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Chapter – 6 Audit Documentation 1/Aug/2024

... Continue.....

CNO – SA 230.140. What is Completion Memorandum?

Summary

Definition – Audit team may prepare summary of significant matters which arised during audit. It will cover nature of significant matters & how it was addressed by auditor. Auditor can give cross referencing to other detailed audit documents.

Benefits :- Team

– Team reconsider all aspects of significant matters before finding finanalising opinion.

– Team will understand whether specific objectives of SA which are applicable are achieved.

Seniours

– It makes review, inspection by seniors or authorities efficient & effective in case of large & complex audit

CNO. SA 230.160 Documentation of Significant Matters & Related Significant professional Judgements.

Definition → Matters which in audit teams judgement are such important that they should be communicated to audit seniors, Eng, Partner, EQCR Reviewer are called Significant matters.

– Such matters ~~as~~ need Special audit consideration that means different, detailed audit procedures.

Examples of SM → Chronology.

→ Matters of significant risk

→ Significant difficulty in performing audit procedure

→ Results of Audit procedure

– Evidence which suggest revision of RMM

– Matters of Matterial Misstaments

– Matters which affect ~~op~~ Opinion in Audit Report or inclusion

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Professional Judgement

Role → If more professional judgement is required in planning, performing & evaluating audit evidence then ~~more~~ more documents supporting prof. judgement will be required.

for. eg :- checking Goodwill w/off Brand Valuation, Impairment, prov. for litigation.

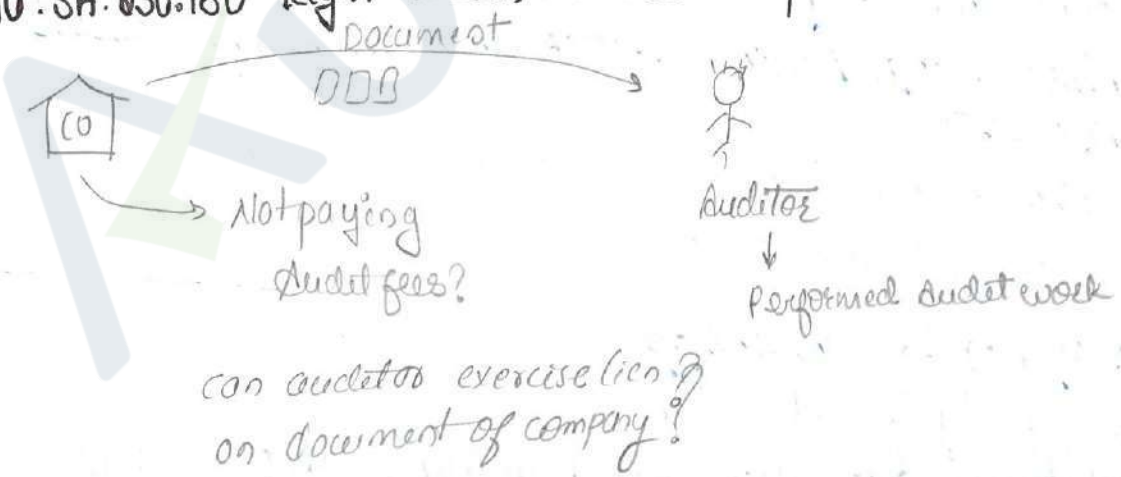
Following are 3 examples where lot of prof. judgement will be required. :

a] **Subjective Judgement** → If mgt. has made subjective judgements audit will have to apply prof. judgement to examine & evaluate it.

b] **Authenticity of Document** → Auditor may feel documents are not authentic in such case to what level audit procedures should be applied is a prof. judgement. find conclusion on authenticity will also need judgement.

c] **factors** :- SA may provide factors to be considered for taking decision how auditor applied prof. judgement.

CNO. SA. 230.180 Right to Lien → retain possession



There are logics supporting it as well as opposing it

@ Supporting

- As per general principle of law if any thing is ~~recip~~ received, lawful, work has been done, can it & dues are pending then lien can be exercised.
- Similarly as per ICAI & W if auditor is not paid for valid work then lien can be exercised on lawful obtained documents of client.

Above logics support lien.

(b) Opposing lien

As per Sec-128 access should be given to Authorities, Directors, Auditors all the time to Books & related documents. If place is shifted to auditor office such access is not practical

→ Supreme Court says lien will disturb business of client & ~~such access~~. it will not be professional. (in Saxena Vs. Sharma Such lien)

→ ICAI Ethical Standard Board says it will be professional misconduct. [wrong doing]

Conclusion → Lien may appear logical but in India it is not practical & legally tenable. So Auditor should not exercise lien.

CNO.SA 230.200 Ownership of Audit Documents.

→ As per SQC 1 auditor is owner of all audit documents Prepared ~~&~~ or collected during work of audit. Auditor can use for its own purpose.

→ Because of confidentiality principle he can share it with other only if required by law or permitted by client.

→ Auditor can request of client can share some documents for there use but ensure that sharing is not affecting Independance & effectiveness of audit.

→ Similarly Branch Auditor is owner of Branch Audit document. Its his decision whether to share it with Statutory Auditor

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No one can compel it. sharing audit report & explanation is generally sufficient.

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01/Aug/2024

60-B

SA 260

Chapter 7

Completion And Review

Part-1 SA 260 Communication with Those Charged with Governance (TCWG)

CNO. SA 260.020 Significance of Communication with TCWG.

If there is effective & way communication between auditor & TCWG then following benefits will occur.

① Constructive working Relationship.

It will make easy exchange of information & make working of audit & TCWG smooth & effective.

But auditor should ensure independance & objectivity should not be compromised.

② Relevant Info for Audit

TCWG is a big source of information Regular communication can give auditor access to crucial info, such as Understanding environment of entity, identifying sources of info, getting info about specific transactions & events.

③ Helps TCWG

TCWG may get & crucial info on how financial reporting system of Company is operating. It can help them in improving system & reducing risk of Material Misstatement.

CNO. SA 260.040.

~~Who~~ Who are "Those Charged with Governance"

Example :-

ISRO → Periodically → Ministry of Space [TCWG]

TCWG is a outside organisation

② Company → BOD & Directors [TCWG]
↓ CEO/CFO + 5 Senior Managers [MGT]

TCWG is within Organisation
Members of mgt & TCWG are Seperate.

③ Company → BOD
↓ MD + 5 Senior Managers
↓ MD_1, D_2, D_3, D_1

TCWG is within organisation.
MD is common in Mgt Group & TCWG group.

Definiation

TCWG can be group of individuals or organisation within entity or outside entity whose work is to do
→ perodical supervision.
→ Take strategic decision
→ See whether people are working with accountability
→ Whether Accounting & FST preparation is happening properly.

Most popular TCWG in company is Board of Director.
As. BOD has delegated all accounting & auditing work to Audit committee, auditor does all communication with Audit committee instead of BOD.

④ partnership firm → 3 partners
P_1 Purchase, P_2 production, P_3 Sale

* Periodic Meeting every quarter to review business
* TCWG within organisation
* TCWG & Management Group are same

key points related

* Different types of Entities have different set of people who perform Supervision & who perform execution.
* It is auditor's responsibility to identify Mgt & TCWG & confirm it with appointing authority.
* TCWG → Integral or External
  - Individual or Group of people
  - Clearly defined Governance OR Informal structure.

CNO

SA 260.080 Matters to be communicated to TCWG

1] After Appointment

@ Responsibilities Auditor should clearly communicate that it is Management responsibility to prepare financial statements under Oversight of TCWG. Auditor Appointment of auditor does not relieve Mgt & TCWG.

- Auditor's responsibility is limited to giving opinion on financial statement, so that there is no confusion w.r.t. to ~~the~~ rules & responsibilities.

2] Before Performing Audit

@ Timing & Overview of plan - Auditor should discuss timings of performing audit procedures & finalising audit report.

- Auditor should also discuss overview of audit strategy & plan auditor may get input to improve planning.

3] During Audit @ Significant findings

(i) Significant Difficulty - faced by audit team while performing audit eg. Delay in info no access to certain info etc.

(ii) Significant Matters → All sig. matter which arised during course of audit

iii] Significant Qualitative Aspects Quality of accounting practices & Preparation of financial statements include 3+ things.
- Accounting policies.
- Estimates
- Disclosures in FST

Auditor should communicate strong & weak points of above matters to TCWG.

4] End of the Audit.

a] Request of Written Representation (WR)

Auditor should communicate important matters in FST & records which should confirmed by mgt in the form of written Representation on letter head.

b] Matters affecting Audit report.

All the matters which have impact on AR. Eg. EAM, Modification, EMP/OMP.

5] Other

Any other matter which auditor may find important for TCWG. Eg. weak data security system of entity

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CNO. SA. 260. 100 Communication of Auditor's Independence in case of listed Entities.

In case of listed entities auditor has to do additional communication on following matters.

(1) Statement on Independence
- Auditor should give a written statement to TCWG that audit team, other firm members & network firms comply with ethical requirement & independence requirements.

(2) Statement on → Disclosures about Relationship → Auditor should disclose all legal, financial, business, personal relationships which can be viewed to have impact on independence.

(26) Communication of fees & services :-
Auditor should disclose how much audit & non audit fees is earned by firm from entity & its components, so that TCWG are aware whether non audit fees is influencing Auditor.

(3) Safeguards :-
Auditor should disclose safeguards applied to keep independence safe such as separate teams, more supervision, careful allocation of work etc.

CNO. SA. 260. 120 The Communication process.

(1) FTC
Auditor should discuss expected form, Timing & Content on communication with TCWG.

(2) Written Communication
follow things should be communicated in writing
a) All significant findings during audit should be communicated in writing.

b) In case of listed entities communication with respect to Independence should be communicated in writing.

3) Timing / Timely

Auditor should communicate all findings on timely basis, such communication will become useful for TCWG.

CNO. SA 260.140. Adequacy of the communication process.

1] Evaluate two way communication between auditor & TCWG. see if its is adequate for purpose of audit.

2] Effect - If it is not adequate then auditor should take effect of RMM at FST level and also its ability to collect

SAME

3] Action - Auditor should take appropriate action if there is increase in risk and difficulty in collecting evidence. Eg- more time. Bigger team, more external evidence, more prof. Skepticism etc.

CNO. SA 260.160 Documentation

As per SA 260 following should be documented.

a) All oral communication from auditor to TCWG.

b) Retain copy of written communication from Auditor to TCWG.

CNO. SA 260.060. Scope of SA260 — Objective

(i) Identify appropriate set of people in governance structure as TCWG.

(ii) Effective two way communication.

(iii) Communication → Responsibilities → significant findings → Timing & Overview of plan → Other imp Info

(iv) Obtain relevant information.

Part-2. - SA 265.

Communicating Deficiencies in Internal Control to Those Charged with Governance & Management

CNO: SA 265.020 Why Communication of Significant Deficiencies in Internal Control is Necessary?

Scope → Coverage → Responsibility of ~~Actual~~ Auditor • Identify & Communicate
↳ Deficiency may be identified while understanding or testing controls.

Objectives → Identify Deficiency
→ Communicate Deficiency Properly

CNO. SA. 265.040 Meaning of "Deficiency in Internal Control" And "Significant Deficiency in Internal Control"

① Deficiency

a] Internal Control Missing → Control required to prevent or detect & collect Misstatement in FST is ~~not~~ missing.

b] Control Ineffective → control designed or implemented in such a manner that it is unable to prevent or detect & correct Misstatement in FST

② Significant Deficiency

a] Broad Meaning → Any deficiency or combination of deficiency which in auditor's prof. judgement is is important to be Communicated to TCWG is called significant Deficiency.

b] Specific Meaning → Any deficiency or combination of deficiency because of which – (i) misstatement has occured or (ii) there is high likelihood & potential magnitude of misstatement.

That means actual happening of misstatement is not necessary.

Examples of matters that the auditor may consider in determining whether a deficiency or combination of deficiencies in internal control constitutes a significant deficiency.

Examples - VISA OF LEE

V - Volume of Activity → Number of items in TBD

I - Importance for financial reporting process

- General
- monitoring
- fraud P&D
- Significant Accounting policy.

- Specific
  - Related party
  - Transaction outside normal business
  - Period end Reporting

S - Susceptibility of item to loss or fraud

A → Amount exposed to deficiency.

O → Whether other deficiency exists.

L → likelihood of MMST

C → Related to control over computation of Significant Accounting Estimate

E → Number of exceptions occured over period ~~Occurs~~ of time.

SA 265.060 Example of indicators of significants Deficiences in Internal Controls.

Matters → We refer matters to decide whether deficiency is a significant Deficiency.

Indicates → They help us to identify that significant Deficiency may be present in internal control system.

→ Following factors are indicators that Significant Deficiency may exist in Internal Control System.

PM Manages & Maintains with SAFFI

P → prior period items
M → Mgt. inability to oversee financial reporting process
M → Inadequate scrutiny of Mgt Transaction.
M → Misstatement Not prevented or detected & Corrected.
S → Signifi risk – Ineffective response
A → Absence of Risk Assessment process.
F → Identification of mgt fraud.
F → failure to implement remedial action
I → Ineffective Entity Risk Assessment process.

L-61B

CNO.SA 265.080. Determination of Deficiency & Significant Deficiencies in Internal Control.

a] It is auditors responsibility to remain ~~alert~~ alert & identify whether there is deficiency in ICS on the basis of work performed.

b] If auditor identifies deficiency, he shall further evaluate whether deficiency individually or along with other deficiencies is a significant deficiency.

Significant deficiency

CNO.SA 265.100 :- Communication of Significant deficiencies in Internal Control to TCWG

a] Communication to TCWG
- Significant
- Written form

b] Communication to Mgt (i) Significant deficiency
Is writting
↓
Exception → Don't communicate if it is inappropriate

Example - Mgt involved.

(ii) Other deficiency → Which is imp for Mgt
→ Exception → Don't communicate if informed by other parties
Ex:- Internal Auditor.

To Remain honest its an effort

CNO.SA 265.120
The Auditor shall include in the written Communication of Significant Deficiencies in internal Control:-

a] Matter → Description
→ potential effect
→ Sufficient supporting information

b] Important clarification → Objective → Opinion on FST
→ Not objective → Opinion on ICS
→ SA → Considers ICS
→ Evaluate ICS
↓
Design Audit procedure
→ Not limited → Def. may not be linked to those reported.

SA 450

Part - 3
SA · 450
Evaluation of Misstatements identified during the Audit.

CNO. SA-450.040

Step 1 – Accumulation of Misstatements identified during the Audit

a] Audit team should accumulate all misstatements at one place unless, it is clearly trivial [very small, less than 1% of materiality level]

b] Reasons / Variety of factors

a] Omission → Amt
→ Disclosure

a] Inaccurate gathering of Info. or Inaccurate processing

Example – Machine Repair Exp of 5 Lakhs capetalized.

CNO. SA-450.060 Step 2. Consideration of Identified Misstatement as the Audit progress.

1. Consider
1. Revision of Audit Strategy & Audit plan
a> After identifying identifying misstatement Auditor should carefully understand nature & cause of misstatement and find out whether
a> It is repetative in nature and on aggregate basis it may become material

Cs whether misstatement along with misstatement may cross materiality level.

In such case auditor may modify audit strategy & audit plan. he may increase FST level Risk or Assertion level risk and increase audit procedures accordingly.

(2) Instruction to Management On the basis of misstatement identified or projected misstatement auditor will ask management to examine ~~pro~~ particular TBD identify hidden MST & called them.

(26) Additional procedures if mgt has identified & corrected MST's then auditor should perform additional Procedures to check corrections.

CNO. SA 450.080 Step 3:- Communication & Correction of Misstatements

1] Communication of Misstatements:-

Auditor should take all accumulated misstatements to management on timely basis and ask for its correction.

2] If mgt corrects misstatements auditor should verify it. It will improve accuracy of books & records & it will prevent future misstatement.

3] If mgt is not ready to correct MST's then auditor should understand mgt's reasons for no rectification

It will help auditor for further analysis.

3rd Aug 2024

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SA 450
CNO. 450.100

Step-4 :- Evaluating the effect of Uncorrected misstatements

1] Reassessment of Materiality
↳ Before analysing misstatements, auditor should see whether materiality level which was decided at the start of audit need to be revised because profit levels have changed due to rectification & risk levels have also changed.

2] Determining Materiality of Uncorrected misstatement
↳ auditor should see whether misstatement individually or in aggregate is crossing materiality level, then they will be considered material.
Take care of below given 2 things.

(i) Size & Nature → Apart from amount of uncorrected misstatement auditor should also see nature of MST. Eg:- Non Compliance of law, fraud impact on PST etc

(ii) Prior period uncorrected MST → while aggregating MST auditor should also add carried forward prior period uncorrected MST.

CNO. SA 450.100. Step 5 :- Communication with those Charged with Governance. (TCWG)

(1) Communication with Governance about Uncorrected Misstatements
↳ auditor should ~~Committee~~ Communicate all uncorrected misstatements to TCWG. on this communication following points should be highlighted.
(i) Individually material uncorrected MST
(ii) Aggregate material uncorrected MST
(iii) Contribution of prior period uncorrected MST
(iv) Impact on auditor's opinion because of these uncorrected MST

finally auditor should request TCWG to rectify uncorrected misstatements.

CNO. SA 450. 140. Step 6.

Written Representation from Management Regarding Effects of Uncorrected Statements.

(1) Request for Written Representation –

TCWG may agree on rectification of material MST & they may not rectify some MST because they think they are immaterial.

Then auditor should request TCWG or Mgt who has better knowledge of situation to give WR on letter head that certain MST's are immaterial with there justification such WR shall include summary of such uncorrected MST.

CNO. SA 450.160. Step 7

Documentation Regarding Misstatements Identified During Audit

3 things should be Documented

(1) Clearly trivial threshold limit (Generally it is 1% of materiality level]

(2) Record of all accumulated misstatement

(3) Analysis of uncorrected misstatement into material & immaterial.

7 - Step — Imp points

(1) Accumulate
(2) Effect on Audit Strategy & plan & instruction to mgt
(3) Correction
(4) Analysis of Uncorrected MST
(5) Communicate to TCWG
(6) Request for WR
(7) Document

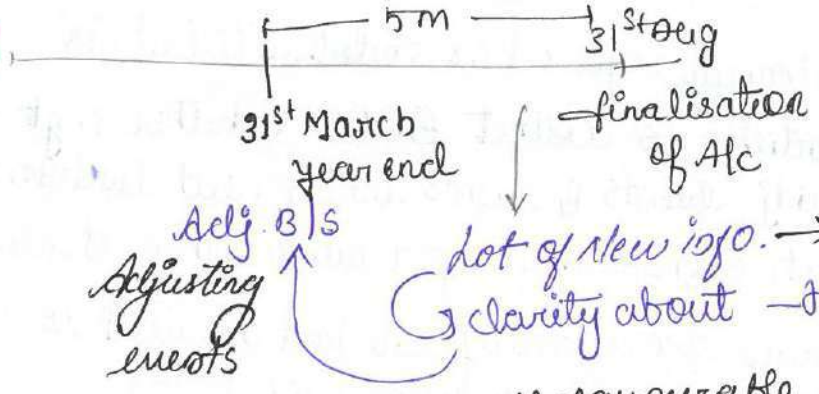
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Part-4

3rd Aug

SA-560 · Subsequent Events

AS-4
IndAS-10



Effect can be favourable or unfavourable.

CNO SA 560.020 Requirement of financial Reporting framework (FRF)

Subsequent Event (SE)
↳ Events between B/s Date & Date of finalisation
(Date of Approval By BOD)

Non Adjusting
↓
all other events
↳ Ind AS-10
↳ If material, then don't adjust but disclose in Notes to A/c.

Adjusting
↳ Gives make info / clarity with respect to Contingency / Uncertainty existing on B/s Date.

CNO. SA 560.025 Examples :-

Adj. Event → Insolvency of major debtor
↳ Adjusting → Settlement of litigation outside court

Non. adj. Event → Decision to Issue New shares
Not excepted ↳ Decision to Merge company
↳ Destruction of Inventory to due to fire

CNO. SA 560.060

Events Occurring Between the Date of the financial Statements & the date of the Auditor's Report.

(Signing)

(1) Duty Even though financial year has ended. still it is auditor's responsibilities to collect SAAE whether mgt has identified Adj. events & events which need disclosure in notes to Accounts & ensured proper accounting & disclosed.

↳ If SE of some areas are already checked no need to check them again. Eg • Subsequent recovery of debtor
• Subsequent payment of ~~Audit~~ Creditor.

(2) Audit procedures ~~to perform~~

↳ to execute above duty

following 4 procedures can be effective

(1) Understand "Mgt procedure" for subsequent event.

(2) Inquiry from mgt / TCWG

↳ uncertainties or on BIS Date

& SE which generally occur

(3) Read minutes of meeting after BIS Date of till d audit report.

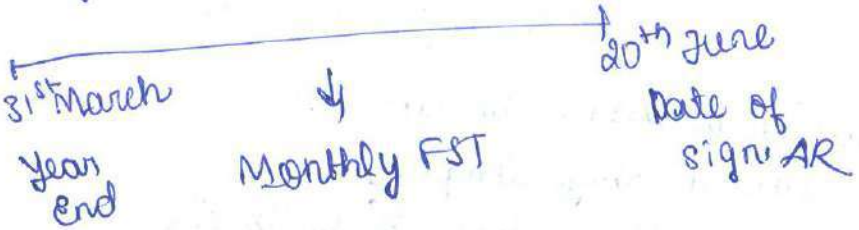
↳ Discussion on SE

↳ proposed dividend

↳ Bonus issue → Effect on EPS.

(4) Latest Subsequent interim financial Statement

↳ Big Income / Expenses / P/L → Analyse



3] Accounting Treatment

If auditor identifies adjusting events, he should ensure they are properly accounted or disclosed in notes to A/c as per AFRF

↳ If not effect should be taken on AR.

4] Written Representation

At the end auditor should request WR. in which Mgt / TCWG should specify:—

- SE were properly analysed.
- Adj. Event properly accounted.
- → Material Non Adj. Event properly disclosed.

CNO. SA 560.080

facts which Became known to the Auditor after the ~~Balan~~ date of the Auditor's Report But before the Date the FST are issued.



Auditor's Duty

There is no obligation on auditor on auditor to perform any auditor procedure after date of signing ~~FST~~. auditor Report

But if auditor comes to know facts (which existed before) which if know earlier would have changed opinion then auditor should perform following audit procedure

→ Audit procedure

(i) Discuss with Mgt. facts which auditor's has

(ii) Determine whether FST should be amended

(iii) Inquire from mgt there intention to amend FST

(a) If Mgt is ready to amend FST then
- audit should examine SE amendment
- auditor should prepare new audit report (revised)
- auditor should extend SE examination till new date
- He should not sign (date) audit report till management signs new FST & finalise it.

(b) If mgt. doesn't agrees to amend FST
- If amendment is required by law or auditor thinks it is necessary but mgt is not agreeing to change it.
Auditor should request mgt. / TCWG not to publish to 3rd parties.
If they don't listen to auditor he should take appropriate action.

Eg:- Public notice in Newspaper
Speak at AGM.
Go to authorities.

I-62.B

CNO - SA560.100 facts which become known to the Auditor After the Financial statements have been issued.

If auditor comes to know about facts which could have changed opinion after AR & FST are issued, then all steps or as discussed earlier will remain same.
following Addition step will be performed.
Auditor will request management to inform everyone who received Old AR & FST to discard it / keep it aside and wait for new set of AR & FST

further Auditor will put EMP/OMP in new audit report & Explain
people reason and matter of revision with reference to appropriate note if any.

If mgt disregards such request then auditor should request to TCWG.

If even TCWG is not taking appropriate steps then Auditor should Take steps so as to prevent reliance on old set of AR & FST Eg. public Notice & speak at AGM.

CNO. SA560.040 Definition of Subsequent Events

Definition → It includes things

(i) Events
All events which occurs after BIs date till date of signing AR

(ii) Facts
It also includes all facts which existed as ~~On~~ on Date of signing ~~AR~~ but which were know to auditor afterwards.

These facts may be known before publishing FST Or after publishing FST. One additional procedure is applicable if it is after publishing

CNO. SA560.045 Meaning of 'Date the financial statements are issued':

This is date on which FST's are made available to Third parties. If they are submitted to authorities then that will become date of issue.

FST cannot be issued without AR, So. date of issue will be always after AR is received by the entity.

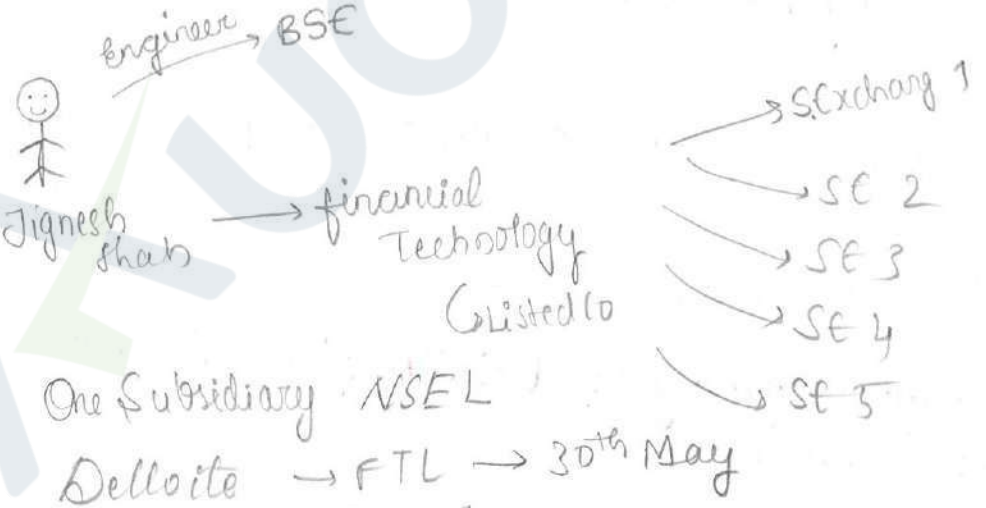
CNO. SA 560.050 Objectives as per SA-560.

SA has set 2 objectives for auditor.

~~a] facts~~

a] Events - Auditor should called SAAE that accounting & disclosure of subsequent event is properly done as per AS 1 and AS.

b] facts - for facts which are known after signing audit report, audet should respond properly in circumstances.



L-62B
3rd Aug 2024

Part-5 SA 570
Going Concern.

3 Steps

Step 1 :- Whether there are Events or Conditions which create Significant doubt over going concern.

Step 2 :- perform Additional procedures.

step 3 :- Make conclusion & report accordingly

STEP 1

CNO. SA. 570. 040.

Step 1 Risk Assessment procedure And Remaining Alert Throughout the audit.

Auditor should be alert & look for Events & Conditions which create Significant Doubt over ~~GC~~ Going Concern. (EC-SD) he should do following

① SA-315.

Under SA 315 auditor is suppose to perform Risk Assessment procedure where he understands entity & its environment including ICS. During this process auditor should see whether there are EC-SD over GC.

② Mgt Assesment of GC.

Mgt is suppose to verify Going Concern. If they have prepared GC Assessment auditor should obtain it and discuss with mgt. Auditor should see if there are EC-SD over GC

↳ If Mgt has not prepared GC. Assesment auditor should ask basis of EC (Reason) and see if it is justified.

③ Apart from above auditor should remain alert throughout the audit for EC-SD over GC.

If EC-SD over GC is observed auditor will have to increase risk & audit procedure as per SA 315 & SA 570.

CNO. SA 570.060 Events or Conditions Creating Significant Doubt over Going Concern. — 3 Types —

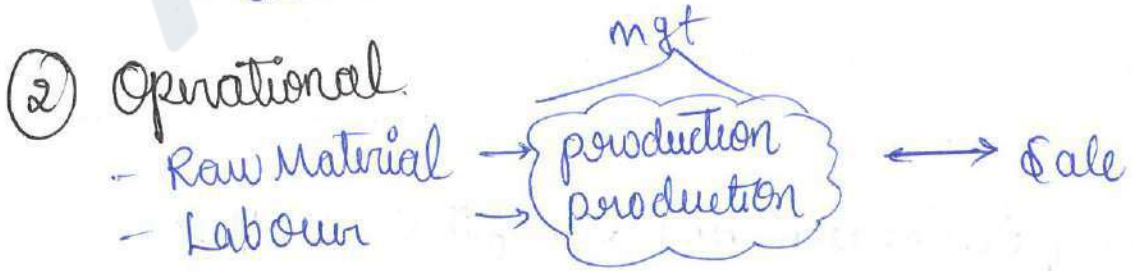
(i) financial
(ii) Operational
(iii) Others → Catastroph
⇌ Law

(1) financial
(a) falling Business Related
- Substantial losses
- Negative Liability or Negative CL
- Negative Cashflow
- Arrears of dividend
- Adverse ratio

(b) Borrowing related
- Existing terms & conditions → Non Compliance
- Approaching Maturity but no realistic repayment or renewal option.
- Short term Borrowing used for long term purpose
- No financing for new products

(c) Creditor related.
- Delays
- withdraw of support
- Credit term converted into cash term.

(2) Operational



Mgt → Intention to liquidate
↘ Loss of KMP
RM → Shortage of RM
↘ Loss of key supplier
EMP → Labour Difficulties
Prod → Serious Breakdown
Sale → licence cancel / Franchise cancel
→ loss of key Customer
↘ loss of market share
↘ highly successful competitor

(3) Other
Catstroph → ○ Uninsured ○ underinsured
Legal → ○ Non Legal Compliance
○ change in Law / policy
○ Pending litigation → unlikely ability to satisfy.

L-63A
4th Aug. 2024

Step 2

CND. SA 570.080 Step 2:- Additional Audit Procedures When Events or Conditions are identified.

Auditor should obtain SAAE about matters which create significant doubt over going concern, so that he can conclude whether GC is having material uncertainty, mitigating factors (positive) should also be considered.

following are mandatory audit procedures.

(1) Mgt's Assessment of GC → If mgt has not yet prepared GC assessment then auditor should request them and ask to cover EC-SD ~~Identified~~ identified

(2) mgt plan → Auditor should carefully study mgt plan for future action & evaluate whether it is adequate to solve problem & feasible in given circumstance.

(3) Cashflow ~~for~~ forecast → Auditor should request preparation of CF forecast for next 12 months he should check whether ~~auditor~~ data used is reliable and whether assumptions are reasonable (realistic)

(4) Additional Information → Statements & Analysis may be little older, so auditor should ask what feasible or unfavourable events have occured during this period.

(4) Written presentation - finally auditor should ask mgt/ TCWG to provide WR. which ~~fig~~ specifies that mgt plan for further action is adequate & feasable.

following are optional audit procedures

- plans → Auditor should examine what planning & actions can be taken by third parties & mgt.

Court → Discuss with legal counsel what actions can be taken by court in pending litigations & their financial implications.

Regulatory Authority → What actions can be taken in proceedings pending with regulatory authority

shareholder → - Read minutes of meetings of shareholders & TCWG for those future Auditor

Management → Check feasibility of asset disposals plan

finances ⇒ study agreement with debenture holders & Banks what action they can take

Customers → See if Orders are unfulfiled what Customers can do.

forecast

- Auditor should discuss & analyse cash flow & other forecasts, what if assemptions don't happen.
- see latest iterim financial statements whether mgt's forecast are reflected in them.

Subsequent Events

Examine SE whether there are mitigation or unfeasable events after year end.

Ext Conformation

- whether third party has given in writing that they will fulfil arrangement as specified by management.
- Conformation from banks & FI's that they will ~~more~~ make borrowing facility available.

CNG.570.090.

Step 3 Implication's for Auditor's Report

Auditor should make conclusion about 2 things (a) Material Uncertainety (b) Going Concern.

Material Uncertainty

If auditor observes that going concern for next 12 months depends on happenings or not happening of future contingent events & magnitude & likelihood of these events is such that users should be made aware about it, then it is called Material Uncertainety

- If material Uncertainty exist → Auditor should check adequacy of following disclosure in notes to Accounts
  - principal Events & Conditions that create Sig. Doubt Over GC
  - Clearly specify that Material Uncertainty exists.
  - Warning Statement → that entity may not be able to realise assets & discharge liabilities in normal Cause of business.

If material uncertainty doesn't exist
Auditor should check whether principal events & conditions are disclosed. No need to make other disclosure.

Part V

Conclusion about Going Concern & Reporting

* following 3 situations are

a] Going Concern Appropriate
- further 2 situation may exists

(i) No Material Uncertainty
Auditor should give unmodified opinion (clean)

(ii) Material Uncertainty exists
Auditor should check whether MU is properly disclosed in Notes to Accounts.

If yes, then Auditor should give unmodified opinion
further auditor should highlight MU by including separate section "MU over GC" following should be Presented.
- principle event description
- Reference to Note in FST.
- existance of MU
- Our opinion not modified on this matter.

If disclosure not adequate then auditor should qualify or give adverse opinion as appropriate in given circumstances.

(b) Going Concern is inappropriate

- If GC is inappropriate & mgt is still considering GC as valid & it has not done any adjustment in Books of accounts, then auditor should give adverse opinion.

(c) Going Concern doubtful & mgt not willing to help

- If mgt is not providing appropriate information as requested by auditor for GC
- Auditor should give qualified or disclaimer as appropriate in circumstance.

CNO. SA 570.100. Material Uncertainty by its nature is a key Audit matter.

If KAM is applicable to entity → MU.GC is present in audit report. Then auditor needs to give significant attention to it.

- So by default it is KAM
- In KAM section there will be one line reference that 'MU.GC' is a key audit matters & ~~mak~~ more details can be read from MUGC section given below Basis of Opinion.

CNO SA 570.010 Going Concern Basis of Accounting.

Meaning → fundamental assumption that entity is going to continue for foreseable future (12 months)

Approach → In general purpose FST, it is assumed that going concern is valid.

- This assumption becomes ~~not~~ invalid if mgt plans to liquidate within 12 months Or
- No realistic alternative to save company for 12 months.

Accounting

If GC is Valid

- Normal course of business
- Asset historical cost & depreciation
- liability at its ~~normal~~ nominal value.

- If GC is invalid
  - → Liquidation Basis
  - → Asset → Realisable value
  - → Liability → payable value

CNO SA570.020 Objectives of the auditor Regarding GC.

Simply express Our 3 steps.

(1) Obtain SAAE regarding Mgt's assumption with respect to GC.

(2) If there exists events & conditions creating SD over GC
   → Whether MU exists & GC assumption is appropriate.

(3) Consider implication on audit report.

CNO. SA570.085 Responsibility for assesment of the entity's ability to continue as a GC

(1) FST preperation → mgt responsibility

(2) Assessing GC →

(3) It includes identifying uncertain events & conditions then assessing it likelihood & potential magnitute.

(4) Consider internal as well as external factors

(5) Mgt Consider info available at point of time & matters judgement. It may or may not happen in future.

CNO. SA 570.030 Responsibility to the Auditor -

Same as objective

SA - 200

G inherent limitation in audit

G difficult to assess appropriateness of GC assumption

G so users should be careful no reference in audit report about GC is not a guarantee about GC.

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4th Aug. 2018

Part - 6

SA - 580

Written Representations

→ Supportive evidence

CNO. SA 580.020. Written Representations

It is written statement from mgt or TCWG as appropriate, where they confirm certain matters such as performance — such as performance of responsibility and matters which were said orally. It also acts as supporting audit evidence in areas such as SE, Going concern etc.

It doesn't include FST & supporting documents even though they are prepared & signed by mgt. As we need evidence to prove them so, FST itself cannot be called evidence.

WR → Confirm
→ Support

Exclude - FST supporting documents
[it cannot be called as WR]

② Advantages

As written statements are referred again & again so one can delay it. hence people think carefully while making it, it improves quality of information.

③ Types of WR

There are 2 types

ⓐ Manadatory – In every audit auditor should request WR. wrt management responsibility to prepare FST

ⓑ Voluntary → As per requirement auditor may request other WR about various FST items.

④ Not Substitute

Auditor should perform all audit procedure & take all evidence required. If he still wants more assurance he can go for WR.

— WR. is supporting audit evidence, It cannot substitute Replace other audit procedure & evidence

CNO. – SA 580. 040. Written Representations about Management's Responsibilities.

→ It is ~~manag~~ mandatory to request W.R about mgt responsibility.

→ Preperation of FST

↳ mgt has to confirm that it is their responsibility and they have prepared FST as per AFRF and if it is fair presentation framework, FST prepared gives T & F View.

→ Completeness

mgt should confirm that all transaction during the year are accounted for nothings is left out.

- further mgt should also confirm that auditor is provided all information available with mgt nothing is kept hidden.

→ Description
- Description of responsibility has given in engagement letter at the start of audit.

→ Detailed Confirmation
Reconfirmation
In following circumstances mgt has to confirm its responsibility detail.

T If mgt team which was present initially at the ~~time~~ time of signing engagement letter has changed.

P . If engagement letter where promise to prepare FST was made is old & signed in previous year.

M – If there is clear misunderstanding w.r.t. mgt responsibility as per some correspondance.

C – If circumstances are such that detailed WR is proferred.
Eg. Amalgamation, Recent frauds in company etc.

CNO.-SA.580.050. Other Written Representation

Apart from WR about mgt Responsibility auditor may request WR for other matters also. It is called other written representation.
It can required by SA's or other than those required by SA's

Examples. Of Other WR — Plan CLAT —

P – plans & intention of future mgt action as it may impact accounting & disclose of financial item.
Eg. Investment long term as short term.

C – Compliance of law, regulation applicable
Eg:- Environment laws. Labour laws etc

L- liabilities & Contingency related probability & matters

A → Assertions about FST Apart from WR for preperation of FST. Additional WR. detailing how it were prepared can be obtained.

Eg - Acc. policy selection, estimate computation disclosure Adequacy

T Title deeds & contract of asset is with entity and its not pledged.

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CNO. SA 580.060. Management from whom written Representations Requested.

CNO. SA 580 050.

Additional Statement with respect to completness of information provided to auditor.

Auditor may request additional statement in WR from mgt or TCWG. He may ask they to confirm that all internal Control deficiency are shared with auditor.

Written representations about specific assertions [Management Intention]

1. Evaluating Management Intention
   - ↳ Past
   - ↳ present
   - ↳ future
   - ↳ Inconsistency
2. WR for Intention
   - ↳ Importance of WR.

→ If auditor wants more assurance he can ask mgt to provide WR about any specific point written in FST.
It can be how computations were done, how selection of Acc policy was done, how judgements & estimates were made. This will give more evidences & confidences to auditor.

Examples → Auditor may ask management to confirm there intention w.r.t. investment.

But auditor should not blindly rely on WR w.r.t intentionally of Mgt. He should match it with past data, present reasons and future ability to carry intention further he should also see whether there is any inconsistency in evidence.

CNO. SA 580.060

Management from whom Written Representations Requested

↳ CEO & CFO
↳ TCWG

It should obtained from people who are responsible for presentation of FST and have detailed knowledge & authority to make such WR on behalf on entity.
It is generally mgt who have all about CEO & CFO's are best from whom WR should be obtained or people who does such work.
— Sometimes it can be TCWG because of finalished FST

Why mgt ? - Conduct of business
— Knowledge of Transactions
Accountancy
FST preperation.

Inquiry by management & Qualifying Language.

→ mgt may not have detailed knowledge about certain areas
They may do inquiry from
Actuary – provision
Engineer – useful life / Environment liab.
Legal ~~cons~~ Counsel – litigation

→ While going WR, may use qualifying language such as 'Subject to' info & explaination given by Actuary / Engineers / lawyer etc we are conferring these matters.

CNO.- SA 580.080. Date of And Periods Covered by Written Representation.

∝ latest Confirmation – as close as possible. – evidence –
∝ before Signing of Audit Report
∝ SA 710
└ comparative & corresponding
[PY][CY] [CY]

(1) Date

- End of the audit
- Before Signing (dating) AR
- as close as possible to Signing

Reasons → After performing all audit procedure
→ it is necessary audit evidence.
→ latest info + covers all subsequent events

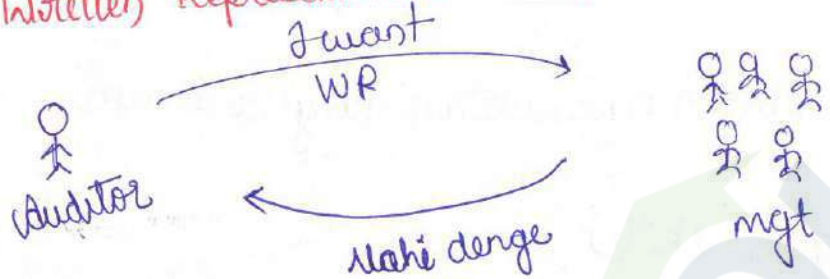
Coverage → All periods which are reffered to in Audit Report
~~In sub~~ On which Opinion is given.

prior period even if ask it applies as only

Change in Management → May not change
→ They may say they don't have knowledge
→ Still they will be responsible.

CNO. SA 580 & 100

Written Representation Requested Not provided



↓

Discuss → Required by SA
→ Not New
→ No other Implication

Auditor shall follow the following steps

* Discuss → Required by SA
→ Not New
→ no other Implication

* Reevaluate → Integrity
→ Reliability of → Other WR
→ Audit Evidence in General

* Take appropriate action → Alternative Audit procedure
Impact on Opinion as per SA 705

CNO SA 580.120 Form of Written Representations.

(1) Letter
- from mgt to auditor (+) ~~Auditor~~ Addressed to Auditor.

(2) Public Statement
- If written public statements are made as per law, no need to cover them again.

CNO. SA 580. 140 Doubt as to the Reliability of WR

(1) Auditor may Doubt about written Representation may be because of
- Integrity & Ethics
- Competence (Knowledge & skills)
- Diligence of performing work.

(2) Audit procedure
perform audit procedure to determine reliability of WR & reliability of audit evidence in general.

(3) Action
If WR is not reliable take appropriate action. also impact on audit opinion.

(4) Inconsistency
Information in WR & other evidence may be inconsistent Try to resolve matter. if not resolved it creates doubt over WR. follow above steps.

CNO. SA 580. 145

Disclaimer of opinion in case of non-reliability of WR about management's responsibilities or failure to provide such Written Representation.

In following two situation auditor should think about disclaimer of opinion.

a] WR Not provided

If WR w.r.t mgt responsibility of preparation of FST & completness of transactions & info provided to audit is not provided then auditor is not provided then auditor should disclaimer opinion on FST

b] WR not Reliable

If WR is not reliable. w.r.t to mgt Responsibility to Prepare FST & completness of Transaction & info provided to auditor. then auditor should disclaim opinion.

CNO. SA 580. 160 · Objectives of ~~Auditor~~ as per SA 580.

Objective.

1. Obtain WR for Mgt Responsibility
   - Preperation of FST
   - Completness of → Transactions
     → Info to Auditor
2. Obtain Other Written Reparesentation to support Audit Evidence
3. Respond properly → If WR not received
   → If WR not reliable.

11.

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5th Aug. 24

ETHICS AND TERMS OF AUDIT ENGAGEMENTS

Part- I Ethics

CNO.-ETH.020 Meaning of Ethics - A State of Mind

— Introduction —

→ Ethics are principles which tell us morally what is correct & what is wrong. It is important for development of society.

→ ICAI has developed code of ethics for ethical behaviour of CA professionals. It explains professionally what is correct & what is wrong.

→ Ethical behaviour is important to maintain trust of people.

→ Unethical behaviour will atleast penalties, fines, removal from membership & imprisonment

Principle Based Vs Rules Based

a] Principle Based.

In this approach basic principles or goals are specified. We have to use prof. judgment & apply it to various situations for ethical behaviour. This approach emphasis on spirit of ethics. It is broad based and effective.

b] Rule Based

In this approach certain defined criteria are given which are rigid in nature which need to be followed. They don't cover all situations it is narrow in applicability. It is rigid Spirit of ethics may not be achieved.

EXAMPLES

(1) Principle Based Approach treat employees in same manner as you treat yourself.

(2) Rule Based approach
- working hours should not exceeding 8 hrs
- salary should be above 25K per months

Part 2 SA 210 Agreeing the terms of Audit Engagements

CNO. SA 210.020 What are preconditions of Audit.

Before thinking about acceptance or continuance, auditor should check whether following 2 conditions are fulfilled.

Mgt

(a) Responsibility
- whether mgt ready to give written agreement that it is there responsibility to
  - Re prepare FST
  - Design & Implement Internal Control System for FST
  - provide all information prepared
  - provide additional info as required.
  - Provide Access to employees for inquiry.

(b) Acceptable FRF
- whether FRF applicable is acceptable Eg. Suitable, Reliable Complete etc.

If any Conditions of above 2 are not fulfilled don't accept audit.

Pre Conditions = Basic Conditions = Premises of Audit.

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CNO SA 210.040

limitations on scope prior to audit Engagement acceptance

If mgt/TCWG limits scope of audit, in such manner that auditor believes he will have to give disclaimer in figure. Then he should not accept audit unless required by law.

CNO. SA. 210. 060

Is Engagement letter Compulsory? What are its Contents?

(1) Def → Engagement letter is like a agreement between auditor & client. It is mandatory to prepare it in writing at start of audit.

(2) following 5 matters are manadatory

Objective & Scope Related

i) It should specify Overall Objective of auditor & what Courage is expected from auditor.

Mgt Related

ii) mgt responsibilities to prepare financial statements and related points

iii) Which financial reporting framework will get applicable

Auditor related

iv) Auditor responsibility of performing audit

v) Refrence to expected format of audit report

If law prescribes above things in detail No need to make separate engagement letter. Draft simple letter where auditor accepts responsibility as per law & asks mgt to acknowledge Acceptance of responsibility.

CNO - SA 210.080.

Is Engagement letter Required At Recurring Audit ?

→ Not Mandatory to make engagement letter in each Recurring Year.

Meaning → Recurring Audit means back to back audit of entity every year. No need to make new engagement letter in recurring audits.

If there are changes in circumstances then Auditor may make new revised engagement letter or simply remind Old one.

(2) factors.

following factors may require new engagment letter

i) External Changes
- Changes in law, rules, regulations applications to audit.
- Change in financial Reporting framework.

ii) Mgt Related Changes
- change in Ownership
- Change in Senior mgt
- Change in size or Nature of Business
- Misunderstanding from management side

iii) Auditor Related Changes
- Changes in nature or performance of services (Special terms)
- Change in reporting requirement

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CNO-SA 210.100. What if there is change in terms?

CMR

Terms of engagement may change during course of audit following are common reasons.

C → change in need of service [more or less coverage, more Specials etc]

M → Misunderstandings w.r.t. scope of audit.

R → Restrictions on Scope

If changes are proposed by mgt then ~~Did~~ Auditor should examine reasons, following 2 things can happen.

(a) If changes are justified
Agree and prepare new engagement letter.

(b) If changes are not justified
mgt is not ready to follow existing engagement letter.
As per legal, regulatory requirement he should communicate to appropriate authories.

CNO. SA 210.110. Request for Lower level of Assurance.

~~AUP~~ - audit upon procedure.

Situation

Sometimes after appointment for audit client may come and request lower of assurance.

Eg:- Audit → Review - [Moderate level]

~~Audit~~ → AUP - [No Assurance.]

Justified — Auditor should evaluate whether change is justified whether new nature of work & report can be provided will it be suitable for circumstances.

If yes auditor should make revised engagement letter and accordingly perform and provide new report.

Reference

Generally no reference is given to old assignment & work so as to avoid confusion. But if old work is used then in AUP assignment we will have to explain some steps one of old assignment & some are if new assignment.

Part - 3

SQC - Standards on Quality Control

CNO - SQC. 020.

SQC-1. "Quality Control for firms that perform audits & Reviews of historical financial information, And other Assurance & related services Engagements."

Quality audit means 2 things

(1) audit work should be done systematically as per Law, Regulations, Prof. standards.

(2) Report should be appropriate / reliable with strong basis in given circumstance.

2 standards for Quality

SQC - 1

SA - 220

SQC - 1

↓

At firm level what should be internal policies & Procedures to maintain quality.

↓

It is collectively Quality Control System.

↓

for all assurance & Related Assignment.

SA 220

↓

This standard explain how to implement firm level Quality Control system to engagement level

↓

To ensure quality in performance of audit ~~engagement~~ engagement.

Elements of Quality Control

* LE . Aya. HE . Man *

L → leadership

E → Ethical or Independent

A → Acceptance & Continuance

H → Human Resource

E → Engagement Performance

M → Monitoring

" don't accept anything which you can't deliver "

CNO - SQC - 040 - Leadership Responsibilities for Quality within the firm

Establishment → It is responsibility of leadership of firm to establish firm level quality control system. So that work & report of all assurance and selected assignments is appropriate.

(2) Ultimate Responsibility → In firm ultimate responsibility should be taken by most knowledgeble & powerful people such as CEO, managing partner of firm This will encourage others to follow this system.

(3) Operational Responsibility → Generally responsibility to develop system is delegated to people with sufficient ability & authority. They design test system & get it approved by higher leadership.

CNO.SQC.060 Ethical Requirements & Independent

(1) Policies & procedures

firm should establish internal policies & procedures to ensure that employees of firm comply with ethical Requirement & Also Independence Requirements as given by ICAI code of ethics.

five fundmental ethical principles

O → Objectivity
C → Confidentiality
C → Prof. competence & due care
B → Prof. Behaviour
I → Integrity

(2) Objectives for Independence

Policies & procedure for Independence should achieve following

a] Communication to members of firm with respect to policies & procedures of independence.

Eg - Sharing PDF's &, ~~Senior~~ Seminars Q&A.

b] Identify on regular basis.

Circumstances & relations which create threats to Independance.

c] Manage — Eliminate or Reduce threats — to acceptable level. by applying safeguards & if its not possible withdraw from engagement.

(3) Mechanism for important Communication

There should be mechanism such as separate email-id or dropbox where employees can easily and without hesitation communicate about threat, to independance or breach of independance policies to engagement partner

further engagement partner should regularly Communicate to firm if there is any important independent issue.

(4) Annual independance conformation

All firm members should give written annual confirmation that they have complied with independent requirement of firm.

CNO. SQC 080

Acceptance & continuance of client Relationship & specific Engagements.

① Information/factors

Auditors should collect vital information such as following for deciding whether to accept assignments

(a) Integrity of owners/promoters/Mgt of Entity.

(b) Competence of team members.

(c) whether team will be able to remain ethical & independent in assignments.

(d) Significant matters of PY & CY.

② Situations / Applicability

- New Assignment from new client.
- New Assignment from existing client
- ~~Coll~~ Continuing old assignment from existing client

③ Documentation Document what issues were identified & how they were resolved.

ROC is FAIR

R – Reasons for appointment or Reappointment

O – Operations of client (Nature of Business)

C → Conflict of Interest

- Personal Vs. professional
- Prof Vs Prof

R → Regulation

F – fees & time are low

A → Attitude → Profit at any cost → misinterpretation of AS

I → In Illegal activities → money laundering, Criminal activity

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Info received later → of auditor receives info after acceptance such that he would have declined assignment. There should ~~paper~~ policies to assist auditor in such circumstances Auditor may decide to withdraw from assignment.

L-65B

CNO. SQC 100 – Human Resources

① policies & procedures
– CA firm should establish policies & procedures to ensure that
- Sufficient staff is available.
- They are competent & capable
- Committed to work with ethics.

② final Result
– Human Resources should such that firm is able to work as per legal, regulatory & prof. standards. Report should be appropriate / reliable in circumstances.

③ Matters
following matters are generally covered in HR policies.
– Recruitment
– Training
– Compensation
– Performance Evaluation
– Carrier Development

CNO - SQC 120. Engagement Performance

Auditor should ensure proper performance of work. for this he should do following.

① Direction (Briefing) → Team should be briefied about nature of industry, nature of assignment and best way to do it.

② Supervision → work of team members should be evaluated during audit by seniors.

③ Review → once work of jr junior is completed it should be evaluated by senior it is called review.

If required following things should be done.

④ Consulation → In difficult & contentious matters team should take advise from consultant. Individual can be within or outside firm

formall · for small firms it is cost effective to have external Consultants.

⑤ Engagement Quality Control Review.

ⓐ When a non-team member review work of team it is called EQCR.

ⓑ It is mandatory in listed entities. & in case of others it is as per criteria established by firm.

Eg paidup capital / Turnover limit etc.

(c) Reviewer evaluates significant judgements involved during cause of audit. Such as materiality level, reliance on internal auditor, evaluation of significant estimates etc.

(d) Even after review responsibility of engagement partner is not going to reduce in any manner.

(6) Difference of opinion.

There can be contradiction of opinion between.

- Team members.
- Team members & Consultant
- Eng. Partner & EQCR reviewer

Such differences should not be supressed they should be resolved as per policy of firm further they should be documented also.

(7.) Documentation

CARO

C → confidentiality → P&P should ensure documents are safe accessible, retrievable, maintain confidentiality.

A → Assembly of file should take place on timely basis.
In case of audit → within 60 days from date of audit report
In case of other engagements → within appropriate limits as per firm policy.

R → Retention
Documents should be retained in such manner that monit - oring of system of Quality control —

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is done without any problem

In case of audit it should be atleast 7 years from date of audit report or latter if date of group audit report.

In case of other assignments it should be as per firm's policy.

O → Ownership

firm is owner of documents they may share it with Clients as appropriate without ~~compromising~~ compromising independance.

CNO. SQC 140. Monitoring

(1) Ensuring Relevance and Adequacy

Def → Monitoring is activity in which firm evaluates existing system of quality control. Whether system is adequate & relevant as per changing circumstances. further whether firm members are complying with it on regular basis.

(2) Ways of Evaluation.

Monitoring can be done in following 2 ways.

(a) Ongoing evaluation → There should be regular procedures & reports which tracks performance of system. Eg → Complaints, suggestions, failures, regulatory updates.

(b) Periodic inspection → on periodic inspection generally on annual basis some completed assignments are selected and evaluated. whether quality of work & report was maintained

Part-4

SA-220

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6th Aug

CNO-SA220.020 'Quality Control for an Audit of FST'

(1) Premise [Basic Assumption]

It is assumed that firms has developed system of Quality control as per SQC 1

Now it is engagement partners responsibility to implement it in engagement & ensure ~~quality~~ quality of audit is maintained.

(2) Objective of SA 220

(a) Work → legal, Regulation, prof. Std.

(b) Report → Appropriate / Reliable.

(3) Element of Quality Control.

→ leadership
→ Ethical & Independent
→ A&C → acceptance & Continuance
→ Human Resources (Team)
→ Engagement performance
→ Monitoring.

CNO. SA-220.040. Leadership Responsibilities for Quality on Audits.

(1) Leadership

It is leaders responsibility to ensure assignment is as per firm's system of quality control. Engagement partner is leader of Audit team.

His actions & ~~mes~~ messages should encourage others to maintain ~~&~~ audits.

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② Work & Report

— Work should be as per
- ✗ Legal Requirement
- ✗ Regulatory Requirement
- ✓ Prof. Standards
- ✗ firms system of Quality Control.

→ Report should be appropriate.

— Team members should be able to raise concerns with fear of negative action in favour of maintaining quality.

CNO. SA 220.060 Relevant Ethical Requirements.

→ Engagement Partner Responsibility to ensure team is ethical & independent.

→ for this he should do following
- Identify ethical issue & threats to independence
- Eliminate them or apply safeguards to reduce to acceptable levels.
- If not possible withdraw from engagement inform appropriate people about withdrawl.

CNO. SA 220.080. Acceptance & Continuance SQC-080

① Ensuring Appropriate

CNO. SA 220.100 → Assignment of Engagement Teams

Eng - Team → Experts < Competent, Capable

↓

Ensure

↓

Work & Report → Legal / Regulation / Prof. Std.

Report → Reliable

CNO. SA 220.120. Engagement Performance (EP)

(1) Direction, Supervision Review

(2) Consultation

(3) EQCR

(4) Appointment of Engagement Quality Control Reviewer

(5) Discussion of Significant Matters

(6) Dating of Audit's Report.

(7) Resolution of Difference of opinion

— SQC. 120 —

* Responsibility of EP in EQCR
* Appointment of Reviewer
* Discuss significant matters
* Not to date Sig. till review is over)

CNO. SA. 220. 140 Monitoring

Engagement partner should keep track of deficiencies identified in firm level monitoring and ensure those deficiencies are covered in his audit assignment

— SQC - 140 —

— Defination / purpose

— Always —

CRO. SA 220 . 160 — Documentation

(1) following should be documented by engagement partner.

(1) Ethical ~~co~~ issues identified
   (+) How they ~~was~~ were resolved

(2) Independance issue / Threats
   (+) How they were resolved & complied

(3) Acceptance & Contentious issues identified (+)
   How they were resolved.

(4) Consultations :- Nature & scope of consultant received.

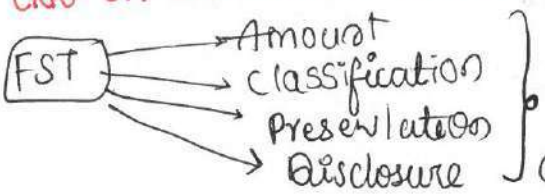
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L-66A
7th Aug

Chapter - 3

Risk. Assessment and Internal Control

CNO. SA. 315. P1.010. What is meant by misstatement ?



Reported is different from what Should be as per AFRF then it is called misstatement.

Examples of MST

(1) Asset Related → fixed Asset → Capital Expenditure misallocated
→ Inventory → Valuation under or over stated
→ Debtors → over stated, no. written off or no adequate provision for Doubtful Debts.

(2) Expenses → fake expenses booked intentionally to lower profits & Tax.

(3) Others → A - accounting policy not properly selected & implemented
E - Estimates not determined reasonably.
D - Disclosures are inadequate or misleading.

CNO. SA. 315. P1.020. Audit Risk & RT's. Components

Risk → Chances that wrong things

Inherent Risk → Initially auditor assumes that there is no internal controls and then think as per nature of business & financial items in which Transaction, Balances & Disclosures material misstatment can occur individually or in aggregate. such areas are marked as Inherent risk.

from this auditor understands which controls are important to stop MNST.

Eg:- Retail → stock, cash.
Jewelery → purity, weight, Valuation of gems.
Coaching → Registration
Telecom → Data mgt, Billing.

Control Risk → Auditor should make preliminary assessment whether controls will be able to prevent or detect & collect misstatements if they are not able to do it. Then such areas will be marked with control Risk

Ex faulty machine for Quality checks
→ No Monthly stock Taking
→ No Security

RMM chances that material misstatements in each financial statements and they are present in TBD given in FST is called Risk of Material Misstatement.

It is obtained by Combining
2 Risk, IR & CR

RMM = IR × CR

Eg. = 60% × 40%
= 24%

RMM is determined before checking financial items. so it is determined prior to audit

Inherent risk, control risk, RMM are under control of management Auditor can only identify & assess these risks and accordingly plan & perform his audit.

Detection Risk → chances that auditor audit procedures are not able to identify material misstatements which are present in FST is called / Detection Risk.

Detection Risk is dependent on Sampling

Sampling Risk → Chances that auditor conclusion during audit goes wrong because of sampling process. Sample is not representing population is called. Sampling risk.

Non Sampling Risk → Chances that auditor conclusion goes wrong because of inappropriate audit procedures selection, implementation or evaluation of evidence is called Non Sampling risk.

Detection risk & its components are under control of auditor.

Auditor which inversely adjust detection risk after and analysing RMM

~~Audit~~ Audit Risk → Chances that final Opinion given by auditor on FST is ~~indep~~ inappropriate.

More Specifically auditor gave unmodified opinion (clean) when modified opinion was required as there were material misstatement in FST

Audit Risk = RMM × DR

AR = IR × CR × DR → Balancing figure

AR ↓ Decided @ planning level

IR, CR ↓ Identify & Assess

If AR is 1%
IR is 40%
CR is 20%

∴ AR = IR × CR × DR
1% = 40% × 20% DR
⇒ DR = 12.5%

If auditor keeps DR is 12.5% or low automatically AR will be within acceptable limit of 1% or less.

CNO SA 315 · P1.020 @ Audit Risk & IT's Components

① Defination - Initially auditor assumes there are not internal controls and then he determines in which TBD assertions materials misstatement can occur this is called inherent risk.

② following factors are related to IR.

Shortcut → RD Burman factors

R → Reason → Auditor should always go in details what is ∑ root cause of Risk, it will help him to design TOC & SAP for exactly that particulars point.

Eg - If Coal Valuation is going wrong because of moisture content TOS & SAP should pay special attention to moisture content.

D → Degree of Inherent Risk → Inherent risk level can be different in different items all cannot be cannot be treated same. So they should be categorised as high, medium, low or as suitable.

B → Business Risk → Business Risk means chances that business will not be able to achieve its objective, means they may fail & incurr losses. Because of Business loss asset may reduce or liability may increase.

So. Business risk has impact on inherent risk of assets or liabilities.

Eg - Obsolesence of FA / Inventory due to change in Technology is business risk which will lead

F factor - Inherent risk may be impacted because of internal or external factors.

Eg :- Inherent risk in inventory valuation may increase because of poor storage facility in company & low demand in industry.

further risk in going concern can increase because of lack of funds in Company & business failure Outside Company.

CNO. SA-315.P1.020.

Def :- Chances that internal Controls are not able to prevent or. Detect & Collect material misstatement individualy are in aggregate in TBD. assertion is called control. risk.

(2) Reasons for control failure → 3 Reason → Design
→ Implementation
→ Maintance

(3) Elimination → CR can be reduced but it cannot be eliminated
cannot make it zero
→ Reasons → Top mgt → mgt can override ICS
→ Middle mgt → Collusion
→ Lower mgt → Human error.

4] Assessment → 2 types of assessment
* Seperate
* Combined.

In big Companies there are good controls with documentation. Auditor identifies IR & CR seperately & then multiplies it to get RMM.

(b) Combined

In Small Companies ICS are not good, no proper ICS manuals. So auditor ~~it~~ directly identifies & assesses RMM. final assessment of RMM can be Quantitative terms such as percentage or points amt of 10. It can be also in qualitative terms such as high low, medium.

CNO

Definition → chances that there are material misstatement in TBD of financial statement before conducting audit is called RMM.

(2) Component – 2 → Inherent risk
→ Control risk

It is identified on the basis of information collected & understanding obtained by Auditor. Eg: Complexities, Judgements, pressure etc lead to RMM

(3) a levels @ FST level → Circumstances such that MMST can happen in any part of FST

(b) Assertion level → Circumstances such that MMST can happen in particular TBD assertion.

for FST level we have overall response (strong team)
for Assertion level we perform further Audit procedure
[TOC & SAP]

L-66 B

CNO. SA 315 · P1 -0.20

Detection Risk

Def → chances that Audit procedures are not able to identify material misstatement which are present in financial statements is called. detection risk.

(2) Control →
IR/CR are controlled by management. IR depends on nature of business & nature of TBD. CR depends on ICS.
Auditors ~~ideally~~ identifies & assesses these risk.
DR is controlled by auditor. It depends on Audit-Team, Planning, Audit procedure performed & DSR.
Auditor first identifies & assesses IR/CR and then inversely ~~adj~~ adjust DR.
DR is adjusted in such a manner that final audit risk should remain within acceptable limits.

CNO. SA 315 P. 020 Audit Risk

Def → Chances that final opinion on FST goes wrong.
SA. has coverage only 1 situations that auditor's gives unmodified opinion where modification was required because of material misstatement.

SA ignores other situation where auditor may modify opinion but it was not required. It is rare that such things happen. So SA . ignores.

(2) Auditor's Business Risk

Auditor Audit Risk doesn't include what will be impact on auditor's business such as

(i) loss of reputation.
(ii) Adverse publicity events
(iii) Other related events

It only covers chances on wrong opinion

CNO. SA 315. P1. Q21

Example

EPS –
Employee Benefit
– AS – 20.

Examples

(a) Inherent Risk

(i) Complex Accounting standard, may lead to lack of understanding & material misstatement. It is inherent risk.

(ii) Because of business failures, there may be risk in going concern, because of which asset, liability valuation may go wrong, again it is inherent risk.

(b) Control Risk

(i) Inventory Related – fire extengeishers & smoke detects may not be maintained & may not be in working conditions.
It may lead to heavy loss in inventory

(ii) Cash - cash & cheque book may not be kept in locked safe on regular basis.
- petty cash expenses limit is less than 1000 but employees may break expenses of 5,000 into 10 expenses of 500. & by pass limit of 1,000.

(c) detection risk.

(i) Inventory
WIP inventory is material but auditor is still not attending physical verification is an example of inappropriate / inadequate audit procedure & he may miss material misstatement

(ii) Revenue
Auditor may select very small sample of revenue and his conclusion may go wrong which leads to sampling risk. which further increases detection risk.

CNO. SA315 Pl. 040 Risk Assessment Procedure. [How to collect info?]

(1) Risk. Assessment Procedure
It means how to find. risk we can find risk by collecting information & objective obtaining understanding about entity, its environment & acts & internal control system.

(2) How to collect information & obtain understanding.
(a) Inquiry.
(b) Observation & inspection
(c) Analytical procedure

Inquiry → from whom to do. Inquiry

(1) TCWG → Environment of preparing FST → ~~Base~~ Pressure

(2) Mgt → Risk mgt Dept / Committee → major Risk identified

(3) Internal Auditor → status of ICS
→ Whether Deficiencies are rectified

(4) Internal legal Counsel → legal & Regulatory Requirement
→ Contractual Agreement
→ Litigations

(5) IT personnel → System
→ Changes
→ failure risk

(6) Marketing & Selling / Sales → promises to Customer

(7) Employees → ~~For~~ Significant Transactions
~~• Initiate~~ • Initiate
• Approve
• process
• Record
• Report

(2) Observation & Inspection

Observation → premises
→ plant facility
→ Godown

↓
See how people are working

Inspection → ◦ ICS manual
◦ Regular Documents / Records
◦ Reports by mgt / TCWG.

(3) Analytical procedures → Collect financial & non financial data.
Eg. Emp, capacity, revenue, exp. etc
→ Compare with last year for new developments & fluctuations.
→ Compare with others to get strengths & weakness of Company.
Above analysis will be useful to detect RMM.

CNO. 315 P1.050. Risk. Assessment procedure. — Use as Audit Evidence. and. Risk due to Error & fraud

* Use of information ① → Obtain RAP
↘ Identify & Assessing RMM
② → used as audit evidence → TOC
↘ SAP
③ Option
↳ perform concurrently for → RAP
FSI item ↘ TOC
↘ SP.

* Risk due to Error & fraud → includes ROE & ROF
↘ ROE is significant
↓
follow
SA240

(1) Preliminary Use → 1st Use of info collected in RAP is to identify & Assess risk of material misstatement.

(2) further Use → This info can also be use in TOC to prove operation of controls and also in SAP. to prove IBD.

(3) Approach → Because of above some auditor may plan to perform RAP, TOC, SAP. Concurrently.

Eg. When you visit plant

- See if any thing involved → for RAP
- See if security is adequate → for TOC
- See if assets exists → for SAP.

(4) 2 types of risk → from above we may get 2 types of risk

- Risk of fraud
- Risk of errors.

CNO. 315. P1.060 Understanding of the Entity and its Environment [What basic information should be collected?

(1) Industry Related
(2) Nature of Entity & Related points
(3) Accounting policy Related
(4) financial Related
(5) Objective & Strategy Related

1] Industry

Auditor is suppose to understand 3 things

a] Industry → Competative Environment
↓
↳ Number of competitors
↳ Products
↳ Prices
↳ Demand
↳ Cyclical / Seasonal.
↳ production Capacity

b] Regulatory Environment
↳ Regulators
↳ Imp Regulations
↳ Effect on
↳ I/E/A/L.

c] Other External factors [including FRF]
↳ Special FRF
↳ Technological Development
↳ Relationship with Suppliers & Customers
→ Related parties
→ Unified Buyers / Sellers

a] Nature of Entity Related points — 4 points —

(i) Ownership & Governance

(ii) How entity is structured & financed

(iii) Example
- Group structure → complex / simple
- Inter Group transactions
- Whether multiple legal & tax jurisdiction are involved.

(iii) Types of investments ?
[including any special purpose entity]

(iv) Operations

a] Earnings → Major Business lines
→ Major products
↓
Pressure → mgt food

(b) Key Supplier & Key Customers → pressure
↓
Manipulations
- Related parties
- Risk in Revenue & Exp transaction

(c) Outside normal Course of Business → without Consideration
↓ ↓
leasing of ~~Party~~ Property
Mgt services.

② Contracts → Changing frequently

③ Compler Equity Transactions

③ Accounting policy Related.

Understand 3 things

a] Selection of AP

b] Application of AP

c] change in AP

→ further Examples

i] Need of Specalist

ii] Whether changes is making FS is more comparable

iii] New Revised disclosures

→ Because of change in

→ Entity Environment

→ financial condition

→ Activities / New Transactions.

④ financial performance

— 2 things —

- Measurement → 5 years
  - Revenue
  - Profit
  - EPS
  - Dividend
- Review Reports
  - Eg. Research Analyst
  - Credit Rating Agencies Report

⑤ Objective & Strategies

ⓐ Objective → profit / Turnover / market share

- Over Ambitious or Reasonable
- Achieving or under performing

(b) Strategies → Steady growth
- Marketing
- New markets

→ Aggressive
- Acquisitions

(c) Business Risk.

L → loss of financing
- Lack of employees with expertise.

I → Insufficient or Excessive capacity.

F → failure to update technology in production/product designing

E → Excessive Reliance on some Supplies or Customers.

CNO. SA. 315. P1.080 Need of Understanding of the Entity And it is a Continuous process

Main AREAS

M - Materiality
A → Selection & Application of accounting policies
R → Risk of MMST
E → Evidence
A → In analytical procedure developing expectation
S → Identifying audit ~~fees~~ areas — Special audit consideration

(1) Continuous process → Understanding entity & its environment is a continuous process. After initial understanding we keep updating our information.

(2) following are the reasons or need for understanding

Main AREAS

M → helps in materiality computation.
A → Useful Understanding Selection & Application of Acc policy.

R → Helps in identifying RMM

E → Understanding & Info. can act as evidence for TBD

A → Helps in designing Analytical procedures

S → Areas which need special audit Consideration

Eg:- Related parties / Going Concern.

CNO. SA 315. P1. 100

Identifying And Assessing the Risk of Material Misstatement.

— RAP —

Assessed @ 2 levels.

- FST level
- Assertion level.

— 4 things which performed —

1] Identify risks throughout the process of RAP – whether financial statements can get affected.

(2) Assertion level → Evaluate whether it is affecting specific TBD assertion

(3) FST → Evaluate whether it is affecting ~~more~~ ~~may~~ many financial items and there assertions it is pervasive across FST.

(4) Likelihood & Magnitude → finally evaluate likelihood (probability) of misstatement and ~~mg~~ ~~mgn~~ magnitude (amount) involved.

We will get risk of Risk @ 2 level → FST level
→ Assertion level

Financial Statement level

Def → When circumstance & conditions related to risk are such that MST can happen in any part of FST it called FST level Risk.

It is not affecting specific TBD. assertion. it is affecting many items & assertion.

(2) following are examples of FST level risk

(i) Mgt Integrity → If there is lack of integrity any where ~~manipulations~~ manipulations can be ~~etc~~ done.

If integrity issue further rises and becomes big Auditor may withdraw from assignment.

(ii) Deficit Control Environment

↓

Control Environment means attitude of mgt towards ICS.

If ctl is weak any where things may go wrong.

(iii) Conditions affecting reliability of accounting Standards

—This is again FST level Risk.

Ex°. - Bug in Ac Software Cyber attack etc.

If problem is wide spread & auditor is not able to rely on accounting records he may qualify or give disclaimer.

Assessment of Risk of Material Misstatement @ the Assertion level.

All info given Through
FST → Assertion

Information = ~~Repo~~ Reperformance / Representation

↓

MGT Assertions

↓

This is Board Meeting

FST

Transaction (Income/Exp)

↓

P&L

Sales	1000 Cr

- Occurance
- Completness
- Accuracy
- Classification
- Cutoff

Balances (Asset/Liab)

↓

Eg

BS

L&B	100 Crores

- Existences
- Completness
- Valuation
- Rights & obligation

Disclosure (Notes to A/c)

Eg - AS-19

↓

Notes Disclosure

↳ ~~Notes~~

Lease payable 20 Crores in Next 5 years.

- Occurance & Right & Objective
- Completness
- Valuation & Accuracy
- Classification & Understating.

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Related to Assertion

DON

D → If auditor wants he can make changes in assertions if justified.

Example

a] He may present it differently like he can combine assertions of TBD.

b] He may add new assertions

Ex: In govt. Entity, he may write govt. policy, law approval or new assertion for transactions.

O → Overall Assertion

Each FST gives some overall information

Eg. P&L A/c → financial performance

B/S → financial position

After confirming TBD level assertion Auditor should evaluate overall assertion of FST is appropriate.

N → Negative Assertion

It means denying something → something doesn't exist

It can be implict or explicit

~~It can be~~

↳ Explict → No Contingent liability

Implict → No line item of Building that means there is no building.

L. 67B
8th Aug. 2024.

Question on Assertion ?

* If you get question that write assertion of particulars financial item. Then write following things.

a] Write all Specific assertion which we have studied.

b] Write all the information given about the financial item.

CNO. SA 315. Pg. 120

Risk that Require Special Audit Consideration.

* Significant Risk → All Significant Risk should be given special attention that means Special audit procedures should be applied to examine such risks.

"CFO - CSR"

C - Significant Changes
F - Risk of fraud → Pressure, Attitude, Opportunity
O → Outside the Normal Course of Business
C → Complexity
S - Subjectivity in valuation or accounting treatment
R - Related parties Significant Transactions.

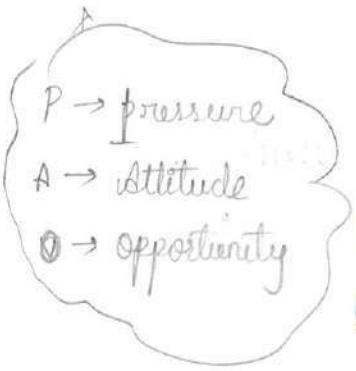
Factors of Significant Risk

Eg :- If there is risk of dummy employees then auditor may Plan Surprise visit at branches to detect dummy employees.

While determining Significant risk we assume there are no internal Control systems and, they areas where there is highly likelihood of MST with big magnitude they are marked as Significant Risk.

(2) factors → Significant risk is generally observed if ~~are~~ one or more following factors are present

CFO - CSR



After Auditor has identified & assessed Significant risk, he should ask mgt. what Controls are applied to Compensate such risks. these are called relevant Controls.

CNO-SA315-PJ140 Identifying Significant Risk.

1) Definition :- - Some -

*Non Routine transaction [other than OCOB]

2] Sources of Significant Risk → Here they want to explain root causes of Significant risk.

A] Non Routine Transactions
↳ Transactions which are generally rare

i) Manual intervention in automated system.
ii) Mgt intervention in accounting issues & treatment
iii) Complexity in transaction & A/c

Non Routine transaction leads to significant risk because there are no internal Control System to handle such transaction.

(B) Judgmental ~~to~~ matters

FST items where lot of judgement is required for accounting they are called Significant Judgement matters

Examples (1) Subjective & Complex judgments or futher action related judgements

Eg - Goodwill valuation, Going Concern Validity.

(ii) Different interpretations are available in accounting Stds for treatment of estimates & revenue recognitions and both appear justified.

(c) Always Considered Significant Risk

(i) Risk of Material Misstatement due to fraud.

(ii) - Significant Related Party transaction (+) Outside normal Course of Business.

CNO. SA 315. P1.160 Documenting the Risk

(1) RAP. performed Understanding & Sources → What information is collected & Understanding is obtained. ~~What FST & As~~

(2) Identified & Assessed RMM @ FST level & Assertion level.

(3) Related Controls. – relevant Control. were identified which can Compensate risk.

(4) Discussion Concerning Engagement Team – w.r.t to Risks.

Part - 2. SA 315. Internal Control System

System of Control → Audit

CNO. SA315 - Pd.020

Definition & Objective of Internal Control

Definition :- As per SA 315 steps & procedures established., implemented & maintained by mgt / TCWG / employees. to achieve with reasonable assurance following 4 points are covered in ICS

Objective / purpose (4)

i) For Compliance of Law, rules & regulation → Eg : Legal Dept.

ii] For Safeguarding Assets · Eg → Physical Security, CCTV permissions for access - Regular physical verification

iii] For keeping operations efficient & effective
Eg - Reorder levels - Labour efficiency training

iv] For maintaining Completness or accuracy of operational or financial information.

• Def OR • Obj • Purpose

CNO. SA-315. Pd. 030: Understanding Entity's Internal Control

i] No need to understand all controls of the entity. Understand only those Controls which are relevant for audit.

- Those Controls are relevant which can compensate inherent risk. significant risk and reduce RMM.
- Generally financial Controls may become relevant controls but it is not necessary all financial Controls will be relevant.

Eg:- If there no investments then investments related controls are not relevant.

* Benefits of Understanding
  - Assessing Control Risk.
  - Identify areas with RMM
  - Decide further Audit procedures

CNO. SA.315.P2.040. Study of Various Aspects of Internal Control System

What to do for ICS?

— 4 things —

1. Understand general nature & purpose of ICS.
2. Identify Relevant Controls
3. Understand Relevant Control → Nature & Extent
4. focus on Component of ICS

CNO. SA.315-P2.060 General Nature & Characteristics of Internal Control.

— Same as. — ICS

- Def -

IC is designed, implemented & maintained to address identified Business Risk that threaten

Objective

- The reliability of Entity's FR.
- The eff. effectiveness & efficiency of operations
- Its Compliance with laws & regulation & Safeguarding assets.

CNO. SA.315.P2.065 :- Controls Relevant to the Audit

MS^2N Developed Light Compact Nice Watch

— Compensate Risk —

M → Materiality

S → The Significance of the related Risk

S → Size of the entity

N → Nature of the entity's Business, including its organisation & ownership characteristics

D → Diversity & Complexity of the entity's operations.

L → Applicable legal & regulatory requirements

C → The circumstances & the applicable Component of internal Control.

N → The nature & complexity of the System that are part of the entity's internal control, including the use of Service organisation (Ex → BPO) — Outsource

W → Whether & how a specific control individually or in Combination with other prevents or detects & corrects MMST

9th Aug. 2024.

CNO. SA 315. Pg. 075.

L-68A

Nature & Extent of the Understanding of Relevant Controls

1] What we understand ?

a] Design of ICS → Ability to PDC → [prevent, detect & Control]

b] Implementation of ICS
[Operating Effectiveness]

further we 1st understand design & then implementation. If design is not satisfactory we don't go for understanding implementation

2] How to understant?

Inquiry
Observation
Inspection
Tracing
} Inquiry alone is not sufficient.

3] Use of Understanding ?

→ We can assess control risk & then we can compute RMM.

→ In highly automated systems, where there is Consistency of performance.

↓

Understanding of implementation will give evidence for Test of Control.

↓

Apart from above only understanding is not sufficient for TOC.

Very good control Environment

CNO - SA315 - P2.080 Components of Internal Control - Auditor should Focus on 5 Component

1.] Control Environment

2] Risk Assessment process

3] Control deliveries

4] Monenetoring Controls

5] IS (T - Information System - Information Technology

CNO.SA 315 P2-100 Control Environment Component of Internal Control

Definition :- Control Environment means attitute, level of awareness, influence infrastructure ability & action by TCWG / MGT towards Internal Control System.

Elements of Control Environment

(1) TCWG related.
→ i] Attributes [qualities] → experienced & high stature
→ independent from mgt

ii] Participation → Involvement in governance
→ Ask difficult question
→ Interact with internal & external auditor

(2) Mgt related
i] Analyse there mgt philosophy & Operating ~~syste~~ style.
↓
They should consider Business Risks while taking decisions.
. They should give importance to depts doing information Processing & accounting.
. They should have ethical attitute towards financial Reporting

③ ~~How~~ Human Resource Related

1] policies & practices
↳ Recruitment, Orientation, training, evaluation, ~~tons~~ counselling, compensation remedial action.

2] Allocation → As per competance

3] Organisation structure → proper depts, reporting structure

- planning
- Execution
- Review
- Control

4] Authority → Authority should be given to excute responsibilities.

5] Communicate → Ethical values should be communicated Regularly.

CNO. SA. 315. Pg. 110 ~~Sate~~ Satisfactory Control. Environment — Not an Absolute ~~def~~ deterent to fraud.

① If Company having Satisfactory control Environment. It is a positive factor, other components will work properly it will reduce RMMS & it will reduce efforts on further audit procedures.

② Issue. → Only satisfactory CE is not enough to prevent, detect & Control MMST. Other components should also function properly.

CNO. SA. 315. Pg. 120 The ~~Ensure~~ Entity's RAP - Component of Internal Control.

Auditor should obtain Understanding of Entity's Risk assessment process (RAP)

① Identifying Risk → Business Risk which affect FST
② Likelihood → Are they determining probability of risks
③ ~~SAG~~ Magnitude → Further where → Significant Risk MMST is determined
④ Action → Whether proper allocation of resources & Control activities are designed to compensate.

Above Understanding will help auditor to identify & access RMM for audit purpose.

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CNO. SA 315. Pg. 140 Control Activities Component of Internal Control

Defination — Steps & procedures designed by Mgt / TCWG to ensure that transactions within entity are executed as per Objectives of Organisation and to protect, Detect & Correct MMST are called Activities

Relevant Controls → Auditor is interested only in relevant controls. Relevant Controls are those Control which are ~~apte~~ capable of Compensating risk.

— further in highly automated areas controls are relevant in such areas substantive procedures done, doesn't give SAAE.

Examples of Control Activities

1] Physical control → which ensure physical safety and security of assets & records

2] Segregation of duty → Distribute / divide work of particulars. transaction among 2 or more persons so that work of one is checked by another.

3] Authorization :- all significant transaction should be authorized by appropriate person to avoid fraud & error.

4] Information processing → Operational & financial info should be captured, processed & reported.

5] Performance review → On periodic basis imp reports should prepared discussed and analytical so that unusual items can be identified, & corrective action can be taken.

CNO. SA 315. Pg 160 Monitoring of Controls - Component of Internal Control.

Definition :- It is an activity in which entity evaluates effectiveness of ICS & takes remedial actions.

Ways of Monitoring

a] Ongoing Activities → These are steps / procedures within internal Control System. in the form of reports which help identify issues in internal control.

b] Separate Evaluations →
Professionals can be appointed to evaluate various parts of ICS. Ex:- Internal Auditor / It Auditors etc.

c] feed Backs
feed Backs & Comments by Customers, regulatory authorities can be useful for monitoring.

Above ways can be used in Combinations.

Small Entities :-
In Small entities Owners / managers perform monitoring activities they are closely involved in operations. They identify significant variations in financial data any unusal movement. They Take remedial action.

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L-68B

CNO. SA 315. P2. 190

Monitoring Of Controls - If the entity has an Internal Audit function

1] monitoring → yes monitoring can happen with the help of internal audit. Internal audit evaluates internal control system & suggests ~~on~~ improvements

2] Coverage → IA may cover controls which are relevant for audit. In such case auditor should apply SA 610 to take help of Internal auditor.

Auditor should understand level of competence, objectivity & systematic, disciplined approach by internal auditor.

CNO. SA 315 P2. 195 The Information System, Including the related Business Process, Relevant to financial reporting & Communication - Component of Control Environment

1. Understanding It is important for auditor to understand how information is processed in entity. Because lot of decision are taken with help of this information farther auditor will be able to understand whether to rely on system reports.

2. What points should be understood

↳ following 4 points should be understood.

a) Transaction Related

- Significant class of transaction
- Business process for execution of these transactions
- Accounting process used for accounting these transactions.
- Also understand important accounting records & account heads for each type of transactions

b] Events & Conditions
— Understand important events & Conditions affecting entity.
Eg:- Depreciation, Inventory obsolete, impairment, Bad debts written off.
— understand how accounting is done for them.
Ex:- Initiate, Computation, Entry etc.

c] Journal Entries
Important high value adjustment journal entries are passed at year end. Some of them are unusal, non recurring nature,
Ex:- Closing stock, provision for litigation, Debtor, Credetor knock off, Auditor should understand whether there is proper authorisation record of such entries.

d] financial Reporting process → Auditor should understand FST are Prepared. from Trial balance. Special notes to accounts.

CNO. SA. 315. Pg 198. Communicating financial. Roles. And. Responsibilities

(1) Importance → If there is ~~there~~ is strong Communication is accounts dept. where large No. of people may work on different parts, Communication is important for completeness & accuracy.

(2) following Different Communications are important
a] External → A/c dept. should track annoucements circulars etc, by regulatory authorities which are related to accounting & financial statement

b] TCWG → BOD are generally playing role of TCWG. They delegate accounting & auditing related ~~Book~~ work to audit committee A/c explains mgt on regular basis what kind of accounting policies, Estimate computations & Disclosure should be done in FST.

C] Roles & Responsibilites → Entity should explain roles & responsibilities of each team members & also accounting treatment of transaction & events with the help of policy & accounting manuals. further they should also explain overall accounting process so that if exception (mistake) happens then how to rectify as soon as possible

(3) Small Entities - Small Entities are less structured & Communication & rectification happen fast as compared to large Entities.

CRO. 315. Pg. 200 Evaluation of Internal Control

(1) Duty As per SA's auditor is suppose to understand & test Internal Controls. It will be beneficial for audit.

(2) Benefits of Evaluation $A^4R^2IS^2E^2$

A - Adequecy of ICS. Whether all locations & transactions have well designed ICS.

A → Administrative Controls → means staff management Controls. If they are weak then it may trigger frauds & errors due to inappropriate recruitment. further frauds like dummy employees may occur.

A → Auditor can identify assertions which may get misstated & accordingly divide audit technique for that assertion.

A → Auditor will understand which areas have weak control & which have strong control.

R → Auditor will understand whether recording of transactions is happening properly.

R → Auditor - Whether Records & Reports in entity generated by system is reliable

I → Whether Internal Auditor is working properly

S → Whether assets are properly safeguarded

S → If dificiencies are identified auditor can give Suggestions for Management.

€→ Areas of errors & frauds can be identified.
€→ financial items where extent of checking needs to be increased.

CNO. SA. 315 Pg. 210. Formulate Audit program after understanding internal control.

Evaluate ICS & then make audit programme.

① Evaluation Auditor should evaluate internal control & then Make audit programme. It will help him to make objective (unbiased) audit programme.

② Benefits → WRAT

W Weakness & Suggestions → Auditor will be able to identify weakness in ICS & give suggestions.

R Real state of Affairs → After implementation of system it may not be maintained, auditor will come to real state of affairs.

A Appropriate Audit procedures → Auditor can understand which assertions are affected & what is level of weakness the he can accordingly decide extent & type of audit procedures

Results will influence extent of Test checking (Sampling)

CNO 220

CNO. SA 315 Pg 220 Evaluate of financial. Internal Controls Method/Tools.

following are 4 Traditional methods for understanding ICS

a] Narrative Records
b] flow charts
c] Checklist
d] Questionnaire.

CNO. 315. Pg. 240 The Narrative Records //

1] Definitions If there ~~are~~ is no formal internal control system then auditors can observe steps, test them & then line by line discription of system. it is called narrative records.

27

2] Dis advantages → Difficult to comprehend (understand)
→ Difficult to visualise & detect weakness
→ Difficult to make changes.

CNO. SA315. Pg. 260 – Flow Chart.

1] Definitions → Graphical or Diagramatic presentation of ICS

2] Advantage → Birds Eye View [Overview]
→ Easy to review System in less time
→ Easy to identify deficiencies
→ less narrative required

CNO. SA315 Pg. 280 Check list

Definition → It has series of question, instructions framed to evaluate ICS. Team member is suppose to fillup this Checklist. Answer will be yes, No. as Not Applicable. After Completion initials & signature should be put on checklist.

(2) Review → ~~Partner~~ Seniors, manager, Partner review Checklist

(3) Examples Checklist for Purchase
- Tender process
- Written standard PO
- Independent Accountant

CNO. SA315. Pg. 300 Internal Control.

1] Def → It is list of questions drafted for mgt.
→ They are suppose to fill up answer in yes/NO/NA
→ Answers will tell us whether ICS has issue or potential deficiencies
→ It can be are comprahasive questionnaire or it can be in sections
→ Generally done annually.

2] Discussions → Issues identified are discussed and checked in ~~done~~ details.

10th Aug
69A

CNO. SA315. Pg. 320

Internal Control in Small Business.

(1) Audit objective → It is same in large & small etities.
(2) Controls → But internal controls are not same. Resources are less, formula. ICS is not designed, no segregation of duty so controls are weak. Owner's supervision tries to compensate weak controls.
(3) Audit approach → Hence in small entities there is no to less emphasis on test of controls and more & emphasis on substantive procedures.

CNO. SA 315 P2 3&5

Manual And Automated Internal Controls.

Definition

Manuals → When control activities are executed by individuals it is manual control.

Automated → when control activities are executed by machines, Softwares it is automated control.

(2) Difference

a) Transaction Operations

— In a manual control transaction is initiated, approved. Processed, recorded and then reconcile is done by individuals. While in automated system it is done by softwares.

(b) - Nature of Documents.

Manual Control – physical Records.

– Automated Control – Electronic Records.

(3) Understanding → Auditor needs to understand both the types of Controls, it will be useful for determining Control risk and then RMM and then designing further audit procedures.

(4) Combination → Entity now adays uses combinations of both. There are some control which are IT dependent, the initial reports are system generated and then studied by individuals. In some cases individuals perform a only monitoring work.

CNO. SA 315 - Pg 335 · Benefits of IT on Entity's Internal Control.

SMART & C²L ever

S — Segregation of duties
M — Monitor the performance
A — Additional analysis of information
R — Reduce the risk
T — Timeliness, availability & accuracy of information
C — Consistently apply rules.
C — Perform Complex Calculation.
L — Process Large Volumes of Transaction

CNO. SA 315. Pg. 340. Risks Because of System

a) IT personnel Related
↳ If dept. employees may get previleges (power) which are much beyond requirement and they may misuse these powers.

b) Data Related.
↳ Unauthorised access to data may lead to following.
- Destruction of data.
- Potential loss of data.
- Unauthorised transaction are processed & included in data.
- Non existent (fake) transactions in data.

c) Processing Related
↳ Input files for processing are in accurate
→ Inaccurate processing of data
→ Manual intervent in automated processing.

d] Changs related

> failure to make changes & stay updated

> Unauthorized changes.
- Operating System
- Master file.

CNO. SA.315. Pg. 360

Limitations of Internal Controls

Internal Controls can reduce risk but cannot make it Zero. So there is reasonable assurance not absolute assurance because of following reasons.

a] Top Management Related.

→ Mgt. judgement about level of control required may go wrong.

→ Mgt themselves may override ICS with their power, Knowledge & Experience.

→ Installing Controls comes with cost.

b] Mid mgt. Related

— Collusion may take place between manager & employee

c] Lower Emp. Related

- Human judgement involved may go wrong.
- They may not understand purpose of controls

Eg: purpose of reports.

CNO. SA 315. Pg. 380. IFC Vs IFCR.

Internal financial Control Vs. Internal financial Control Over Reporting.

[Companies Act 2013]
SA 315

Definition

IFC → Broader
IFCR → Narrow

Concept of IFC as per Companies Act & Internal Control as per SA 315 is same.

It Covers steps & procedures — to achieve following things

i) ~~Comptiance~~ i) Compliance of law
ii) Safeguarding assets
iii) Efficiency & effectiveness of Operations
iv) Reliability & of accounting & financial statement preparation. IFCR
v) Prevention & detection of frauds & errors

IFCR
↳ Only that part of System which deals with Complete, accurate accounting and preparation of financial statement is called IFCR

Legal Requirement

All Companies of BOD. are suppose to design & implementation IFCR. It is very critical/important

- Auditor of all companies ~~all~~ are suppose to report on adequacy of IFCR
- Some exemptions as given in Section 143(3)(i).

IFC

Only in big Companies following requirement are applicable

- BOD should take responsibility of IFC in listed company
- Audit committee is suppose to evaluate IFC.
- Independent Directors are suppose to evaluate IFC.

Auditor is never suppose to report on IFC.

CNO - SA - 315. P1.022 Control. Risk. Assessment

1) Definition It is a process of determining Control risk in Internal Control System. We determine this on the basis of understanding Internal Controls Significant Class of Transactions.

While determining Control Risk Assesment following factors should be Considered.

~~a) Approval~~

a) Approach of Audit Testing

Auditor can have 2 approaches in Audit testing.

1) Focus ~~more~~ more on TOC, that means more reliance on ~~TOS~~ TOC. then SAP.

2) focus more on SAP as compared to TOC.

If auditor is following 1st approach more efforts should be given for control. Risk. Assement.

b) Control Environment.

It is important Component of Internal Control. If it is satisfactory other components perform properly, but only CE without other Components are not enough.

Auditor should Understand CE.

C] IT Controls

Many time Controls are dependent on IT so auditor should understand how good are IT systems.

CNO. SA 315. Pl. 024

Control Risk. Assesment When Control. Deficiency is identified.

— Effect of TOC —

1] TOC after determining Control Risk Auditor makes list of Controls which prime facie appears to operate effectively & Control risk is low. Auditor examines such Controls. If Controls are effective →

✗ Auditor's final assessement is Rely on Controls (ROC)

✗ If Controls are ineffective → Auditors finanal assesment is Not to Rely on control. (NROC)

→ In this case he will do 3 things → Revise audit strategy to more SAP

→ Communicate deficiency to mgt

→ If required include it in report on IFCR.

2] Special Case

① In any Control fails auditor — o/s should look for any other Mitigating Control / or compensating Control for that assertion. If auditor get it final assesment will be rely on Control.

EXAMPLE on How Controls Operate Pg. 022

① Control for Occurance → Collective Control.

Control 1 → Shipping Report is not finanitised till manager ensures actual dispatches of goods to Customer.

Control 2 → Accountant Cannot pass sale entry till the time he gets copy of Shipping Report.

Above Controls work collectively to protect assertion of occurance that means genineness of sale.

(2) Control for Completness

Every day ~~mgr~~ manager Compares quality shipped and quatity billed. If billing is short then missed transactions are identified and ~~AR~~ billed. This ensure Completness of sales.

Auditor should understand. Controls to determine Control risk. Risk can also be called as what ~~called~~ could be go aurong. [WICGW]

CNO. SA 315.P1 .024

Eg a] Manual control fails but there is one more automated control which works it is called mitigating Control.

- If control is not Operating effictively but there is system to rectify it this is called compensateng Control.

(b) One Control may protect one assertion but may not one ~~assertion but m~~ protect other assertion.

Eg. Manager is good at checking prices but not good is checking Completness.

Auditor will have to perform more SAP for that assertion

CNO.SA315.P1.030 Objective of Auditor as per SA 315

Objective → perform RAP [collect info. obtain. understanding]
→ Identify & Assess Risk @ 2 levels
→ Design & Pe. Performance audit procedures for assessed Risk

— 10 Aug —
—69B—

SA-320

Part-3 -- SA 320 Materiality in Planning And Performing An Audit

CNO. SA320.OHO.

Benchmarking

It is used to compute materiality level. In this a Benchmark [base] is selected. from Financial Statement. on which users pay most attention and then percentage is applied to get ~~materiality~~ to materiality level.

Materiality level = Benchmarking × percentage.

most popular approach

ML = profit before tax × 5%

STEP 1

② following are factors which should be consider while selecting benchmark.

I → Attention of users on items of FST
Ex. Business Entity → profits.
Government Entity → Turnover

Non profit organization → assets – Total Assets

O → Ownership & finance structure

Eg:→ Ownership → Big → Earnings
→ Small → profit Available from Dividend

finance → Equity → Earnings
→ Debt → Net Assets.

V - Volatility

Auditor should ensure that Benchmark should not be very Volatile.

E → Elements of financial statements

↳ Benchmarks should from Elements of FST

N → Nature of Entity
- Economic Environment → Growth → profit (Base)
  → Recession → Survive Cashflow
- Industry
  Pharma → R&D
  FMCG → Advertisment
  Automobile → product Recall cost
- lifecycle → Early Stage → Turnover
  → Well Established → profit

Example of Benchmark

a) Earning Based.
- profit Before tax [Only - Continuing Operation]
- EBIT / PBIT
- EBITDA
- Average profit / Normalised earnings

b) Activity Based
- Turnover / Total Revenue
- Total Expenses.

c] Capital Based.
- Total Equity
- Total ~~Aterc~~ Asset

Step 2 Collecting relevant financial data & Adjusting it is as per Circumstance.

— Meaning —

After selecting benchmark auditor should adjust the base as per circumstance, it is called Normalisation.

→ Data used for benchmark generally comes from prior periods or budgets / forecasts etc because CY is yet to close.

— Adjustments —

a] General Adjustments → • Change in ECO. Environment
• Change in Circumstance
• Change in Industry.

b] More Adjustments or required → • Exceptional / Non recuring items
• Time Related Adjustments
• High fluctuations then take Average of Past Adjusted Normalised profits.

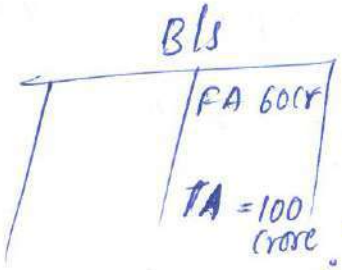
Step 3 Decide percentage

- It is matter of professional judgement.
- One relationship is common there is inverse Relationship between benchmark and percentage.

i.e. If Benchmark is big percentage should be low and vice versa

Eg. profit x5%
Total Asset - x1%
Turnover x 0.5%

CNO. SA 320. 060 Financial Statements Level Vs Specific Area Level



→ 1% - 1 crore is materiality Level for FST

① FST Level Materiality

- Auditor initially computes FST level of materiality. Misstatement of this level will be considered material.

- Generally same level is applicable to TBD. also. But in Specific circumstances lower amount can be decided or materiality level for particular class of TBD.

② Following are Examples

- When TBD level materiality is separately set.

a] If law, regulations, FRF asks to make separate measurement or disclosure for specific class of TBD.

Eg:- Managerial Remuneration, CSR, Exp. Related party transactions
Then lower amount should be set.

b] Industry may specify or have Custom of Specific disclosures
Eg - pharma - R&D Exp.

c] Investors may focus on particulars aspects of Business.
Eg: New Business & New Acquisition.

CNO. SA 320. 080

Performance Materiality

Auditor has to conclude whether FST are free from Material Misstatements.

* Undetected misstatements → Auditor should always include in Total Material Misstatement it Consists of undetected mst.

Auditor known that every year after performing audit some understand about undetchd misstatemetst will be always there because of inherent limitations of audit.

So, Some part of materiality level should be detected and allocated. for undetected MST. balance amount of materiality should be used for planning & performing audit it is called performance materiality.

→ Audit team will try to keep ~~uncontrolled~~ undetected mst. within Performance materiality.

By doing this total misstatement (undetected + uncorrected) will remain within total materiality level.

Eg:- FST level materiality 10 Crores.
Specific Area level materiality 4 Crore

FST level Performance materiality = 10 × 60%
= 6 Crore.

Specific Area level materiality = 4 × 60%
= 2.4 Crore

— 70A —
— 11. Aug —

CNO. SA320.140. Documenting The Materiality

1. FST level. Materiality
2. TBD level. Materiality
3. Performance Materiality of above

} Revision of these Materiality Level

CNO. SA 320.100. Relationship Between Materialety & Audit Risk

Relationship of Audit Risk & Materialety Level with Audit

1] Relations → Audit Risk & materialety level are decided by audit while ~~fo~~ framing audit strategy. They have significant impact on efforts of audit teams.

follows things. in audit need to be done carefully if lower audit risk and lower materiality level is set

i] Identifying & Assessing RMM.
ii] Designing further Audit procedure
iii] Collecting evidence, detecting misstatement & keeping record of uncorrected misstatement.
iv] forming opinion on financial statement

Traditional relationship between Audit Risk & Materiality

i] Between Audit risk & Materiality of item

If any financial item is materiality (significant) (material), we should perform more audit procedures and reduce risk to acceptable level.

- So there is inverse relationship.

ii] Between RMM and Materiality level

If RMM of any ~~FSI~~ financial item is high, auditor should put more efforts and be carefull. so he should ~~reduce~~ reduce materiality level of that area so that even lesser amount misstatements are classified or considered & rectified.

So there is ~~Again~~ Relationship is inverse.

* Material Of item ↑ Detection Risk & Audit Risk ↓
* RMM ↑ level of a Materiality ↓

CNO SA 320.120. Revision of Materiality.

Dominos — Dellocite Auditors
UK
↓
set initial materiality level → Adjusted profit & the adjusted ML [5% of Profit]
Announcement
Discontinue
↳ Germany Operations
↳ profit excludes discontinuing Operations

i] Revision → Materiality level set initially can be revised as per new information or circumstances, it can increase / decrease.

ii] Lower Materiality Level → If Materiality level decreases then audit team is suppose put more efforts so they will revise audit strategy plan, In that they will ↓ reduce performance materiality & increase Nature ; Timing & Extent of further audit procedures.

[iii] Examples - following are three example where Revision will take place.

a] If new information such as disposal. (discontinuous) of major business is going to take place ; we need to adjust profit & ML.

b] If as a result of audit procedure we have to revise RMM [increase] then for more precaution we may reduce ML of that Area.

c] Sometimes actual amount of Benchmark may be very different from expected amount of Benchmark. In that case ML need to get revised.

CNO - SA 320.010 Financial Statments should disclosed Material items.!

Role of FST → True & fair view → B/S → state of Affairs
P&L → financial performance

Role of ML → a] for selection & application of Alc policy.
b] for Adequacy of Disclosure

Role of Qty → Size (Qty) is important factor
- Nature of items, level of users & Circumstances are also imp.

Role of FST → Schedule III gives list of ML.
a] Rel Exp. exceeding 1% of Revenue of 1 Lakhs.
which ever is higher
→ Should be given separate line item in Notes to A/c's

b] Shareholders Holding more than 5% →
Name should be disclosed involves to A/c. with percentage.

CNO. SA 320.020. Materiality

* SA 200

* Definition → If FRF provides definition of materiality use it for computation of Materiality level.. If not use definition given in SA 200.

① It says that misstatements would be considered material individually or in aggregate of it has impact on economic decision of user of FST.

② Factors Affecting Materiality of Item → Size
Nature
Need of users
& Circumstances

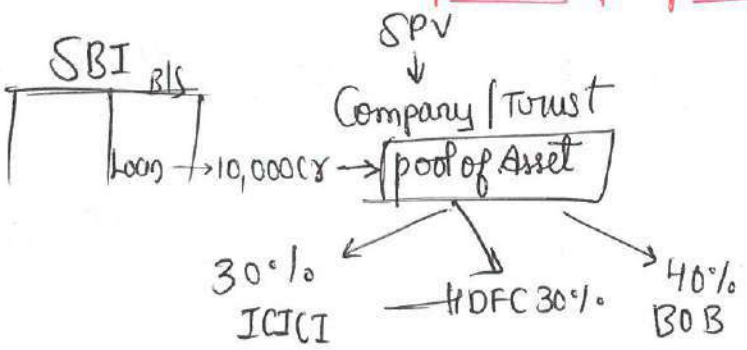
③ Use of Materiality → Audit process
↓
→ Planning
→ Risk Assessment
→ NTE of Audit procedures
→ Collecting Evidence
→ Evaluating MST
→ Opinion.

④ Users → following things are considered
→ User or group of individual
→ has knowledge of Industry & Business
→ knows Accounting process involves judgement [illegible]

CA Ravi Taori
Auditguru.in

→ Takes economic decision

Special purpose Vehicle (SPV)



Subprime used in Supreme Crisis

SPV → used for Dept Securitisation
Ownership of debt is distributed to investors in the form of shares of SPV.

Ex:- OLA → Issue share of 10,000 Cr → SPV → Ambani, Adani, Birla } Investor

After 2 years
FPO → for 15,000 Cr
↳ Will Release share.

SA 330. The auditor Response to Assessed Risk.

Risk (2 Levels)

FST level
↓
Overall Response
↓
Strong Team
→ More Members
→ More Seniors
→ More Experts
→ More professional skepticism

Assertion level
↓
further Audit procedure
- a. Substantive Audit procedure
- b. Test of Control

CNO. SA 330.040. Test of Control

Definition In test of Control auditor obtains SAAE about following things.

a] Whether internal Control System are designed properly which can prevent, detect & correct missstatements.

b] Whether ICs are implemented properly & they are operating effectively throughout the year.

2] Which Controls → Auditor's checks only relevant controls.
↳ types of controls are generally relevant.

a] Controls which can compensate risk. These controls are identified while doing Risk Assessment. These controls appear appropriate & have low Control & risk.

b] In highly automated areas, there is high dependency on controls, So they should be Covered in TOC. Substantive procedures alone Cannot provide SAAE.

3] Nature of Test Of Control.

a] How to Check?

→ Inquiry is Combination of other methods.

- Inquiry + Inspection [Reperformance most effective]
- Inquiry + Observation - less effective
→ Inquiry or Observation - Inspection & Reperformance.
depends on Nature of Control

b] What to check?

i] Application of control by whom & by what means
Ex:- Manual Sign, Automated Approval.

ii] Consistency → Whether Control is applied to every transaction without exception.

iii] Operating throughout the relevant financial period.

iv) Evaluate indirect Controls on which controls are dependent.

(4) Timing of TOC → TOC can be performed.

a] At particular point of time like Quarter of year end if control is applied that time.
Ex:- Dep calculation, physical verification of stocks.

b] Throughout the period, if Control is applied continuously during the period.
Ex:- Sales [purchase controls are applied continuously throughout the period.

(5) Extent of Checking → Quantum of checking & collection of audit evidence

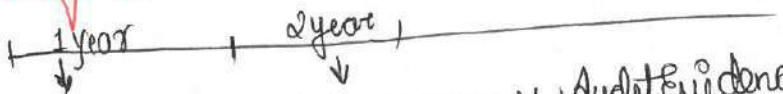
a] Importance of principle / important
Audit strategy → Reliance of Control → More persuasive evidence — increase Extent of checking.

b] Other factors
R - LEFT

R → Relevance & Reliability of audit evidence
L → Length of time period for which controls were applied.
E → Expected Rate of Deviation.
F → Frequency of performance of Control
↑ → test result of other test of controls

CNO SA 330.060

Using Audit Evidence Obtained in previous audit.



- TOC
- SAP
- Report

Can we use P.Y Audit Evidence for TOC & reduce work of CY.

→ Auditor has to decide how much evidence should be used from previous year or whether to retest control in CY

↓

This decision is taken on the basis of following factors.

Short Cut P²M & CM are Chief Guest

P → Change in personnel implementing Control, which has significant impact.

P → Previous year TOC shows that Controls are not very effective.

M → Manual controls are less Consistant as Compared to automated Controls.

C → Components other than Control activity are not very effective.

M → Risk of Material Misstatment exist in particular area, further in audit strategy it is decided to show more reliance on Controls.

C → Circumstances are changing but there is lack of change in System creating doubt over reliability.

G → General IT Controls [IT Dept] where not very effective.

If there is significant change in CY

YES,
Then auditor Cannot use P.Y. evidence.

NO
→ Then auditor can use P.Y. evidence.
→ Auditor should make such strategy that Controls are tested every 3rd year that means gap between testing should not be more than 2 year
→ further strategy should be such that there should be same TOC every year.

Ex:- Group of Controls

Group of Controls	Year 1	2	3	4	5	6	7	8	9
A	✓	✓	×	×	✓	×	×	✓	×
B	✓	×	✓	×	×	✓	×	×	✓
C	✓	×	×	✓	×	×	✓	×	×

CARO. 330.080 Evaluating Results of TOC

(1) Evaluation → After performing TOC auditor has to analyse results & make conclusions.

(2) No. Deviation → If there are no deviation then auditor should conclude controls are reliable.

(3) Deviation - If there are deviations auditor should perform following specific inquires

RAS

R. Whether TOC are providing reasonable basis to rely on controls.

Ex:- Rate of deviation 8%.
Tolerable rate 20%.

A → Whether there are circumstances which suggest that additional procedures should be performed.

Ex:- Resampling.
→ Checking all signatures of juniors which were made in sick leave of seniors as per Co. manual.

S → Auditor also identify areas where controls are not effective & only substantive procedure can provide SAAE.

Ex:- New Branches
New Plant

Conclusion about Controls after identifying misstatement in Substantive procedure

i) Misstatement:- That means Controls are having deficiencies [not operating properly]

ii) MMST → that means there may be significant deficiencies in control.

iii] Not misstatement – It does not provide controls are effective

CNO.SA.330.090. Procedural Tests (Traditional Theory)

1] 2 Tests → As per traditional theory in TOC 2 things should be done.
a] 1st perform procedural Test.
b] If its proper, then perform examination in depth.

2] Procedural Test → In this auditor focuses on whether controls are designed for this auditor sees whether prime facie on the basis of enquiry & observation whether,
→ Design is effective
→ Employees understand controls.
→ prime facie whether they are complying with it

Design for following 4 stages of transaction.
Initiation → Authorisation → Recording → Documentation.

3] Examination in depth If design looks appropriate, then auditor should perform examination in depth.
In this auditor.
→ Selects few transactions.
→ Checks them from start till end.
→ Checks all 4 stages.

Example of Test of Controls of sales

Initiation → Customer order received.
→ Inventory availability document
→ Credit worthiness evaluation.

Authorization → Manager approves order after examining above documents.
→ Special authorisation from Senior manager for additional Credit period
→ Send advice (intimation) to customer

Recording → Whether following details are properly recorded on Voucher
→ Name
→ Price x Quantity
→ Transport & Insurance charge
→ Tax

documentation All records / Vouchers of particular transaction should be linked by common reference number such as customer order & generally kept together.

CNO. SA 330.100 Designing & performing Substantive procedure

1] Material Items All material TBD should be tested, Substantive procedures should be applied - irrespective of Risk Assessment.

↓

→ Because RAP is judgment based & auditor may miss risk.

→ Even if Risk is low because of good Controls, controls, have inherent limitation.

2] Examination → i] Only Analytical procedure
ii] Only Test of Details
iii] Combination

* Analytical procedure → As per SA 520.
→ Suitable for large volume.

* Test of Details → As per nature of assertion
→ Also carefully decide direction of testing.

3] Result of TOC If will have impact on extent of SAP.
If contracts are ~~over~~ weak, increase sample size & use best method for sample selection

4] External confirmation Auditor should always think can he use external confirmation

5] Closing process - Auditor should always perform SAP on Closing process

↓

Perform SAP for following
- Journal Entries which are passed at year end.
- Whether Ledger / TB data agree / reconcile with FSTs

CNO. 330.110 External Confirmation as Substantive procedures

Some features of external Confirmation

→ Operation
→ Mandatory
→ Nature of Info → Balance
→ Transaction
→ Agreement
→ Examples →
→ Assertion → Valuation ✗
- Existance ✓

CNO. 330.115. factors to be considered whether to use EC.

'Ok - A'

O - Objectivity → Whether third party is objective.
K → Knowledge → Whether T.P. has knowledge about subjectmatter.
A → Ability → Too Costly / Time Consuming.
. Different Currency.
&
Willingness → EC not supported in operating environment.
→ Not accepting responsibility to respond.
→ EC may lead to potential Legal Liability.

CNO. SA 330. 120. Substantive procedures Responsive to Significant risk.

1] If auditor identifies & assesses significant risks & he should do following.
→ perform both TOC & SAP.
→ If TOC is not possible & only SAP is applied then Mandatory to Perform TOD
→ Design Specific audit procedure for Significant risks.
→ Always think about external confirmation application.

EXAMPLE

(a) Significant Risk

Management under pressure to achieve sales target
- They may ignore Sales agreement & also book sales before dispatch

(b) Specific Audit procedures

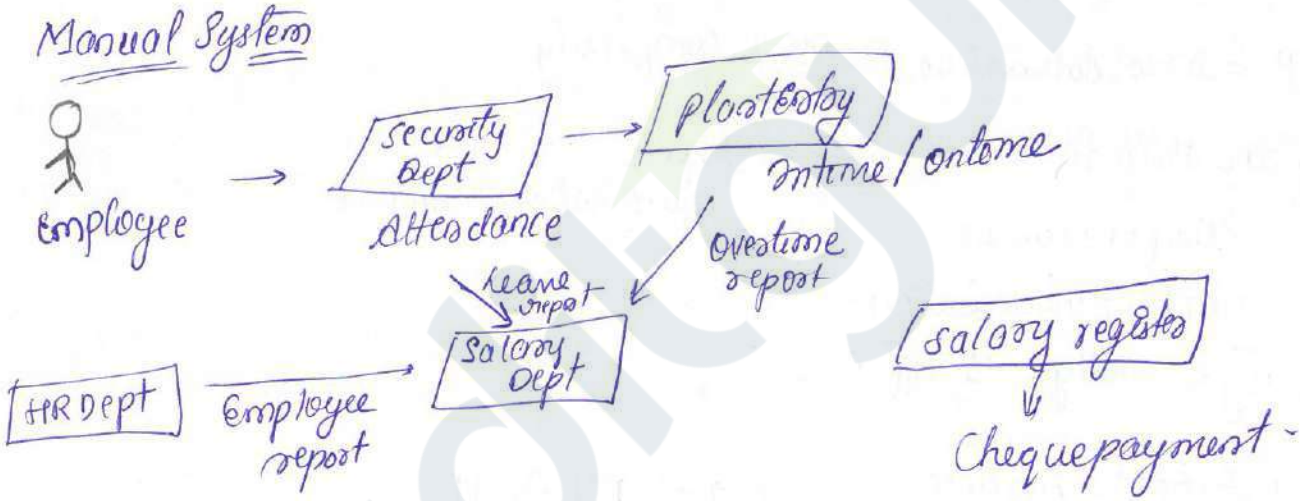
External Confirmation from Customer
- Terms of Agreement
- Confirm Transaction & Receipt of goods

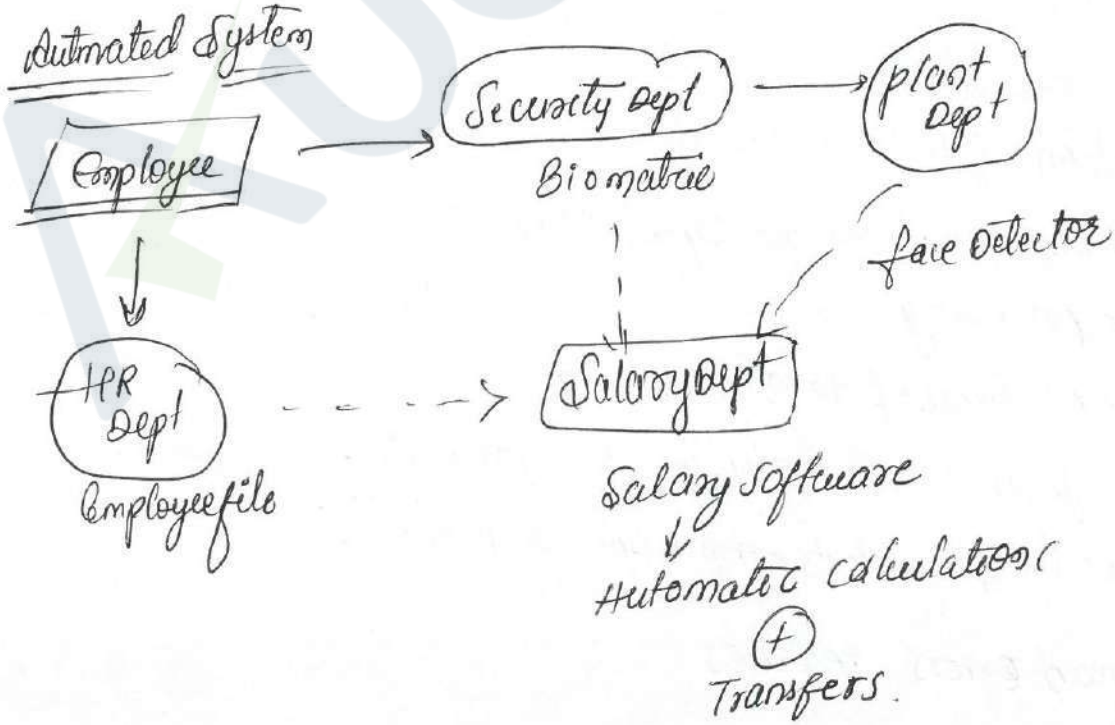
- Inquiry form

Non finance professional [Godown Manager]

Auditguru.in

Part - 5.
Audit in Automated Environment





CNO. AAE 020

Automated Environment

def ⇒ When Business process; procedures, accounting, report making & decision are done with the help of computers system it is called automated environment or info. system or info technology.

Eg:- → Banking transactions
→ Ticketing Booking.

key factors of an Automated Environment

1] fundamental principle

- More Automation = More complexity.
- ERP = more Automation = more complexity
- Off the shelf Software → Less Automation = Less complex
  ↳ any one can use without modification
  Eg:→ Tally, MS office.

2] key ~~factors~~ feature

LIC-FLASH

L → Latest information
I → Integration of Business Operations
C → Connectivity & Networking Capabilities
F → faster processing
L → larger volume of data processing
A → Accuracy & Consistency in data processing
S → Security & Controls ~~improved~~ improved.
H → Human errors reduces

Excel → V look up function

PY file

A/c NO	Amt
⋮	⋮

CY file

A/c NO	Amt
⋮	⋮

IFCR
Internal financial control over financial reporting

CNO. AAE 040. Relevance of 'IT' in Audit

↳ Why IF IT Knowledge has become important for doing audit?

Hlify CESS at PVR

Hl → Hi-tech nature of Business.
C → Complexity of systems has incurred.
E → Efficiency & effectiveness of audit can increases
S → System & Application use has increased drastically.
S → Standards governing audit emplou emphasis having knowledge of IT System.
P → Policies of companies are to use more systems.
Policies are implemented through IT sysems.
V → Volume of transactions can be helped. handled with the help of system.
R → Regulatory Requirements ask auditor to ask report on IT System.

Relevance changes from Company to Company some use less
↳ Complex software while others are highly automated
Computer sided Audit Techniques means doing audit with the help of Computer System

CNO. AAE.060. What Understanding & documentation should be done?

following matters should be understood so that auditor can identify and assess risk of material misstatement.

- Location → Where IT system are used.
- purpose → Budgeting, accounting, payroll.
- System → Which Software
- Version → 1/2/3/4 Etc.
- Inhouse VS. packaged
- Architecture → Desktop, Server, Web, Cloud
- Interface → Communication with other System.
- Keyperson → people who are responsible for System.
- Outsourced → Whether process and data mgt is outsourced to external entities.

CNO. AAE. 080. Risk because of IT System

→ SA. 315 Pg. 340 (same as)

If IT risks are high & they are not mitigated by controls they will impact followings

A] Controls

- Automated / IT based controls will not be reliable.
- If IT dependent controls will not be reliable
- System data & reports generated need to be examined before reliance

B] Substantive Audit procedure (SAP)

- As system are not reliable, less focus will be on TOC and more focus on SAP
- → While checking TBD, system data & reports should be first checked for completness and accuracy using ~~cor~~ collobrative evidence.

C] Reporting

→ Deficiencies in system should be communicated to mgt [TCWG] [SA 265]

→ It should be Reported in audit report on IFCR

→ further if records are unreliable then auditor is not able to understand and conclude He may have to give qualified or disclaimer on audit report on financial statements.

CNO ~~SA 330~~. 120 Types of Controls in An AAE

AAE

IT Dept

4th floor → Data Centres

3rd floor → Employee, Accounting

2nd floor → Customer Order, Sales Executive

1st floor → RM purchase Plant Mgt (Software)

A → General IT controls

B → Application Controls

C → IT dependents Controls.

Acquisition Development Maintance — ADM Controls

General IT Controls [SA-315]

1] Definition → ~~Infrastructure~~ Infrastructure, policies & procedures which care for IT system [IT Dept] of organisation which are not related to specific application [~~is called~~ general IT controls but many ~~but~~. ~~There are~~ are called pervasive control or indirect control.]

2] Features
- They help individual application controls to perform better.

It includes 4 types of Controls.

1] Access Controls → To keep unauthorized persons away from IT Dept

2] Application Acquisition, Development & Maintenance Controls (ADM) They ensure the compatible applications which fulfill need of users are acquired or developed.

3] Data Centre & Network Control → They ensure data of all application is safe & secure and is easily available to authorised users.

4] Program Change Control → It ensure that operating system on which whole department is based ~~or~~ is regularly upgraded.

CNO. AAE 140 Access Security Control.

(1) Objective Access security controls ensure that authenticated authorised persons should have access to IT dept. so that ultimately financial Reporting is protected.

following matters should be evaluated to see effectiveness of Access Controls.

a] Access Security team

- Team should be well organised & managed (Adequate, Competent)
- Policies & procedures of team should properly designed (Roles & Responsibilities)
- Ie of IT powers & duties of team members should be clearly specified
  - ↳ System Admin
  - ↳ Database Admin
  - ↳ Super user

b] Physical & Network Access

↳ Physical security should be there to allow authorized person's entry in IT Dept. (Id. card, Register, CCTV etc)

→ It also covers maintaining physical environment in IT Dept (Temp & Water controls)

→ Network security controls allows authorised users to access system through network [Eg. firewall, encryption, password]

c] Computer Operation Control

↳ Computer System should be Allocated to users.

↳ System security protocals - (Boot password, Windows password)

↳ program & data access power should be defined.

↳ finally application controls will also protect access.

Application System acquisition, development & Maintance

To ensure that System are developed, configured implemented to meet financial Reporting Objective.

1] Overall policy → for Application development
2] project Initiation (Committee)
3] Analysis & Design [flow chart]
4] Construction [Coding]
5] Testing [dummy entries]
6] Data Migeration (conversion from old to new)
7] New System Software live
8] Documenting – Documentation for new Software & Training [Manual & Session].

CAO.140. Data Centre And Network Operations. —Lec-71-B—

Objective → Basic objective is to ensure that information processing & availability is appropriate for users to ensure proper financial reporting.

2] following control activities are done
→ Overall Mgt policy for data centre should be there. (Number of computers, Severs, Specifications, internal connections)
→ Daily transaction processing should be divided into Batches processing ~~Batches~~ Batches jobs, should be prepared, scheduled & executed.
→ Help Desk function should ensure processing errors & issues are quickly recognised, recorded, maintained & resolved.
→ Performance monitoring should be done. (Quantum & speed of processing should be monitored]

→ Regular Backups → Safe & secure.
→ Standards Recovery Procedures → Business Continuity plans
→ Disaster Recovery plan
→ Service level agreements such as Cyber security, physical security, Maintenance should be there.
→ Documentation of data centre for easy understanding & operations.

Program Change Control.

1] Objective → Ensure that system are upgraded regularly and modified system work properly to ensure financial reporting is applicable.

2] Control Activities
- There should be change mgt policy & process in entity [Who will change & how]

1] Change Request → format, record, approve, track.
2] changes should after proper analysis then it should be designed & developed
3] After changes are made it should be tested testing should be done in production emergency mode so that active system is not affected.
4] Changes should be - documented & proper training for modified system.

Application Controls

Application (software) are generally for specific business process.
Eg - Purchase Eg purchase, production, sale etc.

Controls in application ensure proper input process & output
These controls are specific to particulars business process and not whole IT dept.

→ They ensure software level data is complete, accurate.
→ Eg → of application Controls.
- Data field checks - (Text, Number)
- Input Validation (Customer Id etc)
  → Sequence Number check
  → Double processing check.
  → Report showing & printing Controls.

IT Dependent Controls

→ partial work by IT systems Eg:- Data, Report Generation
partial work by individual manually Eg. Analysing & Actions.
→ Basis nature is manual control.
→ Performance depends can reliability of both systems & individual

finally Application Control, IT dependent control can function properly only when there are strong General IT Controls.

CNO AAE 160. General IT Controls Vs. Application Controls.

General IT Controls needed for proper functioning of Application Control.
Application IT controls along with General IT control are needed to ensure overall data is complete accurate & readily available

CNO. AAE 180. Testing Method

~~Most efficient~~

① Most efficient → Inquiry → But least audit evidence → least effective

② Most effective → Reperformance → But least efficient → more time & cost

③ Most efficient & most effective → Inquiry + Inspection.

→ Which Method → professional Judgement

↓

factors

↳ 1st 4 factors → Components of control Environment
- Risk Assesment process
- Nature of Control Activity
- Monitoring Control.

Other factors
- Business Complex
- History of ~~factor~~ frauds/errors
- Desired level of Assurance
- Nature of Assertion to be checked.

~~Justice~~ Just like audit of FST is a assignment.
Audit of IFCR is a ~~DA~~ assignment steps are similar to audit of FST.
following 4 steps along with detailed procedures should be followed.

AT Understand Bus & Evaluation
→ Understand business of entity, what important business process are performed eg. Purchase, product Sale

understand Controls which are designed & implemented
→ Entity level Controls (not for individual dept but Whole Entity)
IT Control → Gen
→ Prepare Risk Control Matrix (RCM)
↓
Table → Explain which risk is mitigated by which Control.

Control	Risk	C	A	Cl	Co
	Occurance	completeness	Accuracy	Classification	Cutoff
1] Manager Approval		✓		✓	
2] GRN & Quality Check		✓	✓		
3] Training				✓	
4] Year end Examination					✓

B] Risk Assessment
→ Identify TBD which have significant Risk.
→ Take into consideration:
- likelihood of occurance
- Magnitude of impact
- Nature also

C] Testing operating effectiveness
→ Decide NTE of procedure
→ Use Sampling
— Check reliability of data provided also reports generated by system
→ Competence of team

D] Reporting → Reporting of significant & other deficiency will be different
→ Communicate deficiency to management / TCWG (IC memo / mgt Letter)
Include in Audit report
→ Provide remedial action.

CNO. AAE. 230

Password Reset Request

Observation :- phone
→ policy not followed.

Exposure → Critical Id. reset & misuses.

Recommendation → Change Request
→ Approval
→ Reset
→ Documentation.

Mgt. Response → Will execute from next Quarter

CNO. AAE. 240. Data Analytics for Audit.

① Definition → Collect raw data process it and get meaningfull conclusion to take decision is called data Analysis

② Uses → · Improve Business
· Improve Audit.
↳ When principle of data analystics is used in audit it is called Computer Assisted Audit Techniques

③ Examples of CAAT
CAAT can be used to perform following audit work.
CS → R²J → FD.

C → Completness → Compare file with other files.

S → Sampling

R → Recomputing Trial Balance from transaction data

R → Reperformance of mathematical Calculation
↳ Dept Int. Depreciation, Interest etc.

J → Software will analyse whether journal entries appear fraudulent as per SA 240.

F → fraud Investigation
- Who
- Amt

D → Software can analyse impact of internal control deficiencies.

Dec-12

CNO. AAE 240 How to use Analytical procedure?

following steps should be implemented
→ Understand Business environment & IT system
→ Define objective & criteria.
→ Identify source of data
→ Extract Data
→ Check Completness & Accuracy
→ Apply criteria
→ Validate & Confirm Results
→ Analyse results draw Conclusion & Document them.

CNO. AAE 250 Communicate of Deficiency to MGT/TCWG

1) Define IC. Deficiency → Missing
→ Unable to P, D & C. (Prevent, Detect & Control)

2) Evaluate Deficiency → Significant Deficiency
→ Other Deficiency

↓
Quantity → Amt
&
Qualitative → Nature

SA 315

3] Communicate → Mgt /TCWG SA 265
Internal Control memo / management letter / Letter of Weakness.

4] Execution points →
- Whether there is deficiency
- what is impact of deficiency
- Communicate as per nature to Mgt /TCWG.
- Significant deficiency always in writing.

CNO. AAE 30. Digital Audit

A] Digital Audit
→ Technology is changing fast
→ Business should adopt digitisation, data Analysis & AI
→ Auditors can understand business & suggest improvements it is called Digital Audit

B] Auditing Digitally
→ Auditors can use technology to improve efficiency & effectiveness.
→ It can be used from planning stage to making final opinion on FSI
→ It can improve risk identification; evidence collection give strong basis for conclusion & Documentation.

Chapter 9

Lec- 72
13 Aug

Special Features Of Audit Of Different Types of Entities.

Part 1 Audit of Co-operative Society

CNO AOC.020

Audit as per Section 17 of Co-operative Society Act 1912

Audit & Inspection

A] Audit → Audit should be done atleast once in a year.
→ Audit can be done by ROC or any person authorised by ROC.
→ Specialised focus on overdue debt, Valuation of Assets & liabilities (Special)

B] Inspection → ROC, Collector, Any authorised person has power to access book of account & supporting documents.
→ Officer of Cooperative Society shall give information as requested in inspection.

CNO.AOC.040

Important points related to "Co operative Society" which Auditor should know.

1] Related to Audit
Qualification → Audit can be done by CA's as person holding Goverment Diploma in Co-operative Accounting.
→ Appointment → By ROC or ROC may provide panel of auditor's from which auditor should be selected & Appointed by Board.
→ Report → Report should be submitted to both ROC & Co operative Society.
→ Fees → It depends on various factors, majorly on Working Capital of Co-Operative Society (Co-50)

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Working Capital = Share Capital + Accumulated profit + Money Raised

Books of Accounts

↳ Manadatory to maintain BOA

↳ Which Books → Receipts & payments
→ Sales & peerchases
→ Assets & liabilites
→ Other records as required.

1] Balancesheet Related

1) Asset
3] properety & Investment Register

Maintain fixed asset like regester giving all key info about fixed assets & Investments.

2] Investment

↳ Co-operative Societies should invest in one or more following Securities

a] Securites or as approved under Sec 20 of Indian Tarust Act 1882 — that is nothing but Govt Bonds.
b] Central or state Co-operative Bank.
c] Co-Banks or approved by Register
d] Shares, Deb, Bonds, issued by Co-so.
e] Any other means orapproved by CG/SG.

3] Restriction on Loan

→ Only to members of Co-so.
→ With Special sanction then to other registered co-so.
→ Govenment can put restriction on louning power to protect interest of Co-so as members.

4] Surety for loan

Loan should be given ~~can~~ on the basis of personal Security of Debtor / Borrower.

→ Guarantee / surety from 2 members is required
→ Surety Register should be maintained to keep track of number of sureties given by members
→ Bye laws can prescribe maximum amount of surety which can be given by members.

Balance Sheet Related [Liabilities]

1] Share Capital

→ No restriction on shareholding if other registered Co-so is a share-holders.
→ If individuals is a share holders holding percentage should not exceed 20% & maximum face value Rs 1,000/-
→ Auditor should check if there is any branch.

2] Borrowing & Deposits

→ can accept Borrowings & deposits
→ from members & others.
→ Bye laws can prescribes limits & Restrictions such as interest rate, purpose etc.

3] FD Register

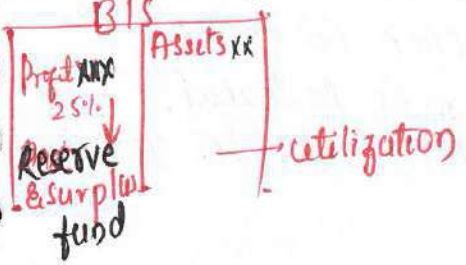
→ Urban Co-operative Banks & Credit societies.
↳ should maintain FD Register → Name / Dt of Acceptance / Amt / Dt of maturity / Int Rate.

P&L Appropriation Related

1] Reserve fund
— Mandatory trf. to Reserve fund 25% of profit before dividend or Bonus to members
→ Regester may reduce it but not less 10%. generally such relaxation is given to new salary earner's credit Co-So.

2] Contribution to charity
— Allowed
— Special Sanction from ROC
— Maximum 10% of profit after transfer to reserve fund.
— charitable purpose as per Charitable Endowments Act 1890.

3] Reserve fund investment



Money of reserve fund can be invested in following 3 ways.
a] Business of co-so → lending, farming, consumer goods.
b] Invest as allowed → discussed earlier.
c] for public purpose. → related to object of society (impact of savings how to do farming, how to save in consumer goods.

4] Education fund
— SG makes education fund for awarness of cooperative Society movement (concept.
— fund is operated by federal co-so.
→ Mandatory transfer to these funds at specified rates should be done.

Example 1 to 5 %

As it is mandatory & used by Govt it is charge against profit & not trf of profit.

Special features of 'Co-operative Audit'

Most Important

1] **Infringement (Non Compliance)**
- Auditor should obtain knowledge about
  - Co-operative society Act
  - Rules
  - Bye laws.
- Check if there is any infringement of above, If yes, whether financial implications are properly accounted in books.

2] Adherence to co-operative principles
- Auditor should check following. - Whether Co-operative principle of the members & for benefits of members is followed. Objective is not to earn more profits but to provide goods & services at lower prices to members.
- price of product can be reduced if,
  - No wastage of funds,
  - Proper Budgets are made
  - Costing techniques → Std. costing, Cost control, Store control.
  - No Middlemen → Commission, direct purchase

→ So auditor should include element of propriety Audit, that means evaluate whether proper decision making is done Co-So.

Debt Related points

1] Verification of loan
→ where loan is given entries are made in passbook, which are regularly updated for interest & repayment
→ Some of the Loans may be taken by someone else but shown on

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Passbook of different person as many members are not literate.
→ So auditor should verify loan entries with documents and meet some borrowers in person on test check (sample) basis. Specially in rural & agriculture credit society

2] Overdue debt examination
→ If loan repayments are not made on due debt, it is called overdue.
→ Overdue debts may lead to huge losses & decrease reserves & capital of Co-So
→ Auditor should do following analyses.

Time wise → Overdue less than 6 months
→ 6 months to 5 years.
→ More than 5 years
↓
Reported by auditor.

- Recovery wise → Good
  → Bad
- Percentage → $\frac{\text{overdue}}{\text{working capital}} \times 100$
  → $\frac{\text{overdue}}{\text{Total loan}} \times 100$

↓
Whether increasing or decreasing.

→ Auditor should ~~take~~ take whether proper provision is made and actions for recovery are taken.

3] Write off of Bad debts

If loan amount is irrecoverable it w/off and loss is adjusted against Bad debts fund, Reserve fund etc.
~~Main~~ Manipulation can happen & loans of related parties may be Write off.
So Some laws specify that Bad debts w/off should be authorized by auditor. If law is silent it should be authorized by managing committee which is most reliable in Co-So.

4] Overdue Interest

- Meaning → Interest outstanding or accrued on overdue loan is called overdue Interest.
- Treatment → As chances of recovery has reduced so overdue interest income should be transferred from Int Income A/c to Interest Reserve Account.

Other Items

Valuation

- principles → Act . Silent
  ↘ follow general accounting principles & standards.
- fixed Asset → Capetalisation
  → cost of Acquisition
  ↘ Cost of Installation
  * Depreciation
  * Notes to A/c
  Disclosure if BV and MV are having large Diff.

Current Asset → Cost or MV whichever is lower

Liability → No liability should be left (unrecorded)
↘ Contingent Liability in notes to A/c

Reporting

1] Special Report to Register

If there are serious irregularities it should be reported to registrar Registrar may take proper action.

Matters to be Reported E-MAP

E → Expenses recated irregularities

M → Mismanagement to Co-so. Going against Co operative principles.

A → Advances Given → Reckless → Wicked Interest → Related parties
• No proper steps of recovery

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P → personal profetering → personal transaction with Co-so profit for individual & loss to Co-so

2] Draft Report

→ At Conclusion of audit, auditor should make draft report,
→ Ask secretory to convene managing committee meeting At meeting audit issues and draft report should be discussed.
→ Minor irregularities which are rectified may not be reported.
Major irregularities should be discussed.

3] Audit class of Society

→ Meaning → After evaluating overall performance of Co-so. auditor has to award 'Audit Class' to Co-so.
Ex:- Class, A, B, C, D etc.

imp → As per class given power of Co-so are determined. Ex:- Number of Branches, New Series which can be provided.

Review → If management is not satisfied. then they can appeal to ROC for review. ROC may instruct auditor to review class awarded.

CNO. AOC.100 Multi State - Co-operative Society

Intro → If Branches are spread across more than one state then multistate Co-so Act 2002 is applicable.

→ Multi state Co-so cannot use funds for political purpose.

Section 12 Qualification / Disqualified

(1) Qualifications → Chartered Account.
(2) Disqualification → Employee of Officer or Employee

→ Employee or officer of Multistate Co-So
→ Member of Multistate Co-So
→ Indebted or given security or guarantee to multistate Co-So on behalf of third party of amount exceed 1000
→ Body Corporate

[3] If person get disqualified under subsection (2) for any other multistate Co-So then he will get disqualified.
That means disqualified for one will lead to disqualified for all.

[4] If auditor → Disqualified → Deemed to vacate office.

Sec 70 - Appointment

1] first Auditor
Board will appoint within one month of date of registeration
— If Board fails then members will appoint in general meeting.
— Tenure Conclusion of 1st AGM

2] Subsequent Auditor
→ Will be appoint by members at annual general meeting,
→ Intimate auditor within 7 days
→ Tenure from conclusion of that meeting to conclusion of next meeting.

3] Removal
→ Can be done by members at general meeting.
→ Next

P → personal Profetering → personal transaction with Co-so profit for individual & Loss to Co-so

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→ Nex

-LC- 73B-
-14/Aug-
'16-

CNO.AOC.100. powers of Auditor

- Same powers as given in Companies Act 2013.
- Right to Access at all time during business hours books of accounts & related vouchers [Supporting Documents]
- Right to inquiry from officers employees info & explanation necessary for audit.

Inquiry u/s 73(2)

This is act is some as Sec 143(1). Sec 143(2) has 6 items of Inquiry. Hence it is only 4 items.
Points of sale of investment & ~~Loans~~ loans Advances as shown as deposit are not covered.

Audit Report

→ Contents of Audit Report

Multistate Co-op Act prescribes what should be written in Audit Report.

① Information & explanation → Whether auditor has obtained all information & explanation which is necessary for audit.

② Books → Whether Books of Accounts maintained are proper, further Whether returns, obtained from branch is sufficient for accounting & auditing.

③ Agreement → Whether books of Accounts is in agreement with financial Statements.

④ Branch Audit Report → If branches are audited by other auditors, Whether Branch audit report is received & dealt While making final audit report.

→ True & fair view → Whether Balancesheet & P/L A/c give True & fair view of state of affairs & profits of entity.

CHAPTER AOC.100 Special Audit

[M-Co-SO ⇒ Multistate Corporate - Society]

(1) Power → CG has power to announce special audit of M-Co-SO

(2) Resource → following are reasons for which Special audit can be announced.

- Not following Co-operative principles
- No Sound Business policies
- Serious Injury or Damage to Industry.
- Own Solvency is in danager.

(3) Who? It will conducted either by existing auditor of M-CoSO or any other CA for time period as specified.

(4) Conditions → Special audit can be ordered only when 51% or more is held by CG or SG or Both.

(5) Power of Auditor → Same as regular auditor. Duties also will be same, auditor will have to perform regular audit.

Additional duty will be explained in order, what to check & report.

(6) Action on Report

→ Copy of report will go to CG.. CG will take necessary action.
→ If no action is taken in 4 months, CG may ask M-CoSO to circulate or read in general meeting whole report or extract from report.

∃ Expenses of Special Audit ⇒ Exp of SpA

→ decide by CG
→ paid by Multistate Coso
→ If default then Treated as arrears of land revenue (taxes)

CNO. AOC .105. Inquiry by Central Registrar under section 78.

1] Inquiry means asking for information and then analysing it.

(1) Who. Can Request Inquiry?
⇒ Federal Co-so - with whom
- M. Co-so - is affiliated.
⇒ ~~1/5th~~ = 1/5th of Members
⇒ 1/3rd of Board Members
⇒ Any Creditor

(2) Who will perform?
⇒ Control Registrar or any ~~oth~~ authorized person can do inquiry through written order. eg Constitution, operation, financial status.

(3) Prior Notice
15 days prior notice should be given before inquiry starts.

(4) Powers
a] Access to Books & Records & Assets at All reasonable times.
b] Summon responsible person to come with books & records or assets at any location.
c] Central Registrar can ask society's affairs to convene general meeting → Notice of atleast 7 days.

If they don't do it, Registrar can convene it independently.

d] Summon ~~any~~ any individual who may have knowledge of affairs of M Coso, Head quarters or branches.

5] Report

Report should be sent within 3 months of inquiry to

- M. Coso.
- financial institution
- Any requesting entity.

8 CNO. AOC. 110 Inspection of Multi-state Cooperative Societies

Inspection. Under section 79 — Inspections means - examining records or assets —

① Who can Request?
— same (105)

② Who can perform?
— same (105)

③ Prior Notice
— same (105) —

~~Pro~~ — [4] Power
— same (105)
— Take in Custody records. —

[5] Report
Within 3 months to M-Coso.

CNO AOC -120 — Ignore —

Part 2. Government Audit

CNO. GA.010 Govt. Audit

It is systematical, (systematic), independent, professional, objective examination of financial operations, Administration, operations & other operations.

→ They evaluate, verify Records & then give there report.

→ Report has audit findings opinion on FST & recommendation.

→ This work is done by CAG with its IAAD Dept.

CAG → Comptroller & Audit General

IAAD → Indian Audit & Accounting ~~Act~~ Department

CNO. GA020. (imp) Legal framework of CAG (Article 148 TO 151)

IMP EXAM → Independent committy will decide (Not by parliament)

Article 148 → Appointment → By president of India

↓

Remuneration → Same as Supreme Court Judge [salary Non Votable that means → cannot be decided by parliment through voting].

↓

Retirment → Cannot hold any position in CG/SG.

↓

Removal → Proven misbehaviours / incapacity

+

Pass resolution with 2/3rd majority in each LS & RS.

(Lokhasabha & Rajyasabha)

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Article 149: - Parliament should make law for power & duties of CAG

↳ CAG Act 1971 (power & duties)

- Tenure → 6 years or Age of 65 years
  ↳ whichever is earlier

Article 150
↳ format of Account of SG & CG will be prescribed by President
↳ On advice of CAG

Article 151
↳ CAG has to Audit accounts of CG / SG / UT
Submit report to president / Governor / Lt. Governor or Administrator

↓

Then it will placed in parliament / Legislative Assembly.

L-74A
15 Aug

Expenditure by Government - Types of funds

→ one of the major work of government is to do expenditure for public benefit.

→ following are the funds from which money is withdrawn.

A] Consolidated fund
- All tax & non tax revenues are deposited here.
- All expenditure are done from here. for withdrawal parliament permission is required.
- for votable nature expenses where parliament decides there are 2 ways. (Appropriations)

* finance Bill (Budget) to be passed in Lokhsobha & Rajya sabha
* Money Bill to be passed in Lokh sabha only:

→ for non votable expenses where independent mechanism is set for decisions. No parliement approved is required. It is called charge on fund.

B] Contingency fund

for emergency purpose, without partement approval money can be spent by president from Contingency fund. It is of 500 crores.

C] Public Account

Goverment collects lot of money in PF & other schemes this money is used for specified safe purposes.

CNO.-GA.030. Objectives of Government Audit

following are objectives (targets) which govt. audit plans to achieve.

Objective

1] Appraisal in govt. audit policies, programmes, operations, overall mgt of ministries & govt departments are evaluated.

2] Administrative Accountability :- It is also evaluated whether IAS Officer, govt. employees are working with accountability & Responsibility.
How there performance can be improved.

3] Account of public funds
It is evaluated whether proper records are maintained for Govt. transaction & whether they are properly accounted for.

4] Corrective Measure

—Auditors identify mistakes by Govt. employees & Suggest rectifications, they follow up on improvements

CNO. GA 040 Duties of C & AG

Govt audit is done by CA in practice or CA firm appointed by C & AG.

Shortcut SAG²AR²

S → To audit account of stores & stock. To check whether resources are properly utilized and accounted.

A → To compile ~~Accounts~~
CAG compiles annual receipts & payments of CG/SG/UT and then consolidates to analyse sources of ~~records of~~ receipts and application of funds
↓
Submitted to president / Gov / Administrator.

G → To audit utilisation of grants & loans given by government.
↳ Not applicable if it is given to foreign govt & entities.

G → To control audit of Govt Comp & Corporations.
↓
Respective governing laws give CAG powers to appoint, direct & control audit.

A → ~~Audit~~ & Submit report on transactions at
- Consolidated fund Contingency fund
- Public Accounts
- Trading P&L of commercial ~~Activities~~ to president / Governor / ~~Administrator~~

R → Audit Receipts of Govt → Assesment
→ Collection
→ Allocation

R → To audit receipt & expenditure statement of entities which are substantially financed by Govt.
Substantially financed means where grant or loan is exceeding 25 lakhs & it is exceeding 75% of total expenditure of entity.

CNO GA.060 Audit of Expenditure

Major work of CAG is to do audit of expenditure. for each expenses following audit is done.

1. Audit against rules & orders (Regulatory Audit)
2. Audit of Sanctions.
3. Audit of provision of funds.
4. Propriety Audit
5. Performance Audit

- Above are 5 point of ⊘ views which are evaluated need not be in same sequance or need not be a seperate assignment.

CNO.GA.080 Audit against Rules and orders i.e. Regulatory Audit

Eg:-



→ Central Vista
↓
New parliment
↓
900 Crore
Govt Expenditure

→ Which fund
→ Process
} • Constitution
• Acts
• Rules
• Orders

Audit against rules & orders

Objective

Objective of this audit is to check compliance of following

→ Constitution, laws, rules which are made by parliament.

→ financial Rules, Regulations & order issued by regulatory authorities.

Coverage

In this audit following things are evaluated:

→ Which fund was used.

→ Whether procedure for presenting claim & withdraw of money was followed.

↓

3 major sources of fund are

- Consolidated fund
- Contingency fund
- public Accounts

→ Special Attention to Government Employees

- Remuneration & facilities.
- Check whether proper service conditions are fulfilled for facilities.
- computation of retirement & termination payments.

1] Appropriateness of law

While conducting audit against rules & orders, CAG has to understand law, evaluate its appropriateness and then check compliance.

As Supreme Court also evaluates appropriateness of Law. Work of CAG is quasi Judicial.

2) points of evaluations
- It is against constitution, other laws & rules by ~~higher~~ parliament.
- It is against rules, regulation. orders of higher authority.
- Whether issuing authority had powers & follow proper procedure for issuing Law.
- It is having essential requirement in case of expenditure such as authorisation, accounting & auditing.

CNO GA.100 Audit of Sactions

Whether government expenditure is properly approved by
- General sanction → Where one approval is required for all expenses of particulars purpose.
- Special sanction → In sensitive areas every time expenditure is done. approval. is required. Eg. Defence Transactions.

CAG chuck whether person giving sanction has proper authority as per ~~condition to~~ Constitution. Law. rules.

CNO. GA. 120 ~~Audit~~ Against Provision of funds

Auditor focuses on 2 things - Whether money is used for proper purpose for which it was sanctioned
- Whether spending is within limits which was approved.

CNO. GA. 140 Propriety Audit.

Principle → Even if expenditure is as per rules & regulations but still auditors should think 2 things.
- Whether expense is for public at large
- If is it giving real benefit to people. It should not be ~~waste~~ wastage, infructose.

2] problem → It is difficult to judge propriety of expenses.. There is no specific rule for this.

3] Sol Solution → CAG has made general principle for determining appropriatness of expenses.

a] for public

i] Expenses should not be for particulars person, cast or community

exception

- Insignificant
- Old policy & Customs
- Claim is enforceable in court of law.

ii] Govt employees should not approve expenses for own director indirect benefit.

b] for Real Benefit

i) Apply same vigilances as you apply in Spending own money.

ii] Not more than occassion demands.

iii] Govt employes allowance should be for proper ~~purpoe~~ purpose & procedure.

It should not result in profit for employees.

CNO. GA 160 Performance Audit or full scope audit

1] Objective → Evaluate govt. expenditure, govt programmes for 3 things.

Economy → how to reduce cost of acquiring resources without compromising required quantity & quality.

Efficiency → how to make best use of resources.

Effectiveness → how to ensure objectives are achieved in best possible manners.

Eg:- Early Completion, More Benefits

CNO - GA.180 Audit of Receipt

1] Principle

a] CAG focuses on →
- Assesment
- Collection-Realisation
  - Credit to Govt A/c
- Refund
- Allocation

b] CAG focus on overall tax system not what is happening in individual cases.
Individual cases may be selected to understand overall system.

2] Steps in Audit of Receipt

a] Regulations, system & procedures - Auditor should examine whether proper system is designed & established for assesment, Collection, Refund, Allocation.

b] Compliance
Whether govt employees and assessees are complying with System.

c] Irregularities (frauds)
- Related to collection
  - Tax is not charged on some incomes or sales.
  - Tax is charged at lower rate.

→ Related to Refund.
- Double Refund.
- forgery & refund on other person's name
- negligence to refund.

→ There should be system to identify unusual things & Irregularities and to rectify them.

6) Suggestions

Auditor should give suggestions to improve
- Assessment
- Collection
- Refunds
- Allocations.

CNO. GA 200 Audit of stores and stocks

Introduction → Duty of CAG
→ part of Expenditure audit

② steps 1 ⇒ System → Purchase
→ Receipt
→ Custody
Compliance → Issue
→ Sale
→ stock Taking (physical Verification

step 2 → Audit of purchase
- Similar to audit of expense.
- Audit against rules & regulation
- Audit of sanction
- Audit of provision of fund
- Propriety Audit
- Performance Audit.

Ex :- Overpriced, - Less Quantity - poor Quality
- Damaged / absolute stock.

Step 3 → Accounting - proper Accounting
- A/c system
- Low Value admis. inventory
↳ Numerical Accounts (only Qty)
- high Value goods inventory (food grains)
↳ priced Accounts
(seperate column for Qty & Amt)

Step 4 → Balances
- Check Balancing Accuracy
- Agree with Actual inventory
→ year end. adjustment, in priced accounts, closing rate of product should be determined and inventory value should be adjusted corresponding profits / loss should go to P&L.

CNO - GA 220 Audit of Commercial Accounts.

It means selling, goods and services. Govt may perform. Commercial Activities in following manner.

- Departmental Enterprise → Audit by ~~CAG~~ C&AG [Work under Minis by Dep]
- Govt Corporation → As given in respective laws
- Govt Companies → Audit by CA appointed by C&AG.

CNO - GA 240 - Audit Methodology

(1) Extent & Quantum
It means coverge of ministries, departments, entities, and
a] how much data will be checked.
Decided by CAG, no one can question & negotiate.
b] Depends on following factors

T^2FIN

T → Totality of transaction (total Amount)
T → Total Audit plan (time available for audit.
F → frequency of audit (if area is selected sometimes check it in depth)
I → importance of transaction
N → Nature of transaction

2] Hierarchy & functions of IAAD department which works under C & AG.

It means levels of employees and what work they do

Top level → Group leaders → Direction & Controlling Audit

Middle level → Supervisior → Test check audit work.

Employee → Do basic audit work, work of each employee is checked

3] Location

Audit can be conducted at place

- Where records are kept
- Where actual receipt & payment occur.

CNO GA .250 Reporting Procedures

1] Process

As per article 151, CAG audits govt ministries & depts & Submits report to President / Governor / Administrator

→ These reports are presented in parliament / Legislative Assemblies. Committes are formed to study these reports.

→ Reports are also published to public, so that they make there opinion on governance by government.

2] → Important features.

- Only facts are generally reported, no views, make opinion.
- CAG gives suggestions on what should be done by Govt.

→ Appropriate authorities read report and take rectification action & ensure it is prevented.

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CNO GA 260 Action on Audit Report

1] Intro → CAG reports are of diversified & of special nature. So far there analysis & Committee are formed.

2] PAC → for audit reports on ministries & departments we have public Accounts committee.

↓

following are there function's

→ Whether funds given to ministry were re appropriated

→ Whether payments/expenses were authorised.

→ Whether funds were disbursed & applied for proper purpose

→ Reports of autonomus & semi autonomus bodies are also studied by PAC

3] COPU → for reports on Govt Corporation & companies we have committee on public sector undertakings

↓

There function

a] Examine → • CAG Report
• Audit Report
• Mgt.
• Annual Account / Annual Report

b] Whether sound business principles are followed. in purchase, production, sale.

c] Whether policies & financial position is appropriate

d] Any other work given by Speaker.

L-75A
16/Aug

CNO. GA 280. Powers of C&AG

Section 143(5)/(6)/(7)

powers under Co. Act 2013.

Section 143[5]

power to appoint auditor
power to direct auditor
power to receive audit report with Action taken report.

~~Section 143(6)~~

Section 143(6)

- power to ~~Correct~~ Comment] within 60 days
- power to Supplement]
- Both should be Circulated with Audit Report
- Power to order Supplementary audit
  - person / purpose / Actions / Reporting as per CAG

Section 143(7)

- power to Conduct Test Audit by CAG themselves.
- power to place audit report of such audit report in Parliament.

Powers under - CAG Act 1971

→ Power to call information
  → Ask Questions
  → Make observation & ask for explanation.
→ power to ask delivery of documents, records, books etc. at particulars place.
→ power to inspect any CG/SG office where accounting related records are kept
→ power to ~~di~~ dispense (cancel) any part of detailed audit plan as suitable.

CNO.GA 300 Local Bodies – ~~Audit of~~ Local Bodies.

Types of Local bodies → local government in India – 5yr

5 types of Urban local authorities

1. Municipal corporation
2. Municipal Council
3. Notified area Committee → Special Committee
4. Town area Committee → In sequence of size
5. Cantonment committee → Special Committee

(1) & (2) → In sequence of size

Functions – 3 types of functions

Regulatory → Make rules for utilisation of land, Construction, taxation etc.

Development ⇒ schools, colleges, hospital.

Maintenance ⇒

Major Incomes

A] Taxes
Property Tax, Water tax, ~~Advertisement~~, Royalty, Animal Tax

B] Grants
i] General purpose → Any purpose as decided by Local Bodies.
→ To fill up gap between expense & income.

ii] Special purpose grant → Only for Certain Specified purpose

iii] Compensatory Grant → State Govt. imposes state wide tax.
→ Abolishes powers of LB.
→ Loss of Revenue to LB.
→ To Compensate Loss We have Compensatory Grant.

Major Expenditure

- Public Safety
- public health
- Education
- Public Work (Roads)
- General Admin & Collection Commission
- Interest payment

Financial Administration

a] Budgets

→ Basic objective
- Accountability
- Control over expense
- Tax Rate

→ features → No fixed format.
- No Distinction between Revenue & Capital expense

↓

Cap. Exp ≠ Extra Ordinary.
- Seperate Budget for Imp things
- Enterprise Activity.

Expenditure Control

Weak Controls

CG/SG → Decision → parliament / Leg. Assembly
↘ Execution → IAS officer.

Local Body → No. Seggregation
- Integrated.
- No Independent execution, finance, accounting
- poor Control.
- External Audit * Imp

Poor Accounting → No formats
- No std process
- Inadequate info.
  Excessive info.

Objectives
- Low Compliance
- System strength & Weakness
- Expenditure appropriateness
- FST True & fair
- fraud / error. Detection

Audit Programme

A] Who does audit of Local Bodies
i) Muncipal Corporation → They appoint CA firms to do audit
ii) Other local bodies → Local fund audit wing of state Govt.

B] Contents of Audit programme.
Objectives (As discussed Above)
+
Audit of expenditure (5 types)

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Other Entities

Audit of
i) Hospital
ii) Education
iii) Hotels
iv) Cinema Halls
v) Clubs
vi) Charity

→ • law / ICS
• major income → most imp
• major expenses
• Assets
• other points
} Repetitive in nature

Audit of Hospital

* law & internal control system – internal check in stores – receipt & issue – linen, apparatus, clothing, instruments etc

* Major income – patient fees, subscription, legacies & Donation/ Grants & TDS
▲ income from investments rent / collection of cash.

Eg: ★ P&L → fees Register → Randomly select Bill → Patient Register
• Tests
• Medicine

★ P&L → Sub. Reg → members fees → Written off large o/s
• cash
• O/s or Adv
– Inc

Sr. No	Income (number)	Due	Collection	O/s or Adv

Major Expenses — Authorisation . Depreciation
— Salary
— Capital Expenditure

Assets { ① — Investment
② — Inventory

Other Budget — Mgt to WR / certificate

Audit of Educational Institution

Law & Internal Control System — Act, Regulation / Minutes
— Trust deed

Major Income — Student fees / Hostel Dues / Concession / Donation / Retal
— Income.

— fee Register — Name → Class Attendance
fees → Category
Collection — Carbon Copy / Counterfoil
CB Book

[specific purpose
— Endowments / Legacies / Donations / Grant
— Rental Income.

Major Expenses — Capital expenditure
— Salaries
— Stores — foodstuffs.
— Establishment

Major Assets — Investment of Endowment ~~Staff~~ funds / PF
— Inventories

Other points — Caution money
Refund of Tax
Annual statements

Audit of Hotels

→ Law & Internal Control System

* Pilfering is one of the greatest problems.
* discrenancy unexplained qualify

→ Major Income.

- Room
- Sales / Occupancy in progress (Hall Bookings / KOT's
- Corroborative Evidence from
  - Housekeeper Daily Room Report.
  - kitchen Order Ticket's

Major Expenses
- Casual labour
- Repairs.

Major Assets - Fixed Assets → quasi-fixed
Inventory → portable & saleable
Cash → Professional valuer

Other points → travel agents or other booking agencies

Audet of Cinema

Law & ICS → through printed tickets
- Serially numbered & bound into books
- Numbers of tickets if issued for each show & class are different though numbers —etc

Major Income → Ticket Sale / Advertisement / Restaurant Income

Major Expenses → Distributor payment / Advertisement
Repairs. / Depreciation

Major Assets - Advance to distributor

Audit of Club

Law & ICS - Internal Check
- members being charged for with the price foodsstuffs & drink
- Trace debits for a selected period from Subsidiary registers maintained

Major Income → Vouch the receipt on account of entrance fees
Subscriptions
Member's due

Major Assets → Investment - share scrips & bonds
Inventory

Major Expenses → Vouch puchase [sports items, furniture etc
foodstuff. cigars, wines etc.

Other points → powers of Secretary (financial power)

Audit of Charitable Institution

Law & ICS
- Constitutions

Major Income - Subscription & Donation | legacies | Grant | Investment Income | Rent | Special function

Major Expenses → payment of grants

Major Assets → Schedule of securities held
Inventories
Cash & Bank Balance

> Other points → Tax Refunds

Audit of Sole Trader

- No Legal Obligation
- Appointment of auditor
- Engagement letter

Audit of firms

Appointment of auditor

Examine partnership deed.

Advantages of audit of a partnership firm [Chapter 1]

Matters which should be Specially Considered in the audit of accounts of a partnership

→
- letter of appointment
- partnership agreement
- minute book
- Prejudicially by an activity
- Books of accounts.
- & provision for the firm's tax payable.

Silent feature of LLP Audit

- Maintance of Accounts
- Audit of LLP

Rule 24 of LLP - 2009

* LLP whose turnover does not exceed — in any financial year forty lakh rupees or whose contribution does not exceeds twenty five lakh rupees → is not required to get its accounts audited.

- No Mandatory Insurance
- Annual Return
- Statement of Accounts & Solvency. — Form 8 — shall be filled within a period 30 days from the end of Six months of the financial year
- fees

Normal fees
→ Due date
→ (+) late fees (Additional)
→ 30 days
→ (+) penalty

- BOA & Annual Return is mandatory

- Obtaining information & Summon from ROC (Registrar)

~~→ Public Information~~

→ Public Inspection

— Books of Accounts
— ~~Appointment of Auditor~~ —
— ~~Advantages (purpose)~~ need of Audit
— ~~Audit of~~ Hire purchase / lease — AS-19

* MOA / AOA → permission
* Scrutiny of proposal of lease
* Credit worthiness
* BOD Approval
* Agreement
  - Asset Description
  - parties
  - Cash price / HP price
  - Cld payment
  - Installment
* Cld payment — (Cash down)
* Asset Acquire / purchase
* Installation
* Insured / valuation
* Installments A/c — AS 19
* confirmations

AS – 19

finance operating

Legal forms of Charitable Entities

Basic legal forms
① Charitable public trust
② Charitable Society
③ Charitable Section 8 Company

– other laws Applicable
  • Income tax Act
  • Foreign Contribution Regulation – (Act 2010)

– Books of Accounts

– • Auditor's Reporting Requirements
– • Required Documents
  • other Book

Financial statement

Audetor's Responsibilities
– Verifying Records
– Maintaining notes & Working papers

Fees

Trust

* Trustee & Management Oversight
* financial Record Maintenance
* Donation Related
  - Expenses Related
  - Asset Related
  - Audit process Related
  - Reporting

Societies

(1) Legal framework
- Governing legislation
  - Foreign Contribution Compliance
  - IT compliance

(2) Object

(3) ICS & ~~Audit~~ Accounting policies
- Understanding Internal Controls
- Expenses Reimbursement Analysis
- Accounting policies Evaluation

(4) – Irregularities, Inquiries, Misconduct
- Irregular Expenditure & losses
- Inquiry & Implications
- Governance & misconduct Assessment.

C-5. Audit Of Items Of Financial Statements

3 parts → Audit of
- Liabilities
- Asset
- Income & expenditure.

CNO AIFS P1020 Audit procedures for Share Capital

→ Audit of share capital
→ Audit procedures for examining overall share capital
→ Compare → CY closing V/s. PY. closing.
→ No change → WR → Comp. Secretary.
→ Change → Resolution → Certified copies → BOD Resolution
→ Shareholder Resolution

Compliances → Co. Act →
- No. Discount
- Minimum Application money
- Min. Subscription
- Separate Bank A/c
- Return on Allotment

↳ SEBI Regulation
↓
Listed Co.

↳ Authorised share capital → MOA & MCA website
→ Enough
→ If not → increase
↓
- stamp duty
- fees.

forms → SH-7
↳ Increase in author – ised share capital

↳ PAS – 3 – Increase in paid up share capital

↳ FCGPR → foreign currency Gross provisional Return → FPI

→ Special consideration → Consideration
Cash V/s kind

Overall checkin

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P1.040
CNO AIFS

Issue of share D

1] Meaning → IP > FV
- → Sec 52 Apply
- → ~~No Appl~~ No Restriction on Issue
- → Premium Ref. Sec. ~~Re~~ Premium A/c

2] Utilization →
- preliminary exp
- Issue Discount / Commission.
- Bonus Issue of fully paid shares
- Redemption premium pref. share or Debenture
- ~~Buy Back~~
- Buy Back of equity shares.

3] Auditor → Ref
- → Utilization

Issue of shares at Discount

(1) Prohibition →
- Sec 53
- No Issue at Discount

(2) Contravention →
- Issue = Void.
- Penalty ~~Amt~~ or 5L whichever lower
- Refund with 12% Int

(3) Exception →
- Sec 54 – Sweat Equity
- Insolvency Case
- Resolution plan
- Debt Restructuring
- As per RBI
- ~~Cred~~ Creditors

4) Auditor → Compliance of Sec 53
- prohibition
- Controversion
- Exception

CA10. AIFS. P1. 060 Special Cases of Share Capital

Sweat Equity Shares

Meaning → Share issued - Directors/employees
At discount / without cash
Consideration

↓

for
- Value Addition
- Technical know how
- Patent use.

(2) Section 54
- Special Resolution →
  - Director / employee
  - Number of shares
  - Price
  - Market price.
  - Reason.

(3) Auditor → Comp. of Sec 54.

Reduction of Share Capital

(1) Modes of Reduction
(2) Pre-Condition
(3) Special Resolution
(4) Tribunal
(5) ROC
(6) MOA
(7) Changing in share certificate
(8) Accounting
(9) Disclosures.

1] Modes (Types) → Return of Excess Capital
↘ Reduce uncalled / unpaid share capital.
↳ Reduce paid up share capital

2] Re Condition - AOA - Authorisation
↘ No Default - in Deposit
• Repayment
• Interest

3] Special Resolution → Details
→ Circulate
→ Pass

4] Tribunal → Submit SR
→ Reasons
→ Approval → Tribunal order
↓
follow

5] ROC → copy of → Resolution
↘ Order

6] Share Certificate → Modified • Share certificate
↘ New Issue.

7] Accounting

8] Disclosure → B/s Title → (And Reduced)
↘ Notes → Details → 5 years.
(Sch - III

(a) MOA → Modify

CNO - AIFS P1.070 Disclosure of Equity share Capital As per Schedule III

1] Basic Disclosure - for each class of share capital
- Issued
- Subscribed
- face Value
- partly / fully paid
↓
+ share forfeiture
(-) calls in arrears
[Due from directors/ officers]

2] Right & Rig Restrictions
→ Voting rights.
Dividend rights
Preferences
Restrictions – Dividend
– Repayment
Convertable Securities → Descending.

3] Holding → Ultimate holding → Subsidiary
– Associate
→ Holding – Subsidiary
– Associate
→ Share holders holding more than 5%.
→ promoter holding

4] Reconciliation →
Opening	xxx
(+/-) Change	(xx)
Closing	xx

5] Disclosure about Changes → 5 years
↓
→ Other than Cash
→ Bonus
→ Buy Back.

CNO AIFS P1 075 Disclosure about funds given & funds received.

Funds Given

Company → Loan/Advance/Investment → Intermediary

Date & Amount

↓ understanding

Ultimate Beneficiary

Funds Received

funding party → Company (intermediary)

↓ Understanding

Ultimate Beneficiary

compliance → · FEMA
· PMLA
· Co. Act

CNO. AIFS P180 Audit of Reserve & Surplus.

Meaning

* It has accumulated profits
* It can be for various purposes.
* It may be transferred from P&L appropriation.
* It doesnot include — liabilities
— provision → Contingency
→ Commitment
→ Diminution in value of asset

2] Example — Capital Reserve, CRR, DRR, Security premium, General Reserve, P & L Appropriation.

3] Audit Procedure

— Opening Balance → PY Audited FST

— Addition / Utilisation → @ P&L · Addition → Net profit
↳ P&L A/c
↳ SOCE

outlisation → Dividend [Dividend distribution Tax]
+DDT [if Applicable]
↓
→ No entry of proposed dividend
→ Only Disclosure
→ Check from BOD Resolution

b] Securities premium • Addition → Issue of shares of premium
Shares × (IP - FV)
• Utilisation → Sec 52.

Closing Balances → Arithmatical accuracy → Balancesheet

4] Disclosure → Reconciliation

opening bal	xxx
+ Addition	xx
(profit b/f from P & L Appropriation	xx
(-) Utilisation	(xx) → (Dividend, DDT, written off)
Closing Bal	xxx

CNO . AIFS . P1.100 Borrowings

→ 1] Existence
↳ Imagine Documents which are prepared during taking loan.

→ BOD Approval
Obtain minutes, see loans approved, Terms & Conditions.

→ Agreement
↓
Preparation → As per Approval
↓
Authorisation → Appropriate person
↓
Compliance → Loan should as per Agreement

→ Discharge (Repay)
- Discharged liabilities should not be included.
- If loan is discharged then charge over ~~stock~~ Security should be cancelled.

→ External Confirmation
All lenders + SA 505

→ Written Representation
Mgt + Borrowings → Genuine

B] Completness

(1) ↓
Schedule
* Obtain schedule
* Audit procedure

OP → LY - A.FST
Addition → BOD - Approvals + Agreement
Repayment → Agreement
+ Authorisation
+ Bank statements
Closing → Arithmetical Accuracy
+
General ledger
+
B/S.

(2) Direct Conformation for loan
→ Request should be set & confirmation should be received from all lenders.
→ All relevant information should be confirmed. Type, Amt, Int. rate, Repayment, security etc.
→ Compare + if diff. ask for Reconciliation
→ No Reply → Reminders.

C] Valuation [Amt]

① Agreement + Debenture trust deed.
Balances

② A/c policy → Ind AS
Specify effective interest rate method. Specially in case of Convertible loans, Debentures.

③ Foreign Currency loan → AS 11
↳ Value at closing Rate
↳ P/L proper treatment

④ Other Related Balance
↳ Discount on issue
↳ Premium on Redemption
↳ Accured Int, Int Due,
↳ Amortisation of discount etc.

Disclosure A] Classification → ~~Bond~~

[5.14] Long term Borrowings

A) Classification
- Bonds / Debenture
- Term Loans
  - Banks
  - Others
- Deffered payment liabilities
- Deposits
- Special { → long term Related Parties
  → Long term maturity of finance lease

B) Disclosure
~~Secured V/s~~ → Secured V/s Unsecured.
→ Guaranteed by Directors & others

Terms & Conditions
- Repayment
- Int. Rate
- Conversion

– Descending Order

– Default → Repayment
→ Interest

Short term /

a] Classification

→ Long Repayment on Demand
– Bank
– Others

→ Deposits →

→ loans from Related parties
• Others
(Current maturity of long term borrowing)

(b) Disclosure
– Same as Longterm

– L-76A –

CNO AIFS P1 110

Special Disclosure Related to Borrowing

Shortcut :- Security & Charges are important against willfull defaulters.

Security → If Company has taken loan from Bank or FI and given current assets as security then they have to disclose whether data in quarterly returns agrees with data in Books of Accounts.

Charge → If charge is created or satisfied then, ROC should be informed in timely manner in prescribed format. If there is default then chargewise details should be given in notes to accounts.

Willful Defaulter → If Company is declared willful defaulter disclose in notes to accounts

→ • Date of Declaration.
• Details of Default.

Utilization Default → If loan is not used for purposed was raised

↳ Disclose in notes to A/c.

CNO. AIFS Pl.120 Trade payables and Other Current Liabilities

Existance

1] Internal Control

ICS should ensure that purchase and Trade payable are ~~be~~ booked only after goods & services are received & expense incurred]

- ICS should essure that same purchase is not booked twice.

2] Ledger

- Ledger Scrutiny

Identify large entries & match with supporting documents.

- Ageing

Obtain trade payable ageing check whether total agrees with ledger.

check whether it appears reasonable as per credit period & General trend.

3] Direct Confirmation

a] Meaning → ◦ ~~Contract~~
◦ Contact Vendor
◦ Confirm Balance
◦ Directly to Auditor

b] Selection → ◦ large o/s Balance
◦ ↓ insignificant bal. but material purchase

c] Revealing → ◦ Don't reveal
◦ Reveal after Trade payable ledger prepared.

d] Consent → ◦ Take Consent
◦ No Direct Confirmation Request
↓
↳ Valid Group
↳ Alternative procedure.

e] Request letter → i] Always
◦ List to Mgt
↓
prepare & Send
↳ strict supervision of Audit
◦ pre-Authorised letter
↳ Auditor will fill them & Send

ii] Date → ◦ B/S Date
◦ Closer to B/S date

iii] Balance → ◦ Disclose
◦ Don't Disclose ask balance directly

iv] Delivery → Directly to Audetor
◦ Confirmation
◦ Request undelivered.

f] Discrepancy → • Discrepancy Reconciliation
↳ Examine.

g] No response → Alternative procedure
• Subsequent payments
• Break Outstanding Balance
↳ Identifiable Transaction
↳ Supporting document.

4] Special Point

Relatedparty → Authorize
→ Arms length
→ Recording
→ Disclosure.

AnalyticalProcedure → • purchase & Trend payable
Trend
Line
↓
Unusal trend.

Completeness

- Check whether purchases are unrecorded
- check whether cutoff is maintained

(1) Doument's received before year end
- last 5 gate ~~ent~~ entries in goods inward book
- last 5 GRN's | Receiving report
↓
Ensure purchase are booked.
- last 5 purchase invoices.

↓
if goods received before year end it should be booked in CY

↓

No

ii] Documents after year end
- Material purchases
- Material expenses
- Material payments

↓

Whether they belong to current year

Valuation

i] Old creditors

a] Method
- understand method used to identify old creditors.
Ageing / last trade / last payment / expert opinion.
- Whether followed consistently.
- Obtain list of Old Creditors.

b] Ageing
- obtain Ageing
- Identify Old creditors.

Parties	Balance	30	30-60	60-90	---
A	50	10	20	10	---
B	60	5	5	40	---
C	70	10	10	10	---
D	80	20	20	20	---
E	90	20	30	20	---

ii] Disputes - Obtain list of disputes, whether litigations are going on

iii) Treatment
- whether balance should be increased because of dispute, interest, penalty etc.
- whether balance should be written back, if yes, approval from senior Mgt (CEO / MD) if required.

iv] foreign Currency Creditors
↳ Value at closing rate → AS 11
Profit & Loss → P&L

Other Current Liabilities

A] Advances received from customer
Obtain list
- Obtain Ageing
- Identify and Outstanding
↳ Investigate Reasons & Disputes

B] Statutory Dues payable.
i] GST payable
- Obtain Details
- Recompute → using sales & GST rate
↳ Valuation.

ii] PF / ESIC / PT payable.
- Obtain Details
- Recompute → using employee expense & Rate
↳ Valuation

iii] Subsequent Payment
- Check subsequent payment
- If variation → inquire.

iv] CARO Reporting

- Report under Clause 7
- Regularity.
  - O/s more than 6 months as on Balance sheet date
  - Dispute Details

Disclosures

Trade payable

A] Goods & Services

↳ Only payable for goods & services purchase should come here.

B] MSME

(i) Balance → Principal
→ Interest

(ii) Penal interest → paid
→ Due
→ Accrued

(iii) Not allowed in income tax Act.

C] Ageing

	Less than 1	1-2	2-3	More than 3 years
– Undisputed				
• MSME				
• Other				
– Disputed				
• MSME				
• Other				

Other Current liabilities

Shortcut MAI FID a

M → Matured Dep Debenture & Deposit + Accrueed Interest
A → Income Recived in Advance.
I → Interest Due.
F → Curred Maturity of finance lease obligation.
I → Interest Accurred
D → Unpaid Dividend

CNO. AIFS P1. 140. Provision And Contingent Liabilities

i) Definition & Types

Def → • Liability
◦ Uncertainity
◦ Estimated Amount

Types → Contract
- Warranty
- After sales
- Damages
• litigations & Claims
◦ Employee Benefits
◦ Others

ii) Audit Procedure
- list → Match with general ledger.
- Detailed work (material)
- Expert.
- Actuary - Employee Benefit Exp.
◦ Assumption & methods
◦ SA 500
→ Legal Counsel → Amount.
→ letter
→ Likehood

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iii] Disclosures

a] Classification
- Employee Benefit
- Other

b] Movement

(+) Add
(-) Reversal
(-) Utilization
Closing

c] Details → Nature
→ Uncertainty
- Reason
- Degree

→ Reimbursement

B] Contingent Liability
- Disclosure
  - Nature
  - Expected Amt
  - Uncertainty
  - Reimbursement.

(A) Provision
- Def. & Types
- Audit procedures ~~Test~~ / Detailed / Expert
- Disclosure - closing
  Movement
  Details

(B) Contingent Liability.

Part-2. AIFS. ASSETS

2

CNO.AIFS.P2.020. Fixed Assets - Tangible Assets Comprising, Land, Buildings, Plant & Equipment, furniture & fixtures; Vehicles, Office Equipment, Computers ETC.

Existance

Mgt Conduct physical Verification & auditor should attend it

↳ perform following

1] policy & periodicity

policy → Staff / Third party

Periodicity → Sensitivity
- 1 yr
- 2 yr
- 3 yr

2] Supervision → Adequate as per records & Observation

3] Obtain working paper (+) physical Verification report
- Whether assets were tagged [sticker]

↳ Tag → Details → Nature / Quantity / Conditions / Identification number

→ Tag Details → match → Working paper

→ Working paper → physical Verification Report

→ Report compare - FA register → should be updated

→ Discrepancy

↓

Investigation

↓

Shortage → ∘ Not Exist
↓ ∘ No working Condition
Wloff

Completeness

1 Obtain Schedule

1 ~~Exampl~~
Examine Schedule
a] Op. balance → LY · A.FST
b] ~~Addition~~
∘ List
∘ Authorised
∘ Process → ∘ Tender float
∘ Quotation
∘ Contract ⊕ purchase order
∘ Installation
∘ purchase Invoice
∘ payment.
∘ Accounting → AS 10 → Recognition Criteria
Cost → Initial Cost
→ Modification Cost
→ Service
– A stand by equipment
servicing equipment
↳ Seperate capitalisation.
c] Deletion ∘ Reason & authorisation
∘ Process
– Authorise
– ~~D~~ Tender
– contract ⊕ Receipt
~~Account~~ Accounting.

d] Closing Balance
- Arithmatical Accuracy
- Match → general ledger
  → fixed Asset Reg.
  → Balancesheet

Valuation Cost – Dep – Improvement

A] Cost → Initial Cost
→ Modification
→ Service Cost

B] Depreciation → Meaning (+) Purpose
→ All Assets
→ Method

C] Impairment → Meaning
→ AS-28.

Right & Obligation

A] Immovable
- Documents
  - Agreement to sell
  - Sale Deed
  - Registry → property registrar
  - Original Title deeds
- Security
  - Confirmation
  - Charge → Register
    → Disclose.

B] Movable property

- Documents
  - purchase invoice
  - Title deeds like Registration Certificate [RC]

Disclosure

A] - Sub-classification → Land
=
Others

B] Schedule → Cost
Op + Addition + Add. in business combination + Revaluation [more than 10%] + Borrowing Cost − Deletion (+/−) others.
− Dep
− Ind − Impairment

C] Lease → Asset given → op. lease (operating lease]
Asset in taker → finance lease.

CNO. AIFS P2.030 Special Disclosures Related To PPE.

T → Title Deed
- Immovable property
- Title Deed not in the name of company.

Detail → Description
- Gross Amt.
- Party + Nature
- Date
- Reason + Dispute

R − Revaluation - Registered Valuer

P → Progress → Capital WIP

	WIP. Time			
	less than 1y	1-2y	More than 3y	Total
Project in Progress				
Project temp. Suspended				

Project wise
↳ Exceed time or Cost limit
↳ Expected Completion time.

	less than 1y	1-2y	2-3y	More than 3y	Total
Project-1					
Project-2					

CNO. AIFS. P2.040

Fixed Assets - Intangible Assets Comprising Goodwill, Brand / Trademarks Computer Software etc

Def? → Asset
- Without physical substance
- Identifiable
- Non monetary
- Used → production
  → Administration
  → Rental

Existence
↳ Active use → production
  → Admin.
  → Rental

→ No Active use → approval
  → Deletion alongwith accumulated amortisation.

→ Completeness → Same

→ Valuation → Same.

5] Rights & Obligation

i] purchased → purchase Agreement
↳ Name of Company

ii] Self generated → prove expenses are incurred by Company
↓
Invoice / Bills etc for expenses

iii] Ownership Records.
Court / Authority → Records / ownership
↓
⊗ Confirm

6] Disclosures → Same.

CNO. AIFS PY. 060. Inventories

A] physical verification
↳ conducted by Mgt.
↳ Attended by Auditeon
↳ Activities to be performed.
i] Entity's plan → Understand.
→ Adequate / Reliable
↳ Employee
↳ Adherence.
↳ Supervision
↳ Appropriate person
ii] Observation.
→ Tagging all items.
→ Description + Quantity.
→ Summary sheet
[Should. reconcile]
iii] Test Count
→ Test Count sheet prepare
→ Reconcile with summary sheet.

iv] final Reconciliation
→ Stock count sheet [summary sheet]
→ Stock Records
→ Significant Discrepancy.

v] Date
→ Periodic stock count
↳ Date of physical verification → year end/ period end
→ perpetual stock Records
↳ Date of physical verification → Interim Date.

Other points

Exclusion → • 3rd party stock
• Obsolete, damaged stock [seperate valuation]

Inclusion → stock with Third party

Cut off → • last 5-10y + Next year 5-10.
GRN / Receiving reports
• last 5-10y + Next year 5-10
Dispatch / Shipping reports

Alertness → Empty boxes → Damaged goods.

Completeness
Short Cut → TAP completeness
T - Third party • Our goods with third party
• Third party goods with us.

A → Analytical procedure.
financial
- Compare → • LY
• Budget
• Industry
- Vertical Analysis → $\frac{\text{Inventory}}{\text{Total Assets}} \times 100$

If Ratio is Decreasing. Inventory is missing.

- Inventory T/O Ratio → $\frac{COGS}{Avg.\ Inventory} \times 100$

If Ratio increases indicates inventory is missing.

- Non financial
  - Comparision → LY
    → Budget
    → Industry

P - physical inventory
- obtain physical inventory listing
- Match with perpetual stock Records
- Match with General ledger. Control A/c

C → Cut off
- Check cut off of Sales & purchases
- last 5-10 of CY.
- first 5-10 of Next year.
- Tags → Inventory movements Details.
  ↳ can be used for cut off.

Rights & Obligations

Shortcut - CS & CPI

C - Collateral Agreement - finance
- Security
- Agreement Examine (conditions)
- Ownership

S - Sales Agreement → Agreement
- FOB / CIF - Cost + Insurance + freight
  ↓
  free on Board
- Conditions [Installations]

c → Consignment → Agreement
- Terms & Conditions
- Risk & Rewards
- Real Owners.

P → purchase Agreement & Documents → • Agreement
- FOB | CIF
- purchase Documents
  - ↳ Name of Co.
  - purchase Invoice
  - payment.
  - Cancelled charge.

T] Third party → stock with TP
↳ EC on letter head (External Confirmation)
↓
Qty + Ownership.

Valuation

1] Raw Material, Consumables

0] Valuation

- If cost per unit < Selling price.
  - ↳ Raw material Consumables valued at Cost.
- If cost per unit > Selling price
  - ↳ RM / consumable → Cost or NRV whichever is lower
  - NRV – Replacement Cost.

b] Cost → Include all cost required to bring material to current place & form.
- We can use standard Cost
  - ↓
  - Year end compare both actual & standard,
  - ↓
  - If close fine, If not use actual.

c] NRV – Replacement Cost → last month purchase.

d] Damaged goods → Value at NRV

2] WIP

a] Valuation → Same as above.

b] Cost → Same + % of completion.

c] NRV → NSP - further cost of completion of WIP

3] finished Goods

a] Valuation

b] Cost

c] NRV - NSP

d] Obsolete stock

- Identify → Inventory ageing
- Value → Cost or NRV whichever is lower.

NRV - Selling price - Selling cost

- Analyse

Inventory T/O Ratio = $\frac{\text{COGS}}{\text{Avg. Inventory}}$

Ratio Increase → Inventory is low → Problem

Ratio Decrease → Inventory is high

Disclosure

1] Mode of Valuation for each class

2] classification

- RM
- WIP
- FG
- stock in trade
- Stores & spares
- Loose tools.

3] Goods in Transit - Sub classification

CARO AIFS. Pg 080

All points Same as Creditor

Changes

Internal Control System

↳ Recovery
↳ Invoice wise
↳ If not invoice wise
↳ FIFO
On Account Realisation [partial Realisation]

↳ ~~Ask~~ Debtor

Disclosure

1) Ageing	6month to 1year	1year to 2years	2y to 3y	Morethan 3y	Total

[a] Undisputed
- Good
- Doubtful

[B] Disputed
- Good
- Doubtful

2] Speial Receivable
- Directly
- Officer
- Jointly or severally above persons
- Partnership → partner
  Company → Shareholder
  • ~~Dir~~ Director

3] Related party.

CNO. AIFS P2.100 Cash & Cash Equivalent

A] Cash & Cash Equivalent

- Cash
- Bank
- Cheque in hand.
- DD in hand
- Other → ∘ Security
  ∘ Maturity < 3 months
  ∘ No Change in Expected value.

B] Audit procedure for cash

i] Planning Cash Count

- Surprise Checking
- Cash → No ownership identification mark.
- problem → Cash of entity misappropriated not identified
  → Shortage concealed by others Cash.

∘ Simultaneous checking

- HO/Branch/Imprest

ii] performing Cash Count

- presence of cashier - to avoid blame for shortage
- I owe you
- Slip / Statement money receivable
- year end → A/c
  ↓
  Advance given
- Others
  ∘ Rough Cash Books / Detailed cashbook.

↳ One entry is passed in Cash book for the day

↓

Details → Rough / Detailed Cash Book

- Sensitivity Analysis
→ Monthly Trend.
  - Receipt
  - Payment

Checking BRS

A] Balances
- Balance as per books agree with Cash & Bank Book / General ledger
- Balance as per pass book agree with pass Book
  - Bank statement / confirmation

B] Reconciling Items.
- Cheque issued not paid.
  - Subsequent payment
  - Stale [3months or more than reverse]
- Cheque deposited not realised.
  - Subsequent receipt
  - Bounce [stale, then Reverse
  - ↳ Recovery probability.
  - ↳ Provision for DD.

→ Charges / Income.
- Material. Expenses are income unrecorded.

C] Direct Confirmation
- for all bank Accounts
- Types Current A/c, FD, EEFC, CC unpaid, Escrow Account.
- confirmation should match with bank statement & with BRS.
- If there is reconciliation audit team can go to Bank & confirm items
- foreign currency Bal. Convert at proper closing rate.

Disclosure

Classification → cash
→ Bank
→ Cheque / DD on hand
→ the other

b] Disclosures in notes to A/c
- Earmarked for specific purpose
- Balance held as margin for loan taken or guarantee given.
- FD more than 12 months maturity
- Repatriation. restriction on foreign Bank Balance.

CNO. AIFS Pg 120 Loans and Advances

A] Existenance → External Confirmation
- Principle
- Int. receivable

B] Completeness → obtain list
- Agreements / acknowledgement
  ↳ Covered in list (complete)
- list Balance → General Ledger

c] Rights and obligation
↳ legally appropriate (+) Rights

i] legally Appropriate
- MOA Authorisation
- Proper person Authorisation
  - Co → BOD
  - firm → partner
  - Trust → Free Trustee

ii] Rights & Obligation
- Regular Recovery
- Security → Documents

Other points

Related party → Authorised
→ Sum & heights
→ Recorded
→ Disclosed.

- Statutory Balance
[GST input / TDS receivable] → Return
→ Recompute
↓
~~Amt~~ X Rate

2 Valuation

i] Doubtful Accounts
- Identification process.
Eg. Ageing, Last Receipt, Expert.
- Obtain these list
- Obtain Ageing.
- Obtain litigation list.
- Check whether all doubtfull accounts are covered in list.

ii] Treatment
Provision → Adequate
W/off → property Authorised

iii] Schedule
↳ Doubtful → Opening
Loans & Advances
(+) Add
(-) W/off
Closing

Provision → Op.
(+) Add
(-) use
(-) Reversal
Closing

iv] foreign Currency loans → closing Rate
↳ Restatement

c] Disclosure

i] Nature → ◦ Loan to Related party
◦ Loan to others
◦ Security Deposits
◦ Capital Advances
◦ Others

ii] Recovery → ◦ Secured & Good
◦ Unsecured & Good.
◦ Unsecured & doubtful

iii] Provision should be disclosed for each category

iv] Special Disclosure
- Director / Officer
- Jointly or severally
- firm → partner
- private Co → Shareholders
◦ Directors.

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Part - 3. AIFS Income & Expense

3

CNO. AIFS. B P3. 020 Income Statements & Services.

Sales
↓
Overall audit procedure
↓
5 steps

1] Sales / Revenue cycle.
— Customer order to recovery
— Understand.

2] Revenue ~~Cntrl~~ Center
Major product & services
New Additions / Deletions
Major Customers
Major locations.

3] Internal Control System.
Eg- Segregation of duty.
— Authorisation limits
— Approvals
— Special Approval.
◦ Above certain limit
◦ Bad debt

4] Test of Control
◦ Design
◦ Operating effectiveness.
Common controls
— ~~Sec~~ Segregation of Duties
— Prenumbered documents

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- Authorisation limits
- Approvals
- Credit limit

5] Substantive procedures

- Analytical procedures
- Sales can be compared with P.Y Budget, others
  Expected sales can be computed.
  Qty X Avg. price.
  Compare with actual
- Test of Details
  - Sampling
  - Supporting Documents

Occurance

Shipment

- Sale. Transaction should have shipment documents
- Shipment only after ~~co~~ consent & agreement with Customer.

Customer

- Not ficitious
- Acknowledgement → goods received
- External Confirmation can be received.

Sales Invoice

Should be booked/backed by Sales Invoice.

Accounting

- No unearned income should be recorded
  -Eg. maintenance income of future.
- No sale accounting till agreement obligation fulfilled
  -Eg. Installation.
- No Sale if amount is not measurable or collectability.
- No Double booking of sales.

Sales Return

- Excessive sale Return
  - Current year → past fake sales
  - Next year → CY fake sales
  - → High sales return to sales ratio indicate excessive sales return. Also high credit notes.

iii] Other points.

- New unusual sequence of Sales.
- Unusual general entries in Sales A/c

Sales Cut off & Completeness

- Cutoff
  - → 5-10 last of CY
  - → 5-10 first of Next year.

Date

Dt of Sales invoice (x)
Dt of Risk & Rewards (✓)
Generally date of Delivery
Sometime date of Completing Conditions.

Completeness

- Randomly select shipping documents and match with Sales entry.
- Match sales quantity from sales register to stock register & GST records / Returns.
- Take GST and reverse calculate erpected sales, it should match with actual sales

Sales - Measurement / Accuracy

1] - Terms & Conditions
- Understood few transaction from start till end
- Understand terms & Conditions in Sales agreement.
- Segregate Amt - product - maintenance
  - installation - late payment facility.

- Book as per nature immediately or over period of time.

- 2] Percentage Method Vs. Completion Method

Percentage Method → Independent Activities
Completion Method → Dependent Activities

3] Export → FC Amt × Average rate
AS 11

4] Related Party →
- Approved
- Arm's length
- Records
- Disclose

5] Collectible → only amount which is expected to be collected.

Sales → Disclosure

Schedule III.

1] Nature Wise

→ Sale of Goods	xx
→ sale of Service	xx
→ other operating revenue	xx
Excise / GST	(xx)
Net sales	xx

2] Disclosure → Segment Reporting
→ Related party

CNO-AIFS P3.040 Other Income for AY 2019-20 Interest Income, Dividend Income etc.

A] Interest on FD

Schedule on FD

- Opening Bal — xxx → CY Closing Bal.
- New FD's — xxx → FD Certificate
- Redemption — (xxx) → Bank Statement
- Closing FD — xxx → Certificate
  - Consumption.

- Recompute interest
  - with the help of schedule match with actual.

- Confirmation → Balance
  Interest Income

- Form 26AS → TDS deducted
  → Reverse calculation for Interest Income.

B] Dividend Income

Primary Condition

- Right to receive dividend → on declaration

Secondary Condition

- Measurable & Collectible

Gain/Loss on Mutual fund

- Only on sale, when mutual fund redeemed
- Title transfer
- Gain/Loss - Redemption Amt
  - Book Value.

CND. AIFS. P3.060 purchases

Overall audit procedure
↳ Same as Sales

→ Purchase cycles
→ Production Cycles
→ Internal Control System
→ Test of Control
→ Substantive procedures

New Control

Before payment to supplier for purchase

→ 3 way check → purchase invoice
↑↓
GRN

– 3 way check → Purchase Invoice
↙ ↘
Purchase Order ⟷ GRN

Purchase Occurance

Practical life flow

If purchase is real.

• Vendor should be a registered vendor
+
Through proper vendor or registeration system.

• Entry → Goods inward Register
↓
factory gate.

Special Consideration of purchase

— BITCOIN —

B→ Booking of purchase

FOB - when our transporter receives

CIF - when received at our godown.

I → Input Tax → proper A/c
↘ GST Return

T - Transaction → Perusal
↳ Review

C→ Capitalisation Vs Expenditure
↓
Professional Judgment
↓
Review

O → Original Invoice
↓
No. Duplicate / Carbon Copy

I → If Related party → Approval
↘ Arm's length
↘ Recording
↘ Disclosure

N — Name of entity on Document's

Purchase → Cutoff & Completeness

A] Cutoff
→ Transaction should be recorded in proper year.

- Last 5 -10 GRN Current year
- first 5 -10 GRN Next year

B] Completeness
1) WR from mgt all purchase recorded

Q] CIF - FOD - Our transporter → Our CnI I
CIF - Vendor transporter → Not our GIT

3] Analytical procedure

i] Consumption Analysis

$$\frac{\text{Raw Material Consumption}}{\text{Total prod}^{n} \text{ cost}} \times 100$$

If it reduces → purchase incomplete.

ii] Stock composition Analysis

$$\frac{\text{Raw Material stock}}{\text{Total stock}} \times 100$$

If it reduces → purchase incomplete

iii] Turnover ratio

- Inventory T/o Ratio $= \frac{\text{COGS}}{\text{Avg. Inventory}} \times 100$

how inventory will increases ratio.

↓

purchase incomplete.

- Creditor T/o Ratio.

$$\frac{\text{Credit Purchase}}{\text{Avg. Creditors}} \times 100$$

If Avg. creditors reduces ratio increase

↓

purchase incomplete.

iv] Reconciliation.

Opening	xx
(+) purchase	xx
(-) consumed	(xx)
Closing.	xx

CNO AIFS P3.080 Employee Benefit Expenses

1] Obtain list + Schedule → Monthly → New hires
↘ Leavers
↘ Continue

2] New Hires → ◦ Select
◦ Recompute
. 1st Month
◦ – Subsequent Month
↓
use appointment letter

3] Leaves – Select
full & final settlement · Recompute
· & employee Acknowledgement ◦ satisfied.

4] fictitious employee. ↔ TOC → strong attendance system
↘ TOD - Meet
· Identity proof
· ~~Bank A/c.~~
Bank A/c

5] Analytical procedures
· 12 month graph → unusal trend
Avg salary per employee per month → compare
· previous year
· previous month

. Production per employee — compare
◦ previous year
· previous month

6] Other points
- PF/ESI → Select any month
◦ Recompute PF + ESI
◦ Deposit challan
◦ Last month O/S
↓

Last month wages × Rate

- Closing Accrued → provision for Bonus, gratuity etc.

CNO. AIFS P3 100 Depreciation & Amortisation

Depreciation → Tangible
Amortisation → Intangible

4 things are important

1] Method →
- understand
- Rate as per Sch III
- All asset
- Component wise

2] Cost →
- Initial cost
- Modification
- Service Cost
- Addition / Deletion
  ↓
  Income Tax records
- Revaluation

3] Useful Life → Reasonable
- Sch - III
- Change in useful life
  ↳ Prospective effect
- Date → Ready to use

4] Residual Value →
- Cannot exceed 5% of Cost.
- Reasonable
- Deducted in Computation

5] fake Asset
- fake Asset for increasing depreciation
- Check in attending physical verification

6] Analytical procedure.

- Expected Dep - $\left[\frac{OP + CL}{2}\right]$ × Rate of Dep
- Compare with actual

Disclosure → Disclose policy - A thing except cost.

CNO. AIFS P3.120 Other Expenses

Obtain Voucher Check following [Imagine Bill]

- Nature of Expenses.
  - Not personal
  - Revenue Nature Vis. Capital Nature
  - Expense head.
- Date → Current year.
- Name → Entity
- Amt → Match
- Authorization - Appropriate person
- Supporting Document

Rent

a] Analytical procedures

- Monthly schedule + Monthly graph
  - Unusual
  - All 12 months

b] TDD

- Visit → Premises
  - Business
- Agreement → Name
  - Rent Amt
- Escalation clause → Rent Average every year
- TDS - Reverse calculation

Power & fuel

a] Analytical procedure
- 12 month Schedule + Graph
  - Unusal.
  - All months
- Expected Bill - units consumed × Rate.
  ↓
  Compare with Actual.
- Graph / Compare
  - Electricity units consumed per month.
  - F.a. units produced per month

b] TOD
- Select Exp → Bill match

Insurance Exp

TOD
- List of policies.
  - Premium paid
  - Validity period
  - Trf. to prepaid which belongs to next year

Legal Expenses

TOD
- Obtain month wise schedule & legal consultant wise schedule
  ↓
  Unusual

Recurring Exp → Retainer ship agreement

Non recurring Exp →
- Agreement
- Invoice
- Other Documents

Legal exp → Dispute
↳ Provision for compensation

Travel, repair & other miscellaneous exp
↓
- Analytical Procedures
Monthly schedule → Graph
↓
Unusual
- Total exp. per unit.
↓
Compare → • PY
• Budget
• Industry.

CNO AIFS. P3 130 Other important Disclosures

Benami Property Should be Used for C^2SR^2 — Shortcut

① Benami property - proceedings —
a] Holding property for others.
- Nature
- Amt
- Beneficiary
- B/S → line

b] Transfer to others
- Nature of case.
- Status of case
- Co. Viruses

2] CSR
- Nature of Activities
- Related parties
- Details
  - Required amt to be spent
  - Actual spent
    Shortage
    Total shortage including PY

3] Crypto

- Whether trading or investing in Crypto.
- Money received for trading & Investing
- Details.
- P & L
  - BIS date → Balance of Crypto

4] Struck-off

- Transaction will company struck off
- outstanding Balance
  - Receivable / payable
  - Investment in shares whether they have our shares
  - Other o/s Balances.
- Relation

5] Ratio

Disclose in notes to A/c

↳ Income in numerator → Return on
- Investment
- Capital employed
- Equity.

↳ T/O Ratio
- Trade Receivable Ratio
- Net Capital T/O Ratio

Other
- Debt service Ratio

Expenses in Numerator
↳ Inventory T/O Ratio
↳ Trade payable T/O Ratio

Asset in Numerator → Current Ratio

Liability in Numerator → Debt Equity Ratio.

6] Rounding off
- less than 100 crores → Hundreds / Thousands / Lakhs / Million
- More than 100 crores → lakhs / Million / Crores.

— End —

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