4. Relationship & Distinction between Accounting & Auditing →

1. Relationship between :-

Accounting	Auditing
1) <u>Analyze Events & Transaction</u>	<u>Review Client's Internal Control System</u>
2) <u>Record & Summarize data in accounting records</u>	<u>Obtain & Evaluate Evidence on statement assertions</u>

assertions means Representation made by the Management in financial statements items.

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3) Make financial statements assertions.

Determine fairness of statements in conformity with recognized accounting principles.

4) Prepare financial statement as per recognized accounting principles

Prepare audit report on finding.

5) Distribute financial statement and Auditor's report to Shareholders

Deliver audit report to client.

6) Accounting is first & after it is done Auditing starts.

Auditing starts where accounting ends.

2) Differences between :-

Accounting

Auditing

1) It is the collection, classification and summarization of data for preparation of Books of accounts and to make financial statement

Auditing is an analytical and critical examination of Books of accounts, financial records and the financial statement prepared there on.

2) It is the recording of transaction at the time of occurrences.

It is the post mortem Examination of recorded transactions (after occurrences)

3) It measures the Business Events in monetary terms, records them, and Communicates the financial results through financial statements.

Auditing reviews financial records to form an opinion on the authenticity of financial statements.

4) The Primary responsibility is to of the Management towards The Shareholders / owners.
to maintain the financial records in such a manner that financial statements can be prepared from the records.

The Auditor is an Independent person appointed by the Business Entity to review the financial statements and to give his opinion there on.

5) An accountant is not Expected to review / report on the financial statement but to report the compilation of records to the management.

An auditor is required to submit a report with his opinion on 'true and fair' assertion made in the financial statement to the owners.

6) An accountant works for under The Management

The auditor is an Independent person answerable / liable to the owners / Shareholders and not just to the management.

7) No Such Liability

In Certain Circumstances, the auditor could be held liable to third parties also.

8) Maintenance of accounts may not be mandatory for small individuals or partnership firm, eg. under Sec 44AA of the Income Tax Act. but could be mandatory under other law eg. for Companies under the Companies Act.

Audit could be Exempt for various individuals or small partnerships eg. under sec 44AB of the Income tax Act, and even in case where maintaining Books of accounts is a statutory requirement under sec 44AA, but may be mandatory under other law eg. for Companies under the Companies Act.

9) Accounting is done as per the principle set by Indian Accounting Standards & Ind. AS

Auditing is done as per the principle set in standards on auditing.

5) Auditor → The person conducting the audit is known as The Auditor.
The person should be professionally qualified.

A Successful auditor must possess the following Qualities:-

1) An auditor should have a sound knowledge of various disciplines associated with the audit such as accountancy, Economics, mathematics etc.

2) As per SA-200 on Basic Principles Governing an Audit issued by ICAI [CA] an auditor must possess the integrity and be objective and independent in his approach to the audit work.

3) The auditor must have the knowledge of the general principle of the law governing the auditee Enterprise.

If an Enterprise is governed by some special statute as in Case: of Banking Co. the knowledge of that special statute is also imperative.

4) An auditor should also have an understanding of the special features which are peculiar to a particular Business.

5) Though technical knowledge is necessary to conduct an audit, only those person whose technical knowledge is backed by basic Human qualities can prove to be successful auditor.

6) The auditor must be Honest, that is he must not certify what he does not believe to be true and must take reasonable care and skills before he believes that what he certified is true.

6.) ~~Differe~~ Distinction between:-

Auditor

Investigation

Meaning →

1) Audit is an systematic Independent Examination of financial statement to form an opinion whether financial statement giving True & fair view or Not

Investigation shall be a undertaken for special purpose which can be ~~verify~~ verify [Change] from assignment to assignment.

Qualification →

2) In order to under take audit auditor should have prescribed qualification

No such prescribed qualification in order to perform investigation.

view →

3) Auditor should provide reasonable assurance [True & fair view]

Auditor shall provide absolute assurance [True & Correct view]

Nature →

4) Audit shall be Compulsory in Nature

Investigation shall be Optionally in Nature

Period Covered →

5) Audit shall be done for full financial year

Investigation shall be done for full or part of financial year

Nature of Avoidance

6.) In Case of Audit Audit Avoidances shall be Persuasive in Nature

In Case of Investigation Audit Avoidances shall be Conclusive in Nature.

7.) Aspects to be Covered in Audit →

I.) Accounting and Internal Control System →

→ The auditor should develop an understanding of the accounting and the Internal Control system operating in the Enterprises. & The auditor should review the system from time to time to ascertain its adequacy and Comprehensiveness.

II.) Examination of Book of records etc. →

→ The auditor should Check the arithmetical accuracy of the Books of accounts as well as the Authenticity and the validity of transactions Entered into the Book of accounts.

further, none of the Entries in the Books of accounts has been omitted in the process of Compilation and nothing which is not in the books of accounts has found place in the financial statement.

III.) Compliance with the Generally Accepted Accounting Standards and Applicable Statutory Regulations →

→ The financial statement should be prepared in accordance with the requirement of applicable law and should comply with the relevant Indian Accounting Standards, guidance notes issued by ICAI [CA], etc.

for Example → 1) a proper distribution should be made between the items Capital and Revenue.

2) In case of Company declares dividend it should comply with the requirement of the Companies Act.

IV.) Reporting →

→ Once the audit is carried out the audit finding need be communicated to the appropriate personal body (eg. Shareholders in case of Company)

An audit Report states an opinion of the auditor as to the ~~of~~ True & fair view of the financial position and operating result of the Enterprise.

8.) Objectives of Auditing SA 200 →

SA 200 → Overall objective of the Independent auditor and the conduct of an audit in accordance with standards of Auditing

- a) The objective of Auditing is to Obtain Reasonable Assurance. Whether financial statements are free from Material Misstatements. Whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework and
- b) To report on the financial statements and communicate as required by the SA's, in accordance with the auditor's findings.

Objective

Primary objective

Secondary Objective

Opinion on True and fair view of financial statement

Detailed Checking if Any Misstatement is suspected.

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9) Basic Principles Governing an Audit →

1) Integrity, objectivity and Independence

→ The auditor should be straight forward, Honest, Sincere and free from any influences on his audit work. He should maintain impartiality and be free of any interest.

2) Confidentiality

→ He should not disclose the Client's Information to anybody without the Client's permission or under any regulatory requirement.

3) Skills and Competence

→ The audit should be performed and audit report be prepared by adequately trained Experienced and Competent person.

4) Work performed by others

→ The auditor should carefully supervise the work performed by other (such as his subordinates, other auditors, Experts etc.) as remains responsible for the work delegated by him to his assistants, other auditors or Experts.

5) Documentation

→ Proper working papers should be maintained by the auditor to evidence the audit work.

6) Planning

→ The auditor should obtain the knowledge about Client's Business to determine the nature, timing and the extent of the audit procedures.

7) Audit Evidence

→ The auditor should obtain sufficient appropriate audit evidence through performing the Compliance and substantive procedures.

8) Accounting System & Internal Control

→ An understanding of the accounting system & the related internal control helps in determining the nature, timing and extent of other audit procedures.

9) Audit Conclusions & Reporting

→ on the basis of conclusions drawn from the audit evidence obtained the auditor should give unqualified report or qualified report or adverse report or the disclaimer report.

10) Significance of Audit → Point of view

Legal	Internal Control (Policy & Procedure)	External Affairs
1) filing of Income Tax Return	1) Discovering Errors and frauds.	1) Settlement of accounts
2) Borrowing of money from External sources.	2) Moral Check	2) valuation of goodwill

3) Statement of Insurance Claim	3) Advice to management	3) Future trends of the Business.
4) Sales Tax Payment	4) Uniformity in accounts.	
5) Action against Bankruptcy.		

11) Advantages of Audit →

- 1) Audit is a tool, which ~~gives~~ gives protection of shareholders interest.
- 2) Audit is not only a corrective measure, but has a deterrent effect. It serves as a moral check on the enterpr employees from committing defalcations or embezzlements.
- 3) The employees of the organisation remain alert and vigilant as regards the updating of books of accounts and other records.
- 4) Audited accounts are considered more reliable by different authorities of government.
- 5) It facilitates detection of wastage and losses and helps in instituting corrective action.
- 6) Audited accounts are taken to be more reliable and useful during corporate restructuring exercises, valuations etc.

7) Bank, financial Institutions and Government require audited accounts before granting any financial assistance to the Enterprise eg. Loan.

8) Audited accounts are taken to be more helpful in settlements of accounts between the partners and thus avoiding any dispute amongst them.

12) Inherent Limitation of Audit →

1) Test Nature ^{of} audit

2) Persuasive Audit Evidence

3) Inherent Limitations of Internal Control

4) Use of Materiality

5) We can not give absolute assurance.

13) Audit Engagement Letter →

Audit Engagement Letter is a letter which has been issued by auditor to auditor [client] before commencing of audit it is a part of current audit file.

Audit Engagement Letter shall contains following below :-

- 1) Name of the organisation for which audit is to be undertaken
- 2) Financial Year for which he shall be appointed as an auditor
- 3) Management Responsibilities [6 Points]
- 4) Auditors responsibilities :-
 - Primary objective of audit is to form an opinion whether financial statement giving true and fair view or not
 - Secondary objective of auditor is to prevent and detect of frauds and errors
- 5) fees (Manner of Payments of fees)
- 6) Expected date of Commencement and Completion of audit.
- 7) Restriction of the auditor's liability if any.
- 8) The form of report or other communication of result of the Engagement
- 9) Objective and the scope of the Engagement.
- 10) The Existence of Inherent Limitations of audit and resulting material misstatement that may remain undiscovered.

14.) Internal Auditor & External Auditor →

<u>Internal Auditor</u>	<u>External Auditor</u>
1) <u>Internal Auditor is optional in Nature</u> subject to satisfaction of conditions prescribe under sec 138 of Companies Act 2013	External Audit shall be <u>Compulsory in Nature</u> as per the provisions of Companies Act 2013
2) <u>Internal Auditor shall be appointed by Board of Directors</u>	External Auditor shall be appointed by <u>Shareholders</u> in group of General Meeting.
3) <u>Remuneration of Internal Auditor shall be fixed by Management</u>	<u>Remuneration of External Auditor shall be fixed by Shareholders</u>
4) <u>Internal Auditor can be removed by Management as well as Shareholders</u>	External Auditor can be <u>Removed by Shareholders</u>
5) <u>Internal Auditor does not required any Prescribed qualification for undertaking Audit</u>	External Auditor should be <u>Compulsory Practicing CA</u>
6) <u>Scope of work of Internal Auditor shall be determined by Management</u>	Scope of work of External Auditor is already Defined under Provisions of Companies Act 2013.

7) Reporting frequency of Internal Auditor shall be determined by Management

Reporting Frequency of External Auditor shall be Annually in AGM (Annual General Meetings)

15) Concepts of True & fair →

- The concept of True & fair is a fundamental concept in auditing.
- It signifies that the auditor is required to express his opinion as to whether the state of affairs and the results are showing "True & fairly" represented in the accounts under audit.
- Auditor should examine the accounts with a view to verify that all Assets, Liabilities, Income & Expenses are stated as amounts which are in accordance with accounting principles and policies which are relevant and no material amt & items or transactions has been omitted.

To ensure true & fair view, an auditor has to see the following :-

- 1) That the assets are neither undervalued or overvalued
- 2) No material Assets is omitted
- 3) The charge, if any on assets are disclosed
- 4) Material liability should not be omitted
- 5) All unusual, Exception or non-recurring items have been disclosed separately.
 eg → ^{one time or infrequent} Gains or Loss from sale of FI

Concept of Materiality [SA-320] →

- Materiality is one of the Basic fundamental Concept in the process of Accounting and Auditing.
- It is a continuous process and present at Every stages from recording to Classification and Presentation.
- The auditor has to constantly Judge whether a particular items or transactions are material or not.
- The Concept of Materiality is ~~applicable~~ applied by the auditor both in Planning & Performing the audit.
- The Concept of Audit Materiality in relationship with the audit risk Affecting the planning and Procedures of the auditors.
- Materiality of an Item may influence the Economic decision of the users.
- No Item is material in all Circumstances, what may be material in one Circumstances may not be Material in another.

factors to be Concerned for Determining materiality →

1) Individually → eg - a payment of 1000 may be material in a small Business but Even 1 Lac. could be immaterial for a big Business Entity.

- 2) Aggregate → eg- Total Income from Investment in mutual funds could be more material than looking into Each Individual Investment.
- 3) Legal Considerations → eg- Where the term of appointment of a whole time director was not according to law, the remuneration paid to him is a material item even if the financial implication is not much.
- 4) Legal Definition → eg- SCH III requires separate disclosure of items of all Expenses Excluding Exceeding 1% T/O or to write off Capital Asset purchase for less than 5000
- 5) Relative Overall Impact → eg- Short recoveries from Debtors.
- 6) Qualitative → eg- Improper disclosure of an accounting policy in the Notes to the Annual financial statements may affect Economic decisions.
- 7) Insignificant quantity but special Context → eg - rounding off to the nearest rupee the fraction of 0.666 to 0.67 in Computer software. It may be material in future due to Cumulative Effects Even in insignificant now.

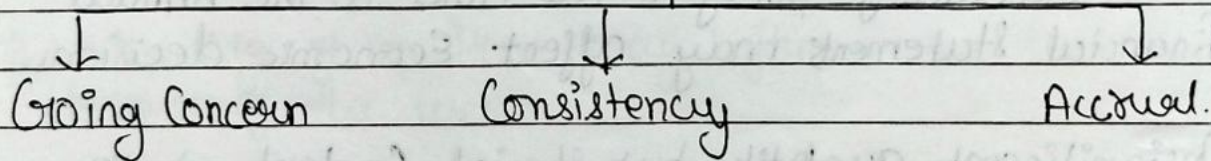
17.) Disclosure of Accounting Principles [AS-1] →

Accounting Policies refers to the specific accounting principles and the methods of applying those principles adopted by the enterprise in the preparation and presentation of the financial statement.

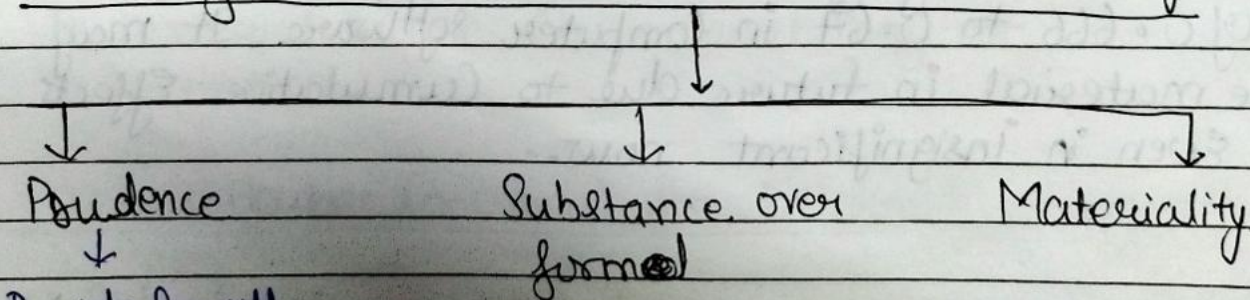
A adequate disclosure of Accounting policies is very necessary so that the view presented in the financial statements can be apprehended by the users of the financial statement. eg- SLM or WDV depreciation method.

The purpose of Accounting standards is to promote better understanding of the financial statements by laying down the principle as to the manner of disclosure of accounting policies.

Fundamental Accounting Principles



Accounting Policies are selected on the bases of

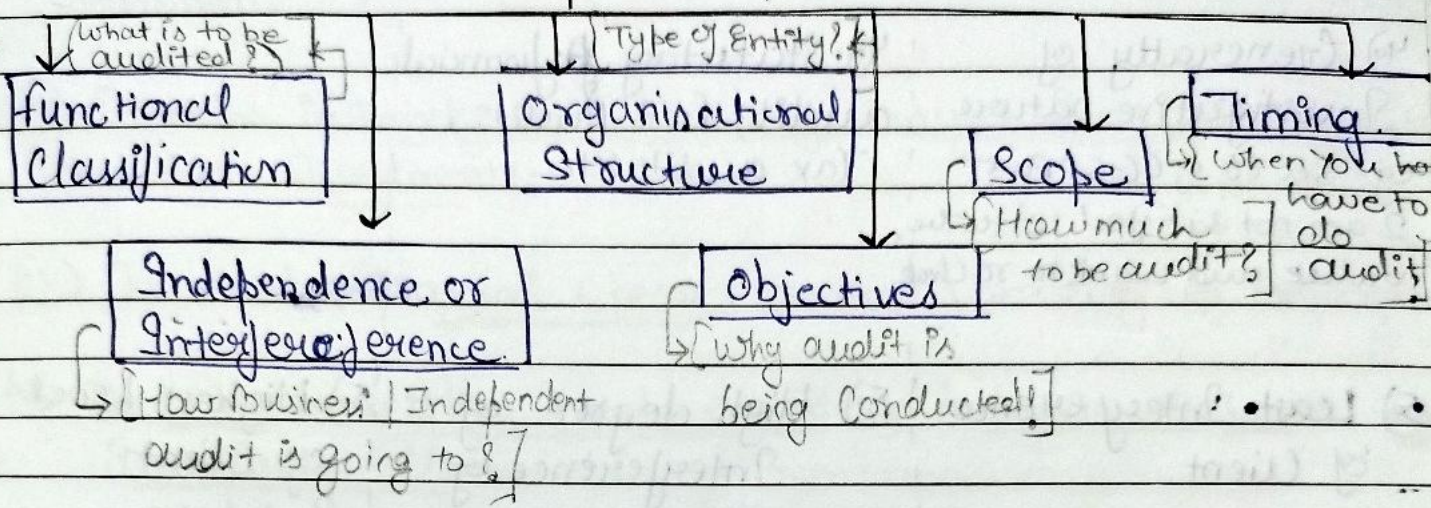


Provide for all losses and anticipate

No profit

Any change in Accounting Policy which has a material effect should be disclosed.

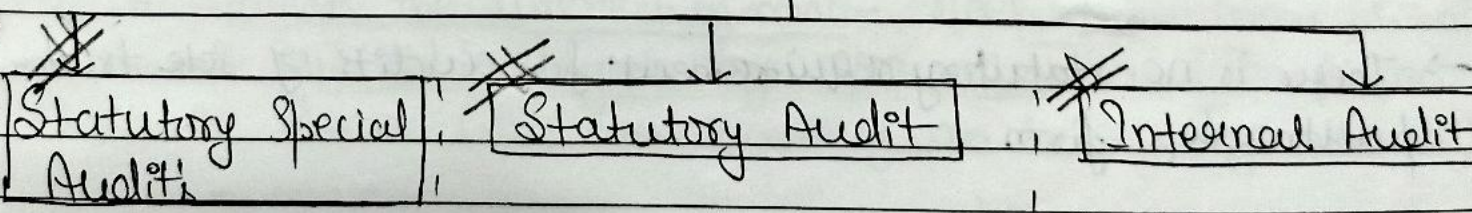
18.) Types of Audit → based on:-



I.] functional Classification

- 1) Statutory Audit of Companies of LLP's
→ of financial statement / Information
- 2) Statutory Cost Audit
→ of Cost records, statements etc.

II.] As Per Independence / Interference



- 1) Auditor Appointed by Government / Regulatory Authorities
- 1) Appointed by Company / BOD / Owners
- 1) Appointed by Management

- 2) Audit to report on specific Issues
- 2) Matters to be reported determined by statute.
- 2) Defined by mutual Agreement.

- | | | |
|---|---|--|
| 3) Report to Appropriate authorities | 3) Reporting Authority - as per statute | 3) Reporting authority - Management |
| 4) Generally of Investigative nature
eg - Sec 66 of CGST Act
I am not satisfied with the value and wants to recheck | 4) Statutory Financial audits, Cost Audits, Tax audits etc. | |
| 5) Least Interference of Client. | 5) High degree of Interference of Client | 5) Highest Level of Client Interference. |

III. AS per Organisational Structure

- 1) Voluntary Audit → also known as [Proprietorship, Partnership, LLPs. Audit]
- Audit is not necessary for each form of ownership, yet they go for audit
- There is no statutory requirement for audits of sole trader, partnership firm
- voluntary audit due to Advantages.

(A) Advantages of Auditing for Sole Proprietors :-

(i) It Evaluates the Internal Control System & Strengthens it by removing weaknesses if any.

(ii) It increases the reliability and authenticity of financial statement.

(iii) It helps in timely finalization of Annual financial statements and tax assessments.

(iv) It keeps a moral check on the working of employees.

(v) It helps in settling trade disputes, labour disputes & insurance claims.

(vi) It helps them in obtaining funds easily from financial institutions. Loan

(B) Advantages of Auditing for Partnership firm & others →

(i) It helps in settlements of accounts among the partners on the basis of more reliable accounting records.

(ii) It protects the interest of minor, sleeping partners, who are not involved in day to day operations and keeps a check on persons who are working on behalf of others.

(iii) It helps in partnership firm for settlement of goodwill at the time of admission, retirement and death of partners.

(iv) It enable firm to get loan from banks / financial institutions.

2) Statutory Audit → Statutory Audit is the checking of accounts as required by law.

- An Act or law may require having an annual audit of financial statements.
- The law may require the audit to be conducted in specified manner.
- Statutory audit is mandatory in nature.
- The Statutory Auditor of a company is appointed by the Board/Shareholders in General Meeting.
- The Statutory Auditor can be appointed by the Central Government if shareholders fail to appoint an auditor.
- The Statutory Auditor should be performed by a Qualified CA.

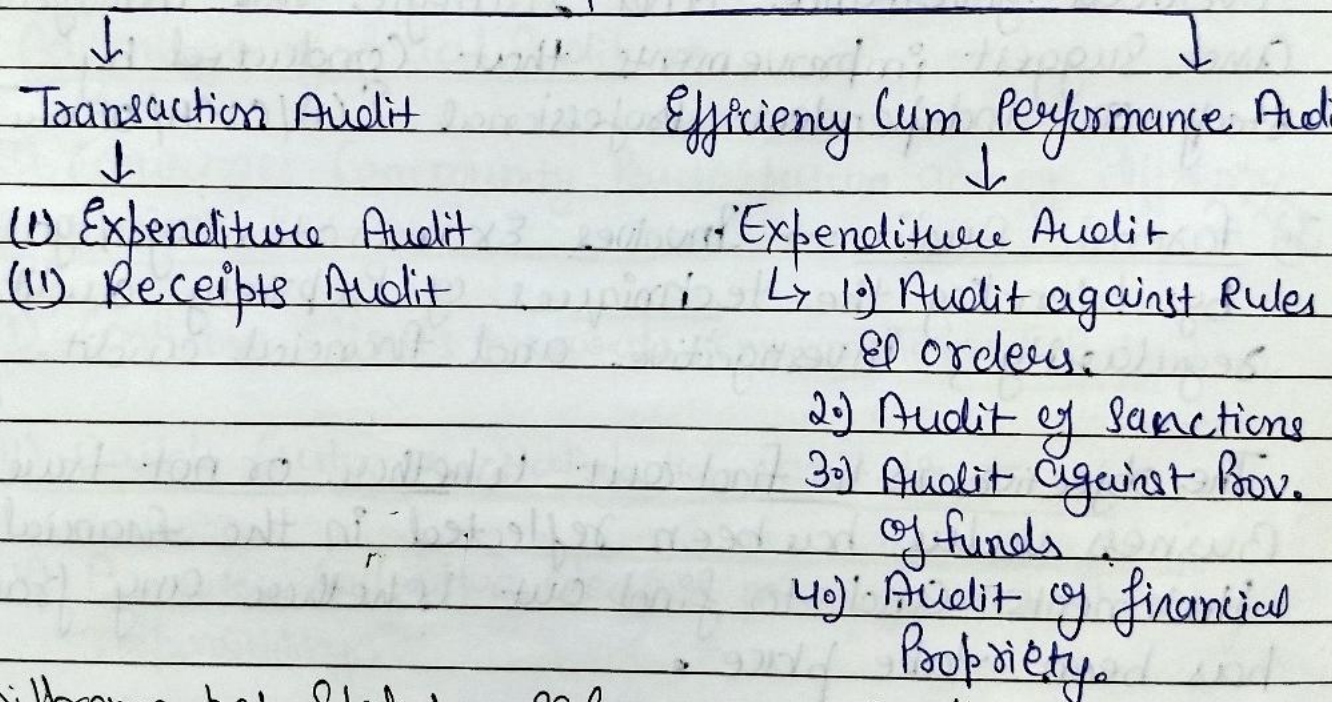
Advantages of Statutory Audit

- (i) Timely Tax Assessment
- (ii) Settlement of partners' A/c: In case of Admission, retirement, or death, and partners' goodwill
- (iii) For determining the actual value of Business or shares in case of merger, acquisition, etc.
- (iv) In case of Non-Profit organisations, for getting government grant and availing Tax Exemptions
- (v) Evaluates the Internal Control system and strengthening by removing weakness.
- (vi) For proper distribution of profit by way of payment of wages and other benefits.

3) Government Audit → Government auditing is the objective, systematic, professional and independent examination of financial, administrative and other operations of a public entity for the purpose of evaluating and verifying them.

Comptroller & Auditor General (CAG) has the Supreme authority.

Two types of Government Audit



Difference bet Statutory & Government Audit

Basis	Statutory Audit	Government Audit
1) Applicability	Companies, Co-operative, Banks etc.	Govt. Companies, Departments, Corporations
2) Appointing Authority	Share holders, Management Managing Committee	CAG or relevant statute.
3) Report to	Owners or Management	CAG

(IV) As per Objectives

1) Independent financial Audit → Conducted by Certified auditors [CA]

Its objective is to comment on the truthfulness and fairness of the financial statements and it may be compulsory under some Acts.

2) Internal Audit → Internal Audit is independent appraisal activity control and functioning the overall governance and strategic risk management and suggest improvements that conducted by staff or independent professional [CA/CMA/others]

~~3)~~ forensic Audit → Involves examination of legalities by blending the techniques of propriety audit, regularity, investigative and financial audit.

The objective is to find out whether or not true Business value has been reflected in the financial statements and to find out whether any fraud has been take place.

~~4)~~ Social Audit → A social audit is a way of measuring understanding, reporting and improving an organization's performance towards meeting its social & Ethical Objectives.
eg - CSR Audit

Objectives of Social Audit →

- (i) Assessing the needs of the society and resources available for fulfilling them.
- (ii) Spreading Awareness among peoples.
- (iii) Increase CSR Programmes.
- (iv) Scrutiny of Policy decision, keeping in view the Interest of Stakeholders.

Advantages of Social Audit →

- (i) Encourages Community Participation among different Business Entities
- (ii) Continuous Effects towards Environmental Protection.
- (iii) Builds Customer satisfaction and trust.
- (iv) Promotes Collective decision making and sharing responsibility.
- (v) Develops Human resources by working towards improvement of workers' & Living Conditions.

5) Environmental Audit → Examination of Interaction between Business & Environment.

Scope and Objective

- (I) All Emissions to air, land & water.
- (II) Legal Constraints.
- (III) Effects of Surrounding.
- (IV) Public Perceptions
- (V) Expert opinion on hazards to Environment
- (VI) Associated Risks
- (VII) Measures to Control risk.

Different Stages

- (1) Pre Stage
- (2) Site activities
- (3) Post audit

6) Propriety audit → A Propriety audit is not just concerned with the truthfulness and fairness of the financial statements and books of a/c of the client but, also ensured that the transactions entered into by the client business practices and activities undertaken are not against public interest.

The objective is to see that the Business lives upto standards of Proper Conduct. all legal, Economical & financial are equally Imp. aspects and that requires to Looked into during the audit.

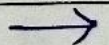
It is an Essential Element of Government audit.

CAG Examines the propriety of all government Expenditure to Ensure that they have been incurred in the Interest of the general Public. and, are Not Influenced by Personal Interest.

7) Information System Audit → Information System Auditing is an Organizational function that Evaluates asset safeguarding, data integrity, system Effectiveness and system Efficiency in Computer based Information Systems"

It has arisen for 7 major reasons:-

- (i) The Consequences of losing the data resource
- (ii) The possibility of misallocating resources because of decision based on incorrect data or decision rules.
- (iii) The possibility of Computer abuse if Computer system are not controlled
- (iv) The high value of Computer hardware, software, and Personnel.
- (v) The high Cost of Computer Error
- (vi) The need to maintain the privacy in Individual persons.
- (vii) The need to Control the Evolutionary use of Computers.



2) Efficiency - Cum - Performance Audit → It is an Examination of the financial and operational Performance of an Entity.

→ It includes identification of opportunities of greater Economy as well as removal of weaknesses after Evaluation.

→ Actual Performance is compared with the standards set by the Entity.

→ If Auditor find of any deviation with respect of pre-determined standards it is further Investigated.

Scope of Efficiency - cum - Performance Audit :-

1) Economy Audit → It implies that resources have been procured in appropriate quantity, quality and at minimum Cost

2) Efficiency Audit → It refers with the relationship between Input & output i.e. the goods and services produced and resources used to produce them yielding Expected result

3) Effectiveness → It is an appraisal of the Performance of schemes and projects with reference to the overall targeted objective as well as Efficiency of the way and methods of methods adopted to achieve the objectives.

Approaches

- 1) Identification of the topic
- 2) Obtain necessary information.
- 3) Preliminary study.
- 4) Planning and Execution of audit
- 5) Reviewing internal Control system and reporting.

9) Operational Audit → It involves Examination of all the operations and activities of the Entity under audit.

Objectives :-

- (i) The Examination of the Control Structure of the Entity.
- (ii) The relation of department Controls to general Policies and its relation with Control of other department
- (iii) It Provides an appraisal of whether the department is operating in conformity with prescribed standards and procedures laid down by the management
- (iv) It Checks whether standards of Efficiency and Economy are maintained.
- (v) It Checks whether Capacity utilization in production department and achievement of short term targets in marketing department and other activities are so Economically performed to achieve the present overall goals of the Entity.

Advantages →

- (i) It is one of the management tools to get first hand information
- (ii) more useful in an Entity where the management is at a distance from actual operations.
- (iii) Very useful for in large organization where management cannot control the actual operations due to layers of delegation of responsibilities.
- (iv) MIS Report to Control Managers.
- (v) one of the tool use in large and geographically vast Entities to Control Operations.

As per Scope →

- 1) Complete Audit →
- 1) An audit where the scope of audit is not confined to specific limit
 - 2) The auditor requires to check all the possible aspects of a business, including manufacturing operations, data flow processes, accounting ~~report~~ records and procedures etc.
 - 3) In general, it is not feasible to get a complete audit conducted

- 2) Partial Audit →
- 1) It is not a statutory audit, which restricts the scope of the auditor to checking of certain ~~spec~~ specific aspects only.
 - 2) The auditor's powers to Enquiry are restricted by the terms of Engagement
 - 3) He may not allowed to obtain information which falls outside the review of the scope defined by him.
eg- To check cash sales during Diwali.

- 3) Detailed audit → 1) Also known as audit-in-depth.
 2) It involves checking of transactions from the time of their recording till their final effects and the financial statements.
 3) Closely Examined by the auditor using various audit evidences
 4) Checking ~~see~~ selected transactions in depth

(VI) As per timing →

- 1) Continuous Audit → A method used to perform control and risk assessment automatically on a more frequent basis.
 It is an on going audit
 It covers 100% transactions
 It become integral part of ~~modern~~ modern auditing at many levels.

Continuous audit may be define as the Examination and verification of a firm's financial transactions and their supporting documents, continuously throughout the year.

Features →

- (i) It is a process conduct throughout the year
- (ii) Conducted at regular or irregular intervals
- (iii) focuses on testing 100% transactions
- (iv) Technology is imp to enable it
- (v) It provide advance notice about errors and irregularities detected
- (vi) Surprise visits by the auditor are involved

Necessary of Continuous Audit →

- (i) Internal Controls are inadequate.
- (ii) The transactions run in large numbers.
- (iii) Management interested in Periodic statements.

Advantages

- (i) Early location of errors and frauds.
- (ii) Quick ~~set~~ rectification.
- (iii) Continuous guidance to client.
- (iv) Timely completion of finalization if New AS, SA comes.
- (v) Moral Check.
- (vi) Relieves statutory auditor.

2) Annual Audit → At the End of Accounting Year after accounts are closed.

Procedure / Advantages

- (i) No Interruption with regular functioning.
- (ii) One session in continuity.
- (iii) Statistical sampling not 100%.
- (iv) Low possibility of tempering accounts.

Limitations →

- (i) Errors found: at Year End.
- (ii) Delayed presentation of financial statements.
- (iii) Reduced possibility to detect frauds and error.

- 3) Interim Audit → 1) Audit Conducted betⁿ two annual audits
- 2) It may be conducted for a specific period, such as a quarter or half year.
- 3) with an Interim objective of declaration of Interim dividend or valuation of shares on a certain date in case of merges
- 4) It is carried out by professionals.

Use of Interim Audit :-

- (i) Early detection of and rectification of errors & frauds.
- (ii) Publishing of Interim results in some cases.
- (iii) Timely completion of records and final audit
- (iv) Moral Checks on Employees.

4) Balance sheet audit → 1) Balance sheet audit is generally synonymous with statutory audit

- 2) In Balance sheet audit, the auditor reviews and critically examines the financial statements which includes the Balance sheet and P&L A/c prepared by the management.
- 3) audit is done with checking through original entries made in the books of a/c and evidences to support the entries recorded.

Objectives

- 1) The auditor can rely upon the Internal Control Internal Check and also on the report of the Internal auditor
- 2) & Find out the weakness and strengths of Internal Control.

Procedure →

- (i) for identification of areas where sample testing is sufficient. Test of Control
- (ii) for performance of certain Compliance Procedure and Substantive Procedures in some areas. ↳ Test of Details of Procedures.
- (iii) for Analytical review of financial statements.
- (iv) for verification of Assets & Liabilities in FS.
- (v) for ~~test~~ ~~scrutiny~~ scrutiny of Books of accounts to check whether FS are in conformity with records.
- (vi) for Evaluation of the Internal Control system and Critical Examination of the Assertion made in the FS.
- (vii) for Compliance with law and disclosure of material facts in the FS.

Advantages

- 1) No Changes in Accounts
- 2) No Interruption in the accounts' department.
- 3) No Loose Links because audit is conducted in a continuous flow.
- 4) Sample test reduce the time involved for routine checking, The saving of accounts of time
 → result
 Cost Effectiveness.

Q7(a) of June 2019
Prepared by auditor

19. Audit Programme → [SA-305] [Written document]

- 1) Audit Programme is an detail plan which describe that,
- Audit Procedures to be followed?
 - Who will do what?
 - With in what time?

Auditor should prepared audit Programme describing the list of activities to be undertaken by Audit firm due to course of Audit

2) Auditor Programme usually classified into following two category.

I) Common Audit Programme for all entities having ~~similar~~ similar Nature of Business.

II) Specific Audit Programme → Contained particulars of audit work or specific clients.

Ex → Different Audit programme for Partnership firm and Companies.

Advantages of Audit Programme

- 1) It serve as a ready check list of audit Procedures to be performed
- 2) The audit work can be properly allocated to the audit assistants or the article clerks.

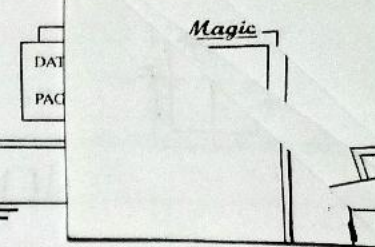
- 3) It fixes the responsibility of audit staff.
- 4) Audit Programme would not only use full for the audit assistants in conveying the audit work but for the principal too as he would be in a position to accounts for the individual responsibility.
- 5) It provides uniformity of work, which should be followed by audit staff in different organizations.
- 6) It is useful in selection of team members & delegating responsibilities to them.
- 7) It may be used as Evidence by the auditor in the event when any charge is brought against him.
- 8) Because of Audit Programme, audit can be completed on a timely basis.
- 9) It can be use for future reference.

Disadvantages

- 1) The auditor's task becomes mechanical and the auditor may lose interest and initiative.
- 2) Rigid Programme can not be laid down for each type of Co.
- 3) Unnecessary for a small companies.
- 4) Audit Programme can may be use as an audit evidences but it is not that strong Audit Evidences.

20) Audit Working Papers → [SA-230]

Prepared by Auditor
Property of Auditor
Provide Link between Client Books & Audit Report



- Audit working papers are prepared by Auditor during the course of Audit.
- It is a property of Auditor and
- It be Excess Accessed only by audit staff and principle Auditor.
- Audit working paper shall be written by Auditor for the period of 7 Years after Completion of Audit.
- Audit working papers provides Link between Client's Books of A/c and Audit Report.
- Audit working paper shall contains following:-
 - 1) Name of the Client
 - 2) Nature of Engagement
 - 3) Nature and Condition of Client Records
 - 4) Types of audit Report
 - 5) Nature and Complexity of Books of Accounts and Client
 - 6) Supervision of work performed by assistant

Audit working papers shall be Classified into following two parts.

- ✓ 1) Permanent file.
- ✓ 2) Current file.



PERMANENT FILE

CURRENT FILE

- 1) Copy of MOA & AOA
- 2) Details of Bank Ac
- 3) Prospectors
- 4) List of BOD
- 5) Authorise Signatures
- 6) List of Supplies
- 7) List of Related Party
- 8) Details of Landless
- 9) List of Major (Imp) Customers
- 10) Details of Accounting Policy
- 11) Copy of Legal documents
- 12) Details of Creation Regarding Charge on Assets

- 1) Copy of Financial Statement
- 2) Reply given by Management
- 3) Details of Accounting Elements
- 4) Analysis of Ratios Working
- 5) Copy of Audit Engagement Letter
- 6) Details of Minute's Book
- 7) Copy of Queries raise by Auditor during the Course of Audit
- 8) Copy of P.Y Audit Report
- 9) Balance Confirmation Received by Auditor from Debtor and any third Party
- 10) Audit Note Book

21) Audit Note Book → Audit Note book is a document it has been prepared by Auditor regarding various matters observed during the course of matter observed Audit. It is a part of current Audit file. It is a property of Auditor. It should be maintain completely and clearly findings which have been observed by auditor during Audit.

Audit Notebook shall contains following

- 1) Name of orgn.
- 2) Organisation Structure
- 3) Imp Cluses from MOA & AoA
- 4) Answer (Reply) given by Management to Auditor Staff.
- 5) Details of Books of Accounts maintain by Clients
- 6) Details of key Managerial Personal (KMP)
- 7) Details of Accounting Estimates
- 8) Management Representation Letter (MRL)
- 9) Details of frauds and Errors observe during the audit
- 10) Communication of Provision of Auditor, if any
- 11) Any other points as may be fit by Auditor.

The above maintained documents should maintain by auditor for the ~~per~~ period of 7 Years.
Audit Notebook is a property of Auditor him. may make available to Clients on the basis of Request submitted by ~~at~~ Client.

22) Audit Risk → Audit Risk is the risk of a material misstatement of a financial statement item that is or should be included in the audited financial statement of an Entity.

~~Audit risk~~ is always greater than zero.

→ Audit risk is the risk that the auditor gives an inappropriate audit opinion when the financial statement are material misstated.

Such material misstatements can result from either fraud or error.

Sensitivity/vulnerability

→ Hoga hi

1) Inherent risk → It is the susceptibility of an a/c balance or class of transactions to misstatement that could be material, either individual or together.
→ Assuming that there were no Internal Control. [eg. Risk due to estimation of PBD]

2) Control Risk → It is the risk that misstatement, that could occur in an a/c balance or class of transactions and that could be material, either individual or together.
→ Will Not be prevented / detected / corrected on timely basis by the accounting and Internal Control system [eg. Controls for Budget review failed]

3) Detection risk → It is the risk that an auditor's substantive procedure will not detect a misstatement that exists in a/c balance or class of transactions that could be material either individual or together.
[eg. Because of use of sampling a MS could not be detected]

23) Audit Evidence → Auditor should collect sufficient and appropriate evidence in order to express opinion with the help of Audit Evidence Auditor shall provide Reasonable assurance.

Reliability of Audit Evidence :-

- 1) Documentary Audit Evidence are more reliable than oral.
 - 2) Original Audit Evidence are more reliable than Photocopy.
 - 3) External Audit Evidence are more reliable than Internal Audit.
 - 4) Audit Evidence directly obtained by Auditor are more reliable than obtained through Management.
- Sec 2018 (1)(a), Sec 2021 (2)(a)

Methods of obtaining Audit Evidence :-

While Obtaining Audit Evidence during the course of Audit Auditor may follow any one of following Methods.

- 1) INSPECTION → It consists of Examinations of Records, documents, tangible assets or inspection of documents which insure about Existence of Assets it depends upon Nature, Scope & source and Effectiveness of Control System.
- 2) OBSERVATION → It consist ~~at~~ witnessing or observing in relation to Procedure performed by other.
- 3) ENQUIREY AND CONFIRMATION → If it is impossible to undertake physical verification of an assets in such cases Auditor may obtain balance confirmation from 3rd Party by applying procedure under SA 505

10) ANALYTICAL REVIEW → As per SA 520 while performing any audit, auditor initially analysis ratio and at the time of Examination of Balance sheet if there is any Major Variation then auditor can further investigate this matters.

5) VALUATION → As per this method auditor shall should verify arithmetical accuracy and ensure that valuation of Assets has been done as per prescribed Accounting standards.

NEEDS of Needs for Audit Evidences :-

Audit Evidences obtain by auditor can follow procedure. in other to Obtain audit Evidence

1) VALUATION → Auditor should verify valuation of A/c it should be true and fair. There should not be any Overvaluation of assets or under valuation Liabilities.

2) OWNERSHIP → Auditor should verify the owners of assets Even through Company is an artificial person, still Company can acquire the assets its own name. therefore auditor should verify the assets should be acquired in the name of Company or not other.

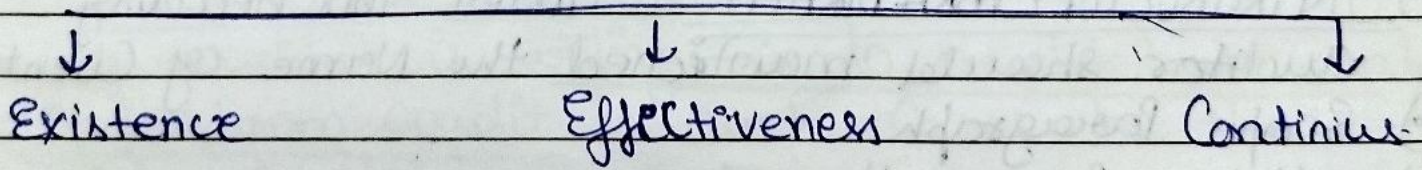
3) TITLE → In case of Assets, legal title should not be defective and disputed. If auditor observe any such cases during the course of Audit there it should be intimated to Auditors.

4) EXISTANCE → In case of tangible Assets Auditor should physically verify such Assets in order to insure about Existence of such Assets.

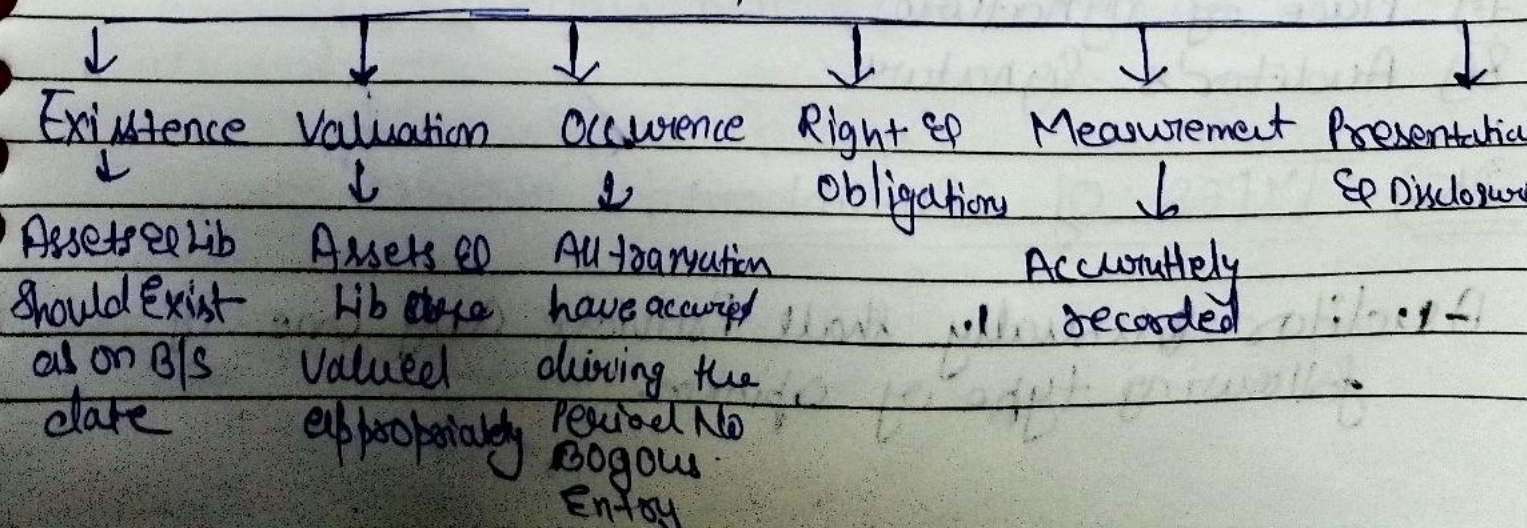
5) POSSESSION → If any Assets acquired by organisation the possession of such Assets should also remain with organisation.

6) CHARGE ON ASSETS → If organisation acquired any Loan by creating Charge on a such Assets should be utilize for the organisation only.

Compliance Audit Procedure



Substantive credit Procedure



ultimate / final product of audit

24.) Audit Report → Audit report is the ultimate and final product of every audit

→ It is a statement of observation gathered & considered while providing proving conclusive evidence of company's financial position. It is a medium through which an auditor expresses his opinion on the financial statement under audit

→ It is a result of audit provided by the auditor

Elements of audit Report

1) TITLE → Any Audit report shall have an appropriate title that is "auditor's report" so that such report shall distinguished from other report like Directors Report, Internal auditor Report. Etc.

2) Address :-

3) INTRODUCTORY PARAGRAPH → Under this heading auditor should maintained the Name of Client

- 4) Scope Paragraph
- 5) Opinion Paragraph
- 6) Date of the Report
- 7) Place of signature
- 8) Auditor's signature

25.) TYPES of OPINION →

Auditor usually shall provide any one of following type of opinion:-

→ Dec 2018 Q9b

→ Any Errors or frauds
→ Auditor is unable to Compete them

1) QUALIFIED OPINION →

If there is any Error or fraud in financial statement, however Auditor unable to Compete them, then auditor should provide audited opinion to share holders.

2) UNQUALIFIED OPINION →

If there is No Errors or fraud in financial statement in such cases Auditor shall provide unqualified opinion. It is also called as Positive Report.

→ No Errors
→ Positive Report

→ June 2019 Q9(a)

→ errors & frauds
→ auditor also have sufficient evidences

3) ADVERSE OPINION →

If there is Error or fraud in financial statement and auditor has sufficient and appropriate any adv. evidence in such case he shall provide Adverse opinion. It is a Nega (-ve) Report.

→ June 2019 Q9(b)

4) DISCLAIMER OPINION →

If auditor is willing to do audit but unable to perform audit in such cases he shall provide disclaimer opinion.

In practical life only two opinion should be followed: —

- 1) Unqualified opinion
- 2) Adverse opinion

2019 Q215, Internal
Audit
→ Continuous Internal
Audit
→ Work of one individual
is checked by another
Indv. (by staff)
→ Valuable part
→ Carried out by
Staff itself

Magic

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26.) INTERNAL CHECK →

- Internal Check system, Practically a Continuous Internal Audit is carried on by the staff itself
- The work of one individual is checked by the other in the staff.
- Internal Check is a valuable part of Internal Control.
- It helps in prevention and detection of fraud and errors.

Auditors' Duty in regard to Internal Check System:

- In Big organisation where there is a good system of checking the transactions than Auditor may presume accuracy of accounting record and efficiency of staff.
- Usually formation and implementation of Internal Control system is an responsibility of Management.
- However Auditor should Review ICS.
- In order to ensure ~~Rel~~ Reliability of ICS and he can take decision regarding extend of checking the transaction (detail checking or test checking)

Internal Check is said to have the following fundamental aims:-

- 1) Early Prevention and detection of fraud and errors
- 2) fixes Responsibility of specific Person
- 3) Obtain Confirmation of facts and Entry from necessary staff

Internal Check / → ans by employee

27) Internal Control Questionnaires →

→ Internal Check System Questionnaires is a list of systematically and logically prepared questions designed to find out and evaluate the effectiveness of the internal check system regarding various aspects and accounting transaction of an organization.

→ The Questionnaire are to be as comprehensive as possible in nature to make sure that all aspects and accounting transactions are covered which are to be replied by the official of the department or division concerned.

→ It can be issued at any point of time and reported back immediately.

→ It is issued to various people at different levels in the organization

→ It contains questions to be answered by the employees of the organization

→ The objective is to collect the information to know about the internal control system and to evaluate the weakness therein.

28) Check List → It is issued at the commencement of audit and reported back after completion of audit

→ Check List is issued to the audit staff to be followed by them during audit and reported back at completion.

31) Difference betⁿ Test Checking And Statistical Sampling

Basis	Test Checking	Statistical Sampling
Selection	Selective transactions are verified	Drawing a sample from a large no. of transactions
Technique	No specific technique is used	Statistical technique used is selection on random bases.
Subjective	It is subjective, and depends upon the choice of the auditor	It depends upon the statistical technique applied.
Risk & Method	More Risk. No specified Method	Lesser Risk Statistical Method can be used at different times

Dec 2001 Q2 → safeguarding of assets.
32) INTERNAL CONTROL →

The Internal Control System comprises all the methods and procedures adopted to assist in achieving the objective of efficient conduct of business. Ensure adherence to management policies, safeguarding of assets, prevention and detection of frauds and error, and checking the accuracy and completeness of the accounting records.

Internal Control System = Internal Check + Internal Audit

Essentials →

- 1) Proper Internal Check
- 2) Proper Internal Audit System
- 3) Proper Review and authorization of all the transactions before they are recorded in the Books of a/c and safeguard all Business assets.
- 4) Proper division of functional responsibilities.
- 5) Proper Assignment of duties to perform and record all the transactions
- 6) Adherence with management policies.

Objective →

1) Reliance → Auditor should verify the Reliance of Internal Control system, Employees of the Organisation so that Chances of fraud shall be reduces.

2) Compliances → Auditor should Comply with Law and Regulation and generally accepted principal followed in Country

3) Safe guarding → Auditor should verify that Whether Organisation safe guarding the assets in accordance with formulation of rules policies and regulations made by management

- 4) Increase Efficiency → To Assist human resources and performance management and to keep proper control over the Business activities, increase the Efficiency of operations.
- 5) Evaluations → Auditor should Evaluate proper accounting system and authorization of transactions.
- 6) Authorization → Auditor should verify that any transaction which requires authorisation in respective of ~~the~~ purchase, sales Asset has been Executed with approval of higher authority.
- 7) Resources Utilization → Auditor should Ensure that man, money and other Resources are optimally utilized and there is no abnormal Loss while Utilization of such Resources.
- 8) Review and Correcting → Auditor should Review the working of Business and identify weak points of operation and take Corrective action in order to Rectify such deficiency.
- 9) delegation → Auditor should verify that if any duty is delegated then such duty shall be performed in appropriate manner and Ensure that duty is delegated by appropriate authority.

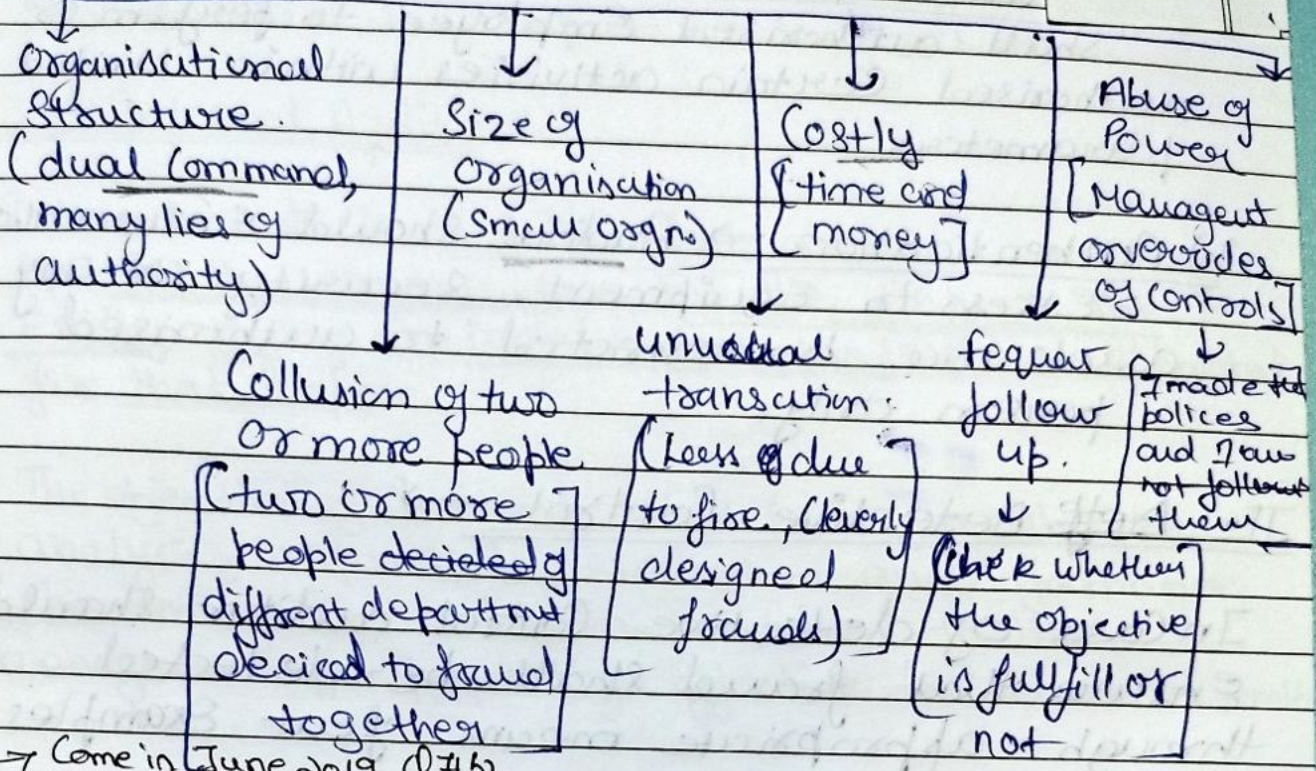
Advantages →

- 1) Efficiency and Effectiveness → A good Internal Control System Ensure that resources shall be utilized for this intended purpose and help them to reduce risk associated with mismanagement of fund & Resource of orgn.
- 2) Employee Satisfaction → A good ICS shall protect the Employee by way of suggestion of duties and delegation of Responsibility
- 3) Prevention & Detection of Irregularities
With the help of ICS various irregularities shall be prevented and if unable to prevent on timely basis then it can be detected through good Internal Control System
- 4) Safeguard from Misappropriation → A good ICS safeguard the Interest of orgn. and resources of orgn. from misappropriation

Importance

- 1) Attainment of goals and objective
- 2) Prevent Errors and fraud
- 3) Reliable financial information
- 4) Compliance with Law & Regulation
- 5) Efficient & Effective operations

Limitations :-



→ Come in June 2019 Q71b

Types of Internal Control System →

To Preventive Internal Control →

This control are design to discourage errors and irregularity from occurring. It is a protective control and ensure that department shall active utilization of resources is most effective efficient manner

eg

- 1) Segregation of duties → duties shall be segregated among different people to reduce the RISK

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2) Approval and Authorization → Management shall authorised Employee to perform or authorised Certain activities within Limited parameters

3) Authentication → Auditor should Ensure that Excess to Equipment, Security or any assets are be restricted to authorised person only.

II. Detective Control →

In Case of detective Control auditor should Ensure that fraud shall be detected through appropriate means few Examples are :-

1) Review of Performance → Management should Compare the information about Current performance with Budget in order to Ensure about Level of target achieve. and if there is any deficiency then Corrective action can be taken.

2) Audit

3) Physical Verification

4) Reconciliation.

III. Corrective Control →

In Case of Corrective Control auditor should take appropriate steps in order to rectify irregularity or fraud detected during the course of audit

Such action shall be taken on timely basis in order to minimize the impact on organization.

33.) Internal Audit →

→ Internal audit is an independent appraisal activity within the organization by the staff of the entity or by an independent professional appointed for that purpose.

→ The objective of Internal audit is to furnish the analysis, appraisals, suggestions and information concerning the activities reviewed to the management for promoting effective control at reasonable cost.

5 areas of operations:-

- 1) Reat Reliability and integrity of financial and Operating information
- 2) Compliance with Law, policies, plans, Procedures and regulations.
- 3) Safe guarding of Assets
- 4) Economic and Efficient use of resources
- 5) Accomplish of Established objectives and Goals for operations.

Need of Internal Audit →

- 1) Increased size and complexity of Businesses
- 2) Enhanced Compliance requirements.
- 3) focus on risk management and Internal Controls to manage them.
- 4) Unconventional Business models
- 5) Intensive use of Information technology
- 6)

Internal audit is an important management tool for the following reasons :-

- 1) Internal audit ensures compliance of Companies order 2016.
- 2) It ensures compliance of accounting standards and policies
- 3) focus on risk Management
- 4) Intensive use of IT
- 5) Performs as an integral part of Management by stem system.

Advantages of Internal Audit →

1) Management →

- Review of IC System
- Deviations in Procedures
- MIS appraisal
- Suggestions for Improvement

20) Statutory Auditor →

- Can reduce no. of test
- Reliance on Stock Valuation
- Timely Completion of a/c
- Year End - Contingent Liabilities Existence.
- Correction of FS

30) Organization of other stake holders →

- Accurate & Efficient Accounting System
- Critical review of Business Performance
- Safeguarding of Assets.
- Means of Improvements
- Prevents Errors and fraud
- Check on resource Utilization.

34) VOUCHING →

→ Vouching is a piece of substantiating evidence (Supported Evidence) in written record of expenditure & disbursement, transaction
eg- Cash memo, sales or purchase invoice.

→ Vouching is Examination of documentary Evidence to check the Authority of transaction it is the Essence or backbone of auditing.

Types → 1) Original & ~~for~~ Collateral vouchers
→ Primary & supporting or Copies
(Sales Invoice)

2) Internal & External Vouchers → Inside or Outside the Company (Purchase order)

3) Missing vouchers → vouchers not found

Reasons for missing vouchers →

1) Wrong or Careless filing.

2) Unawareness of Statutory Requirement
(muje pta hi nhi ki muje ye Entry eg. TDS file krna tha)

3) Intention to hide / misappropriate.

⊙ Auditor should cross verify with other documents.

⊙ Issue appropriate report.

Teaming & Lading / Lapping

It is a method of misappropriation of cash where in the concealing cash shortage recoveries from another customer.

35) Verification → means providing the truth.

→ verification shall be done after End of the financial year

→ Verification requires technical skills regarding valuation there for usually it shall be done by practising CA

→ In case of Verification fraud can be only detected

Dec 2018 @ 76

360) Internal Audit v/s Internal Control v/s Internal Check. ↓

Basis	Internal Audit	Internal Control	Internal Check
1) Way of checking	Each Component is Checked	Automatically Checked	Doubtly Check
2) Objective	Evaluate Internal Control System	Adherence to Policies, Safeguarding assets	Segregation of duties - No Exclusive Control
3) Point of time	After Occurrence	Simultaneously with Occurrence	Continuously
4) Focus	Detect fraud & Errors	Prevent Errors	fixing of responsibility
5) Cost	Additional Cost Involved	Costly in small Business	No additional Cost
6) Report	To Management	NAIS Report	for seniors

Study Note - 7

I] Auditor's Qualifications, Disqualifications, Appointment, Remuneration, Removal, Powers and Duties:-

Sec 139 → Appointment of Auditors. →

→ Sec 201B

<u>1) first Auditor Particulars</u>	<u>Sec 139(6)</u> Non-Govt Company	<u>Sec 139(7)</u> Govt Company.
<u>1) Appointment</u>	<u>BOD (30-90)</u>	<u>CAG (60-30-60)</u>
<u>2) Time Limit</u>	Within <u>30 days</u> from the date of registration of the Company.	Within <u>60 days</u> from the date of registration of the Company.
<u>3) Consequence of failure to appoint</u>	<p>If ^{BOD} YASB do not appoint the first auditor on time, It shall inform the <u>members of the Co.</u> who shall <u>within 90 days at the EGM</u> shall appoint the auditor. [Max. time = 120 Days]</p>	<p>If CAG fails to appoint by the <u>BOD</u> of the Co. <u>within next 30 days</u>. shall appoint, If <u>Again BOD</u> fails to appoint the auditor then it shall inform to <u>the members of the Company</u> who shall appoint such auditor <u>within 60 days at an EGM</u>. [Max time = 120 days]</p>

2) Sub-sequent Auditor

Particulars	Non Govt Company Sec 139(1)	Govt. Company Sec. 139(5)
1) <u>Appointed</u>	Shareholders	CAG
2) <u>Time Limit of Appointment</u>	At the AGM	Within 180 Days of Commencement of F.Y.
3) <u>Tenure of auditor</u>	Till the Conclusion of its 6 th AGM. (means 5 Years)	Till the Conclusion of the AGM (means 1 Year)

3) Pre-requisite. Before appointment of Auditor →

Before appointment of an auditor is made following Certificate are required to be obtain from the auditor:-

- (i) The written consent of the auditor to such appointment and,
- (ii) Must fulfill the Conditions as may be prescribed by the Companies Act 2013
- (iii) The Certificate shall also indicate whether the auditor satisfies the criteria provided in sec 141 i.e. (Eligibility, qualification & disqualification of auditor)

The Company shall inform the auditor concerned of his or its appointment and also,

file a notice of such appointment with the Registrar within 15 days of the meeting in which the auditor is appointed [in ADT-1]

Sec 139(8) → Casual Vacancy

which occurs after the appointment of the auditor due to death, Resignation or disqualification etc. In such case New Auditor should be appointed.

Particulars	Non Govt Company	Govt Company
1) <u>Appointment</u>	BOD	CAG
2) <u>Time Limit</u>	<u>30 days</u> of the vacancy occurred.	<u>30 days</u> of the occurrence of vacancy. In case, <u>CAG does not</u> fill the Casual vacancy within the due date, <u>BOD</u> shall fill the vacancy <u>til Next 30 days</u> .
3) <u>Special Conditions in Case of Casual Vacancy on Reg Resignation of the auditor</u> { Refer Sec 140 (2) for details	<p><u>Resigning</u></p> <p>1) The <u>Resigning auditor</u> shall file a statement with:-</p> <p>(a) The <u>Company</u></p> <p>(b) The <u>Registrar</u> stating the reason for Resignation.</p> <p>The appointment of the</p> <p>2) <u>New Auditor</u> should be <u>Approved by the Company at AGM</u>.</p> <p>3) Such <u>New Auditor</u> holds the office <u>til conclusion of the Next AGM only</u>.</p>	<p>The <u>Resigning auditor</u> shall file a statement with:-</p> <p>(a) The <u>Company</u></p> <p>(b) The <u>Registrar</u> and</p> <p>(c) The <u>CAG</u> stating the reason for Resignation.</p>

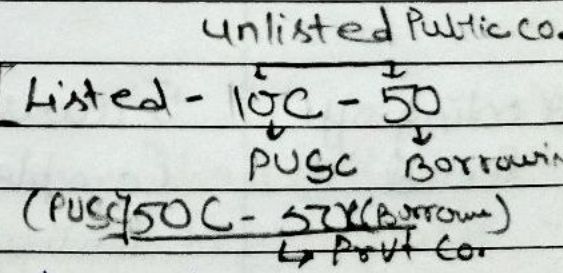
Sec 139 (9) → Conditions for Re-appointment of Retiring Auditor

- (i) He is not be disqualified for Re-appointment under the Act
- (ii) He has not given the Company a notice in writing of his unwillingness to be re-appointed and,
- (iii) A Special resolution has not been passed at that meeting appointing some other auditor or providing Expressly that he shall not be re-appointed and
- (iv) He has not furnished a written Certificate that he is Eligible under the Ceiling Limit under Sec 141 (3)(g)

Note → Where at any annual general meeting No auditor is appointed or re-appointed, the Existing auditor shall continue to be the auditor of the Company.

Where Sec 177 is applied, all the appointments, including the filling of a casual vacancy of an auditor shall be made after taking into account the recommendation of such Committee.

Sec 139(2) → Rotation of Auditors.



- Applicability →
- 1) All Listed Companies
 - 2) All unlisted Public Company having:—
 - Paid up Capital = 10C or more
 - Borrowing from financial Institution / Bank = 50C or more

- 3) Private Company having →
 - Paid up Capital = 50C or more
 - Borrowing = 50C or more

Exclusion → one person company & small Co.

1) Types of Auditor	When an Individual is the Auditor	When a firm / LLP is the auditor.
2) Tenure	<p>The Retiring auditor shall not be re-appoint for more than one term of initial 5 years. [means - 5 years]</p>	<p>The retiring auditor shall not be re-appointed for more than two terms of initial of 5 years. [means 10 years]</p> <p>If a partner, who is in charge of an audit firm and also certifies the financial statements of the company, Retires from the said firm and joins another said firm and Chartered accountant such firm shall be eligible to be appointed for a period of 5 years</p>
3) Cooling off Period	5 years from the completion of the initial term	5 years from the completion of the initial term.

ADT-2 → removal of an auditor

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1) Removal, Resignation of Auditor and Giving of Special Notice → Sec 140

→ June 2019 (O&B)

Sec 140(1) → Removal before expiry of term. →
[BR - 30 - 60]

1) Board Resolution to be Passed to Remove the auditor before the expiry of their term.

2) Application to be made to the Central Government within 30 days of the Board Resolution in form ADT-2

3) The Company shall hold the general meeting within 60 days of receipt of approval of the Central Government for Passing the Special Resolution.

4) The auditor concerned shall be given a reasonable opportunity of being heard before removal.

Sec 140(2) → Resignation of the auditor →

1) The auditor shall file (within a period of 30 days from the date of Resignation), a statement with the Company and the Registrar.

2) The auditor of a government Company shall additionally file statement with CAG indicating the Reason and other facts as may be relevant with regards to his Resignation.

ADT2 → Remove the auditor

ADT3 → Reason of Resignation of Auditor

Magic

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Sec 140(3) → Breach of Section 140(2) →

If the auditor does not comply with the provision of sub-section (2), he or it shall be liable to a penalty of 50,000 Rs ~~to 500,000 Rs~~ or an amount equal to the remuneration of the auditor, whichever is less, and in case of continuing failure, with further penalty of 500 Rs of each day after the first during which such failure continues, subject to a maximum of 500,000 Rs. [In short, 50,000 ₹ or 500/- Each day till max 500,000 ₹]

Sec 140(4) → Removal after expiry of term →

- 1) Unless the auditor has completed a consecutive tenure of 5 years or 10 years as the case may be, His removal shall be approval vide a Resolution in the AGM after giving a Special Notice.
- 2) The Special Notice must contain the Information on the Representation (if any) made by the Retiring auditor.
- 3) A Copy of the Representation shall be sent to all the members.
- 4) If the Copy of the Representation is not sent, because it was received too late or because of the Company's default, the auditor may require that the Representation shall be read out at the meeting.

5) Company or any other aggrieved person may apply to tribunal for not sending or reading the representation if this right is being abused by the auditor.

6) If the tribunal is satisfied, the auditor is misusing the power of Representation, not to be sent the representation need not to be read out at the meeting.

Sec 140(5) → Direction by Tribunal for Removal of Auditor

1) The Tribunal either suo motu or on an application made to it by the Central Government or by any person concerned, if it is satisfied that the auditor of a company has, whether directly or indirectly, acted in a fraudulent manner or abetted or colluded in any fraud by, or in relation to the company or its directors or officers, it may, by order, direct the company to change its auditor.

2) Any change of the auditor is required, it shall within 15 days of receipt of such application,



Sec 141 →

Eligibility, Qualifications and disqualifications of Auditors →

Sec 141(1) & Sec 141(2) → Eligibility to be Appointed as Auditor →

- 1) A person shall be Eligible for Appointment as an auditor of a Company only if he is a CA.
- 2) A firm where of majority of partners practising in India are qualified for Appointment as a firm said may be Appointed by its firm name to be auditor of a Company.
- 3) Where a firm including a LLP is appointed as an auditor of a Company, only the partners who are CA shall be authorised to act and sign on behalf of the firm.

Sec 141(3) → Disqualification of an Auditor →

1) A Body Corporate other than a Limited Liability Partnership Act 2008.

Officer or Employee

An officer or Employee of the Company;

Employee or Partner

A person who is a partner or who is in the employment of an officer or Employee of the Company.

~~4) A person who is a partner, or who is in the employment of an officer or Employee of the Company.~~

Security

4) A person who, his relative or partner
 is having holding any security of or interest or its subsidiary, or of its holding or associate Company or a subsidiary of such holding Co. Provided that the relative may hold security or interest in the Company of face value not exceeding Rs 100000

If the auditor knows that the relative having security more than the threshold limit (100000) He should sell within 60 days of such Acquisition or interest

Loan

5) In Indebted (Loan) to the Company, or its subsidiary or its holding or associate Company or a subsidiary of such holding Company, in Excess of Rs 500000 or

Guarantee of 3rd Person

He not giving a guarantee or provided any security in connection with the Indebtedness of any 3rd Person to the Company or its subsidiary, or its holding or associate Company in Excess of Rs 100000.

Business relationship

A person or a firm who, whether directly or indirectly has Business Relationship with the Company, or its subsidiary, or its holding or associate Co. of such nature as may be Prescribed.

Director or pm/s

6) A Person whose relative is a director or is in the Employment of the Company as a director or Key Managerial Personnel.

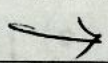
7) A person who is in full time Employment ~~else~~ where a person or a partner of a firm holding Appointment as its Auditor, If such person or partner is ~~not~~ at the date of such Appointment or Re-appointed holding Appointment as auditor of more than Twenty (20) Companies, other than Branch audit, Internal Audit, Tax audit, One-person Company, dormant Companies, small Companies and Private Companies ~~small Companies~~ ~~and~~ having paid up Capital Less than 100 Crore.

Convict

8) A Person who has been Convicted by the Court of an offence involving fraud and a period of 10 Years has not Elapsed from the date such Conviction,

Sec 144
service
provided

A person who directly or indirectly, tenders any service Referred to in Sec 144 to the Company or its holding Company or its subsidiary Company.



Sec 141(4) → Subsequent Disqualification of an auditor

Where a person appointed as an auditor of the Co. incurs any of the disqualifications mentioned in Sub Sec. (3) after his appointment, He shall vacate his office as such auditor and such vacation shall be deemed to be a Casual vacancy in the office of the auditor.

Sec 142 → Remuneration of the auditor

First Auditor → The Remuneration (including the out of pocket Exp) is fixed by BOD

Subsequent Auditor → The Remuneration (including the out of pocket Exp) is fixed by in General Meeting or in the manner prescribed in such meeting. — Shareholders

However, this does not include any remuneration paid to him for any other service rendered by him at the request of the Company like advisory services.

→ June 2019 [2019], Sec 201 [2017]

Sec 143 → Powers And Duties of Auditor → Powers / Rights

1) Right of access to the Books of Accounts and vouchers of the Company, at any time whether kept at the Registered office of the Company or at any other place.

20) Right to Inquire / Require from the officers of the Company such Information and Explanation as he may consider Necessary for the performance of his duties as auditor including the following matters.

- (a) Whether the Loans and advances made by the Company are fully secured and they are not prejudicial to the interest of the Company
- (b) Whether personal Exp ~~are~~ have been charged to P&L A/c.
- (c) Whether the Position stated in the financial statement is correct and not misleading
- (d) Whether any assets of the Company were sold below the purchase price.

30) In case of an audit of a holding Company the auditor may also access the records of all the subsidiaries for consolidation purpose.

40) Rights to Receive notice to attend and to be heard in the general Meeting [sec 146]

50) Right to Report to the members of the Co. on the account Examined by him.
The report should conclude whether the financial statement give a true & fair view the ~~Statement~~ Statements of the Company Affairs.

6) Right to Lien auditor can Exercise Lien on Books and documents placed at his possession by the Client for non payment of fees, for work done on the Books and documents

7) In Case of Government Companies the (AG) has the Power to Conduct a test audit / supplementary ^{or} audit in addition to the regular statutory audit

Duties →

1) To Inquire into all Relevant matters Before issuing the Report Reporting is to be done if anything adverse is discovered in the Course of audit

2) To Report on all the Relevant matters which affect the true & fair view of the financial statements Especially on the matters specified in Companies Order 2016 or ~~Govt~~ (CARO 2020)

3) To Report on the Adequacy of Internal financial Control (IFC) of the Company.

4) To State the reasons for qualification or negative Report - In case auditor issue a negative/qualified report, the report shall state the reasons therefor

5) To Report on the Branch financials after ~~considering~~ considering the report of the Branch Audit

6) To Report on frauds.
more than 1 crore → report the matter to (C) within 60 days

Less than 1 crore → report to the audit Committee.

7) To sign the audit Report [Sec 145].
 It is to be sign by CA

8) To Comply with Auditing standards.
 Dec 2019 (1) & Dec 2021 (2)

Sec 144 → Auditor not to render certain services

If Auditor is Engaged in providing following service the he can't appointed as an External Auditor of a Company

- 1) Internal Audit services
- 2) formulation and Implimentation of Internal Control services.
- 3) Management Consultancy services.
- 4) Investment Banking Services
- 5) Acturial services.
- 6) Book-keeping services
- 7) Any other services as may be notified.

Sec 145 → Auditors to Sign Audit Reports, etc. →

The person appointed as an Auditor of the Company shall sign the auditor's report or sign or certify any other document of the Company.

Sec 146 → Auditors to Attend General Meeting

All notices of and other Communications relating to any general meeting shall be forwarded to the Auditor of the Company, and the auditor shall unless otherwise Exempted, by the Company, attend either by himself or through his authorised representative, who shall also be qualified to be an auditor, any general meeting and shall have right to be heard at such meeting on any part of the Business which concerns him as the auditor.

→ Sec 2019 (8a)

Sec 147 → Punishment for Contravention of sec. 139 to 146 →

for the auditor →

- 1) for unknowing Defaults → fine Rs 25000 to Rs 500000
- 2) for knowing / willful Default → fine Rs 100000 to Rs 25,00,000
 & Imprisonment for 1 Year

Where the Cost auditor is convicted, he/she shall be required to

- (a) Refund the Refundation received by him and
- (b) Pay for Damages to the Company.

for the Company → fine of Rs ₹ 25000, to Rs 500 000

for the officer of the Company →

Imprisonment for 0-1 Year and /
fine of Rs 10000 to Rs 100000

→ Dec 2018 (18/0)

Sec 177 → Audit Committee →

POSC to Company
↑ ↑ ↑
Listed - 100 - 1000 - 500
Public Co.

Constitution of an Audit Committee is mandatory for the following Companies:-

(a) Every Listed Company

(b) All public Companies with ~~paid up share~~

→ Paid up Capital of Rs 10 Crore or more

→ having Aggregate of Loan or Borrowing and debentures or deposit Exceeding 50 Crore or more.

→ T/A = 100 Crore or more

Constitution of Audit Committee →

→ Minimum 3 Directors majority of them should be Independent directors,

Majority of the members able to Read & understand the financial statement.

functions →

(a) Appointment and fixation of the Remuneration of Auditor

- 2) Examination of the financial statement
- 3) ~~Review~~ Valuation of Assets of the Company
- 4) Evaluation of Internal Control System of organisation. & Risk management system of the Entity.
- 5) Evaluation of the use of the funds raise through public offer.
- 6) Evaluation of Public Related Transaction.

Powers →

- 1) To call for comments / observation of the Auditor about Internal Control system and other matters
- 2) To review the financial statement before they are submitted to the Board.
- 3) To discuss any issues with the Statutory & Internal Auditor and the Management of the Company in relation to matter contained in the financial statements.

II) Cost Audit, Secretarial Audit →

→ (June 2019) (191a), Dec 2018 (191a), Dec 2019 (191a), Dec 2021 (191a)

Sec 148 → Cost Audit →

~~Work~~ In Case of Regulatory Sectors Like :-

- (a) Transmission and distribution of Electricity
- (b) Production of fertilizer
- (c) Tele Communication services
- (d) Petroleum Product
- (e) Drugs and Pharmaceutical Product
- (f) Sugar and Industrial Alcohol

In above case Cost audit shall be applicable if ~~P.Y~~ P.Y Turnover is more than \Rightarrow 50 Crore or more
 And

$$\frac{\text{Agg. Turnover of Individual Product}}{\text{of service}} = \frac{25 \text{ Crore or more}}{\text{more}}$$

2) In case of Non regulatory Sector Cost audit is Compulsory if P.Y Turnover is more than 200 Crore or more.

AND

$$\frac{\text{Agg. Turnover of Individual Product}}{\text{of service}} = \frac{35 \text{ Crore or more}}{\text{more}}$$

Cost Records \rightarrow

1) Every Person to whom Cost Audit is Applicable is Required to maintain detail Cost Records over and above book of Accounts Prescribed under Sec 128 (2) of Companies Act 2013.

2) Regulatory Sector who's P.Y T/O is more than 25 Crore should Compulsory maintained Cost Records.

3) In case of Non - Regulatory Sector who's P.Y. T/O is more than 35 Crore.

4) The Cost Records are to be maintained in form ~~of~~ CRA-4 which provides Principles to be followed for different Cost Element

5) The Cost audit report is required to be in conformity with the "Cost auditing Standards" as referred to in Sec 148 of Companies Act. 2013.

Co. to CG
CRA 2

Appointment of The Cost Auditor → Procedure →

1) Appointed by BOD within 180 days on the recommendation of the Audit Committee.

2) The Cost Auditor proposed to be appointed is required to give a letter of consent to the Board of Directors.

3) The Company shall inform its appointment as such and file a notice of such appointment with the Central Government within a period of 30 days of the Board Meeting in which the appointment is made or within 180 days of the commencement of the FY. [whichever is earlier]
in electronic mode in form CRA-2 along with fees.

4) Any casual vacancy in the office of a Cost auditor, whether due to resignation, death or removal, shall be filled by BOD within 30 days of occurrence of vacancy. and, The Co. shall inform the CG in form CRA-2 within 30 days of such Appointment.

Who can be appointed Cost auditor?

Only a Cost Accountant as defined under Sec 2(28) of the Companies Act 2013.



4) 98 Rotation Applicable to Cost Auditor?

No, Rotation is not Applicable to Cost Auditors.

Remuneration of the Cost Auditor?

In case of Audit Committee → BOD in consultant with Audit Committee.

In case of other Companies → BOD.

Cost Audit Report →

Auditor is required to submit Cost Audit Report along with his or its reservations or qualifications or observations or suggestions, if any in form CRA-3 to BOD of the Co. within the period of 180 days from the closure of the FY to which the report relates.

Form for filling Cost Audit Report with the Central Government

Every Company to whom Cost auditor submits his or its report shall within a period of 30 days from the date of receipt of a copy of the Cost audit report furnished to the CG in form CRA-4 along with the fees.

Secretarial Audit → Sec 204 [Listed - 500 - 2500] ^{Public Co.}

- Every Listed Company
- Company to file all assistant and facilities to the Company secretary in practice.
- BOD shall explain full any qualification or observation or other remark
- If does not follow fine which shall not be less than 1 Lakh Rs But which may extend to 5 Lakh.

Applicability → 1) Every Listed Company

- 2) Every Public Company having
 - Paid up share Capital = 50 Crore or more
 - Turnover = 250 Crore or more

~~///~~ The Secretarial Audit Report is required to be provided in the format prescribed in form - MR3

o) Management Responsibility →

- Maintenance of Books of Accounts.
- Selection and Application of Accounting Policy
- Estimation of Accounting Estimates [eg. RDD]
- Formulation and implementation of Internal Control System.
- Prevention & detection of fraud's Error.
- Safeguard of Assets.

Difference between Audit Report and Audit Certificate

rec 2019 & 9b Elements 02 Dec 2021

Basis	Audit Report	Audit Certificate.
Meaning	<p>Audit Report is a statement of collected and considered information so as to give a clear picture of the state of affairs of the Business to the person who are not in possession of the full fact</p> <p>Audit report is also called as ^{the} ultimate & final product of every audit</p>	<p>Audit Certificate is a written confirmation of the accuracy of the information stated there in.</p>

Opinion.	Audit Report contains the <u>Opinion</u> of the auditor on the accounts	While Audit Certificate does not contain any opinion but only confirms the <u>accuracy</u> of the figures with the Books of Acc.
Basis	Audit Report is made out of <u>Basis of Information</u> obtained of Books of accounts verified by auditor	While audit Certificate is made out of on the <u>Basis</u> of the <u>particular data</u> capable of <u>verification</u> as <u>regard accuracy</u>
Guarantee	Audit report may not guarantee <u>Correctness of financial statements</u> in <u>absolute terms</u>	Audit Certificate <u>guarantees</u> <u>absolute</u> <u>Correctness</u> of the figures & information mentioned in the Certificate
Coverage	Audit Report always <u>Covers</u> <u>Entire accounts</u> of the Concern,	Audit Certificate <u>Covers</u> <u>only certain part</u> of the accounts of the Concern.
Responsibility	Audit Report does not hold auditor responsible for anything wrong in the a/c's	Audit Certificate makes an auditor responsible if anything mentioned in the Certificate found as wrong later on.
Suggestions	Audit report may provide <u>certain suggestions</u> for <u>improvement</u>	Audit Certificate may <u>do not</u> provide any <u>suggestions</u> ,

<p>Nature</p>	<p>Audit Report is based on the <u>Vouching</u> & <u>Verification</u> of Books of accounts, <u>Voucher</u>, <u>assets</u> & <u>Liabilities</u>.</p>	<p>While Audit Certificate is based on <u>Checking</u> <u>Arithmetical accuracy</u> of <u>the facts</u>.</p>
<p>Scope</p>	<p>Audit report <u>Covers all transactions</u> done during the <u>Year</u></p>	<p>Audit Certificate is <u>Very specific</u>.</p>
<p>Characteristics</p>	<p>is <u>Subjective</u> as it is <u>opinion oriented</u></p>	<p>is <u>objective</u> as it is <u>fact oriented</u></p>
<p>Form.</p>	<p>Audit Report is required to be presented in the <u>prescribed format</u></p>	<p>Audit Certificate, <u>except in few cases</u> not required in <u>format</u></p>
<p>Address</p>	<p>Audit report <u>Addressed to the members of the Co. at large</u> or <u>appointing authority</u></p>	<p>Audit Certificate is addressed to <u>particular Person</u> or <u>business</u> may include the <u>words like "To whomsoever it may concern"</u></p>

CMA STUDENT CORNER

BY:- Ritika Jangid

Magic

DATE

PAGE

IV) Miscellaneous Audit →

→ Sec 2019(19a)

A) Branch Audit → Sec 143(8)

1) As per this sec if any company having branch in India or outside India then person who is undertaking audit of head office shall be considered as "PRINCIPAL AUDITOR" and person who is undertaking audit of branches shall be considered as "BRANCH AUDITOR".

2) Principle auditor may undertake the audit on his own for branches he may appoint another person who is qualified to undertake the audit as per audit of law.

3) Branch auditor shall undertake Branch audit and submit the copy of audit report to Principle Report

4) After receipt of copy from Branch auditor Principle auditor should consolidate the audit report and submit copy to share holders.

5) Rights, responsibility, duties, qualification, disqualification of Branch auditor shall be same as principle auditor.

6) Provs of Sec 143(12) [Reporting of fraud] is also applicable to branch auditor.

B. Joint Audit → SA-299

1) SA-299 deals with responsibility of Joint auditor when two or more auditors appointed in order to undertake the audit same client then such audit shall be considered as Joint Audit

2) In Big orgⁿ where individual auditor submit cannot complete audit on time or his own then in order to complete on time orgⁿ may appoint another person in order to overcome such situation

→ see 201 Qs

Advantages →

- 1) Reduction in workload
- 2) Timely completion of audit
- 3) Proper quality of services.
- 4) Sharing of orgⁿ knowledge.
- 5) Healthy competition etc.

Disadvantages →

- 1) Conflict of Interest
- 2) Costly for small orgⁿ
- 3) Psychology Problems [Different views]
- 4) Uncertainty about Liability of work
- 5) Difficult in fixing Responsibility etc.

Reporting by Joint Auditor → Usually Joint auditor should arrive at unanimous [100% Majority] Conclusion, However if there is any conflict of opinion on certain matter then auditor should report jointly on agreed matter and separately on disagreed matter [No Majority Rule are Permitted]

C) Audit of Share Capital / Securities →

- 1) Auditor should insure that shares has been issued as per the terms prescribed in the Prospectus
- 2) Examine the terms of Prospectus, other Conditions Speculated there in Relation of issuance of share and underwriting obligation if any.
- 3) Auditor should insure that Amt of share issued is not exceeds then subscribe Capital.
- 4) Amt Raised by way of subscription of share should be deposited in ESCROW Account
- 5) Mode of allotment of share in case of over subscription or liability of ~~under~~ underwriter in case of under subscription should be verified
- 6) Auditor should verify that amt received as application money shall be at least 5% of face value
- 7) After completion, allotment process whether Company has filed Return of allotment of ROC.
if any default in filing then such default should be maintained.

June 2019 class

Changes

Page
DATE
PAGE

d) Sec. 61 → Alteration of Share Capital →

- 1) If there is any changes in subscribed Capital or memorandum of shares or sub-division of shares will amount to alteration of share Capital.
- 2) Alteration of share Capital should be authorized by AOA
- 3) BOD should Pass Board Resolution in Board Meeting for Alteration of share Capital
- 4) Auditor should Insure that Changes in share Capital should be Incorporated in MOA and after making such Changes Revised ~~sequest~~
 * Certified Copy of MOA submitted to ROC.
- 5) Auditor should Insure that Changes done in share Capital shall not be prejudice to interest of Company.

e) Sec. 63 → Bonus Share →

- 1) Bonus shares shall be authorized by AOA
- 2) After issuance of Bonus share he should Capital not be issued that subscribes Capital.
- 3) Before issuance of Bonus shares partly paid up of share shall made fully paid up.

- 4) Bonus Shares should be authorised by Passing Board Resolution in Board Meeting.
- 5) Company should not make any default Principle or interest of Loan or other statutory dues.
- 6) Bonus should not guaranteed in Views (Non-behalf) of Divident.
- 7) Bonus should not be Revaluation Assets.
- f) Sec 68 → Buy Back [Purchase of own shares] →
 - 1) As per Sec 68 of Companies act 2013 if Company purchase its own shares then it will amount to buy back.
 - 2) Buy Back should be Authorised by AOA.
 - 3) Buy Back should be Authorised by BOD by Passing Board Resolution in Board Meeting.
 - 4) If any Buy Back during the Year is ~~Exceed~~ Exceeds the 10% Paid up share Capital then it should be authorised by Passing Special Resolution in BM.
 - 5) Buy Back during the Year should not Exceeds then 25% of paid up share Capital and free Reserve.
 - 6) Before buy Back Partly paid up shares made fully paid up.

- 7) In the Year of Buy Back, same Class of Shares Can't be Re-issued
- 8) Post Buy Back Debt Equity Ratio should not be Exceed then 2:1
- 9) Due to Buy Back Changes in Share Capital if any should disclosed.
- 9) Share Transfer Audit →
 - 1) Transfer of share should be authorized by AOA
 - 2) Auditor should insure that in case of transfer of share transferor have to submitted transfer deed in order to Executive transfer
 - 3) Company Requires to Pass Board Resolution of members in order to transfer shares.
 - 4) Company should verify the Records of Registered of members in order to insure @ transactions
 - 5) Transfer is required to submit power of attorney if transfer is Executed through agent
 - 6) Transferee is required to pay registration fees in Relation to transfer.

7) Share transfer Procedure should be Completed within 60 days from the date of Passing of Board Resolutions.

8) Management should verify signature on transfer deed.

9) Name of transferee should be incorporated in Reg. Resignation of member.

→ see 2019 Q10p1

h) Audit of Debenture →

1) Issue of Debenture should be authorised by AOA

2) Company shall have a Option either issue Debenture wholly (fully) redeemable or partly Redeemable and partly Convertible.

3) In case of secure debenture, auditor should insure that ~~appor~~ appropriate security has been Created in order to Redeem such debenture.

4) Auditor should insure that appropriate interest has been paid to debenture holder at appropriate interval.

5) Auditor should inspect the Copy of debenture Trust deed and there. Respective terms and Conditions.

6) In case of Redemption of debenture for divisible profit appropriate amount should be transferred to CRR.

7) If debenture issue as a Co-lateral (additional) security to any bank and financial Institute as a financial arrangement then auditor should verify the terms and Conditions of such agreement.

8) In case of secure debenture against assets appropriate charge should be ~~is~~ Created.

June 2019 Q1(a)

i) Audit of Divident →

Divident shall be ~~Catego~~ Categorised into two parts:-

- (a) INTREM DIVIDENT → Divident which has been paid during the Year.
- (b) FINAL DIVIDENT → Divident which has been paid after End of financial Year.

- 1) Divident should be recommended by BOD in BM ~~by~~ by passing BR.
- 2) Divident should be paid out of divisible profit.
- 3) Divident should be approved by Shareholders.
- 4) Divident should be approved by passing ordinary Resolution (OR) in ~~GM~~ GM.
- 5) Divident amount should be transferred to ESCROW ACCOUNT within 5 days from the passing of Resolution.
- 6) Divident should be paid within 30 days from the date of approval of Divident if Company fails to do so then Company is liable to pay such divident along with Interest.
- 7) Divident once declared cannot be Revoked
- 8) Divident should be paid in Cash.
- 9) If any amt Remaining in ESCROW A/c after completion of 30 days then such amount should be transferred to unclaim divident account. It shall be Retain in that A/c for the period of 7 Years. If any Investor fail to Claim such amt then after Expiry of 7 Years it shall be T/f to Investment Education Protection Fund.

Dec 2016 (Q10 a)
unpaid dividend

j) funds credited to JEPP (Investment Education Protection fund) →

As per Sec 205 (c) of Companies act 2013 following amt should be credited to JEPP

- 1) Amt Retained in unclaimed amount after expiry of dividend amount
 - 2) Application money received but shares not allocated
 - 3) Deposits Matured but unclaimed with Companies and banks.
 - 4) Debenture Matured with Companies
 - 5) Amount Contributed by Central government
 - 6) Government Grant
 - 7) Donation given by CG, LG, Companies or any other Institution for the Purpose of Donation
 - 8) Any Interest accrued, from above fund Investment
- This fund should be credited to JEPP.

Dec 2018 (Q19b)

k) Audit of fixed Assets → / Audit of PPE →

While verification of fixed Assets of any organisation auditor should taken into account following parts.

- 1) Auditor should verify Physical Existence of Assets.
- 2) Auditor should check ownership of Assets by verifying the document of Assets.
- 3) Auditor should ensure that proper depreciation should be charged on Assets and there should not be any frequent changes in Accounting Policy.
- 4) Auditor should verify the legal title of Asset
- 5) Auditor should verify if any charge is created on any asset then amt raise by way of Loan should be utilized for the benefit of organisation.

- 60) In Case of sale of Assets amount received from such sale should be properly Accounted in Books of Accounts.
- 70) There should be proper ~~intern~~ Internal Control System and auditor should review such internal Control System.
- 80) Auditor should Ensure that valuation of fixed assets as been done as per Relevant accounting Std. [CAS-10]
- 90) In Case of Intangible asset auditor should verify that whether such assets is proper right off in books of accounts.
- 100) In Case of Goodwill auditor should Ensure that there is No self generated goodwill living in balance sheet.

10) Audit of Education Institution →

While verification of Books of accounts of Education institution following points should be taken into account by Auditor

- 1) Auditor should verify the Collection received from students if it is in Cash then auditor should also verify internal Control system and timely deposit of such Cash into respective bank AC
- 2) Auditor should verify the Containment of Trust deed and Ensure that any Clauses should not be Pre-judicious to Internal of Education institution
- 3) Auditor should verify salary to be paid to the staff and statutory due like provided fund, pension, GSI (Insurance), has been Properly deposite to appropriate fund on timely basis.

- 4) In case of outsource canteen appropriate revenue has been duly recorded in books of account
- 5) Auditor should verify admission forms of students and fee receipt has been duly signed by accountant or any other authorized person.
- 6) Auditor should ensure that hostel expenses properly reimbursed from student before closure of account
- 7) Any Revenue generated from ground letout or any hall letout then such revenue should be properly recognized in books of accounts.
- 8) Auditor should vouch all the expenses incurred during the year in relation to Education institution
- 9) Auditor should vouch capital expenses incurred during the year and their treatment in books of accounts as per relevant accounting standards.
- 10) Auditor should vouch treatment of donation received if it is revenue in nature then properly recorded in P&L A/c, and if it is capital in nature then it should be capitalized in books of accounts as per AS-12.
- 11) Auditor should physically verify fixed assets of Education institution on frequently basis if any discrepancies observed that it should be properly accounted
- 12) If any investment made by Education institution then it should be properly recorded, auditor should also verify ownership records of such investment and also ensure that income earned from such investment has been properly recorded in books of accounts as per CAS-13

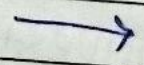
- 13) Any taxes deducted from investment if Income of Education Institution is Exempted then appropriate Refund of Tax should be Claimed
- 14) In Case of Corpus fund it shall not be Considered as a revenue. It should be recorded as a Liability.

m) Audit of Hospital →

While verification of books of accounts of Hospital following points should be taken into account by auditor.

[Point 3, 4, 9, 10, 11, 13, 14 are similar of audit of Education Institution]

- 1) Auditor should verify the Patients bill and ensure that appropriate bifercation regarding bed Charge, medicine Exp, taxes if any supervisor Charges etc.
- 2) Auditor should verify that amt Received from Patient is duly deposited in bank on timely basis
- 3) If different tariff structure for various room then verify Calculation of such tariffs
- 4) In case of Inhouse medical appropriate medicins Expenses is duly recorded on Invoiced dental income is duly rendered in books of Accounts.



→ June 2019 @ 10 (C)

n) Audit of Trust →

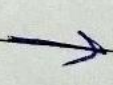
While verifying Books of Account auditor should take the following points into account by auditor

- 1) Auditor should verify trust deed of Charitable trust and ensure that any special benefit granted as per the provision of Companies Act 1932, Sec (8) as under Income tax as per Sec 11 & 12 as per Income tax Act 1961
- 2) Auditor should verify the objective of trust and ensure that fund raise by way donation shall be utilized for such social objective.
- 3) If any budget prepared for trust then auditor should obtain copies of all such budget and ensure that amount has been spend or revenue has been generated as per relevant budget
- 4) Auditor should ~~not~~ verify system of Internal Check and ensure about reliability of such Internal Control system
- 5) If any concert done for Charitable objective auditor should verify ~~of these~~ gross receipt from such concert is within the limit and ensure genuineness of such Expenses
- 6) Auditor should Physically verify Cash in hand, Inventory & fixed asset of Charitable Trust
- 7) Auditor should obtain list of all members of Charitable trust in order to ensure the interest of such members in Charitable Trust.

Dec 2019 Q10(c)

Q10) Audit of Local Authority / Panchayat / Municipal →
while verifying Books of Accounts auditor should take the following points into accounts.

- 1) Auditor should Ensure and Correctness of financial statement prepared by LA.
- 2) If there is any deficiency in Internal Control then such Deficiency should be rectify.
- 3) Auditor should verify the Expenditure incurred is in accordance with relevant laws and Regulation application to LA.
- 4) Auditor should verify sanction of fund by Competent authority either general or special
- 5) Auditor should verify the appropriation of fund or provision of fund created if any for any general Expenditure is authorised by Competent authority
- 6) Taxes collected by LA such as Road Tax, Property tax, Municipal tax properly recognized in books of accounts.
- 7) If any huge Capital Expenditure incurred then ensure about genuineness of such and require Expenditure by considering Economic growth requirement of such Expenditure.
- 8) Auditor should submit Copy of audit report after completion of such audit to Local authority as well as CAG.



b) Audit of Banks →

- Banking Industry plays very Imp Role in industrial and Economy therefore while performing audit of any bank auditor should take precaution while performing any audit procedure
- RBI Act as a Regulatory body for the various banks it is the Central Bank of Country
- Bank shall be Classify the following Points
 - a) Commercial Bank
 - b) Regional Rural Bank
 - c) Small finance Bank
 - d) development Bank
 - e) Co-operative Bank
 - f) Payment Bank

Advances

While verifying the advance audit should ensure that EMI is properly paid by borrow on timely Basis.

If any other due amt because of non-payment then action taken by bank for such recovery should be written off in Books of Accounts as per dir direction given by auditor

* Cash in hand - auditor should verify internal Control system and also ensure reliability of ICS auditor should visit branch of Banks and Physically verify Cash at branch.

If any Excess Cash received retained by bank then it should be T/F to Current Chest department.

If any Currency held in foreign Exchange then Ensure that it also should verify ledger be with in limited in prescribe by RBI

* Balance with RBI - Auditor should verify ledger balance and cross verify with RBI by seeking balance confirmation

Auditor should ensure that Prescribe reserve i.e. CRR [Cash Reserve Ratio], SIR is maintained per guidelines.

* Fixed other Assets - Auditor should ensure accounting Method of Books.

→ Ownership of Asset

→ Examine depreciation has been properly charged on fixed Assets

→ In case of sale of F.A verify sale deed

→ In case of revaluation of fixed Asset, ensure appropriation of such Revaluation.

* Borrowing → Auditor should ensure that Borrowing in India Outside India is properly disclosed, verify Rate of Interest paid as and payable on such Borrowing.

* Deposit - Auditor should verify deposits accepted from public and ensure that it accrued on deposits but not paid should be properly recorded.

* Capital Reserve - Auditor should verify opening balance of CR

- Auditor should verify Capital Clause of MOA

- Examine Government Recommendation of any

* Bills Payable - Auditor should ensure bills payable subsequently recorded amt from person who is holding the Bill.

In case of dishonoured of bill - precaution taken by bank for recovery of such amt and ensure that promissory note, Cheque, stamps has been held with the custody of proper officer and also ensure internal check and reliability of such internal control system.

→ Dec 2018 (100%)

(d) Audit of Co-operative Society →

Any person who is practicing CA or any other person who cleared examination of Co-operative Society shall be qualify for appointment as an auditor of Co-operative society.

Co-operative society Industrial Co-operative society etc.

Auditor of Co-operative society shall be appointed by Registrar or any other person who is authorized on his behalf.

Every Co-operative society should transfer at least 25% of Profit to reserve fund before distribution of dividend. However if any Co-operative society unable to transfer such fund then with the permission of registrar it can transfer lower fund. However under any circumstance it cannot be less than 10% of Profit.

Co-operative society shall invest the funds of members only in,

- Central and State Bank
- Securities and Charitable Trust
- government security
- Any shares, debentures, bonds any securities of any other Co-operative Society having limited liability.
- Any member of Co-operative society cannot hold more than 25% of total share capital.

If any loan granted or any borrowing accepted first priority should be given to its own members. However if it is proposed to give to any other person then permission of Registrar & Existing members should be obtained.

Accounts And Records :-

- 1) Cash Book → Auditor should verify income and expenses incurred in cash, is duly recorded in Cash Book
- 2) Registered → Auditor should ensure any investment purchase should be properly mentioned in ~~the~~ stock registered as per relevant account std AS-2
- 3) Register of Assets and Investment → Auditor should ensure that asset purchase by society on its own name and it should be valued as per relevant AS [AS-10 & AS-13]

4) Register of FD → Auditor should verify that deposits kept by Co-operative society should be as per relevant government norms regarding investment

5) Register of Securities → If any securities given by 3rd party on behalf of main borrower, then auditor should ensure that name of such security is properly incorporated in Register of Security

The End... ^_^