



**V'Smart  
Academy**

*CA Inter Audit*

**FADU** **GIVEAWAY**

FULL AUDIT DELIVERED UNIQUELY

*Chart Book*

### **AUDIT IN 80 PAGES (approx)**

- ∞ Covers Each & every Concept of BHASKAR Regular Notes.
- ∞ Wherever charts of new topics were not available, Providing PDFs for the same so that whole course gets properly covered
- ∞ Covers all Shortcuts
- ∞ Easy flow for better retention
- ∞ Covers 75% of the chapter's
- ∞ Hierarchy based flow charts
- ∞ Updated For May 24



**Ravi Taori**  

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**Snehal Taori**

# FADU

## Audit in 80 Pages

### PREFACE

We at Auditguru believe in making consistent efforts in improving our content quality as well as content delivery. We work on the principles of Kaizen i.e. continuous improvement.

It gives us immense pleasure in presenting our **CA Inter FADU Chart Book**. This book will help ease the stress of Audit subject for students.

**Whole CA Inter Audit is covered is just 80 pages.** This Chart Book is an outcome of more than 1 year of hard work and dedication of the entire Auditguru team and It covers 75% of the entire CA Inter audit course. Wherever charts of new topics were not available, Providing PDF's for the same so that whole course gets properly covered.

We believe that Studying from charts is highly effective. This chart book is suitable for all students irrespective of whether they have studied from Ravi sir before or not. However, If students have also seen our Regular In-depth course or Exam Oriented course, it would be an added advantage. All concepts of **BHASKAR** (our regular notes) are covered in charts in same sequence.

The videos covering FADU Charts are available on our **YouTube channel - "Ravi Taori"** and our **Telegram Channel-Auditguru (CA Ravi Taori) (AIR)**.

Students are advised to also cover PARAM Question Bank for best preparation.

I would like to mention my Sincere thanks to **VSMART management. Vishal Bhattad Sir** has always inspired me to become better professor. **Ujwal Bhattad Sir** has been my Mentor on every aspect of teaching & encouraged me to make FADU Chart Book.

I am blessed with best people in my team. They have worked passionately with all enthusiasm. CA Vaishnavi, CS Rajni, Vaibhav, Kunal, Shivani, Gayatri, Tejashree & Shubhangi.

Lastly but most importantly, we all are thankful to **Snehal Madam**. She is our Fire Fighter, Trouble shooter & my Life Line.

Happy Studying!!!

CA Ravi Taori

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Master Link For All Our Resources



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Discussion points (Ask Doubts)



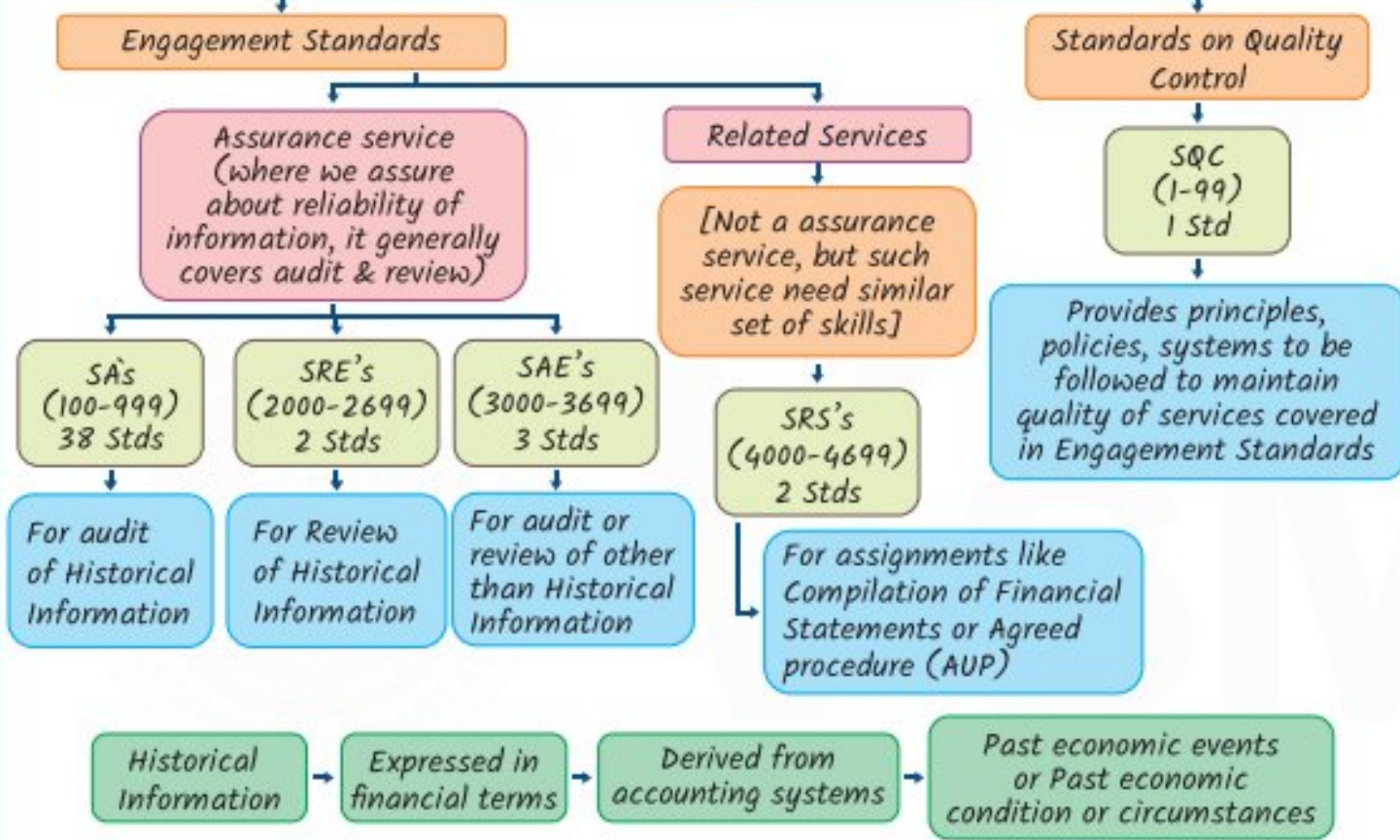
QR Codes



CNO--SAINTRO.060

(QNO--SAINTRO.07, SAINTRO.08)

**TYPES OF STANDARDS**



CNO--SAINTRO.061

**MEANING OF ASSURANCE ENGAGEMENT**

\*\*\*\*For this Concept refer Pdf\*\*\*\*

CNO--SAINTRO.061.50

**Type of Assurance Engagement - Reasonable assurance VS Limited Assurance Engagement**

\*\*\*\*For this Concept refer Pdf\*\*\*\*

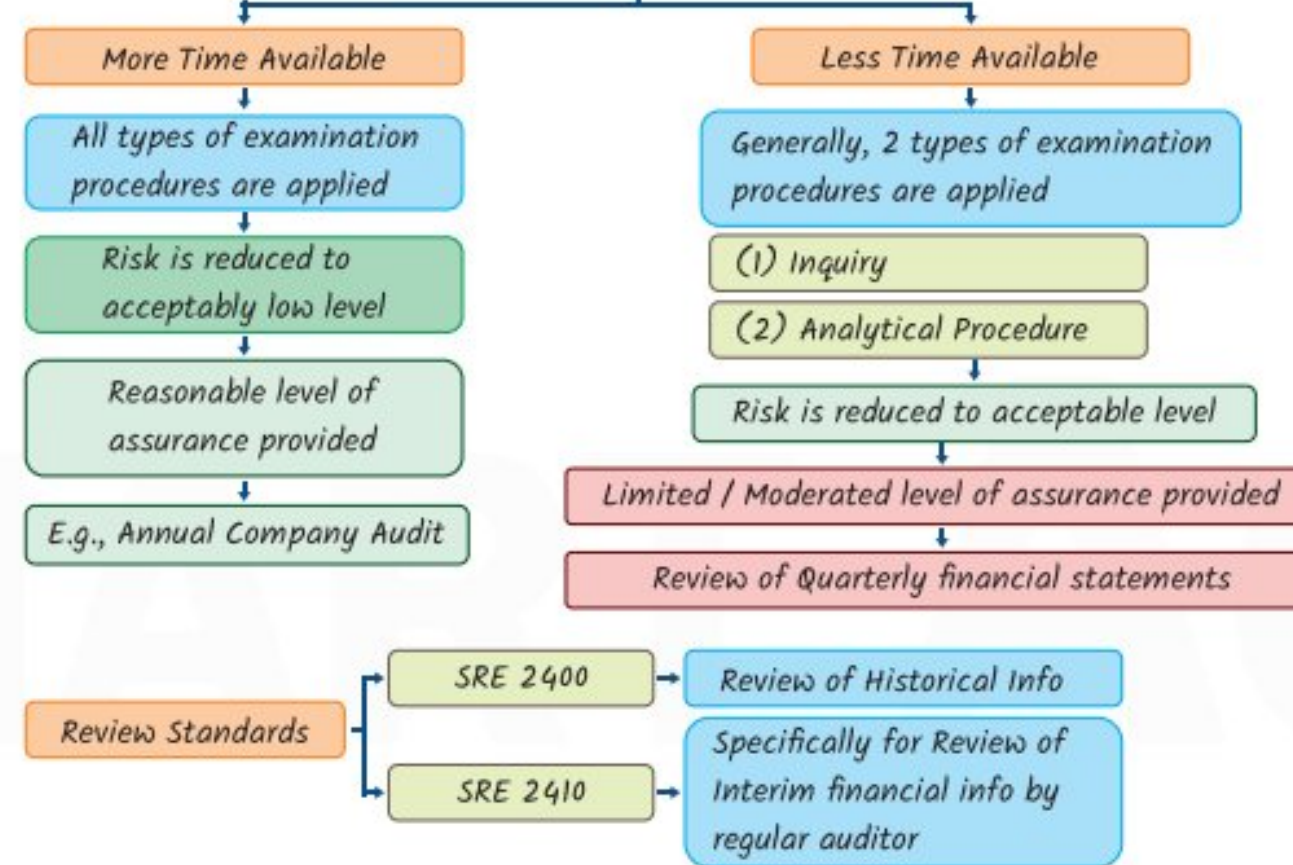
CNO--SAINTRO.62

**STANDARDS ON AUDITING**



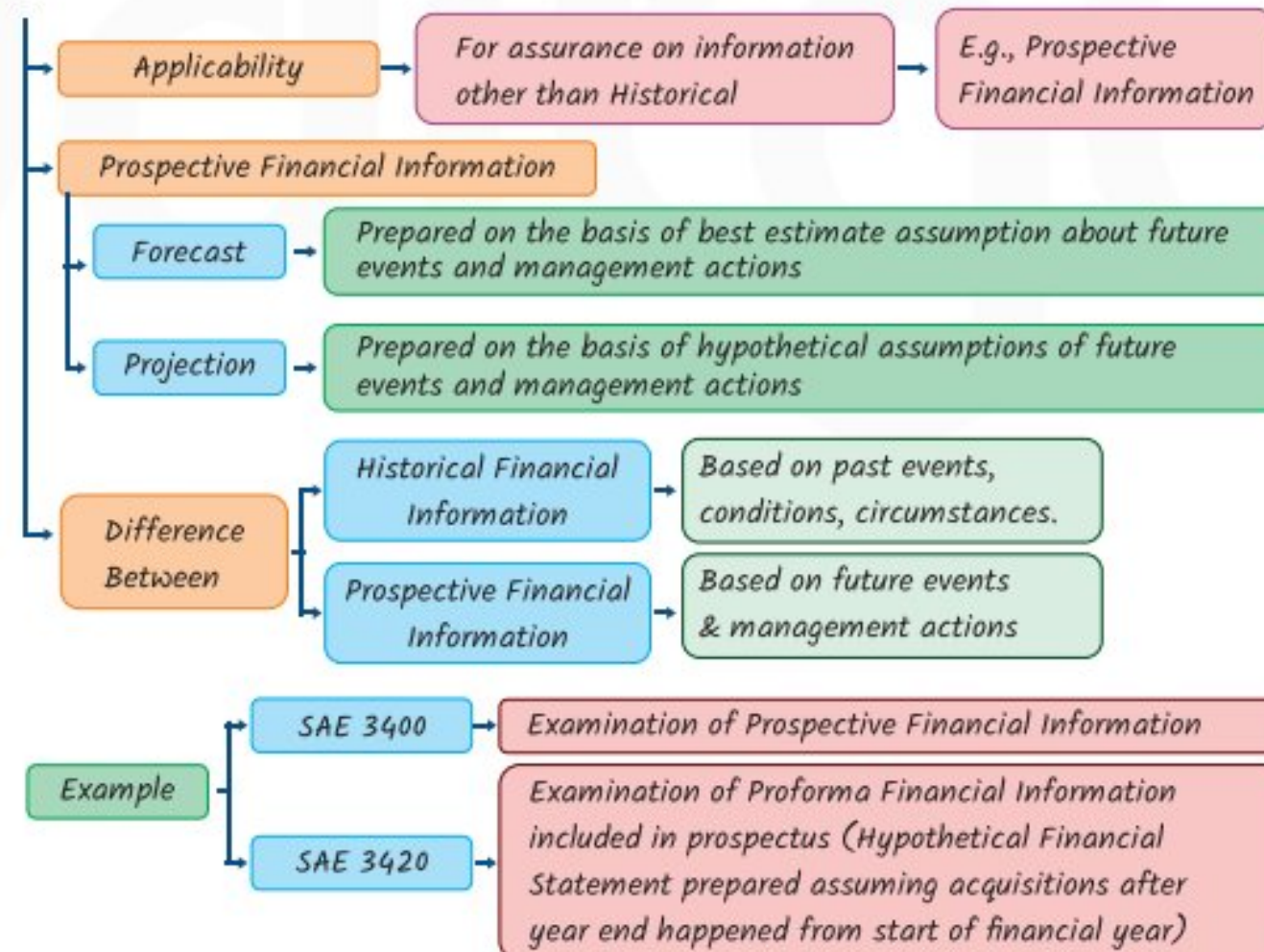
CNO--SAINTRO.64

**AUDIT VS REVIEW**



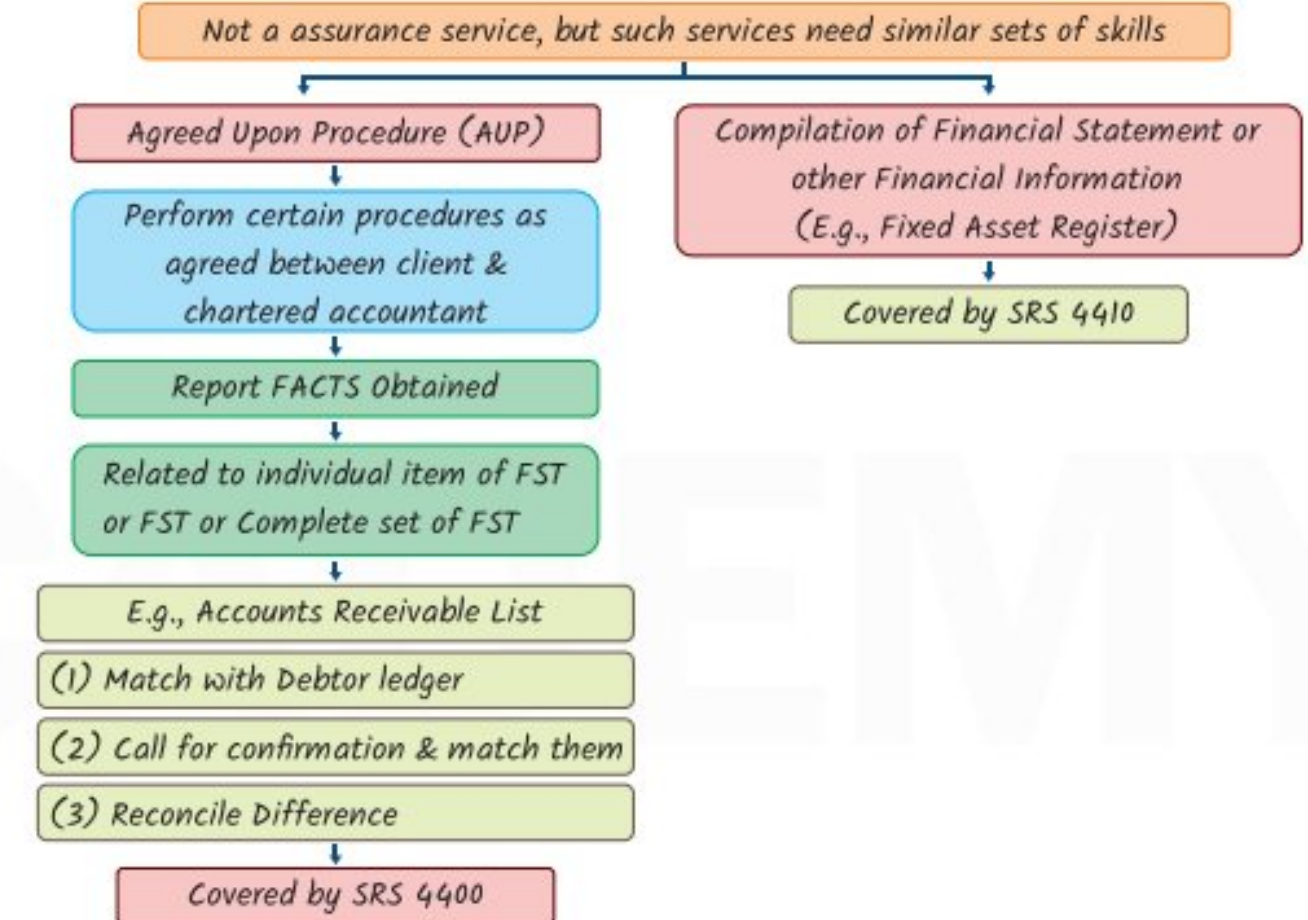
CNO--SAINTRO.66

**STANDARDS ON ASSURANCE ENGAGEMENT**



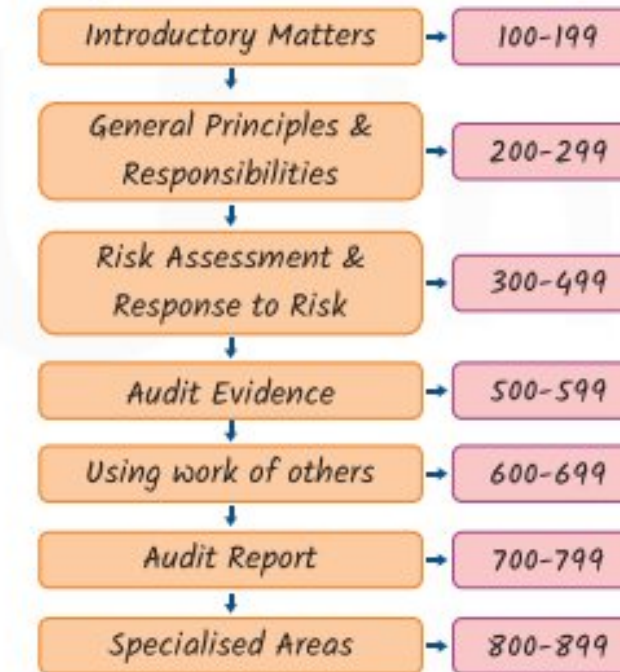
CNO--SAINTRO.68

**STANDARDS ON RELATED SERVICES**



CNO--SAINTRO.080

**BREAK-UP OF SAs**



CNO--SAINTRO.085

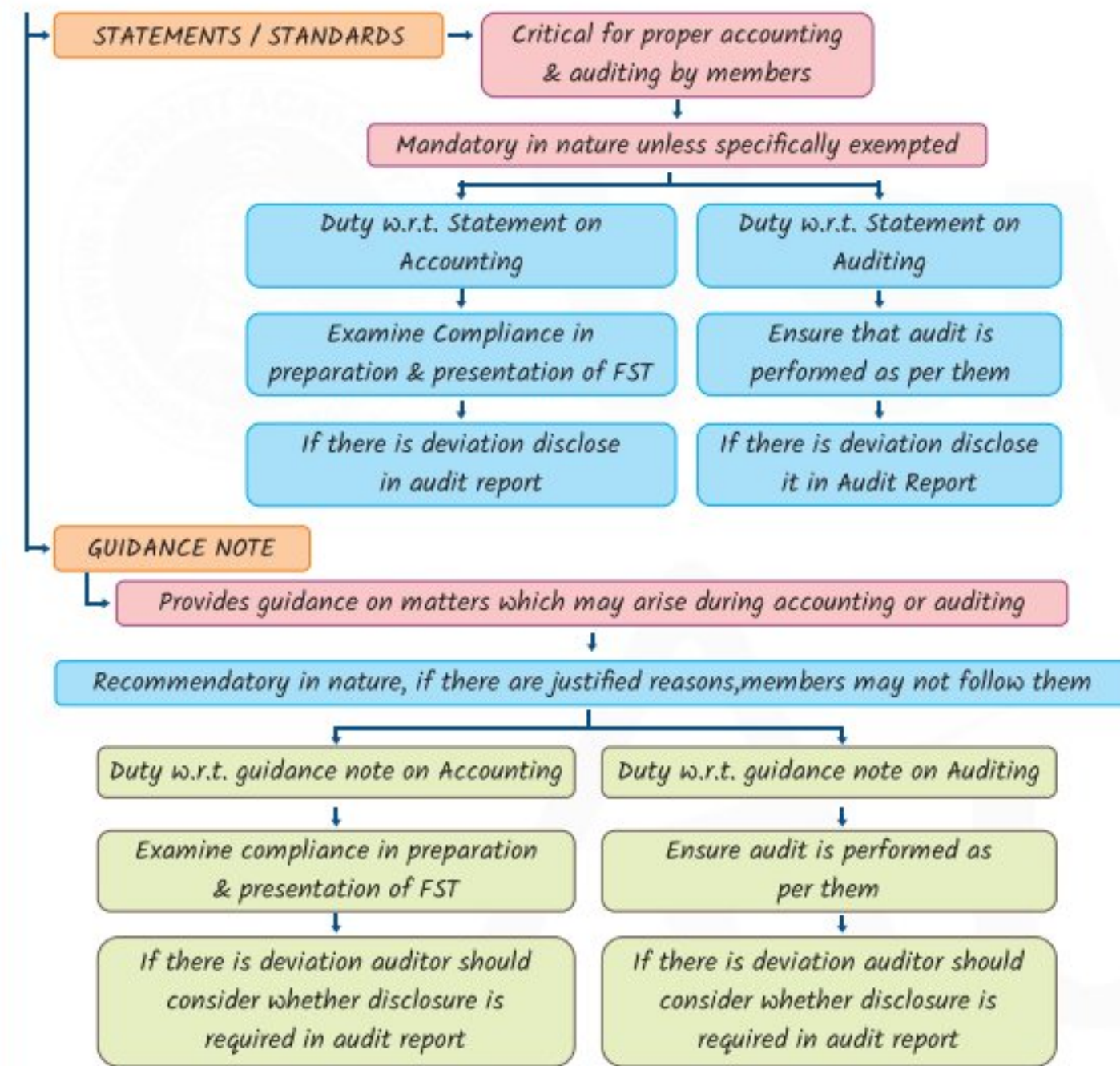
**Why are Standards Needed?**

\*\*\*\*For this Concept refer Pdf\*\*\*\*

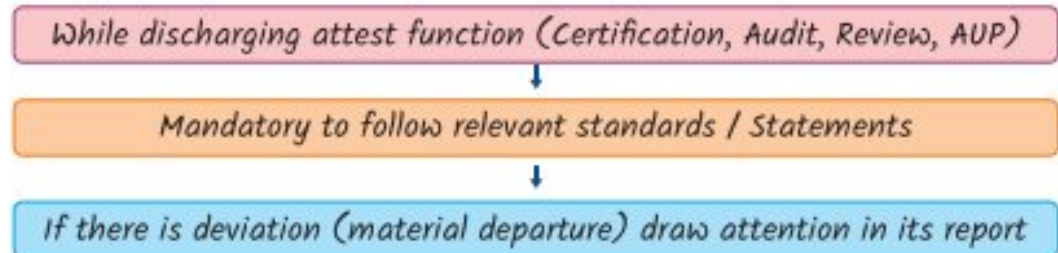
**DUTIES IN RELATION TO ENGAGEMENT & QUALITY CONTROL STANDARDS**

\*\*\*\*For this Concept refer Pdf\*\*\*\*

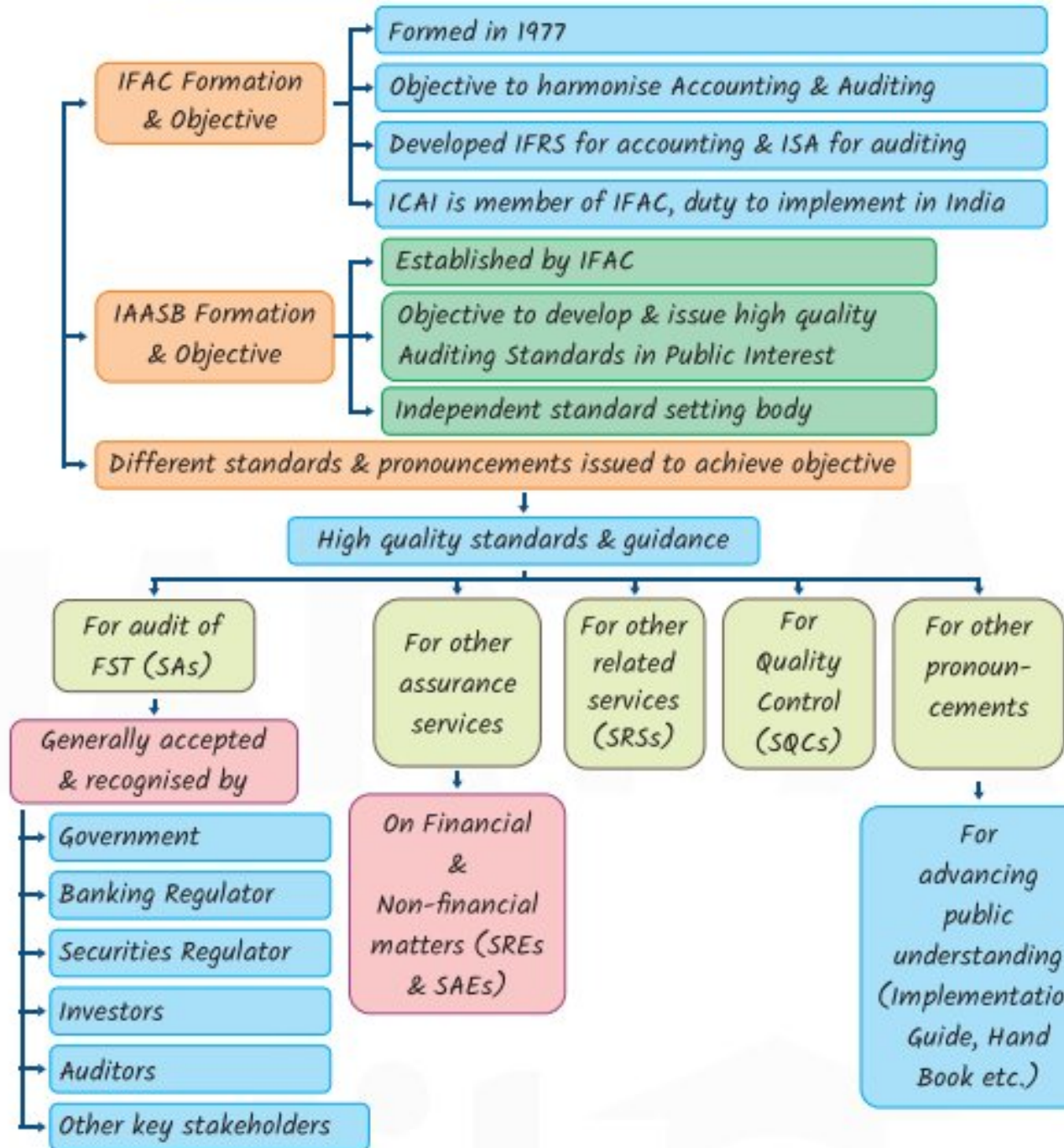
**COMPLIANCE WITH DOCUMENTS ISSUED BY ICAI**



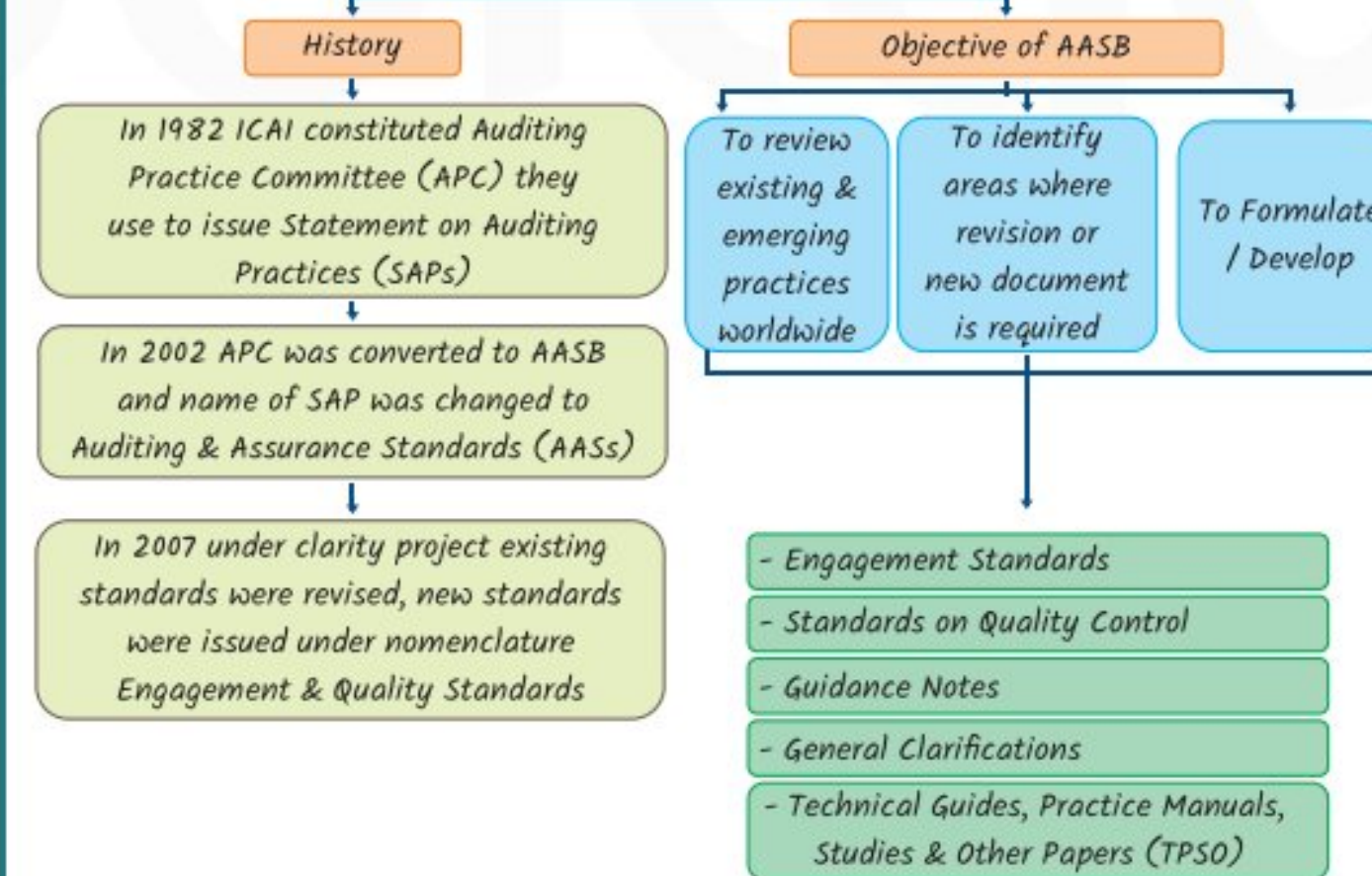
**DUTY OF MEMBER OF ICAI**



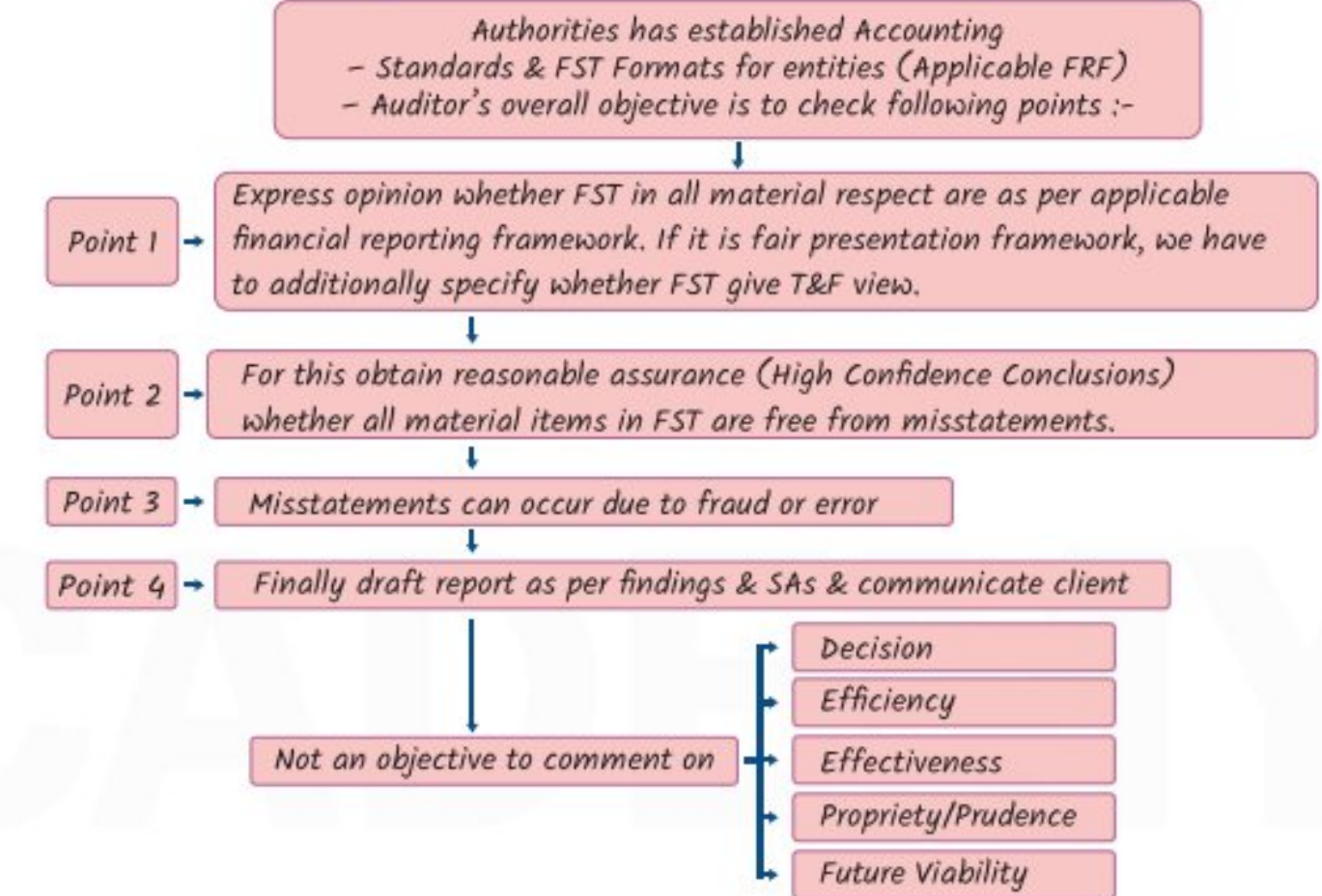
**OBJECTIVES / ROLE / FUNCTIONS OF IAASB**



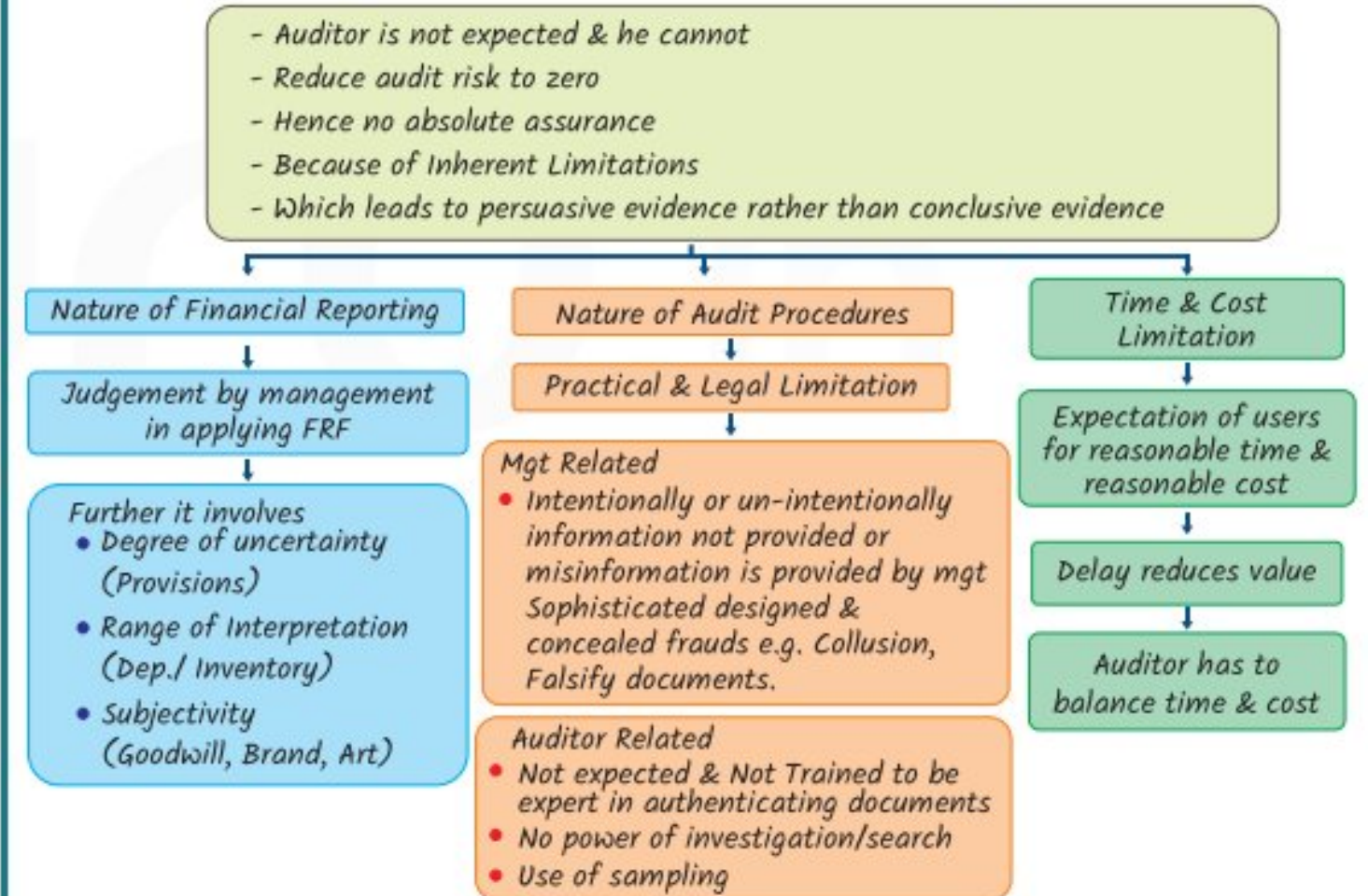
**AASB**



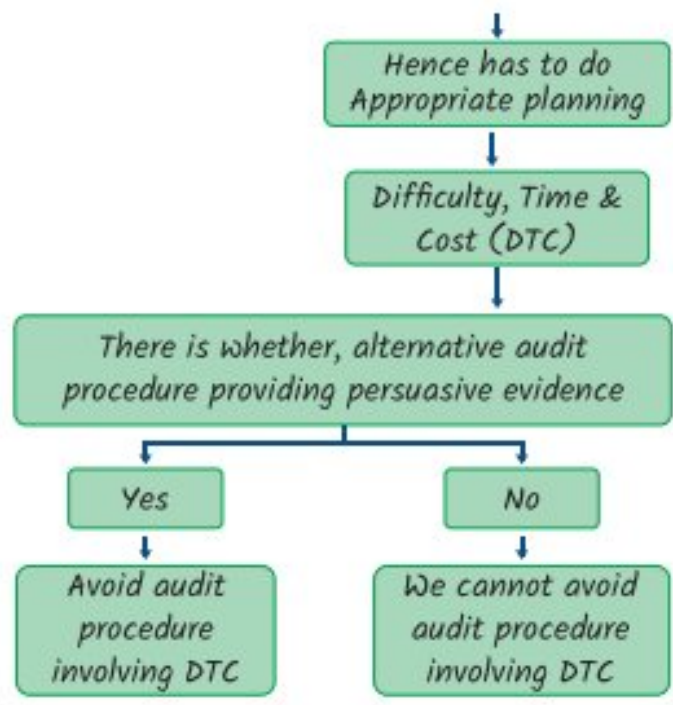
**OVERALL AUDIT OBJECTIVES**



**INHERENT LIMITATIONS OF AUDIT**



Continue on next column...

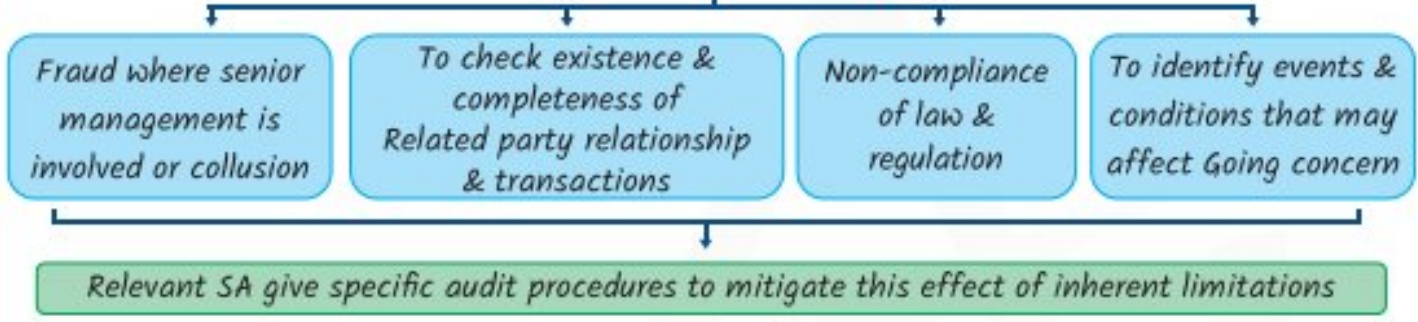


CNO-SA200.060 (QNO-200.18)

**POTENTIAL EFFECT OF THE INHERENT LIMITATIONS OF AN AUDITOR'S ABILITY TO DETECT MMST IN CERTAIN AREAS/OTHER MATTERS THAT AFFECT THE LIMITATION OF AN AUDIT**

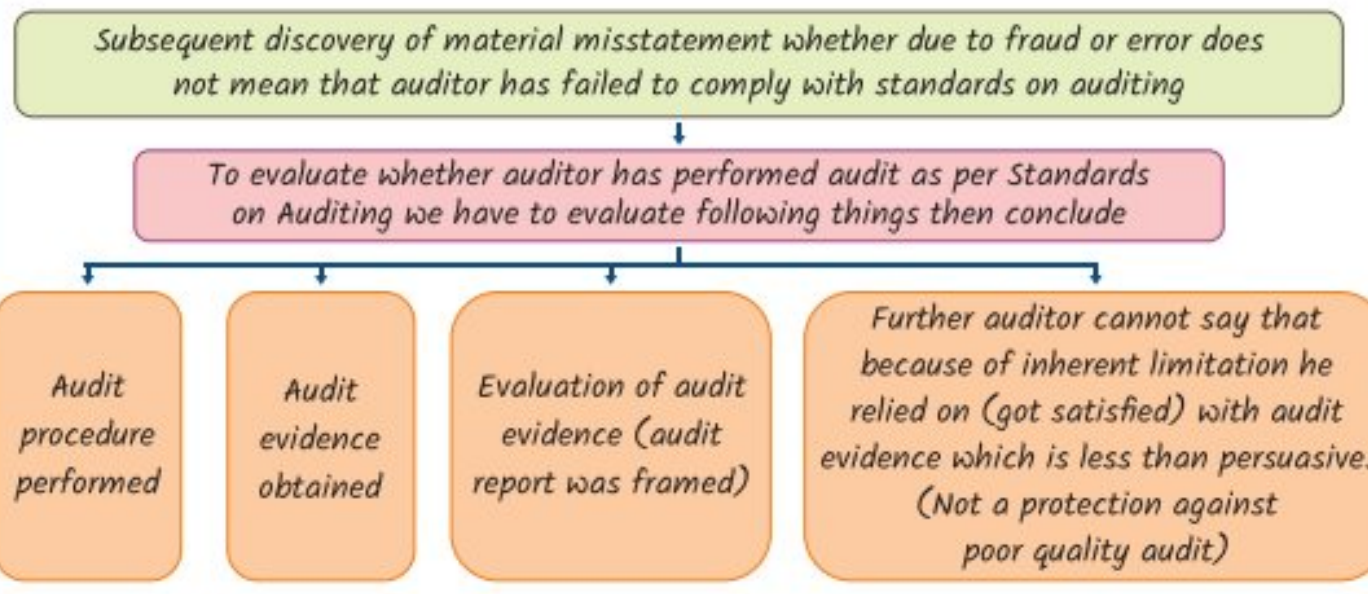
Because of inherent limitations auditor's ability to detect material misstatement gets affected in certain assertions or subject matter as given below, these matters make auditing procedure further difficult

**Shortcut - FIRaNGi**



CNO-SA200.080

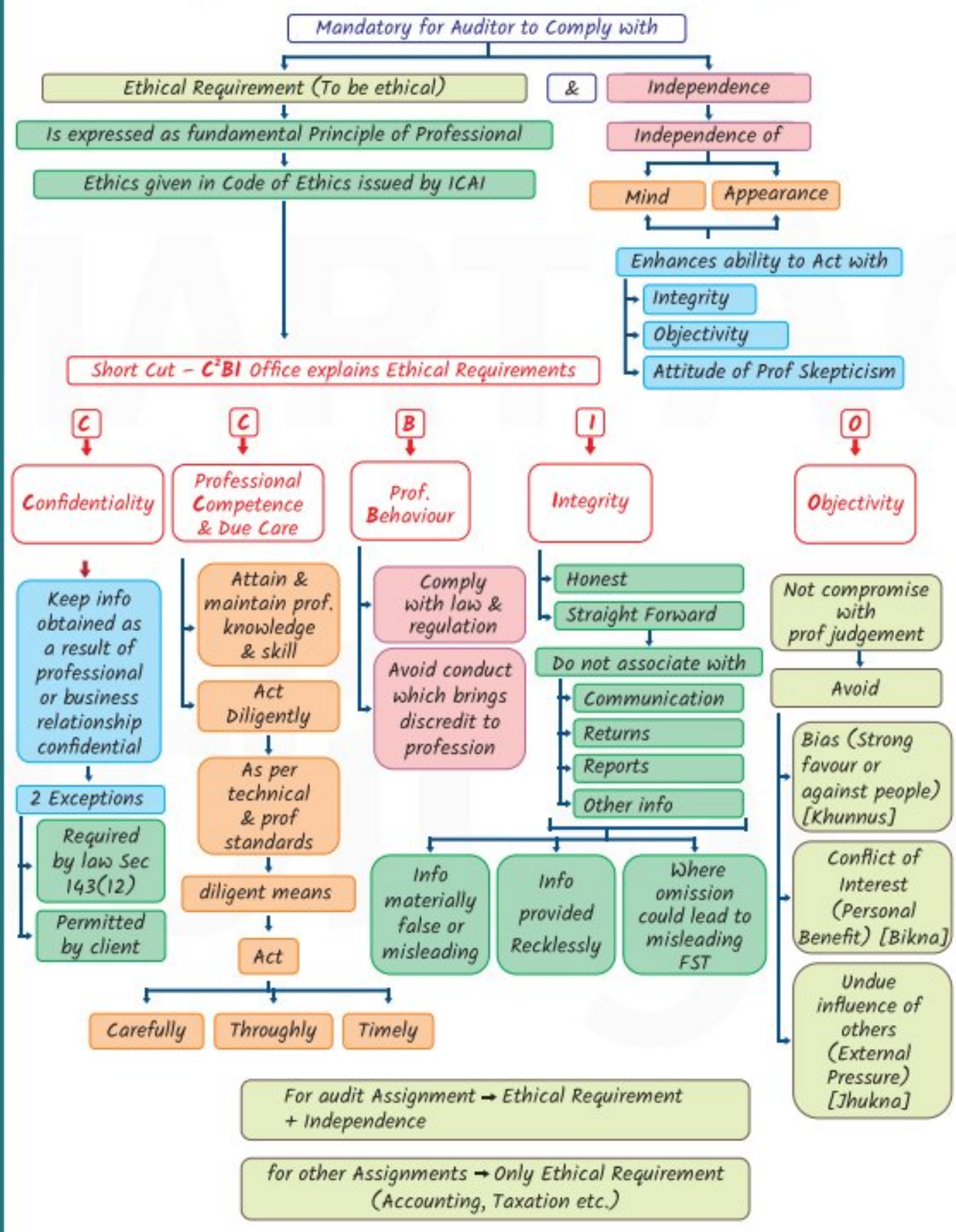
**SUBSEQUENT DISCOVERY OF MATERIAL MISSTATEMENT**



CNO-SA200.100 (QNO-200.19, 200.21, 200.24) (MCQ- 200.7, 200.8, 200.9, 200.19, 200.11, Incs.32.2)

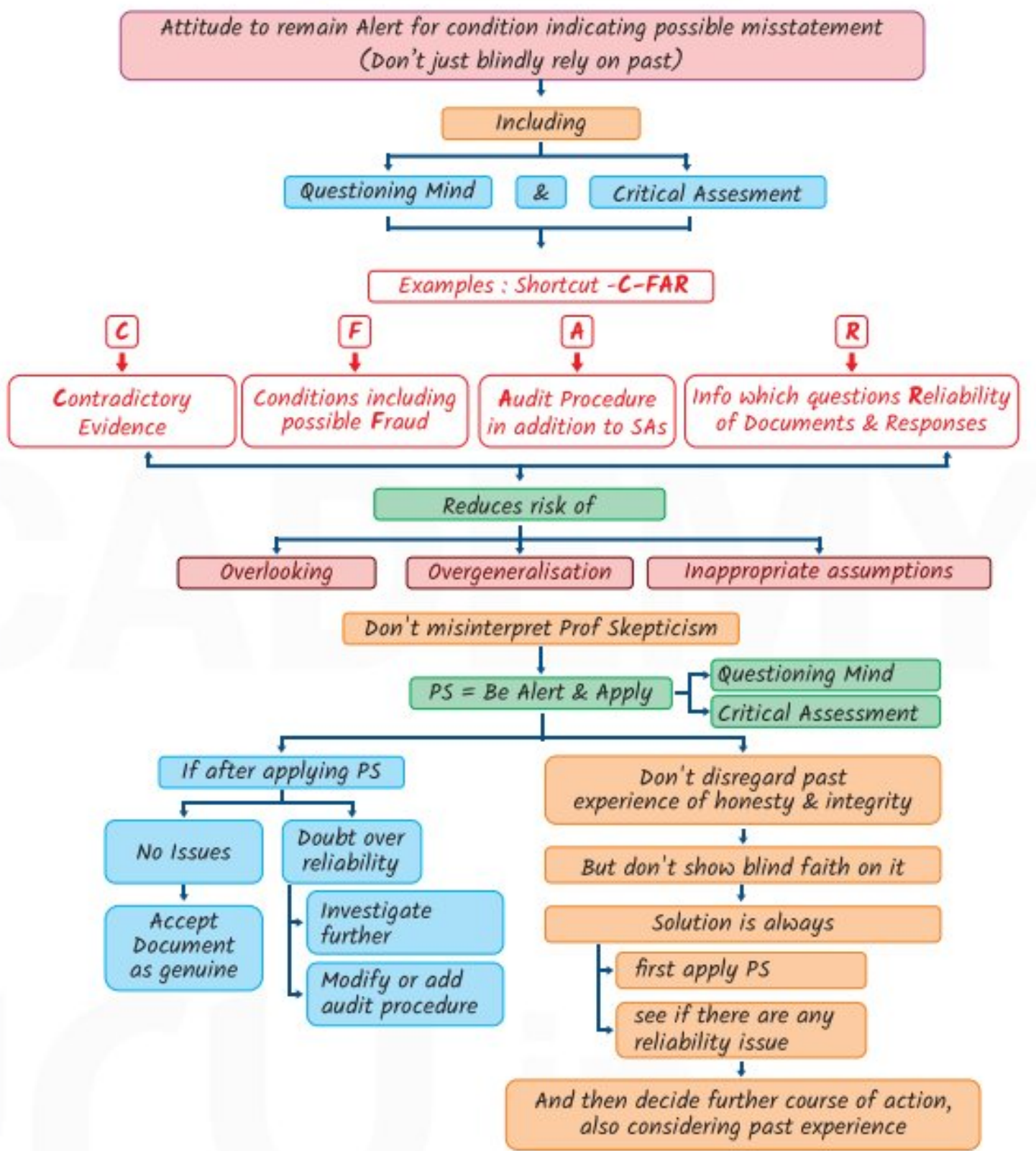
**ETHICAL REQUIREMENTS & INDEPENDENCE**

- Ethics provide principles of conduct
- What is morally correct or incorrect
- Code of Ethics of respective profession provide ethical requirements
- Principles to be followed to have ethical conduct



CNO-SA200.120 (QNO-200.25) (MCQ-200.9, 200.7, 200.8, 200.18, 200.20, 200.3, 200.5)

**PROFESSIONAL SKEPTICISM**



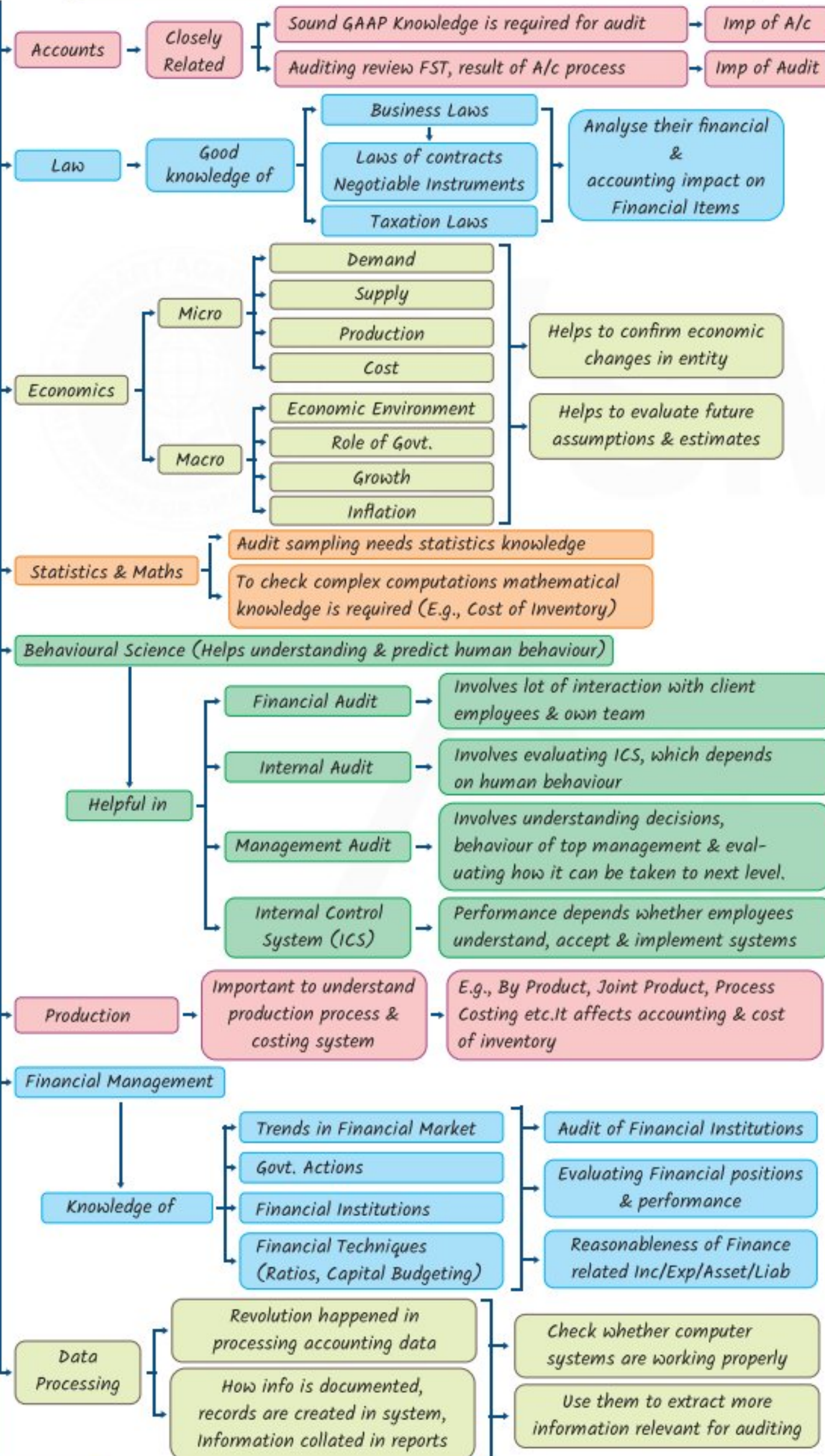
CA Ravi Taori  
 VSMART ACADEMY  
 Auditguru.in  
 Doubts Telegram



**Part 5 -- OTHER CONCEPTS**

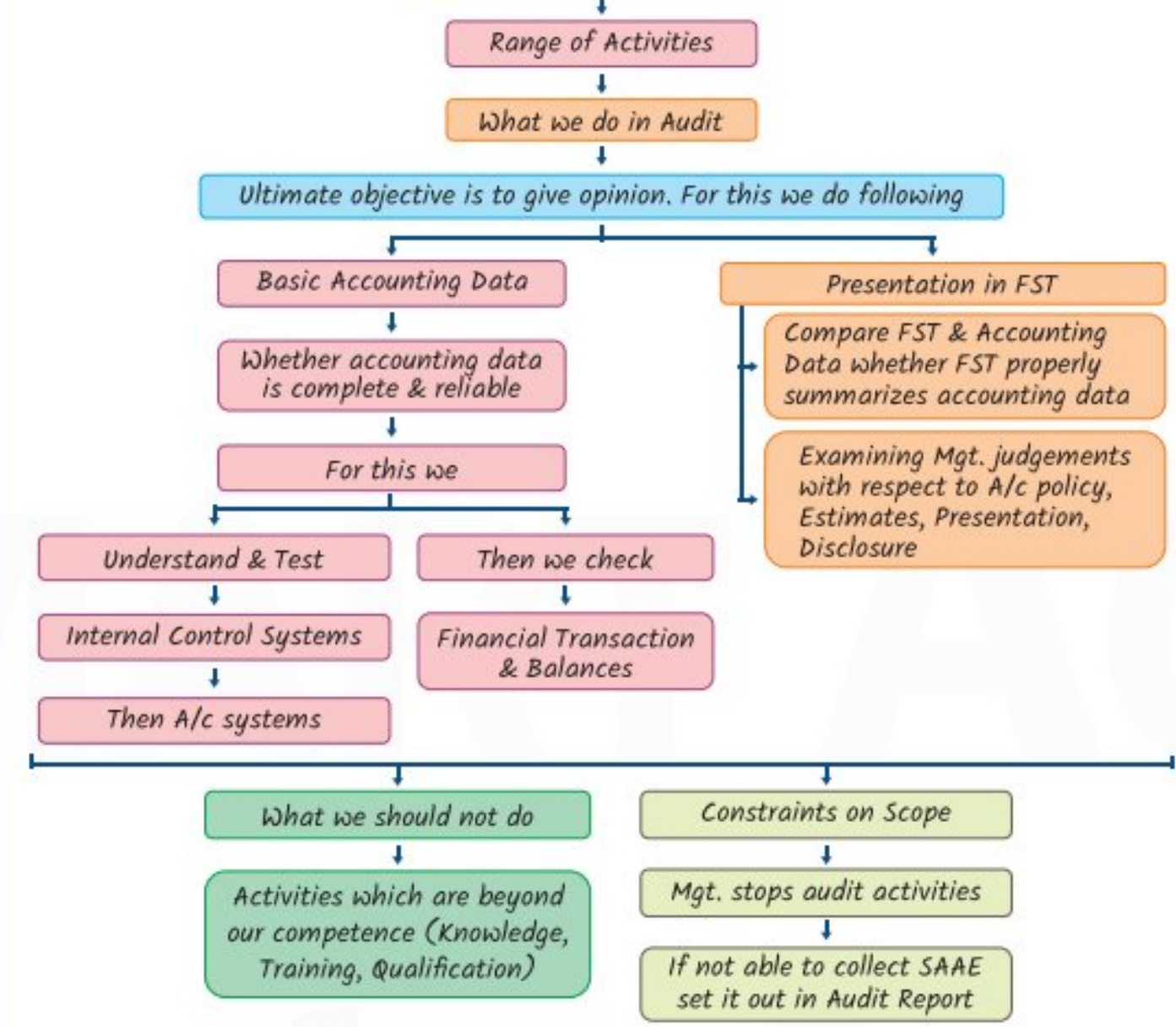
**CNO-C10C.020** (QNO-COA.07, COA.08, COA.09, COA.11, COA.13, COA.15) (MCQ-CIA.1)

**RELATIONSHIP BETWEEN AUDITING & OTHER DISCIPLINES**  
(Recollect subjects from Foundation & Inter)



**CNO-C10C.040**

**SCOPE OF AUDIT**



**CNO-C10C.045**

**SCOPE OF AUDIT - WHAT IT DOES NOT INCLUDE**

\*\*\*\*For this Concept refer Pdf\*\*\*\*

**CNO-C10C.050**

**WHAT IS AN ENGAGEMENT**

\*\*\*\*For this Concept refer Pdf\*\*\*\*

**CNO-C10C.055**

**WHO APPOINTS AN AUDITOR**

\*\*\*\*For this Concept refer Pdf\*\*\*\*

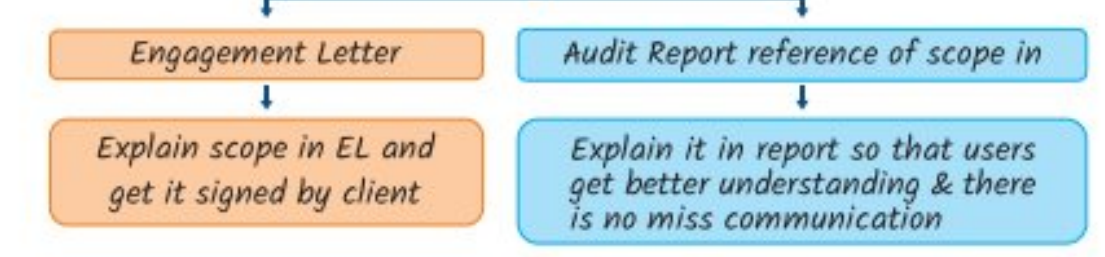
**CNO-C10C.058**

**TO WHOM REPORT IS SUBMITTED BY AN AUDITOR?**

\*\*\*\*For this Concept refer Pdf\*\*\*\*

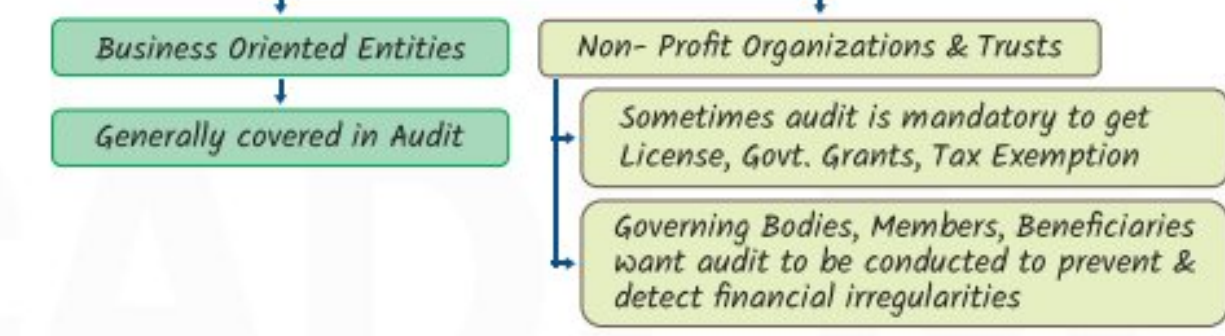
**CNO-C10C.060**

**REFERENCE OF SCOPE IN EL & AR**



**CNO-C10C.080**

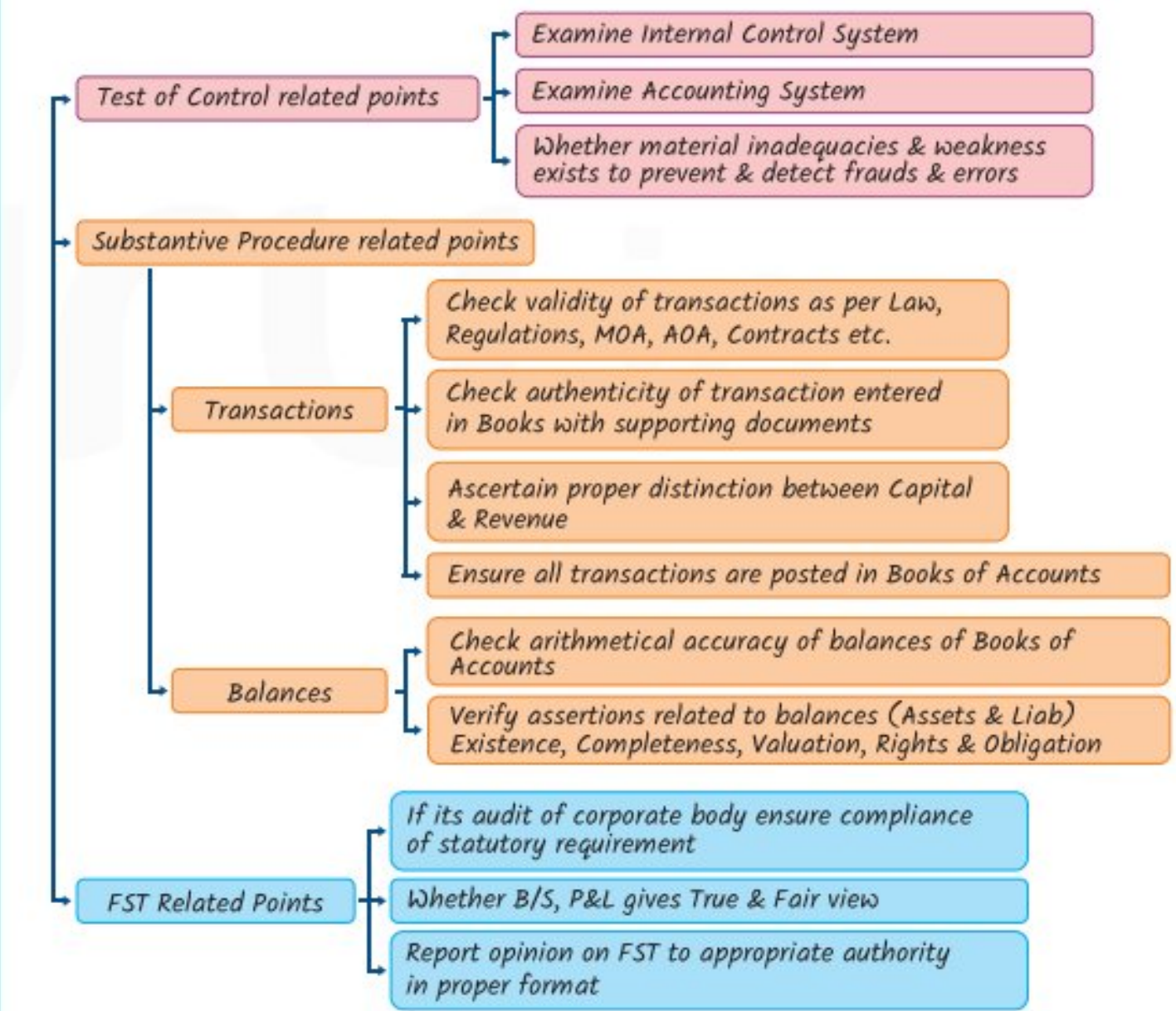
**COVERAGE OF ENTITIES**



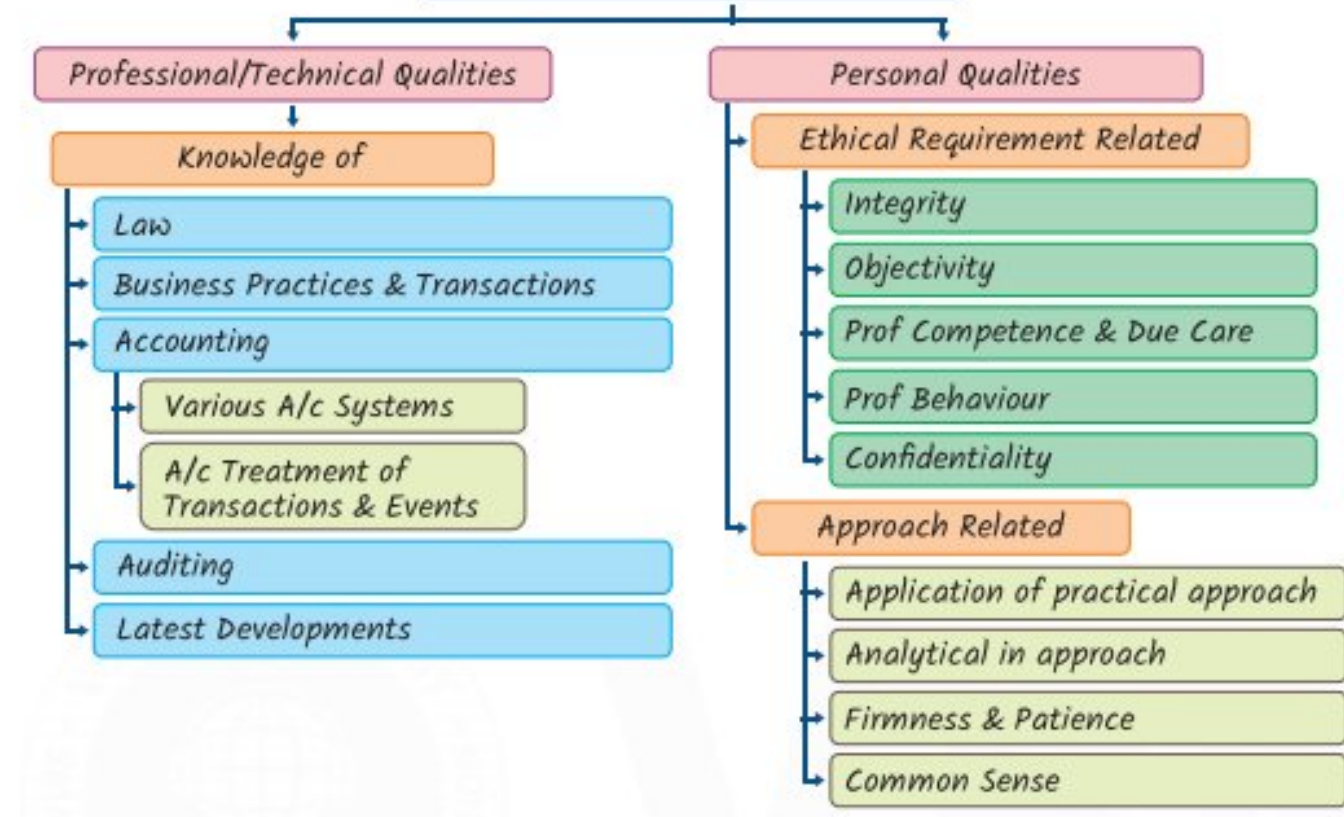
**CNO-C10C.100**

(QNO-COA.17)

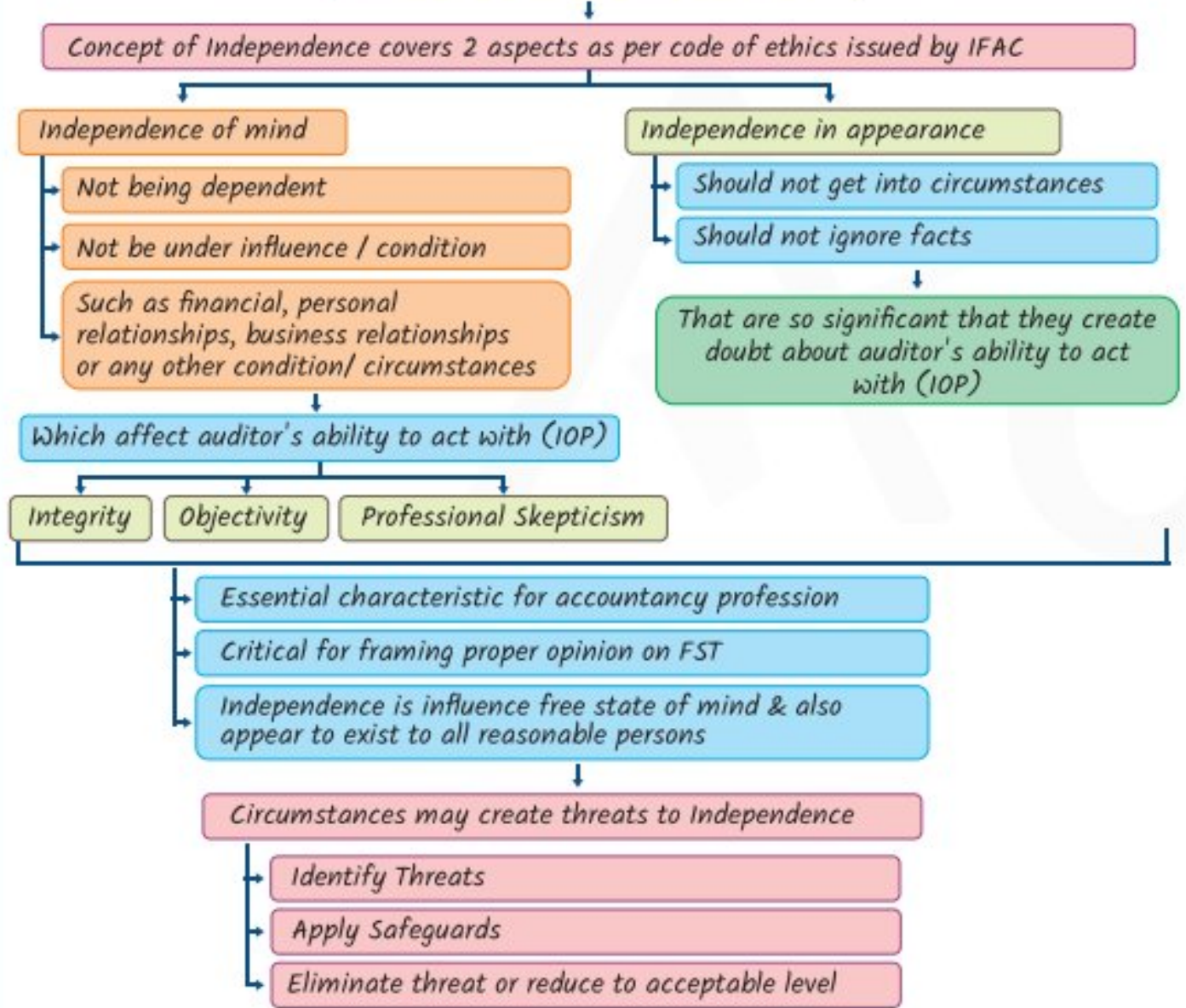
**ASPECTS TO BE COVERED IN AUDIT**



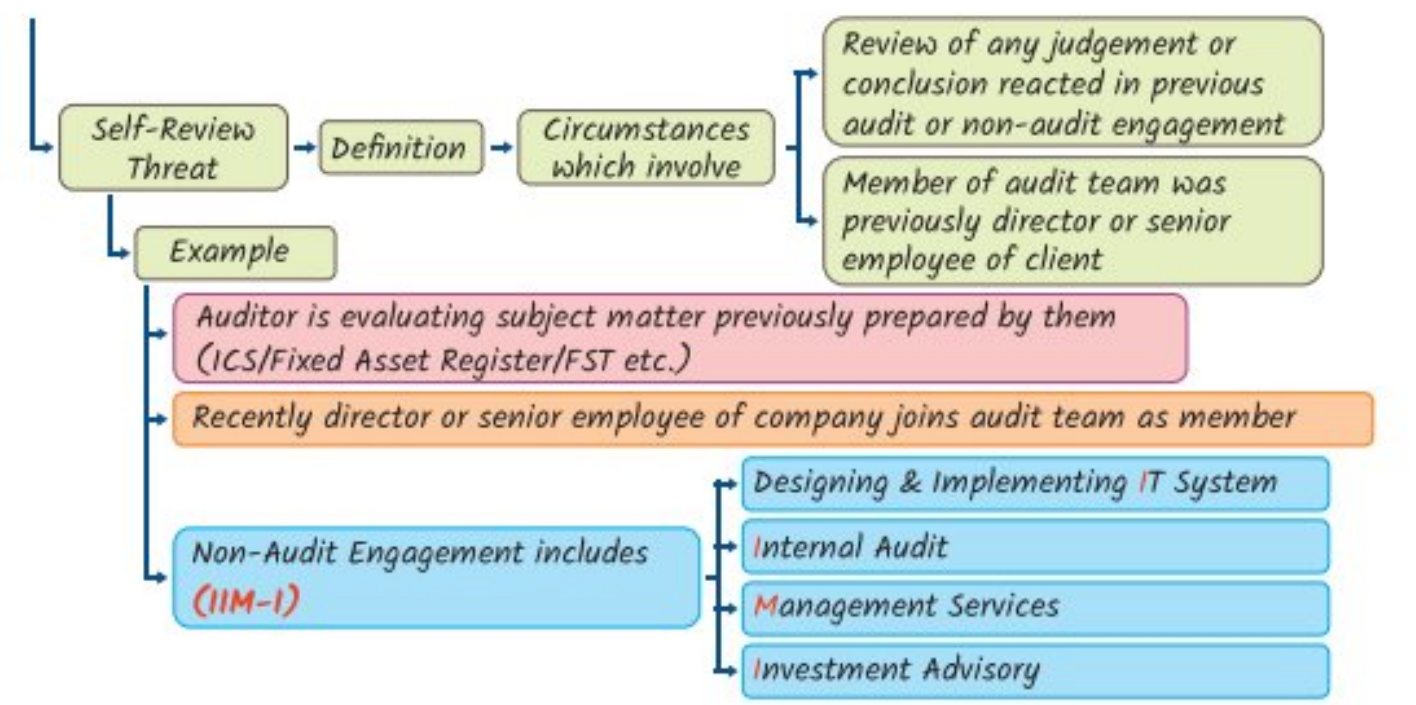
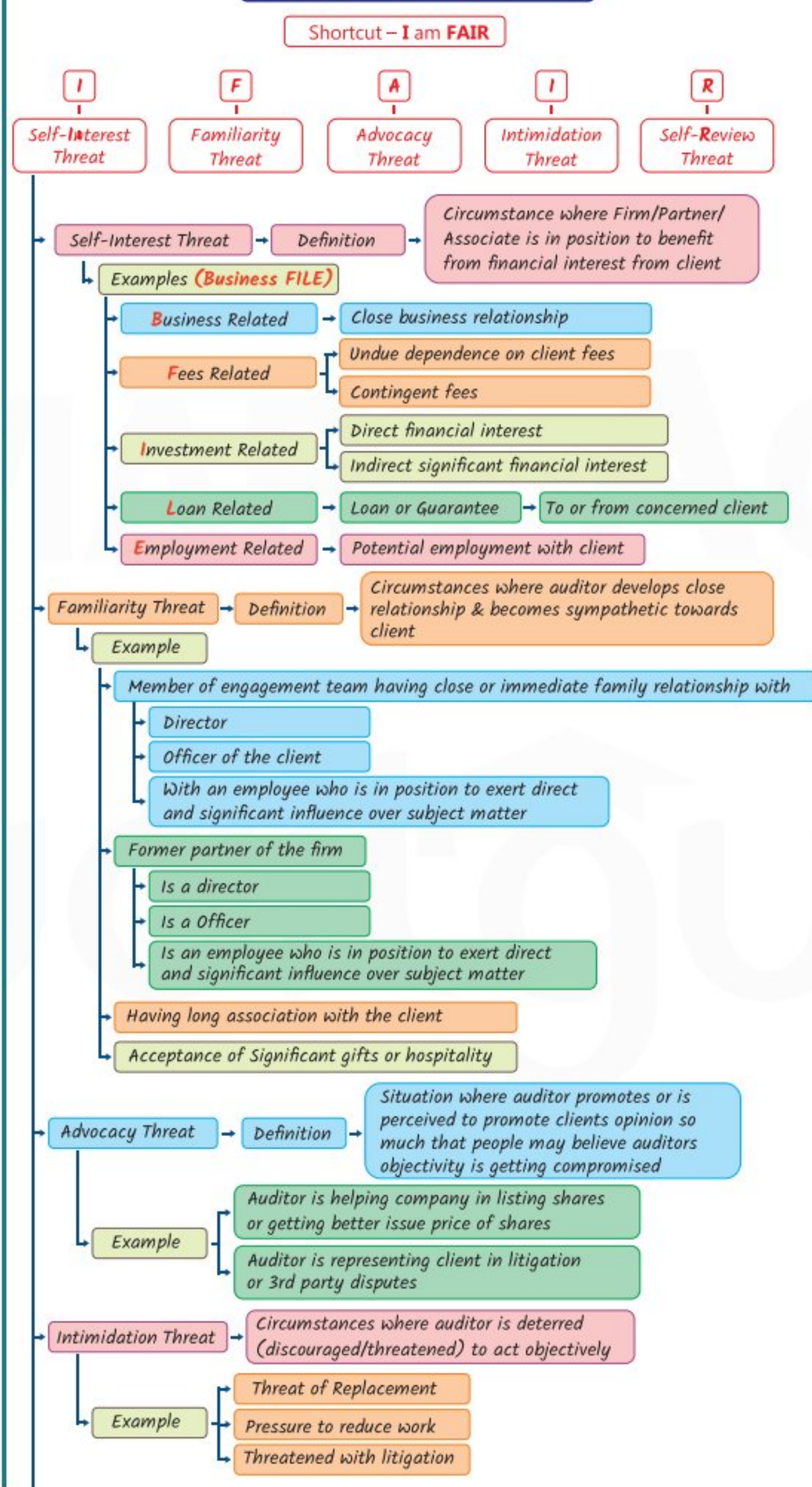
### QUALITIES OF AUDITOR



### INDEPENDENCE OF AUDITOR



### THREATS TO INDEPENDENCE



### SAFEGUARDS TO INDEPENDENCE



### AUDIT VS INVESTIGATION

	Investigation	Audit
Objective purpose	Special Purpose Validate Fact Evaluate situation	Reasonable Assurance Whether FST give T&F
Pre Conceived Notion	Yes	No
Periodical	No (Findings in Audit may lead to investigation)	Yes

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Part I--SA 300

CNO--SA300.005

PLANNING PROCESS - ELEMENTS OF PLANNING

For this Concept refer Pdf

CNO--SA300.010

AUDIT PLANNING

First prepare Audit Strategy Then prepare Audit Plan

CNO--SA300.020

(QNO-300.03) (MCQ-300.3, 300.5, 300.7, 300.9)

ESTABLISHING OVERALL AUDIT STRATEGY (OVERALL AUDIT PLAN)

ShortCut - Rajasthan SRPF

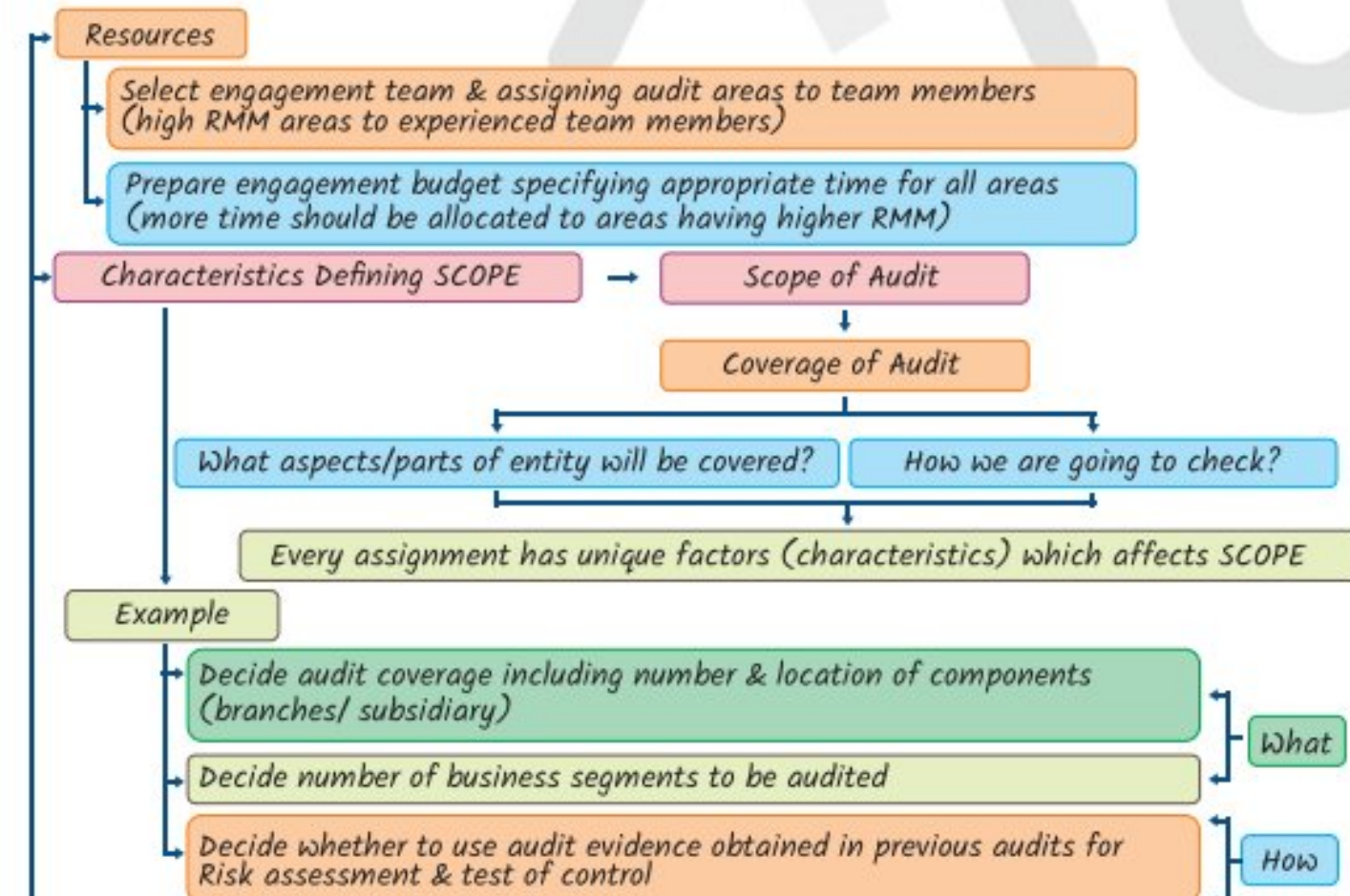


CNO--SA300.040

(QNO-300.05)

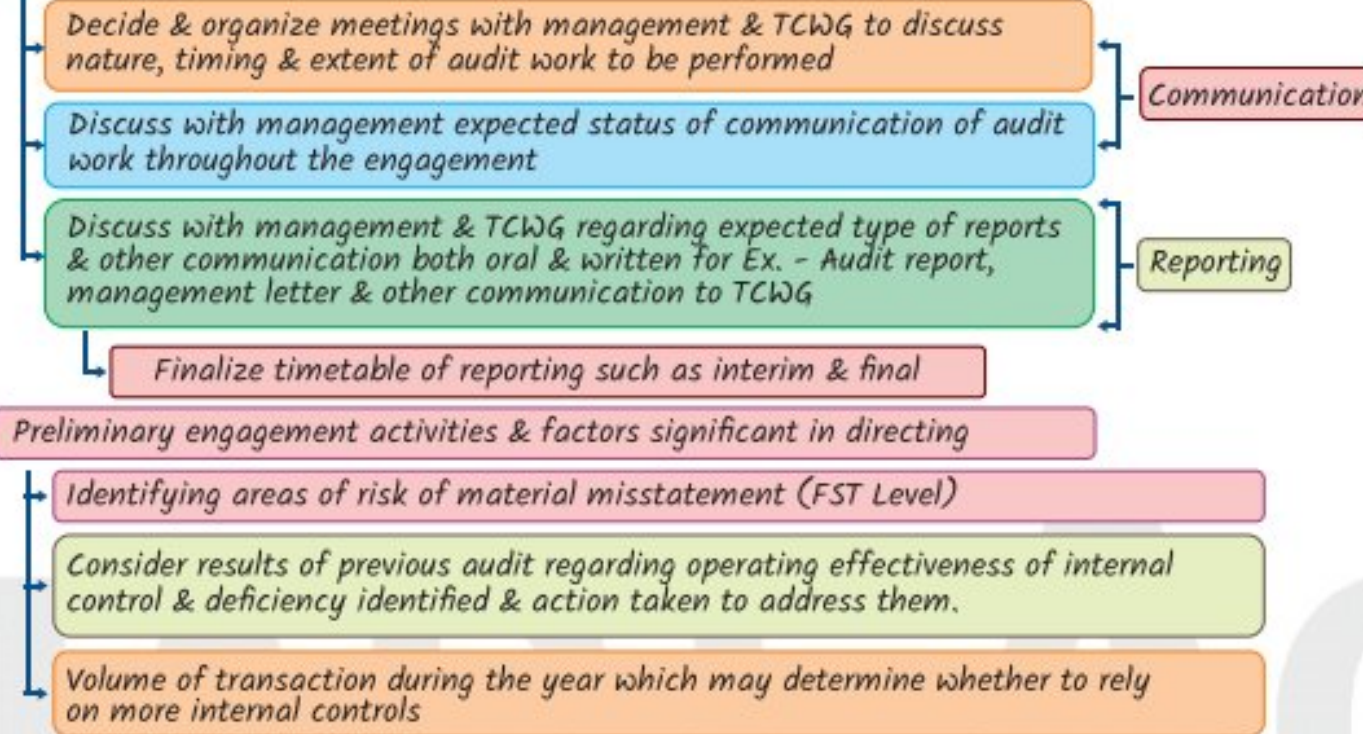
FACTORS CONSIDERED FOR DETERMINING OVERALL AUDIT STRATEGY (FURTHER DETAILED EXPLANATION OF EACH FACTOR)

Examples



Continue on next column...

Reporting & Communication

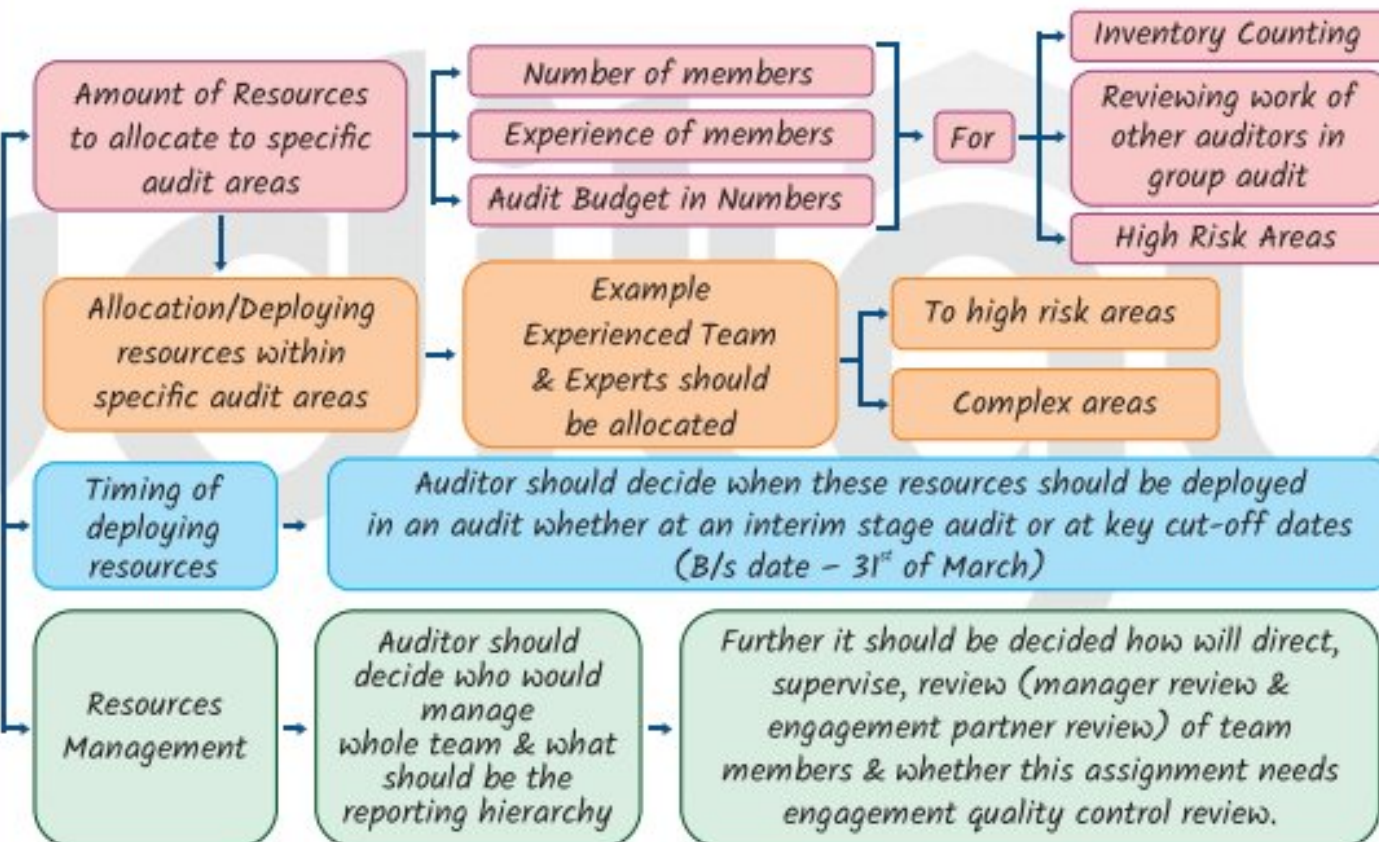


CNO--SA300.060

(QNO-300.07) (MCQ-300.12, 300.15, 300.16, Incs.02.1, Incs.02.2, Incs.09.1)

OVERALL AUDIT STRATEGY FOR RESOURCE MANAGEMENT

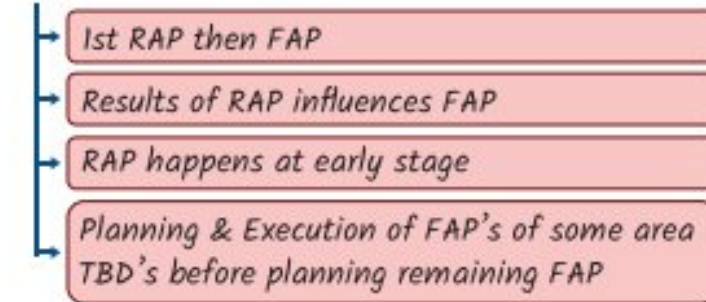
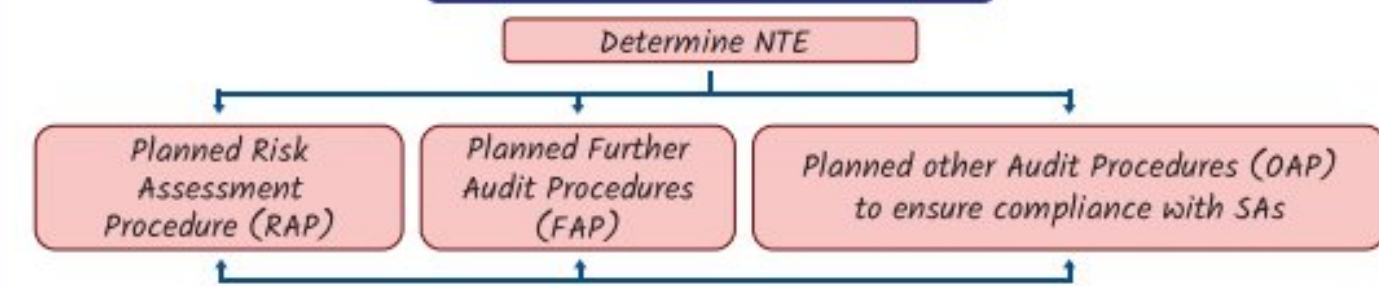
Following matters should be decided while establishing strategy



CNO--SA300.080

(QNO-300.23) (MCQ-300.1, 300.2, 300.4, 300.6, 300.8)

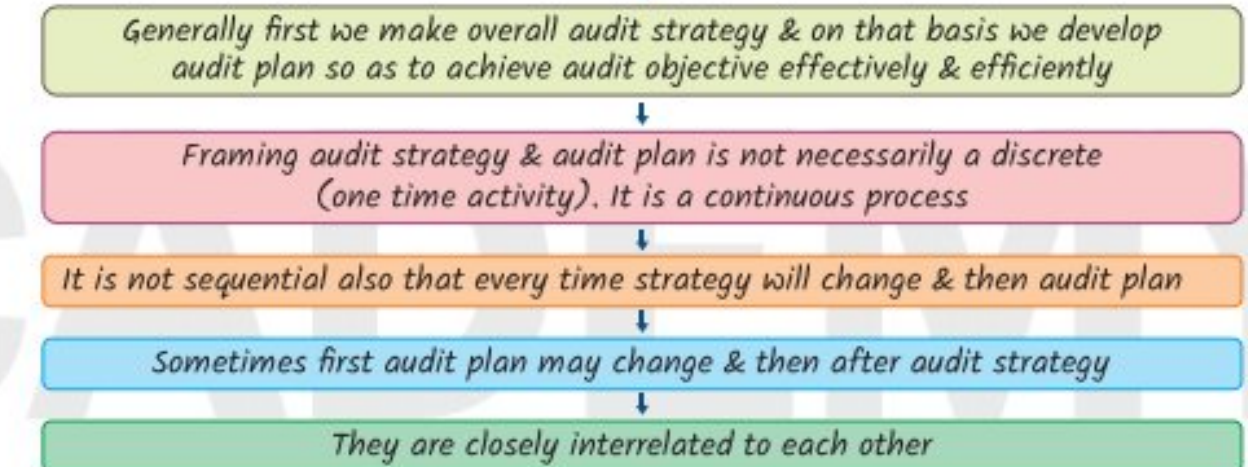
DEVELOPING AUDIT PLAN



CNO--SA300.100

(QNO-300.15) (MCQ-300.14, Incs.09.2, Incs.62.1)

RELATIONSHIP BETWEEN OVERALL AUDIT STRATEGY & OVERALL AUDIT PLAN

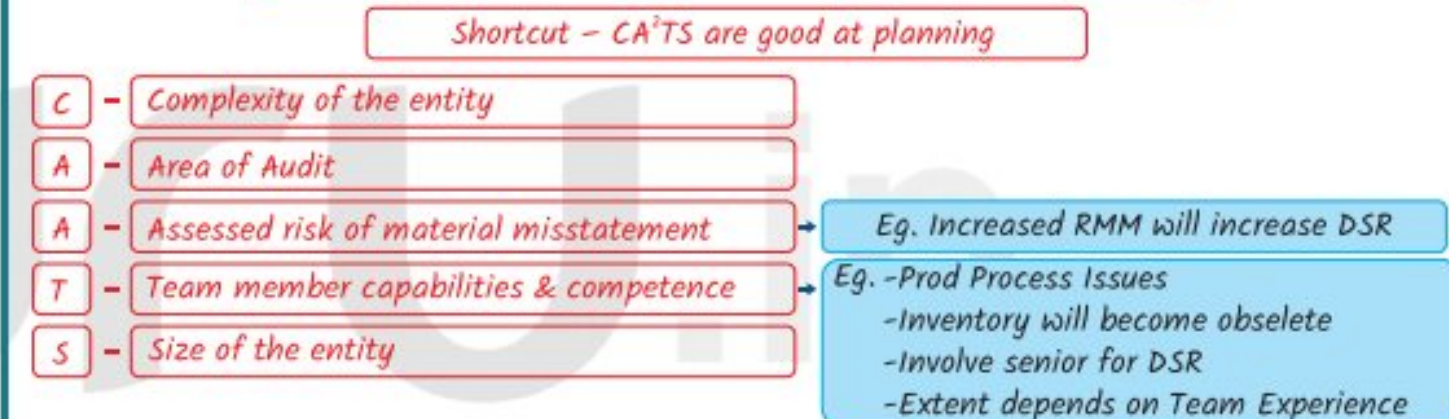


CNO--SA300.120

(QNO-300.29)

PLANNING, DIRECTION, SUPERVISION & REVIEW

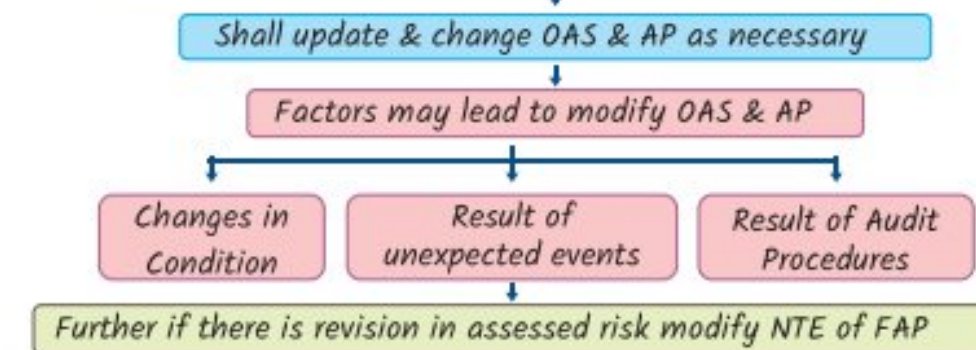
Following factors should be considered while planning DSR



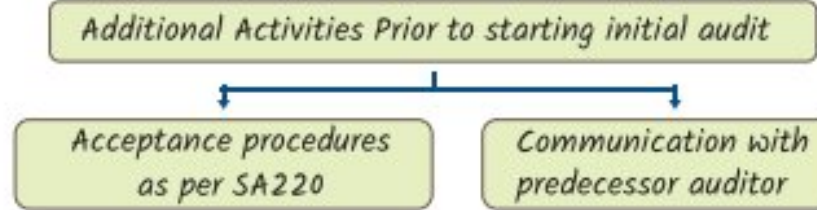
CNO--SA300.140

(QNO-300.17) (MCQ-300.11)

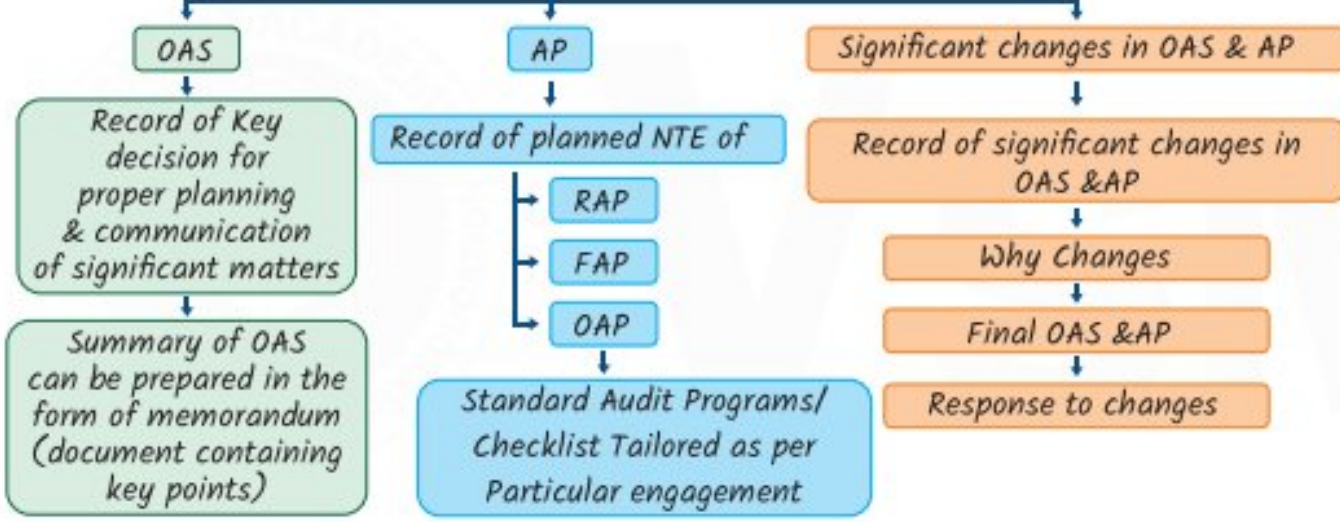
CHANGES TO PLANNING DECISIONS



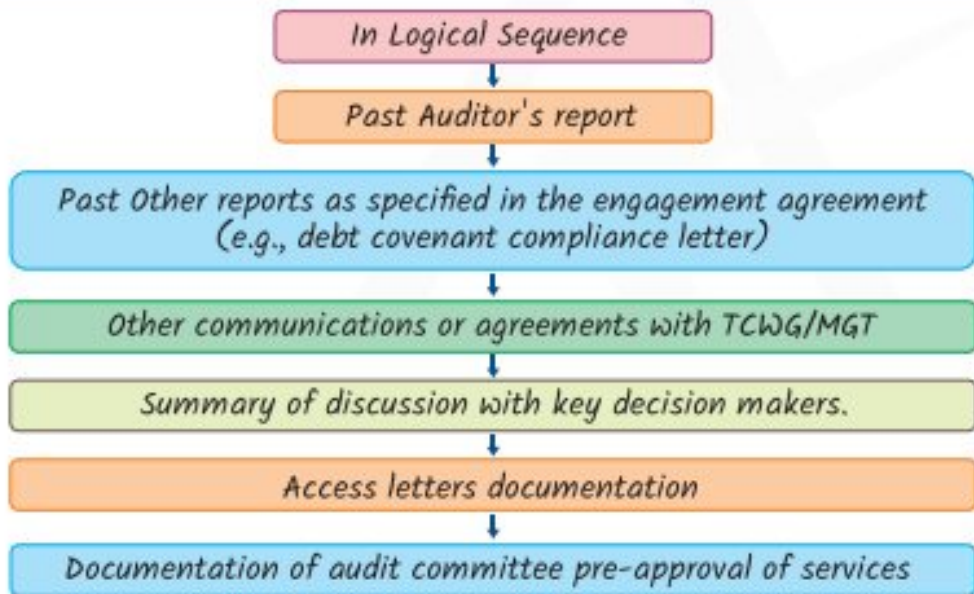
**ADDITIONAL CONSIDERATION IN INITIAL AUDIT ENGAGEMENT (IAE)**



**DOCUMENTATION OF AUDIT PLAN**

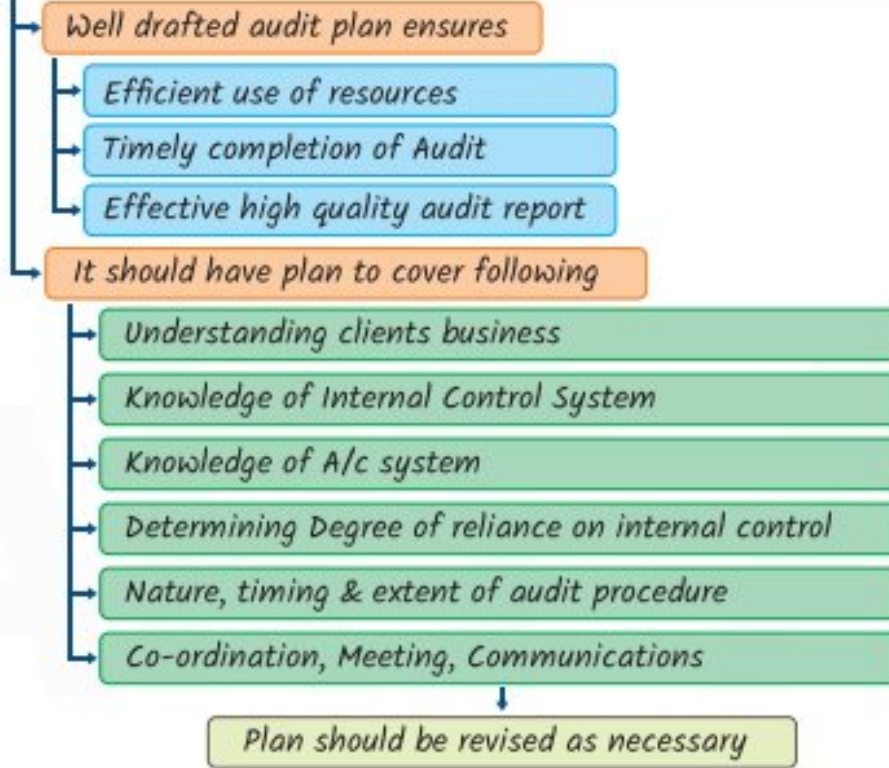


**EXAMPLE OF MATTERS WHICH SHOULD FORM PART OF AUDIT DOCUMENTATION WHICH ARE RELATED TO PLANNING STAGES**

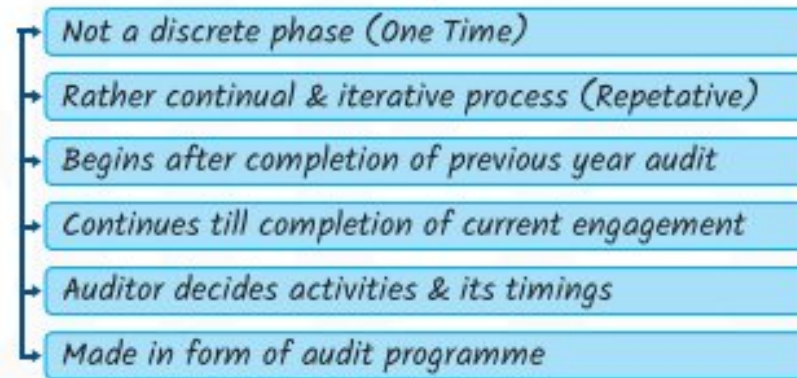


**Part 2--OTHER CONCEPTS**

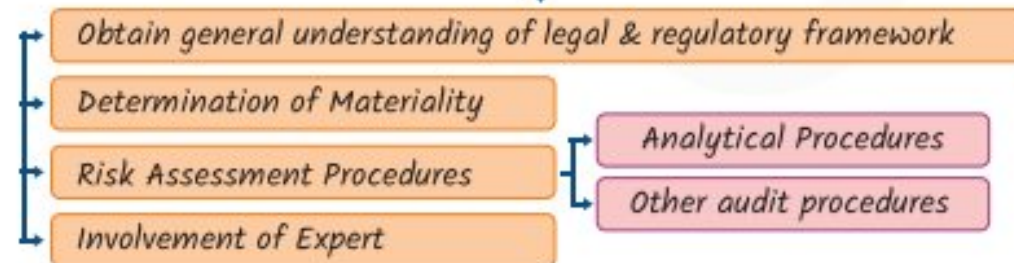
**AUDIT PLAN TO CONDUCT EFFECTIVE AUDIT**



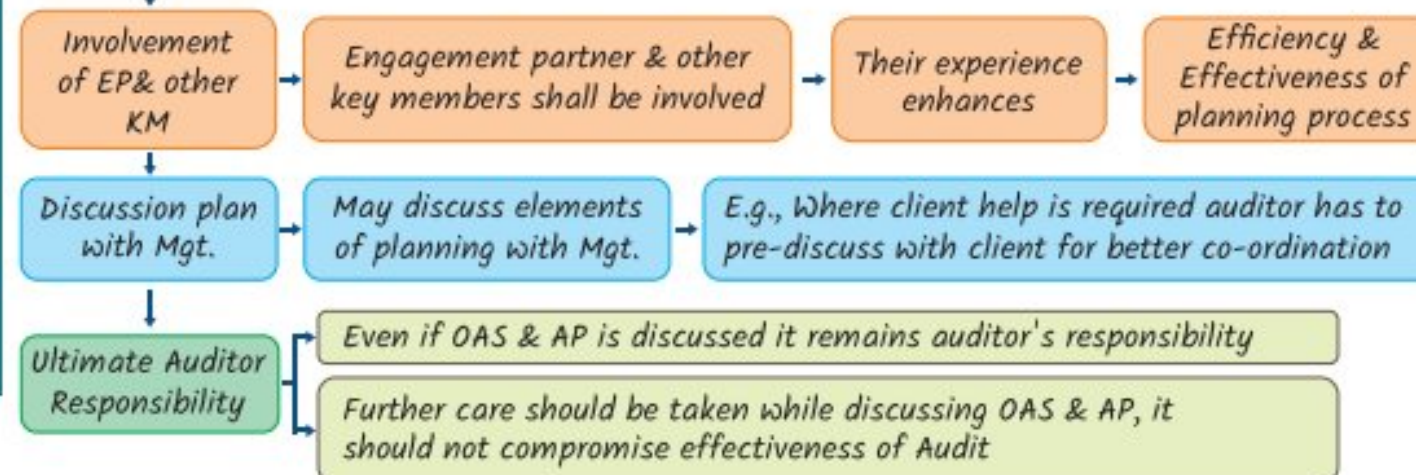
**PLANNING CONTINUOUS PROCESS**



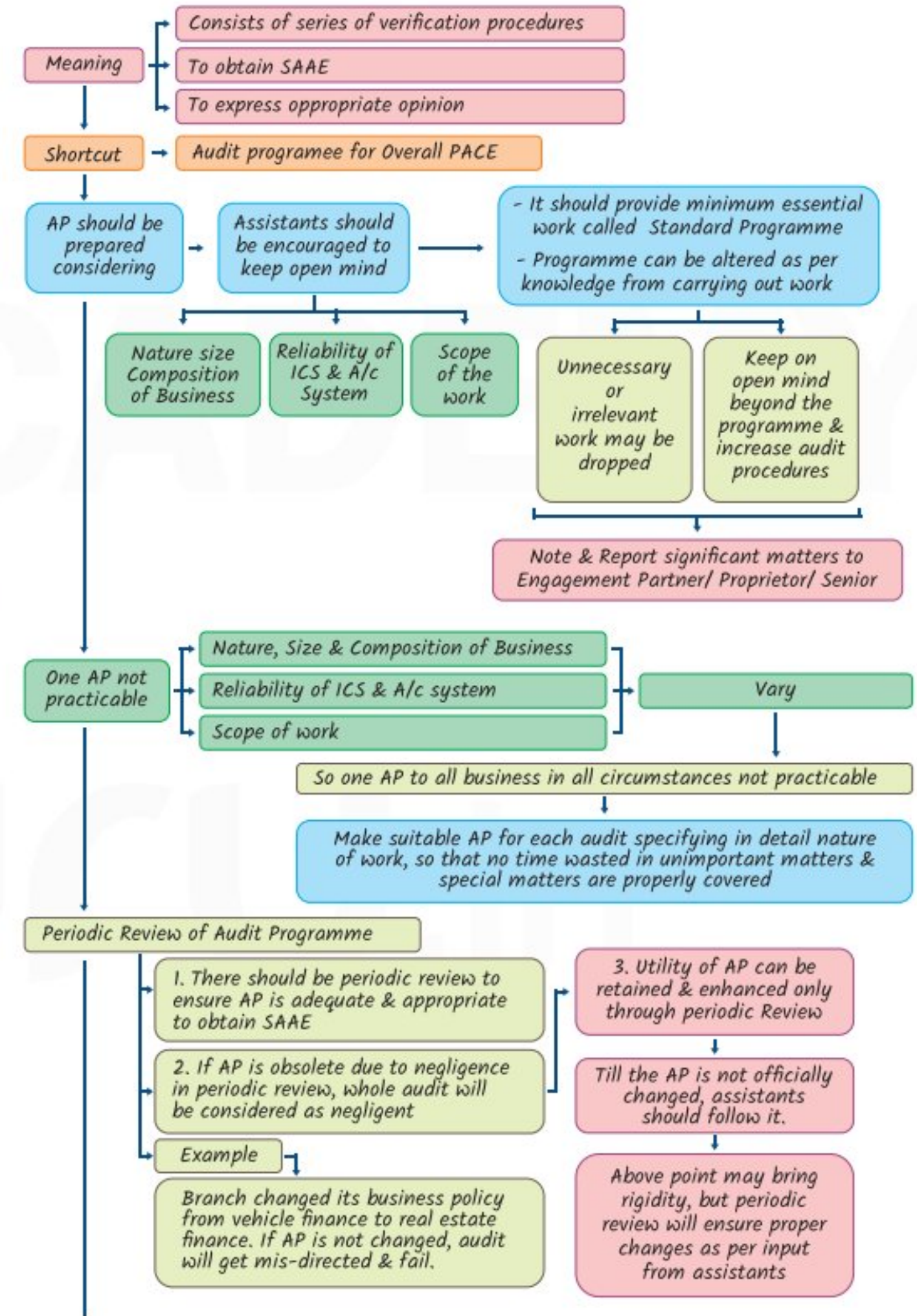
Consider (thinks carefully) following matters



**OVERALL AUDIT STRATEGY - RESPONSIBILITY OF AUDITOR**



**AUDIT PROGRAMME (AP)**



Continue on next Page...

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QR codes for Doubts and Telegram



Part I - SA 315 (RISK)

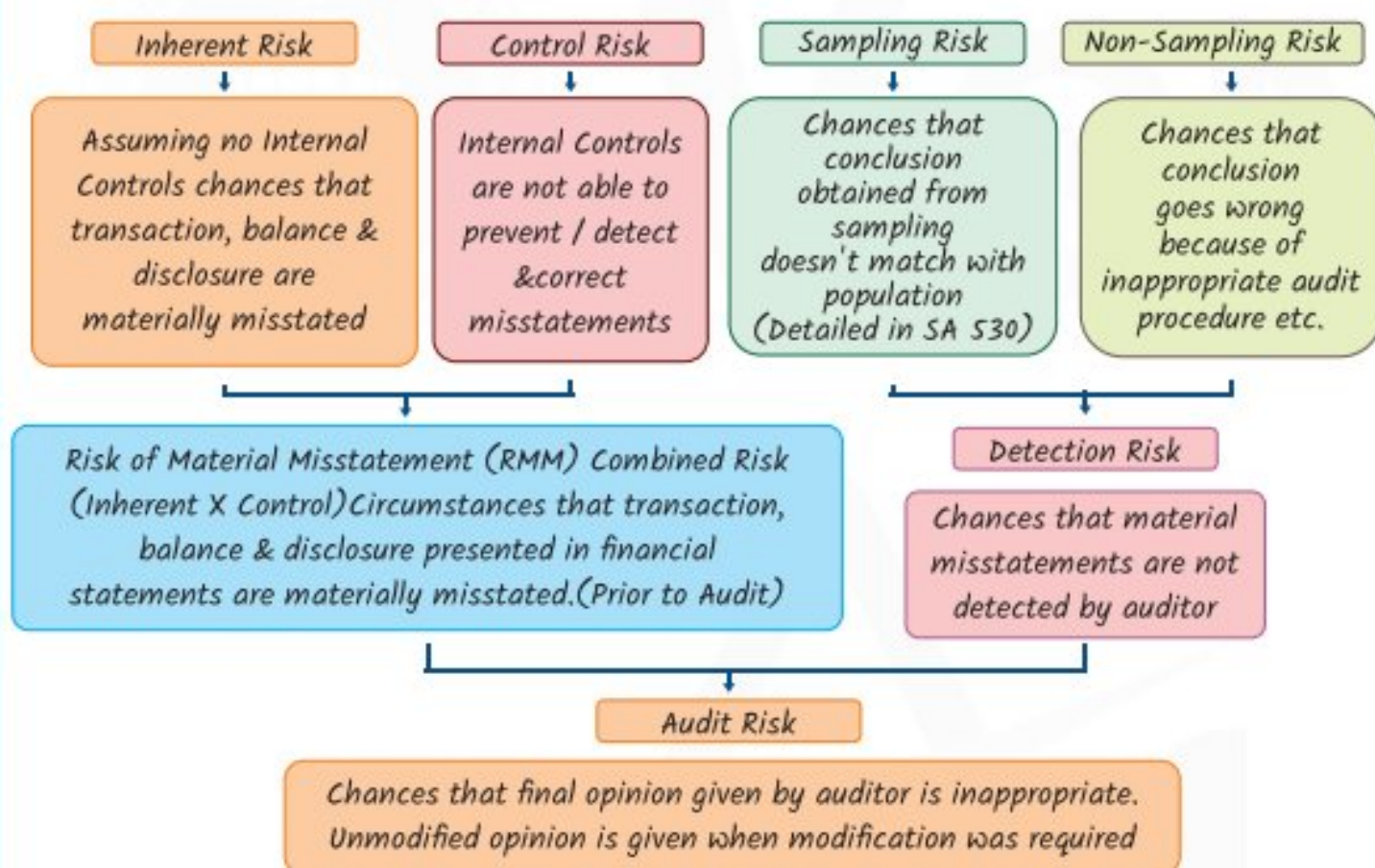
(CNO--SA315-PI.010)

WHAT IS MEANT BY MISSTATEMENT?

For this Concept refer PDF

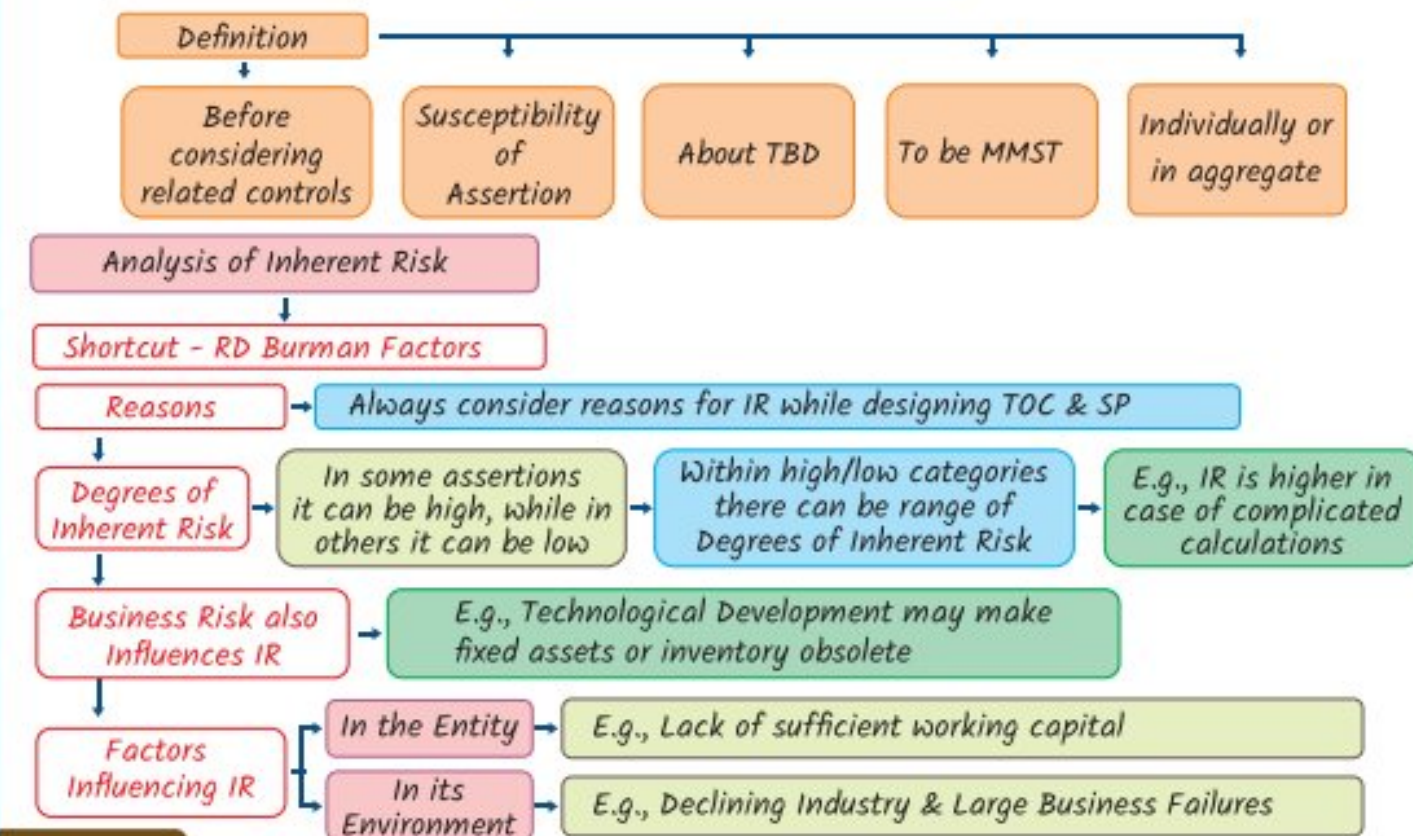
(CNO--SA315-PI.020)

AUDIT RISK & ITS COMPONENTS



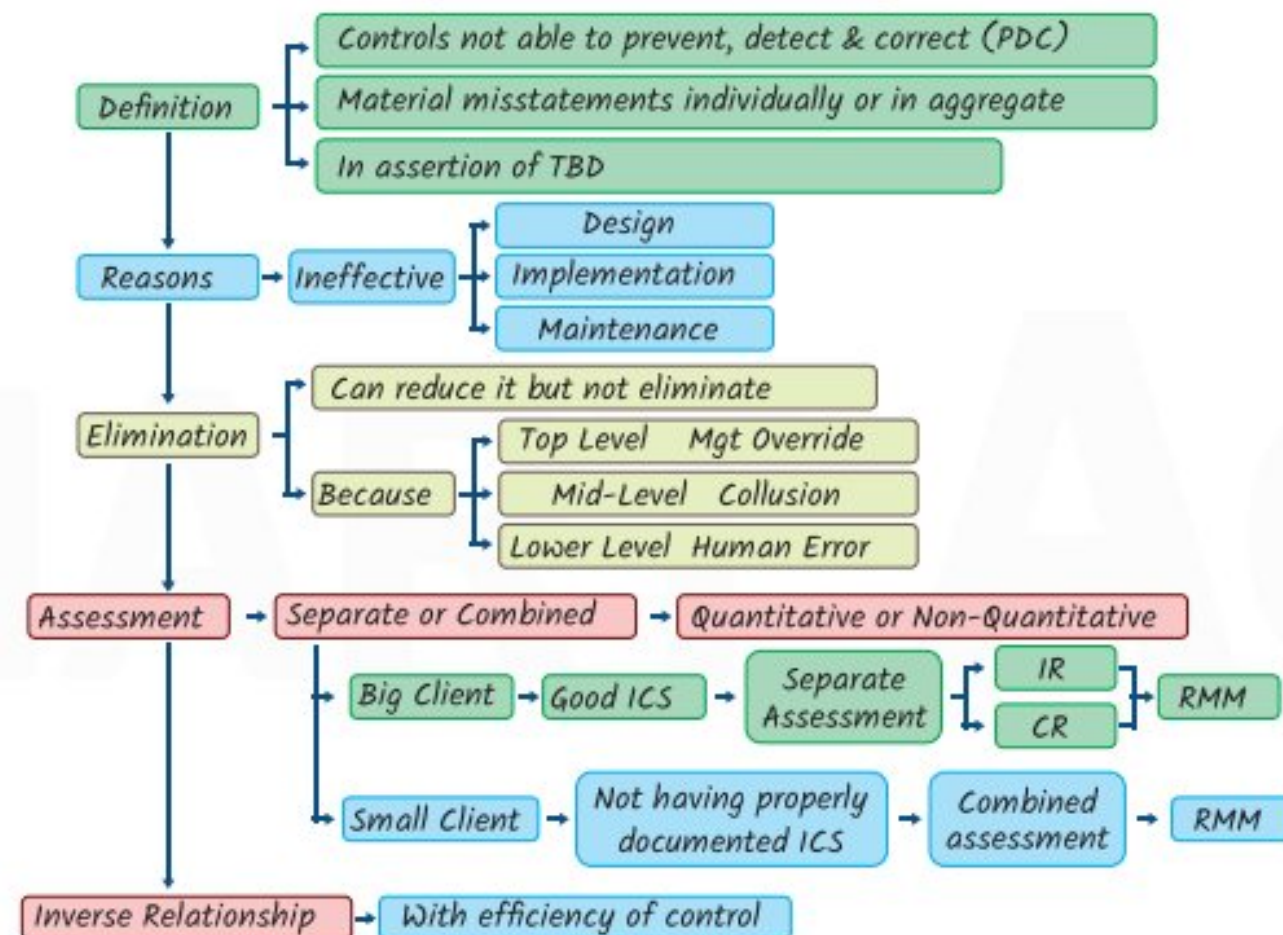
(CNO--SA315-PI.020)

INHERENT RISK (IR)



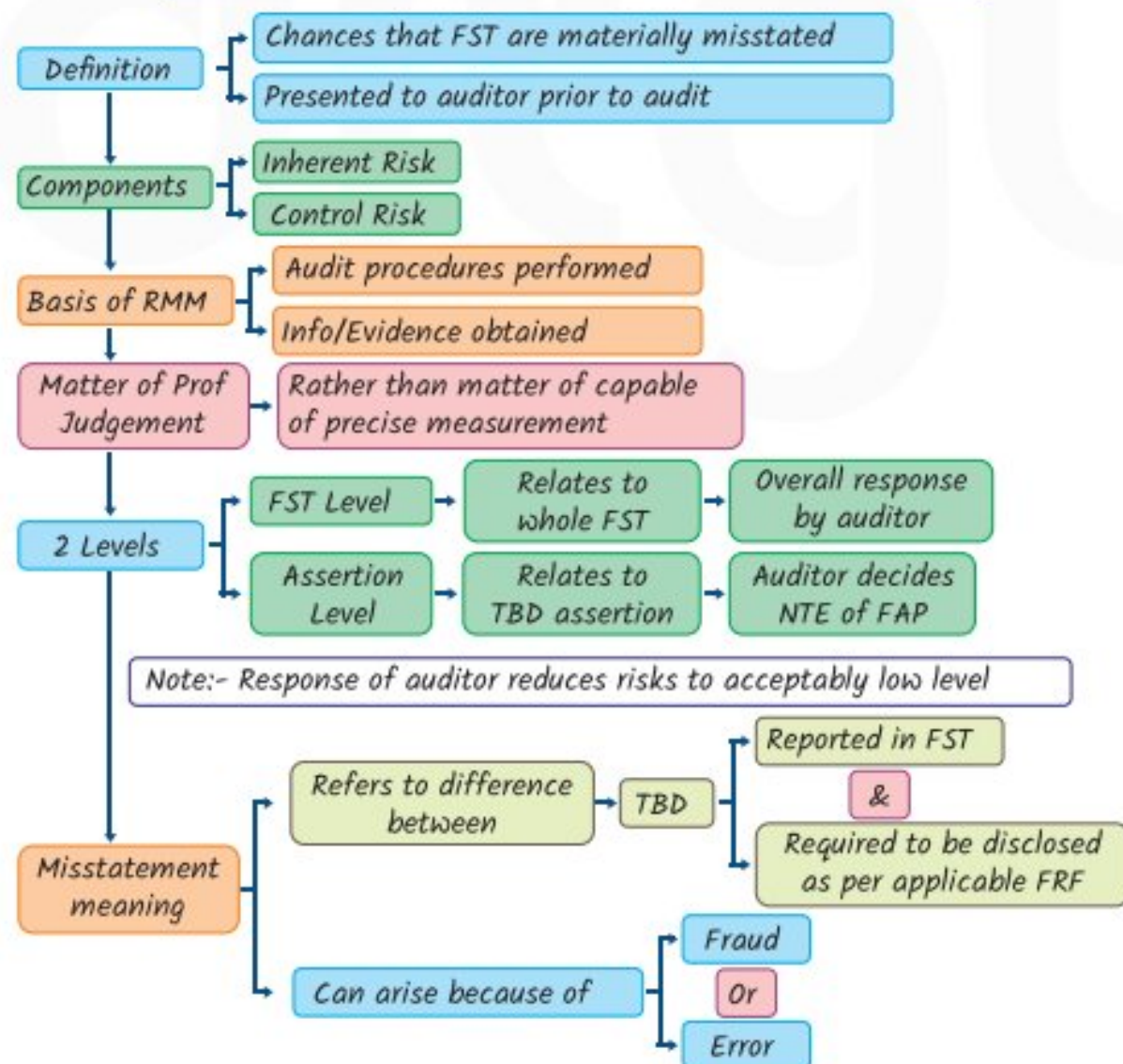
(CNO--SA315-PI.020)

CONTROL RISK (CR)



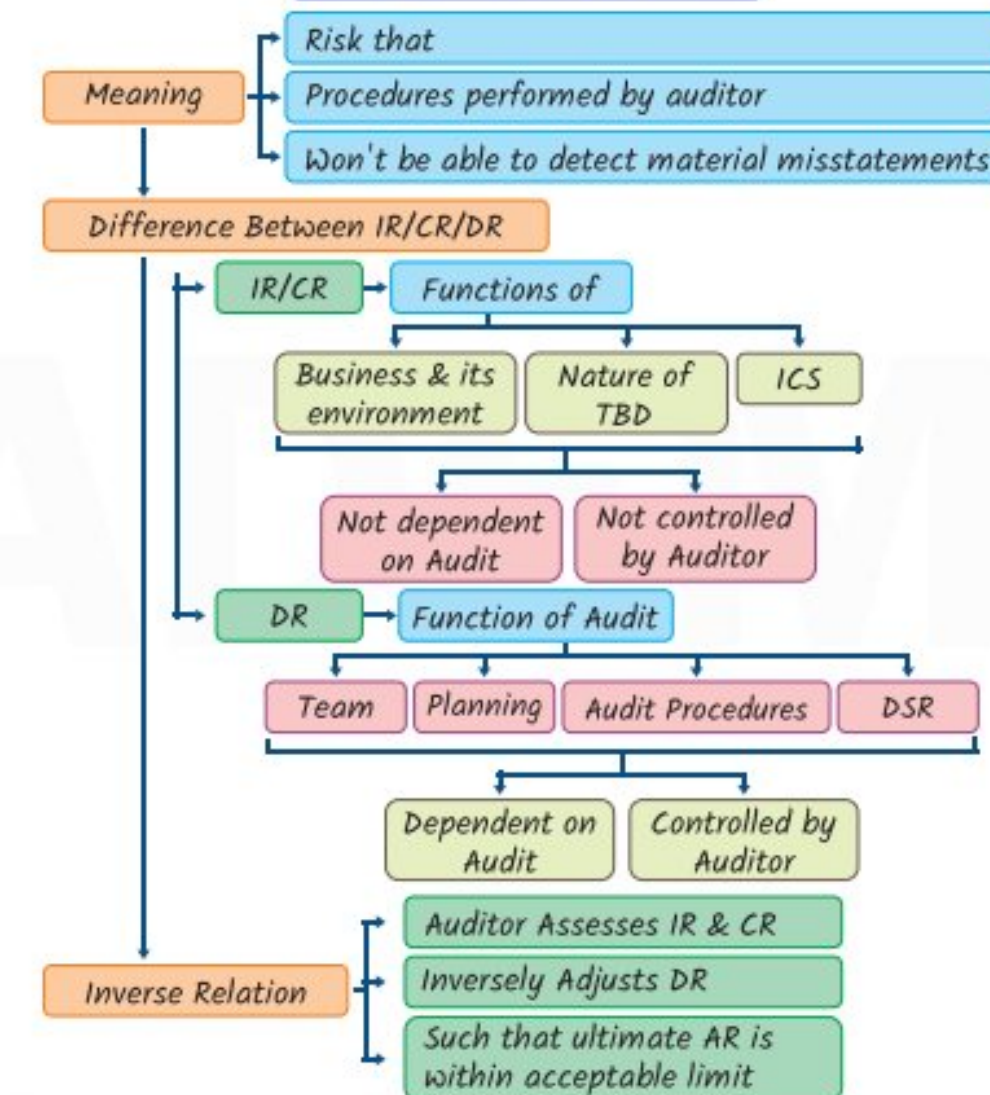
(CNO--SA315-PI.020)

RISK OF MATERIAL MISSTATEMENT (RMM)



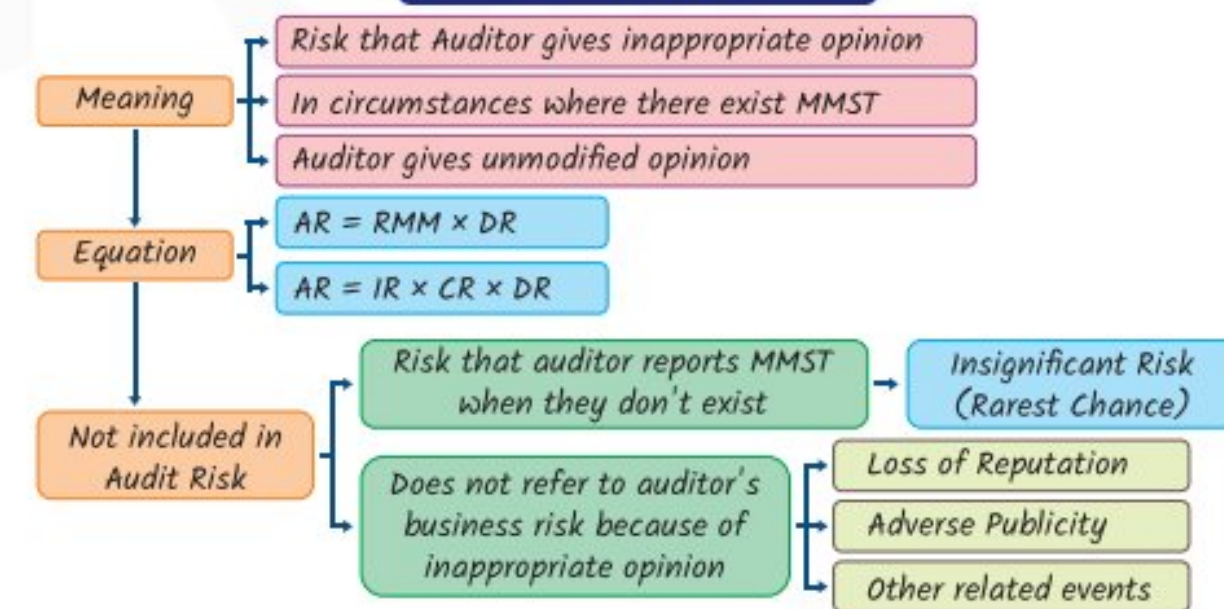
(CNO--SA315-PI.020)

DETECTION RISK



(CNO--SA315-PI.020)

AUDIT RISK

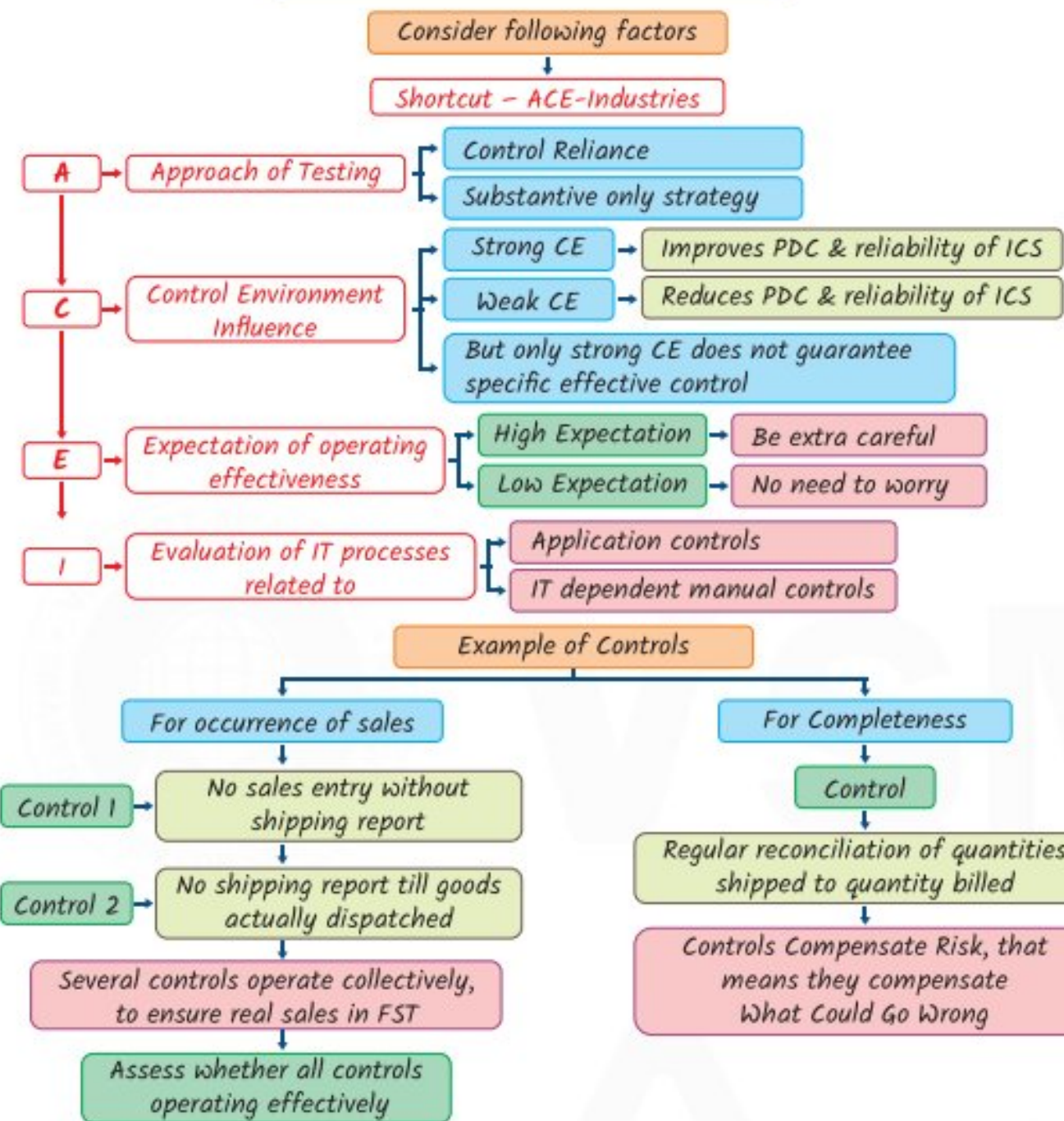


(CNO-SA315-PI.021)

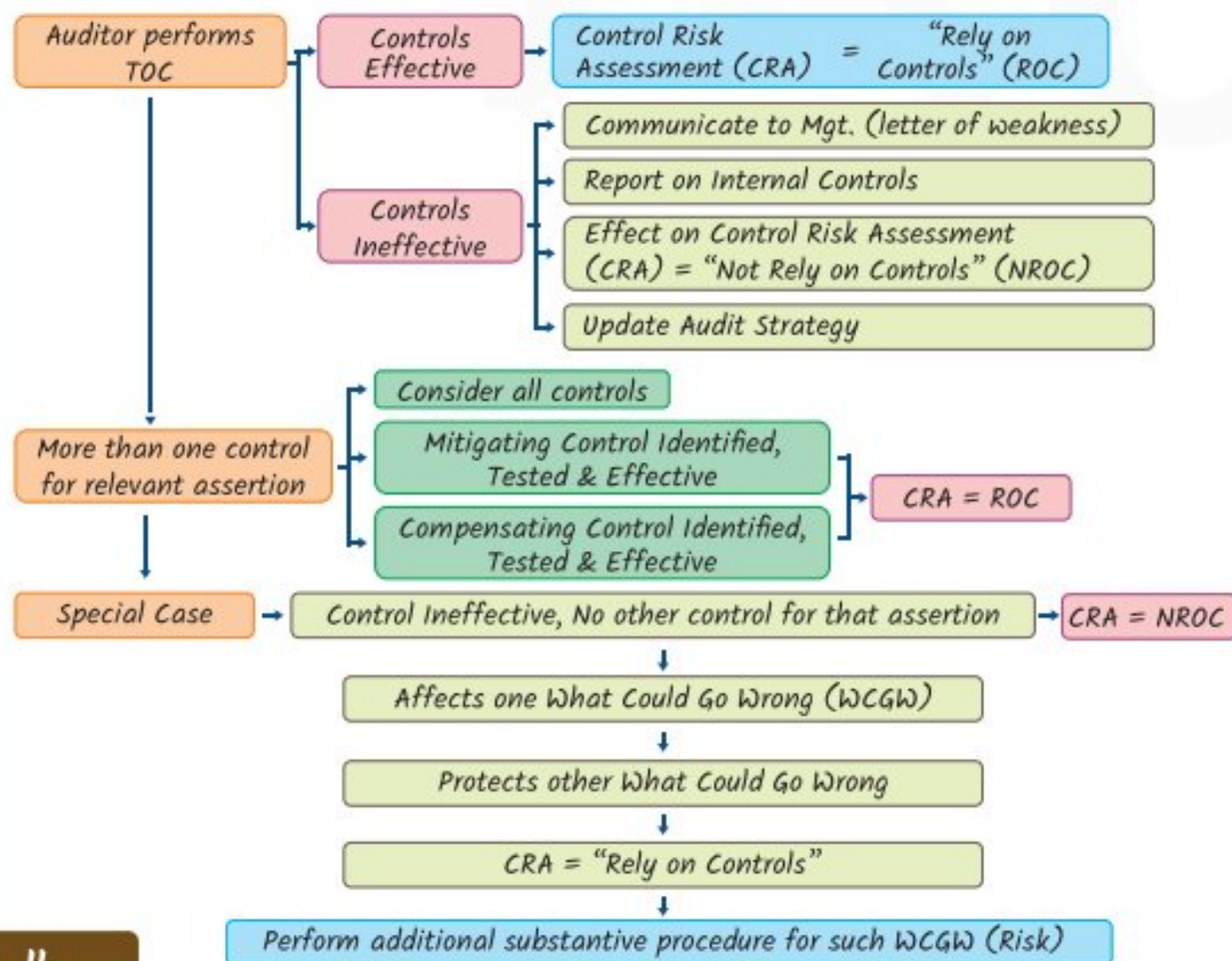
EXAMPLES

For this Concept refer PDF

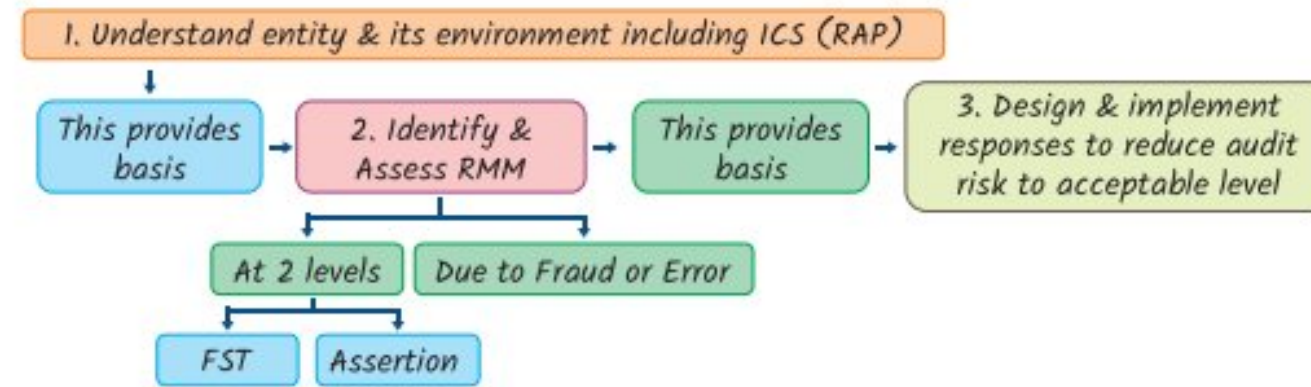
### CONTROL RISK ASSESSMENT



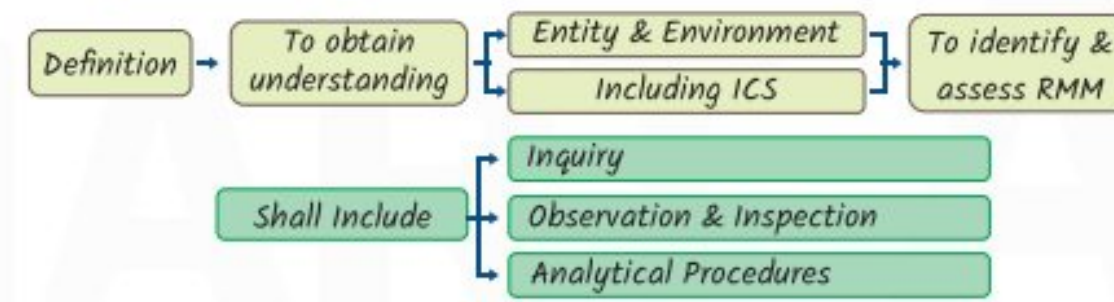
### CONTROL RISK ASSESSMENT WHEN CONTROL DEFICIENCY IS IDENTIFIED



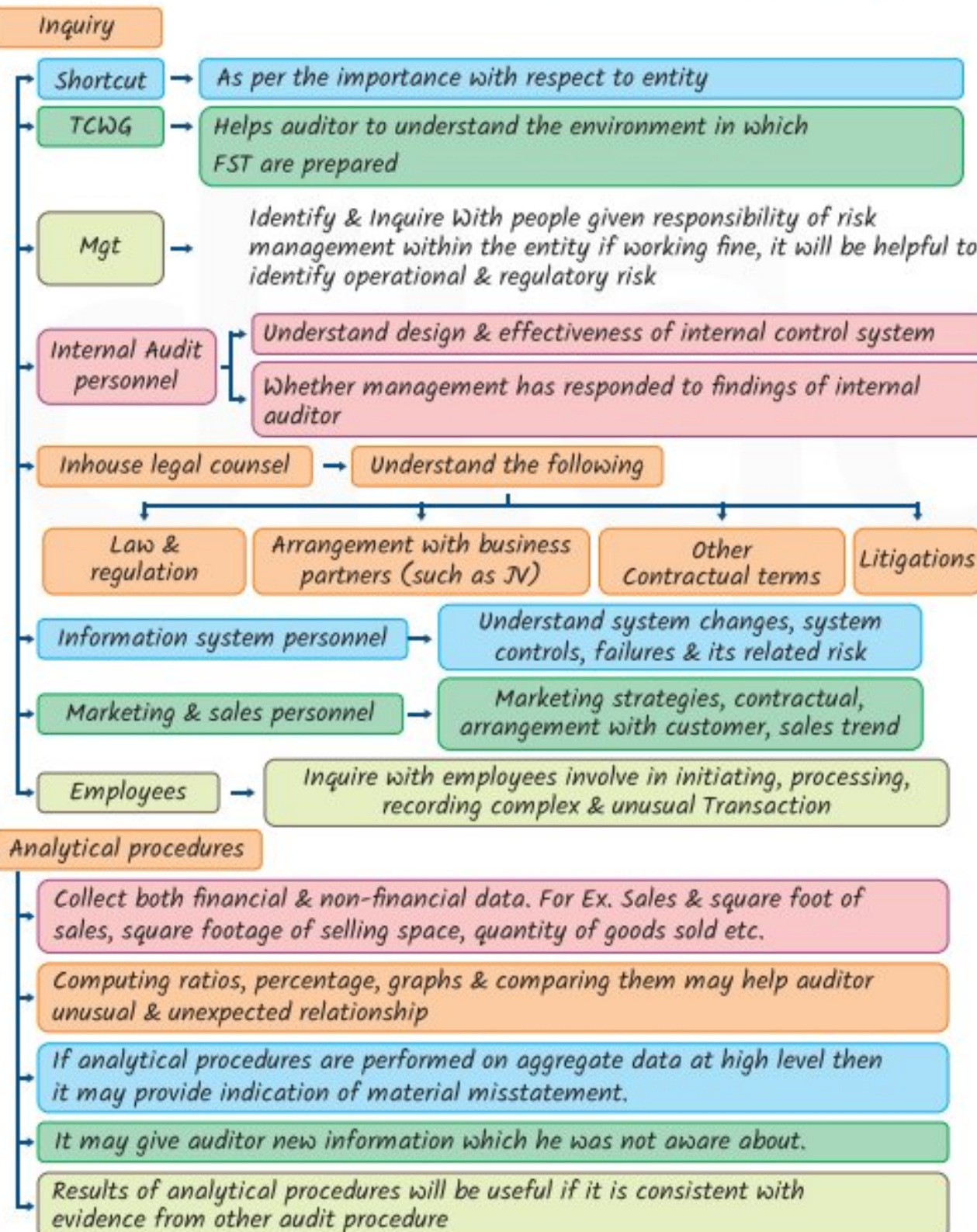
### OBJECTIVES OF AUDITOR



### STEP - 1 RISK ASSESSMENT PROCEDURE (HOW TO COLLECT INFORMATION)



Further detailed discussion of risk assessment procedure given above

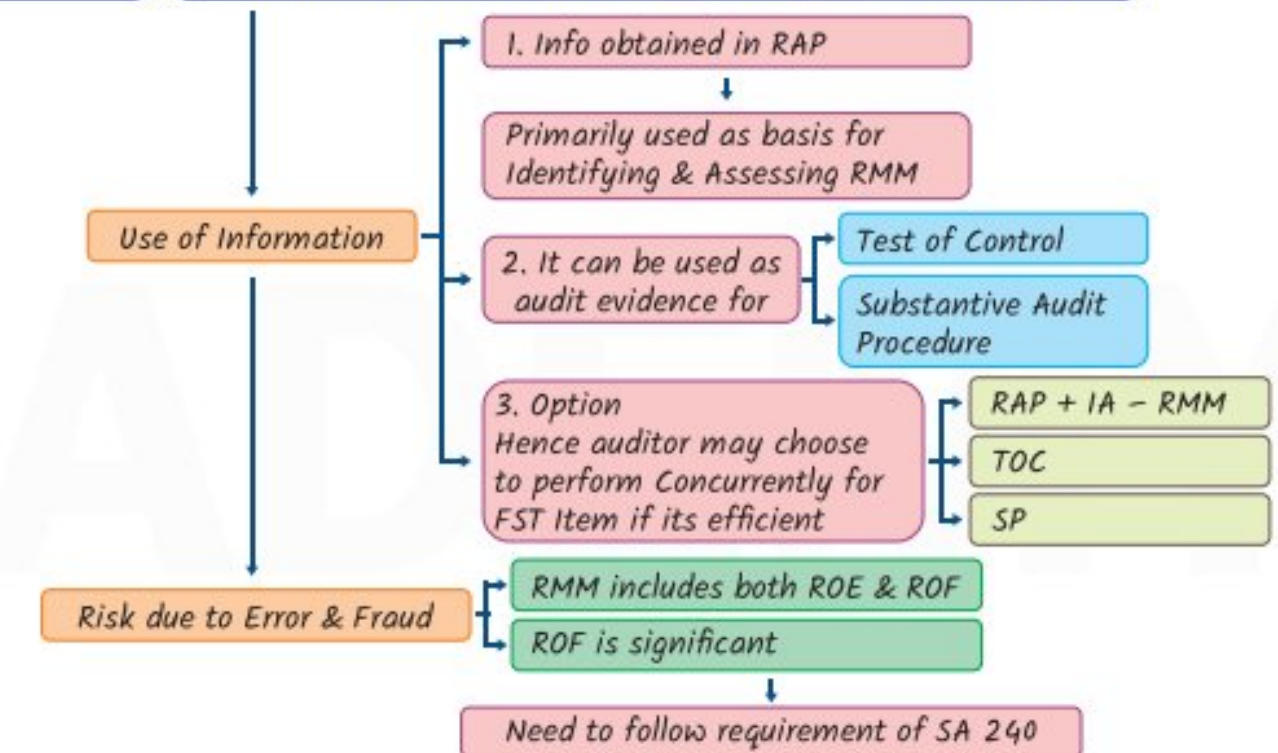


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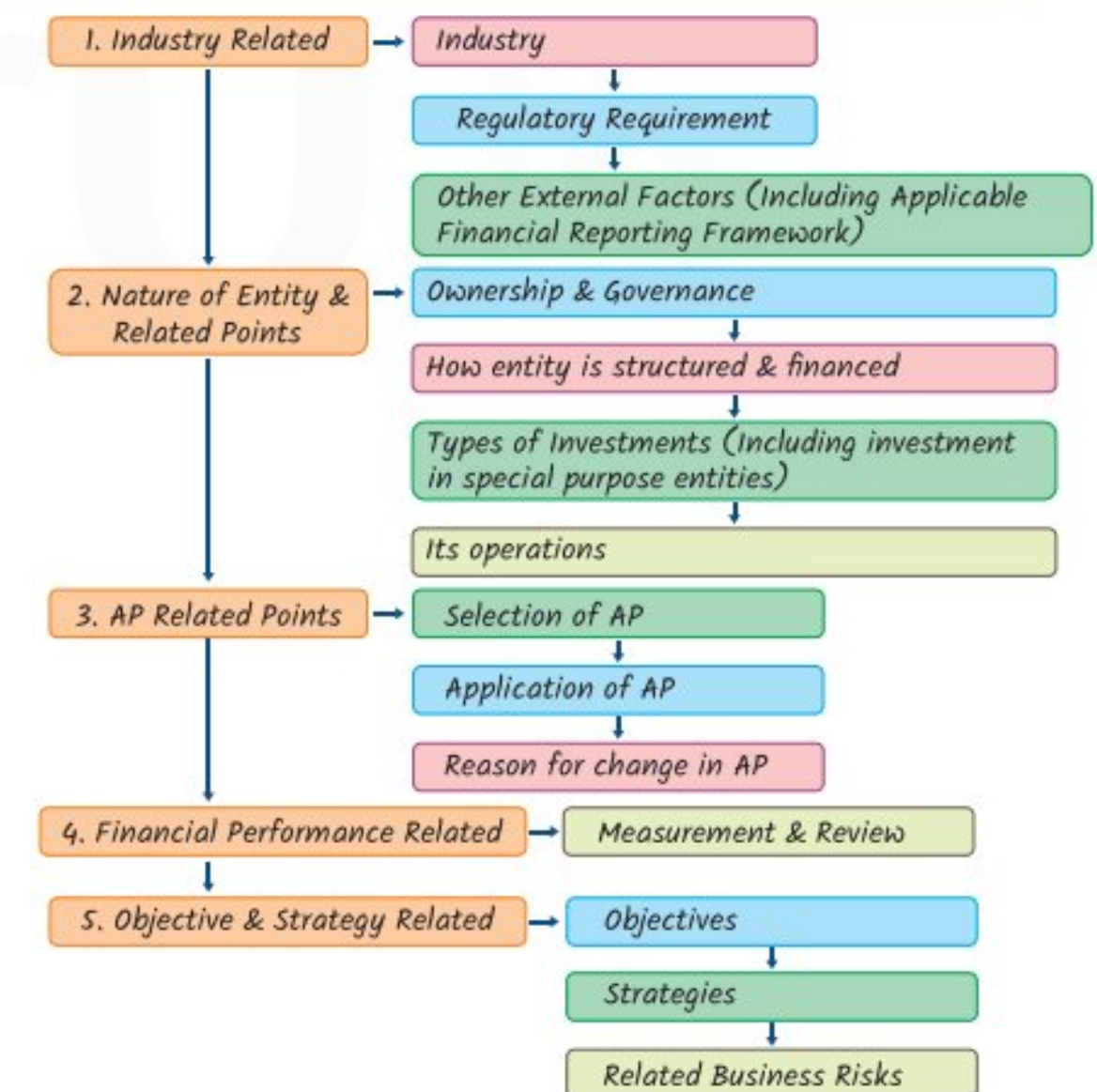
### Observation & Inspection



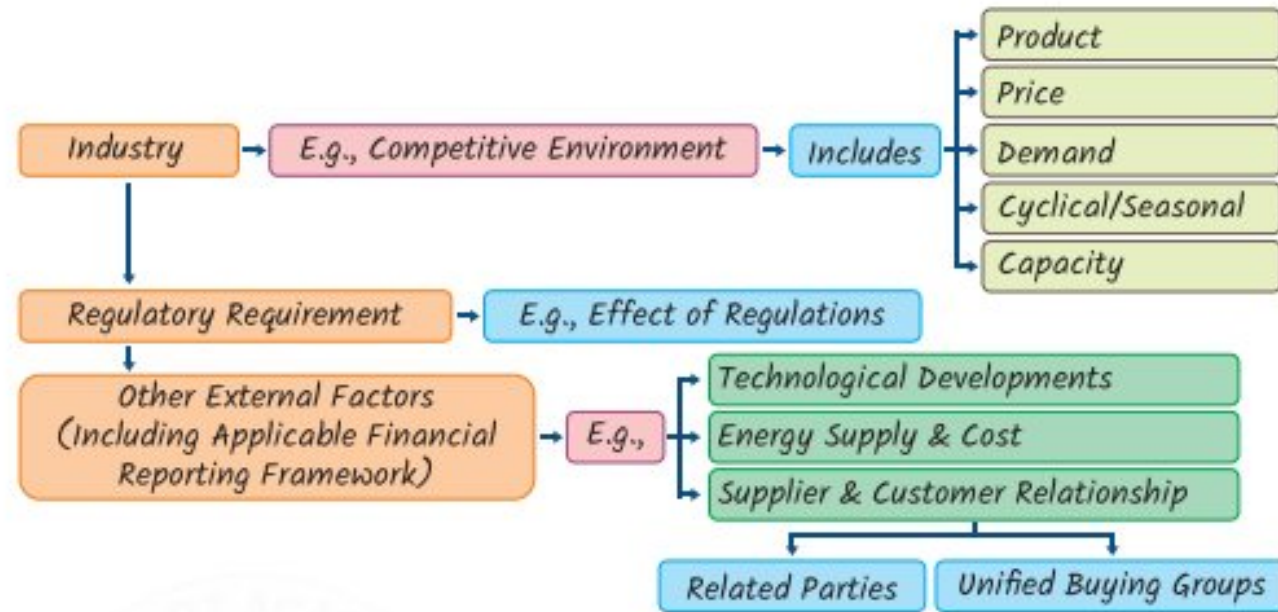
### STEP - 1A RISK ASSESSMENT PROCEDURE USE OF INFORMATION & RISK DUE TO ERROR & FRAUD



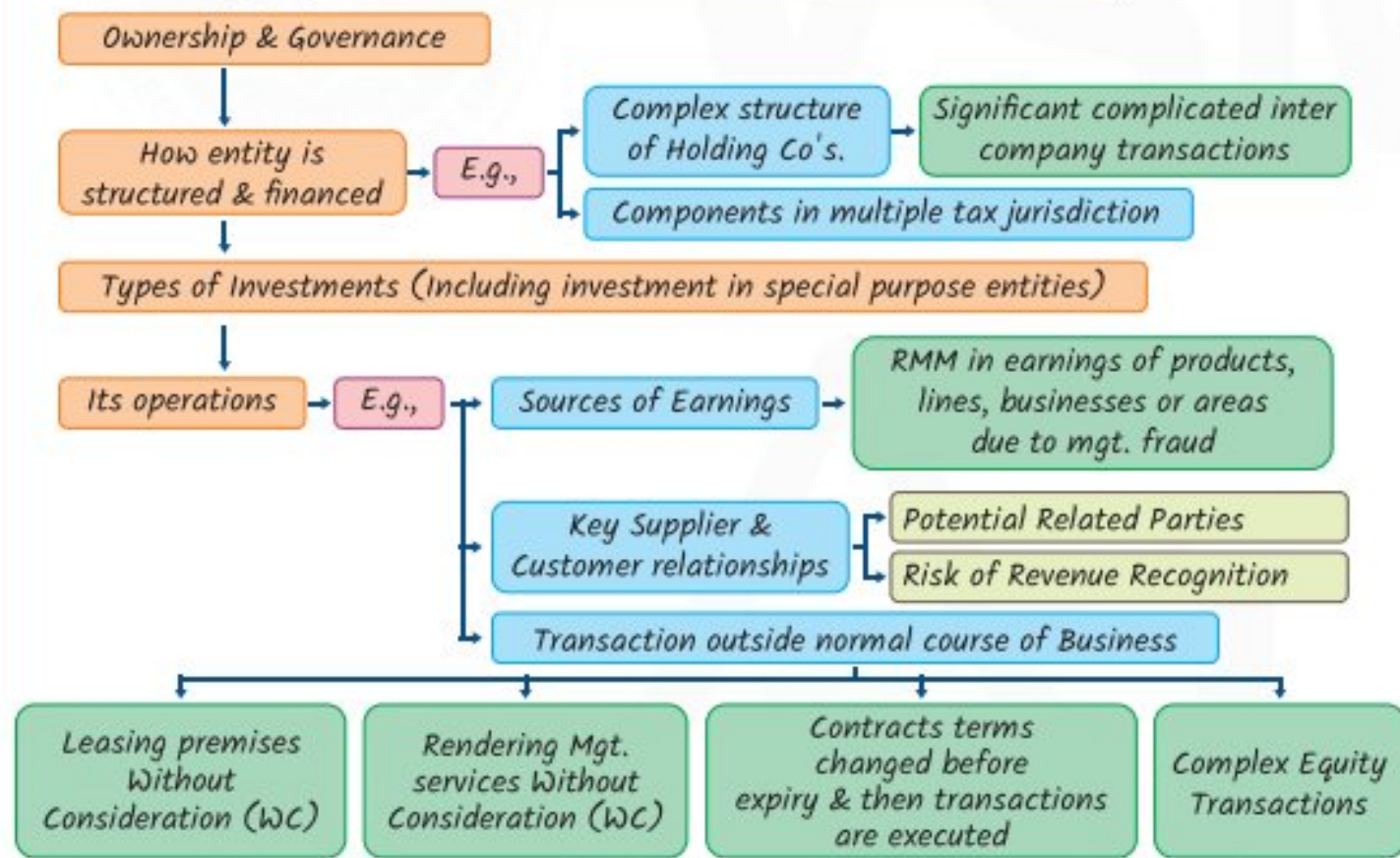
### STEP - 1B UNDERSTANDING ENTITY & ITS ENVIRONMENT



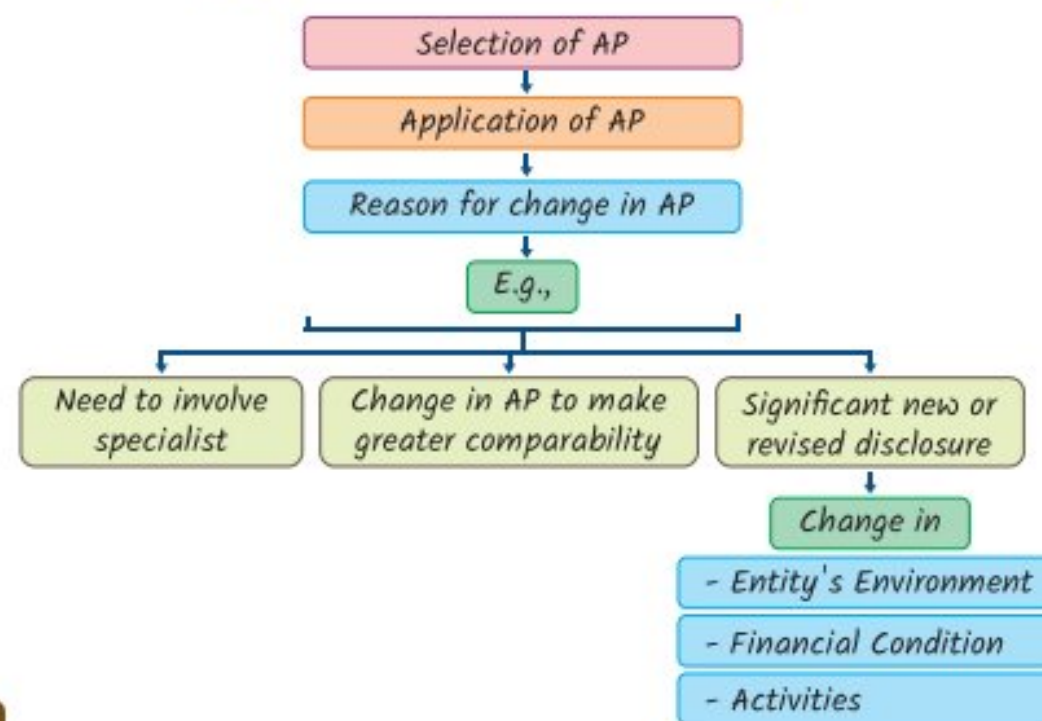
### 1 INDUSTRY RELATED POINTS



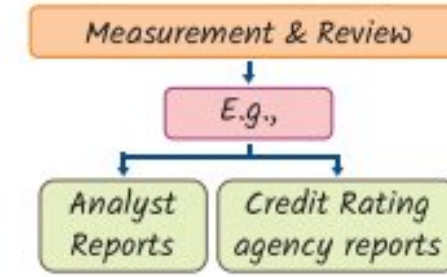
### 2 NATURE OF ENTITY & RELATED POINTS



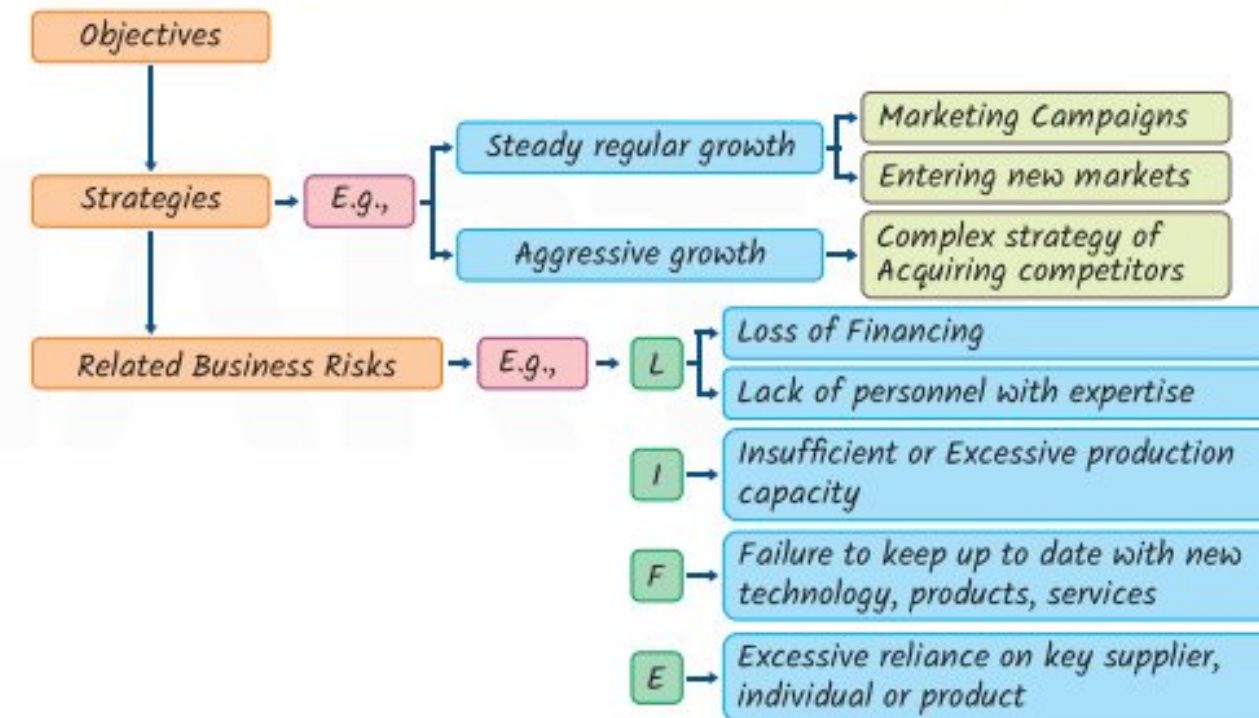
### 3 AP RELATED POINTS



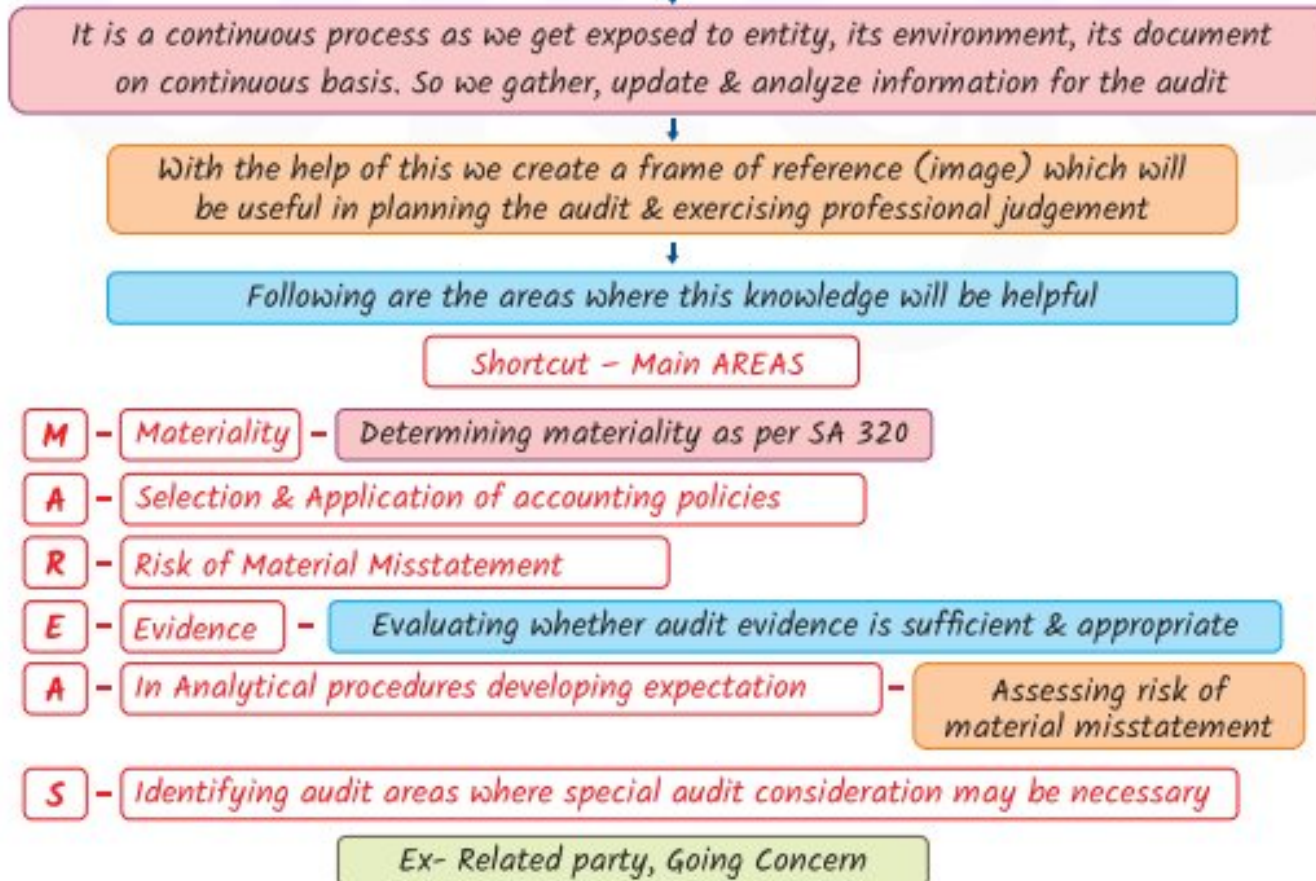
### 4 FINANCIAL PERFORMANCE RELATED



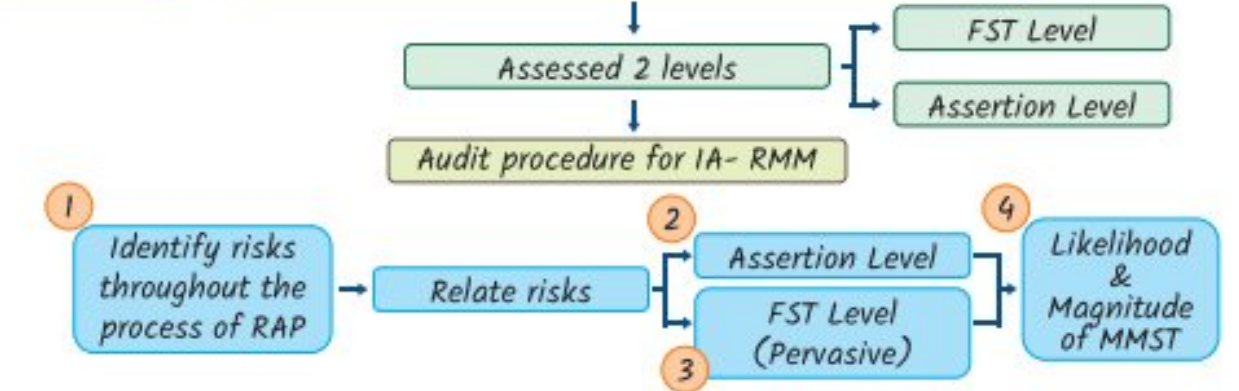
### 5 OBJECTIVE & STRATEGY RELATED



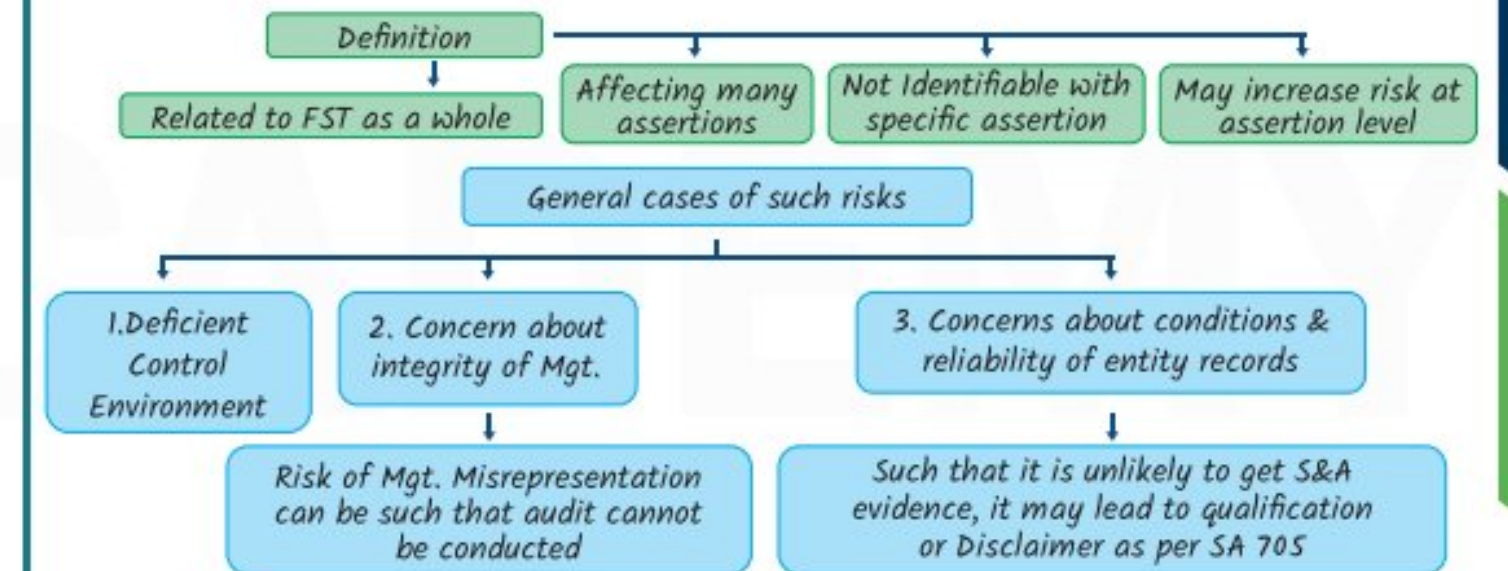
### STEP - 1C NEED OF UNDERSTANDING OF THE ENTITY



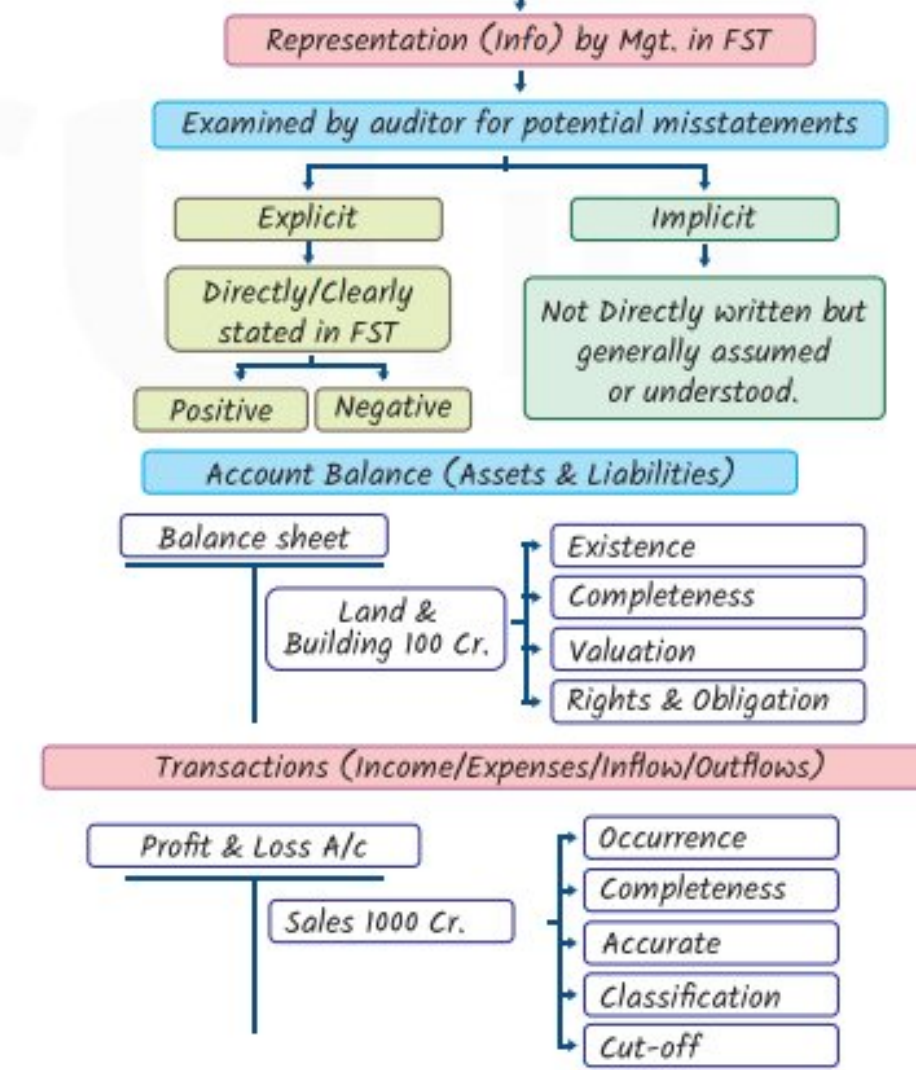
### STEP - 2 IDENTIFY & ASSESS RISK OF MATERIAL MISSTATEMENT (IA-RMM)



### STEP - 2A FINANCIAL STATEMENT LEVEL RISK

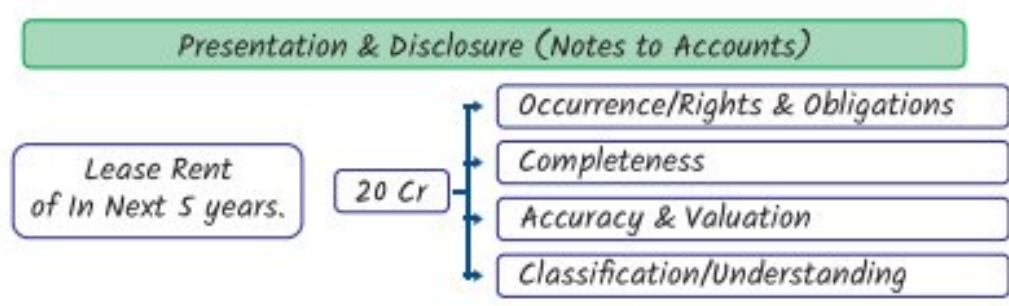


### STEP - 2B ASSERTIONS



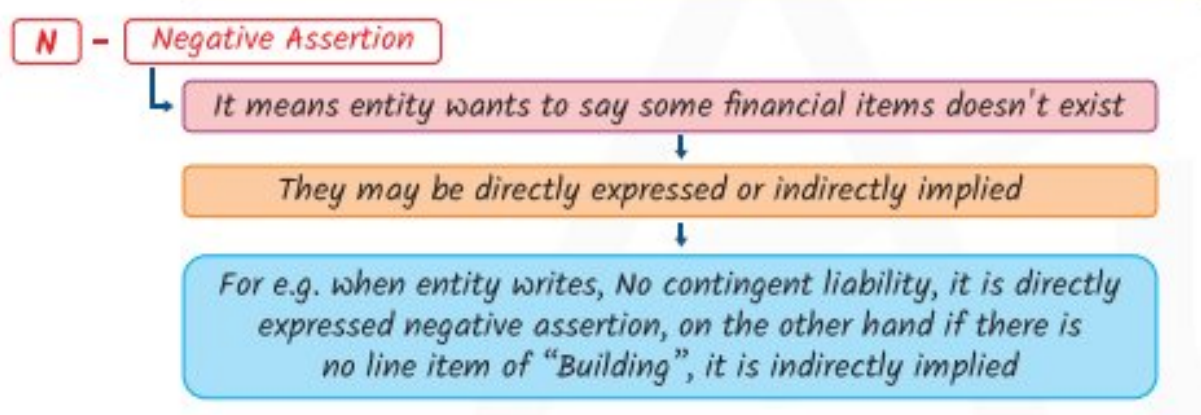
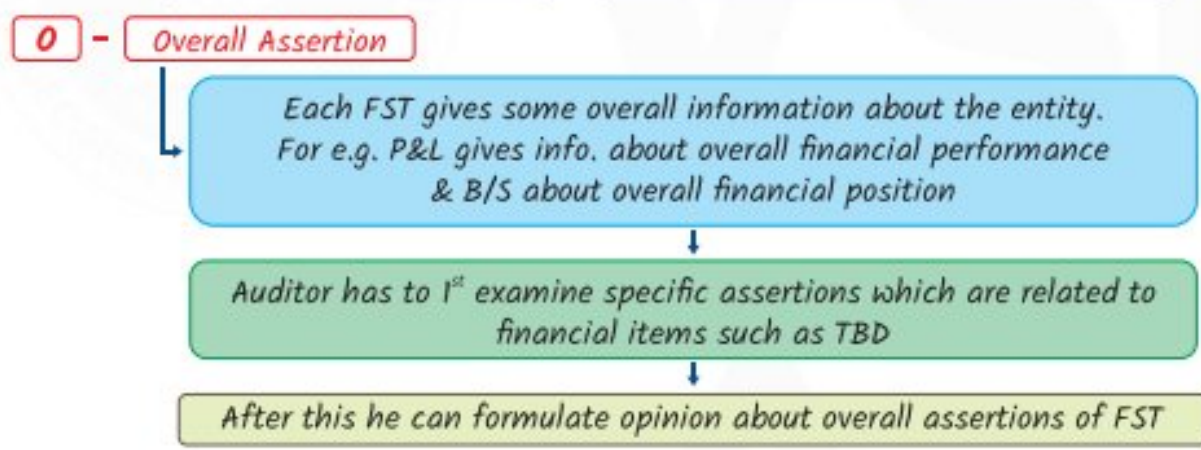
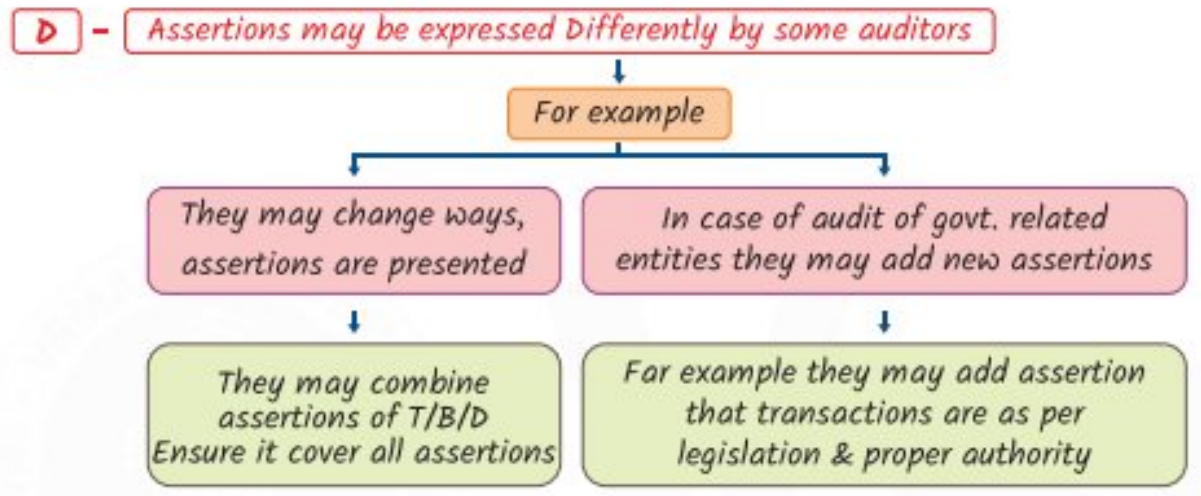
Continue on next column...





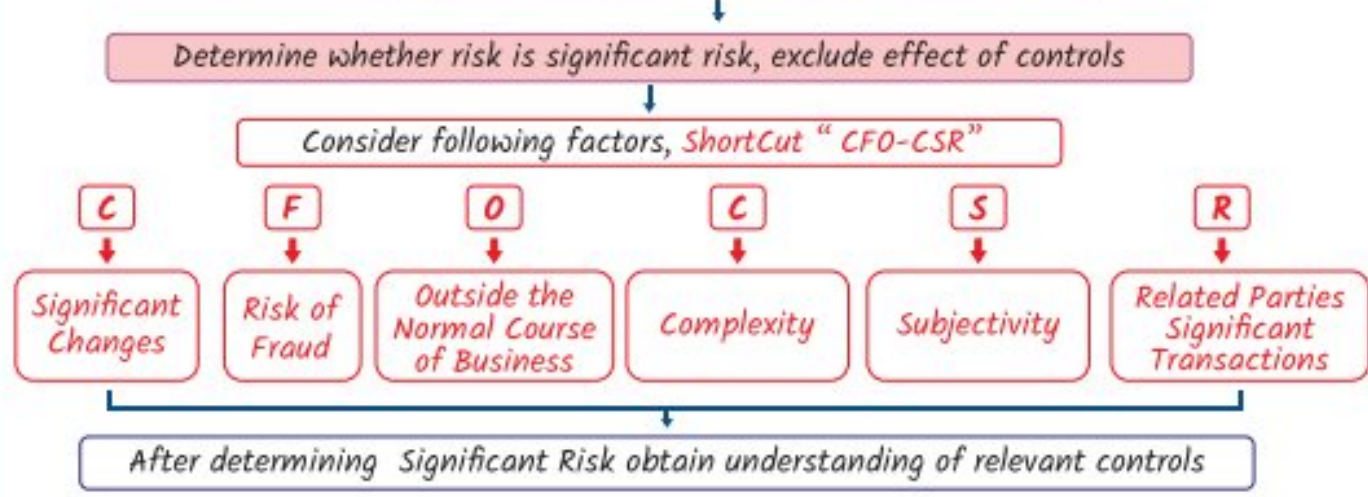
**OTHER POINTS RELATED TO ASSERTION**

**Shortcut- DON points**



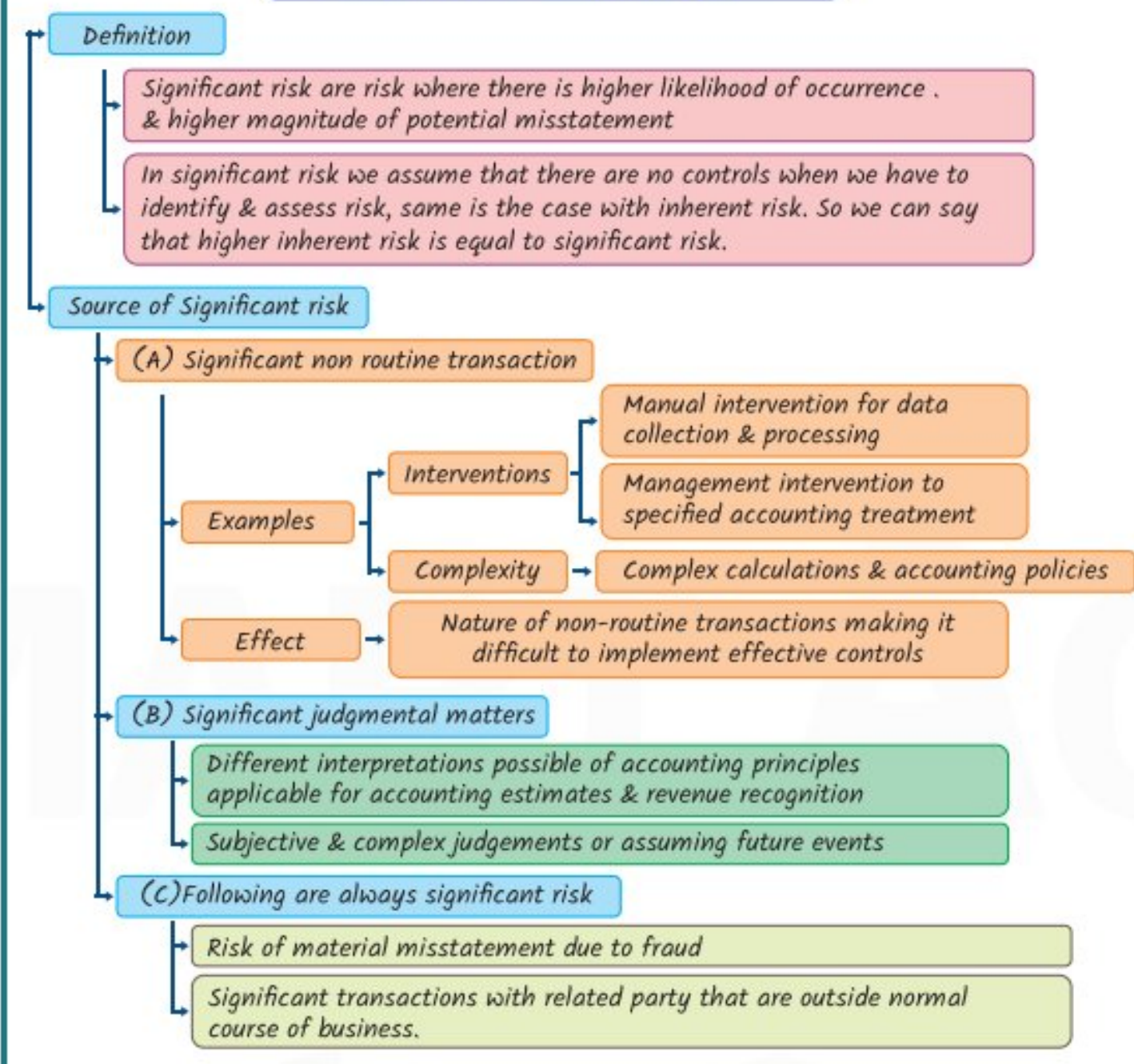
(CNO--SA315-P1.120) (QNO-315.25) (MCQ-Incs.59.4)

**STEP - 3 RISK THAT REQUIRES SPECIAL AUDIT CONSIDERATION**



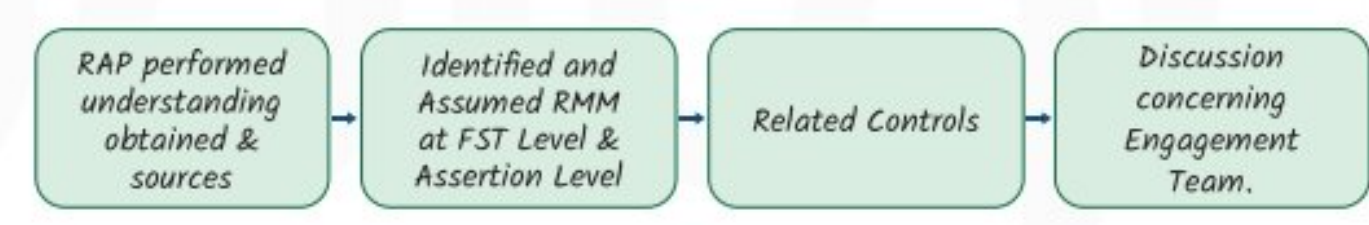
(CNO--SA315-P1.140) (QNO-315.26)

**IDENTIFYING SIGNIFICANT RISK**



(CNO--SA315-P1.160)

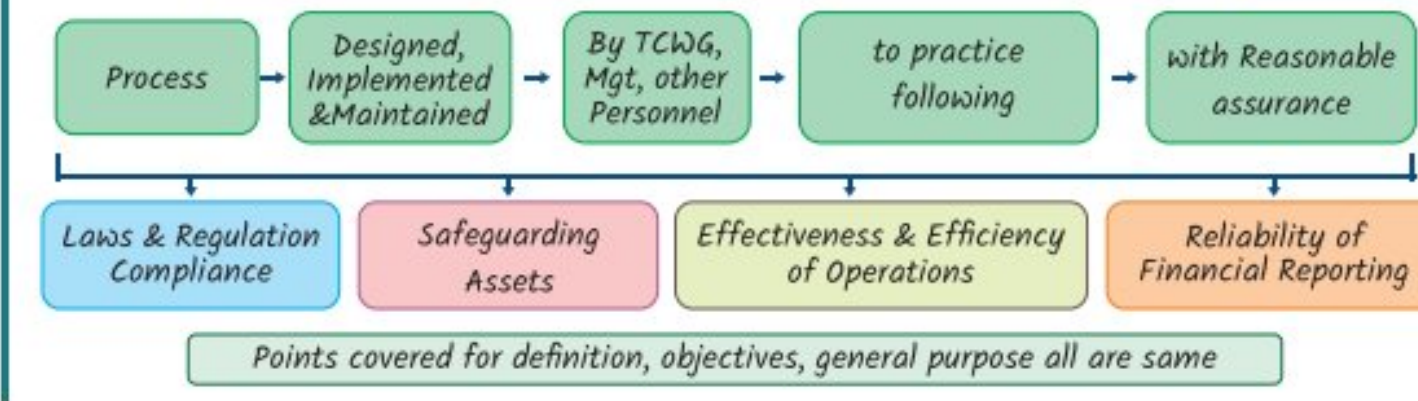
**DOCUMENTATION**



**Part 2 - SA 315**

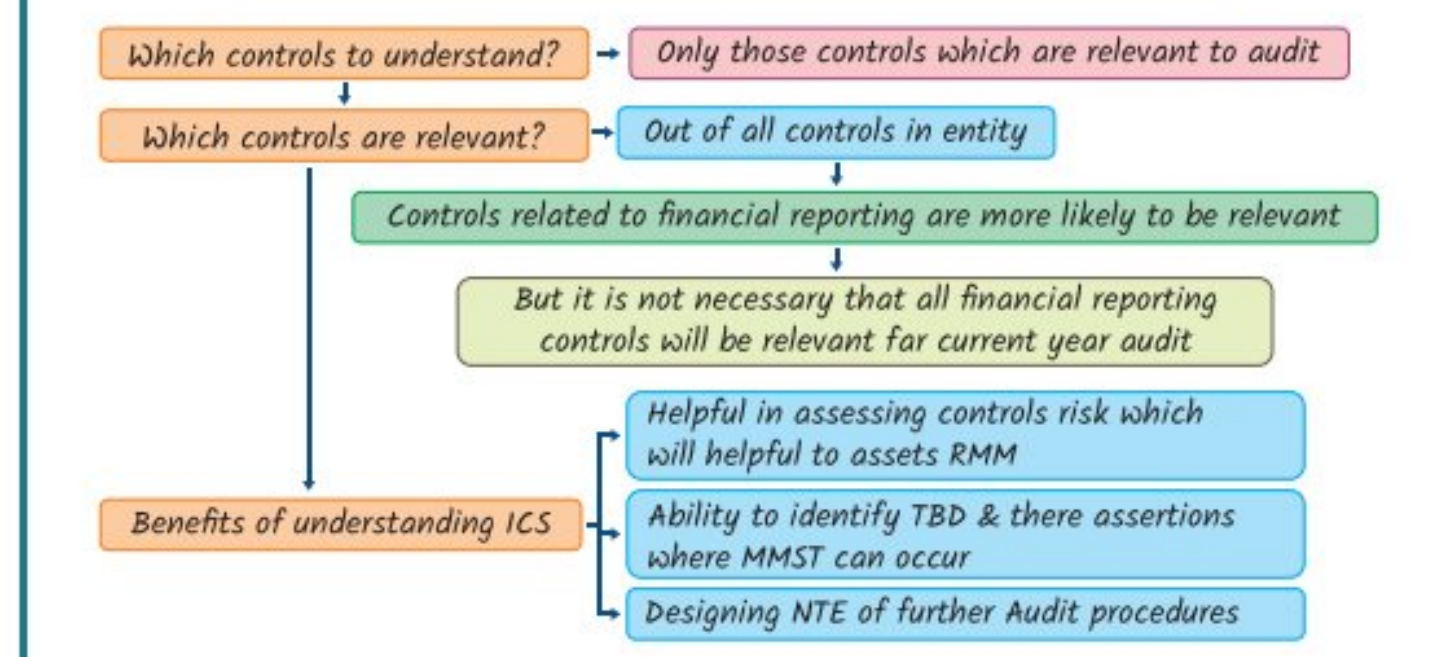
(CNO--SA315-P2.020) QNO-1CS.01,1CS.02 (MCQ-Incs.53.4)

**DEFINITION OF INTERNAL CONTROL SYSTEM(ICS)**



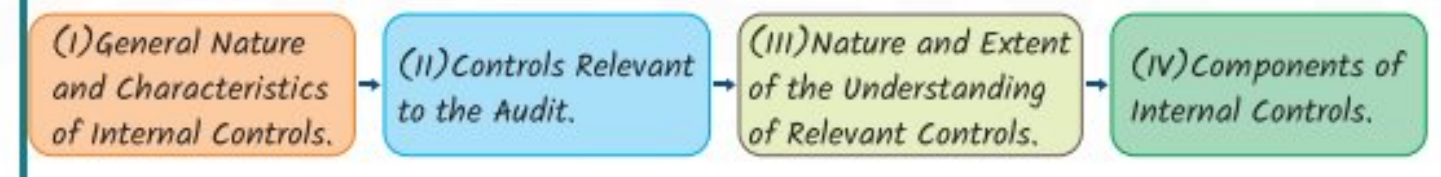
(CNO--SA315-P2.030) (QNO-1CS.02.50)

**UNDERSTANDING ENTITIES INTERNAL CONTROL**



(CNO--SA315-P2.040)

**STUDY OF VARIOUS ASPECTS OF INTERNAL CONTROL SYSTEM**



(CNO--SA315-P2.060)

**GENERAL NATURE AND CHARACTERISTICS OF INTERNAL CONTROLS**

Same as Definition of Inter Control System

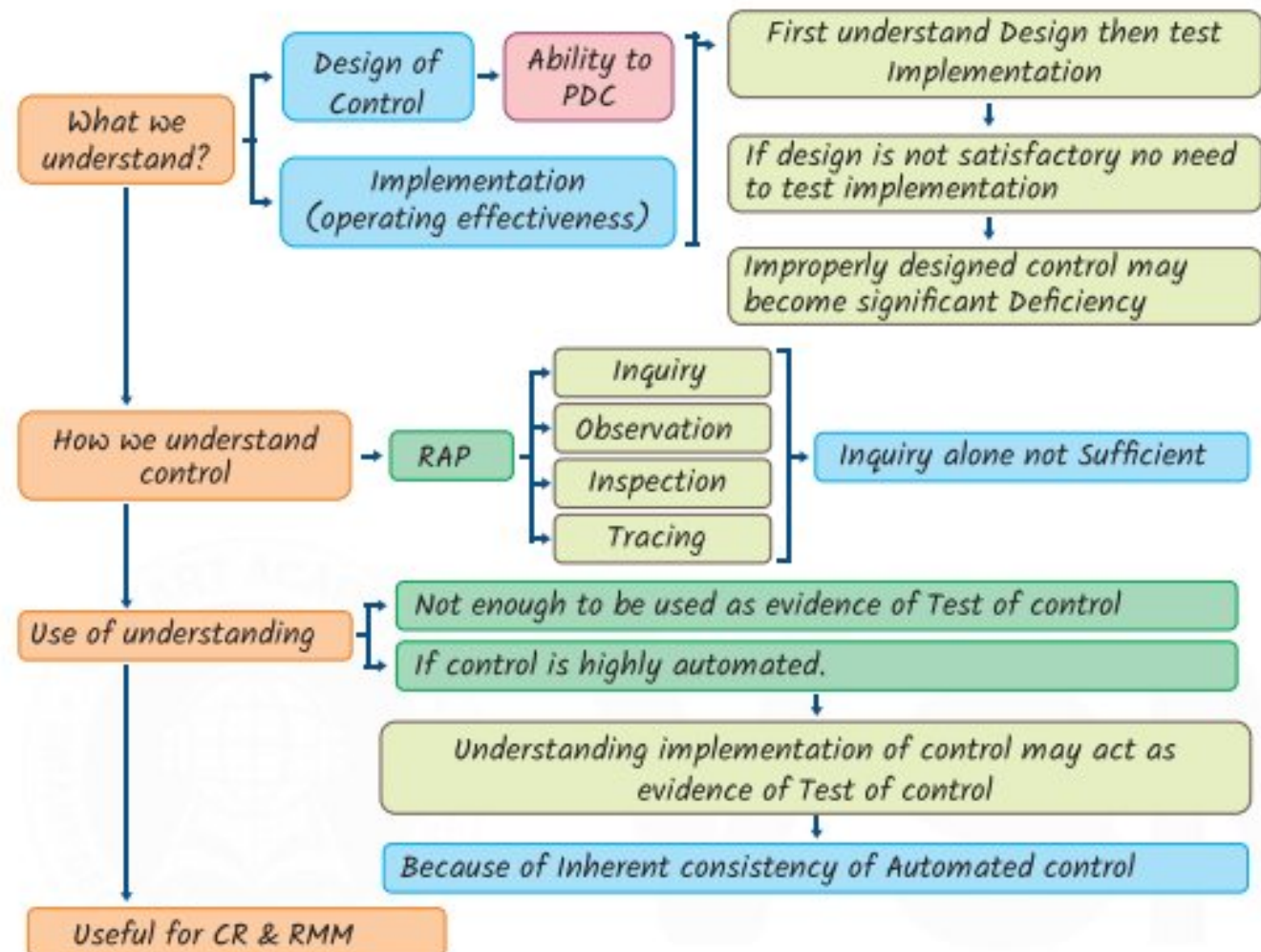
(CNO--SA315-P2.065) (QNO-1CS.14) (MCQ-Incs.59.2)

**CONTROLS RELEVANT TO THE AUDIT**

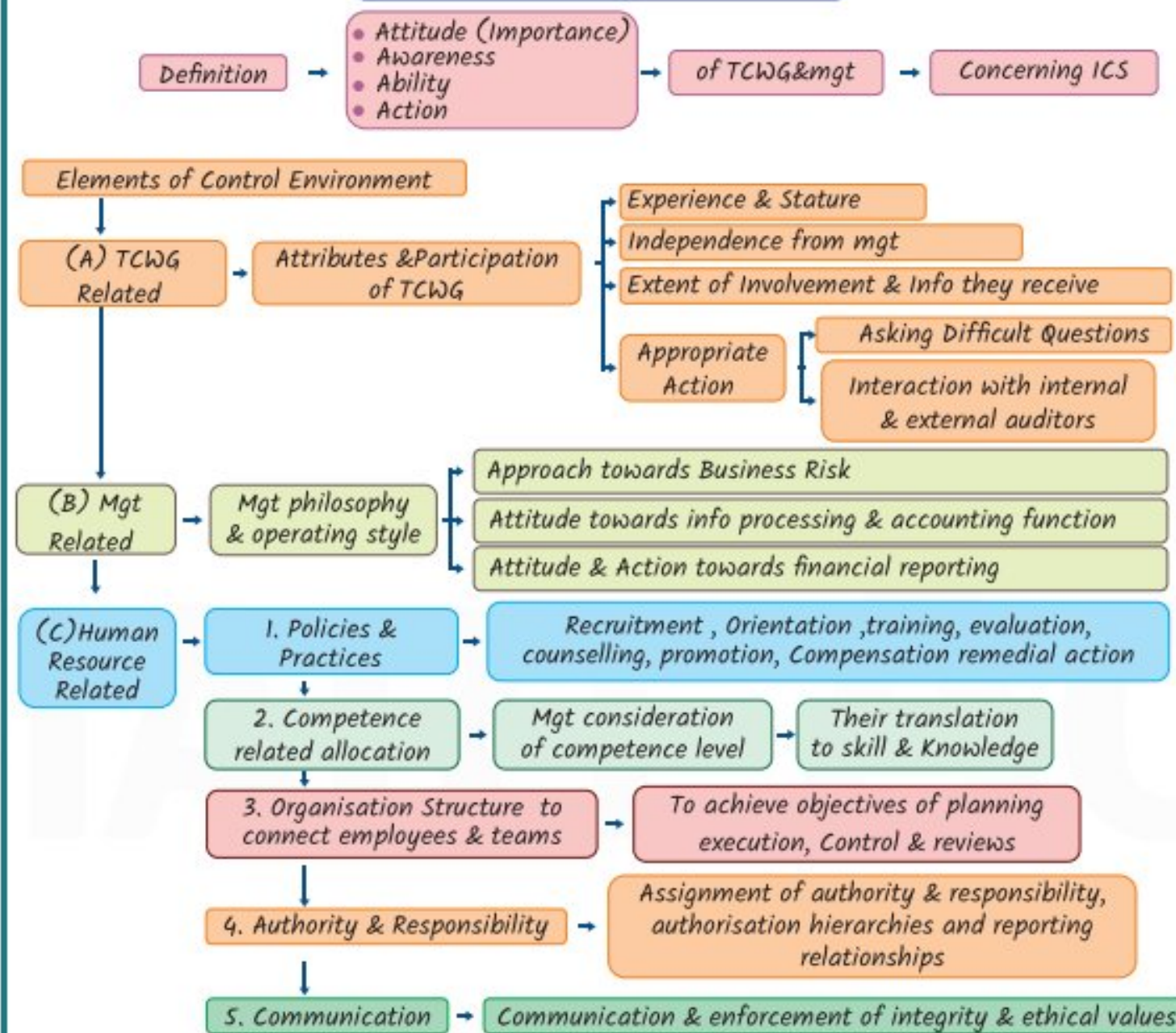
Shortcut- MS<sup>2</sup>N Developed Light Compact Nice Watch relevant for kids

- M** - Materiality.
- S** - The significance of the related risk.
- S** - The size of the entity.
- N** - The nature of the entity's business, including its organisation and ownership characteristics.
- D** - The diversity and complexity of the entity's operations.
- L** - Applicable legal and regulatory requirements.
- C** - The circumstances and the applicable component of internal control.
- N** - The nature and complexity of the systems that are part of the entity's internal control, including the use of service organisations.
- W** - Whether, and how, a specific control, individually or in combination with others, prevents, or detects and corrects, material misstatement.

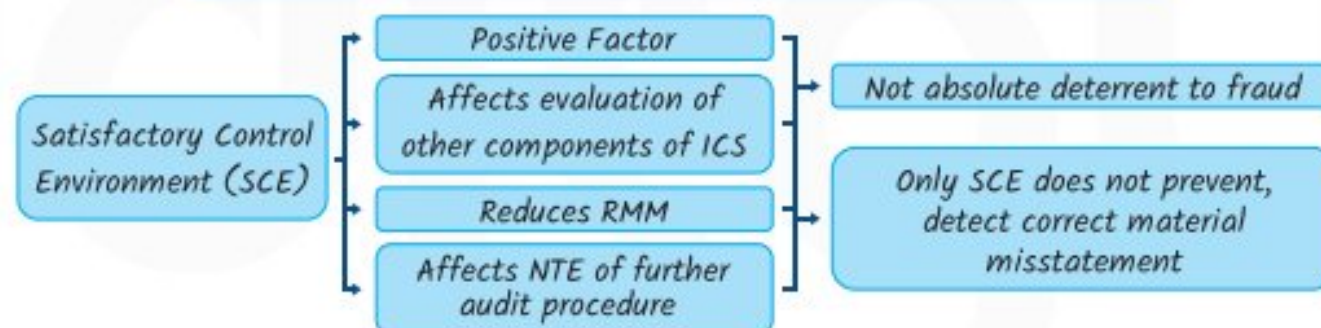
### UNDERSTANDING RELEVANT CONTROL



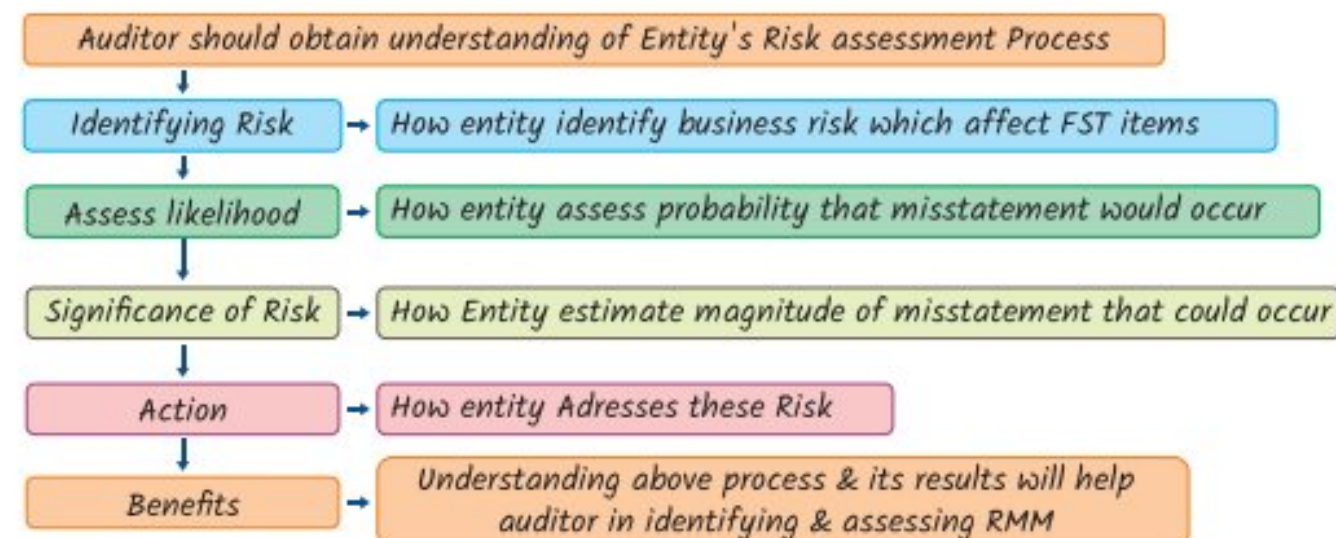
### 1. CONTROL ENVIRONMENT



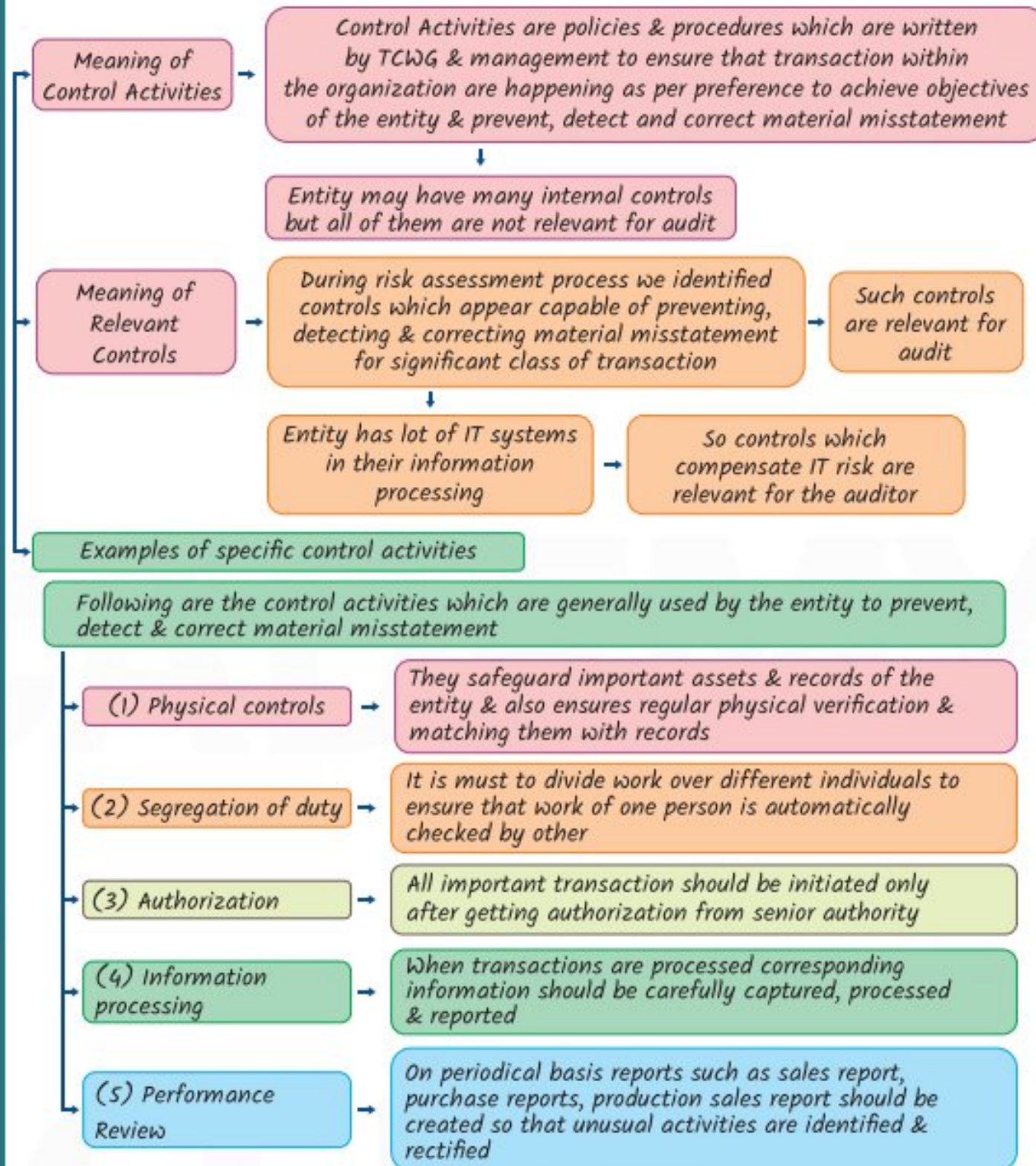
### SATISFACTORY CONTROL ENVIRONMENT - NOT AN ABSOLUTE DETERRENT TO FRAUD



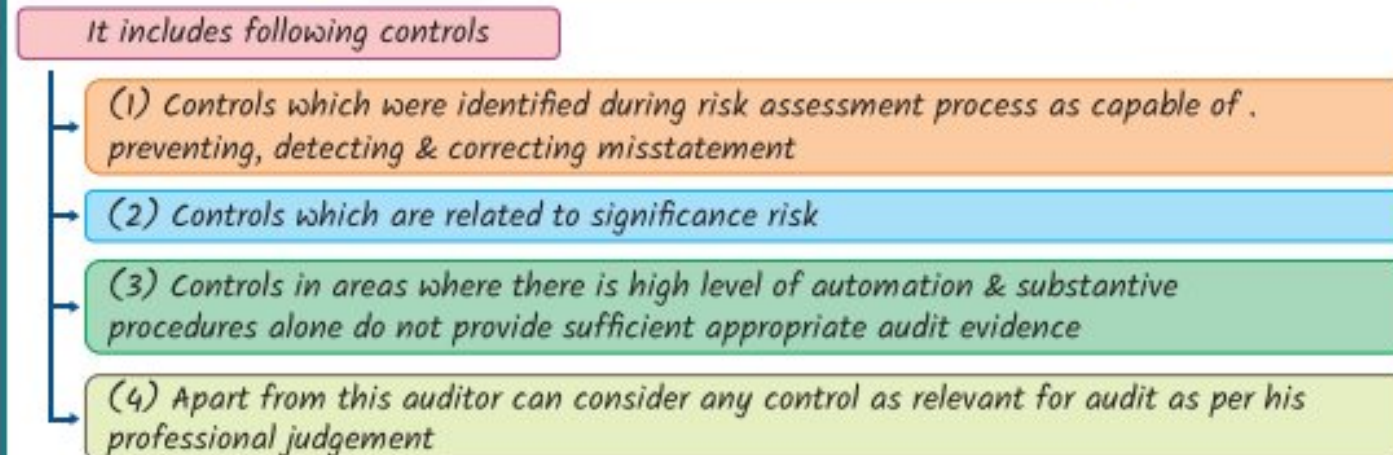
### ENTITY RISK ASSESSMENT PROCESS



### 3. CONTROL ACTIVITIES



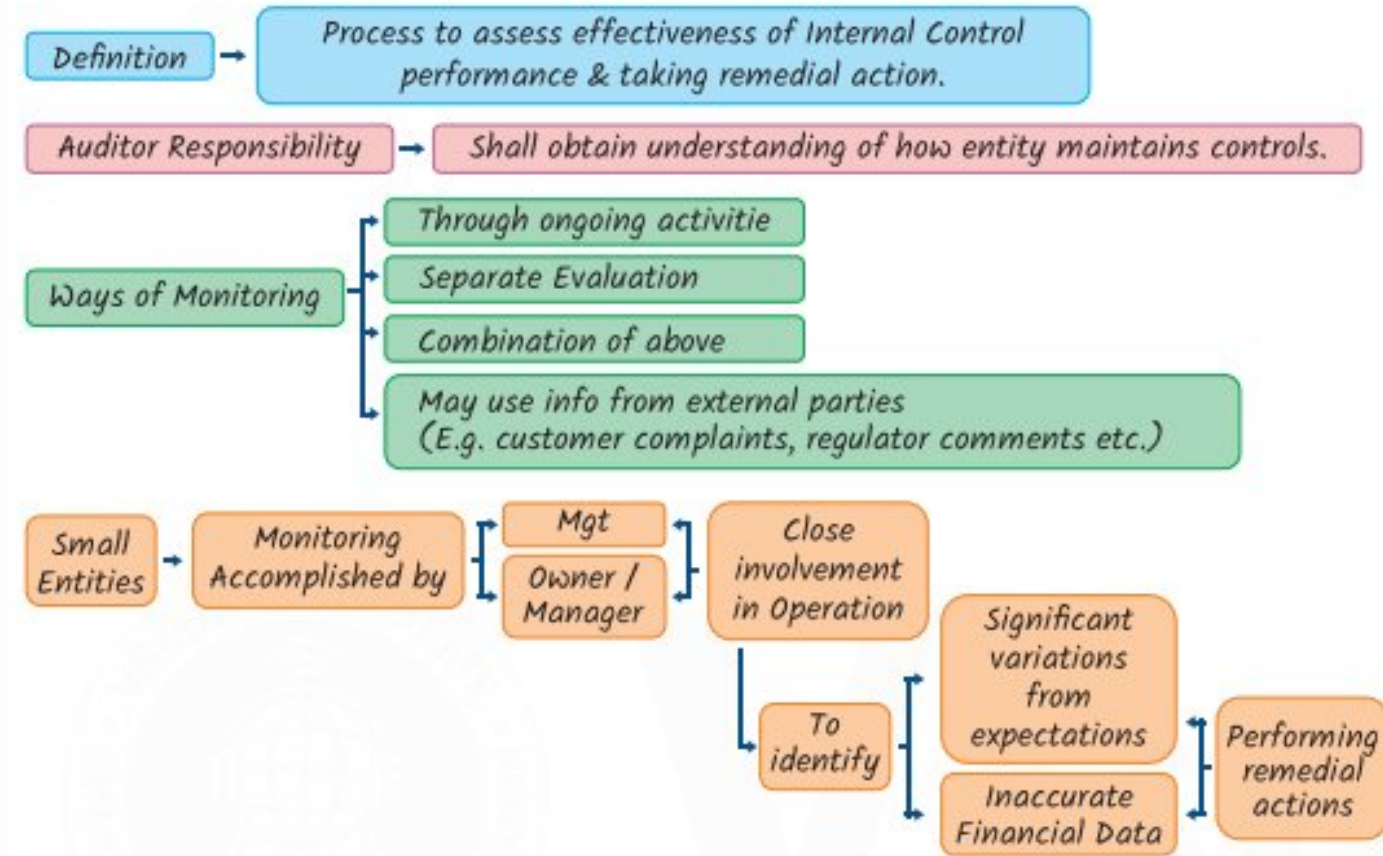
### FURTHER EXPLANATION OF CONTROL ACTIVITIES RELEVANT TO AUDIT



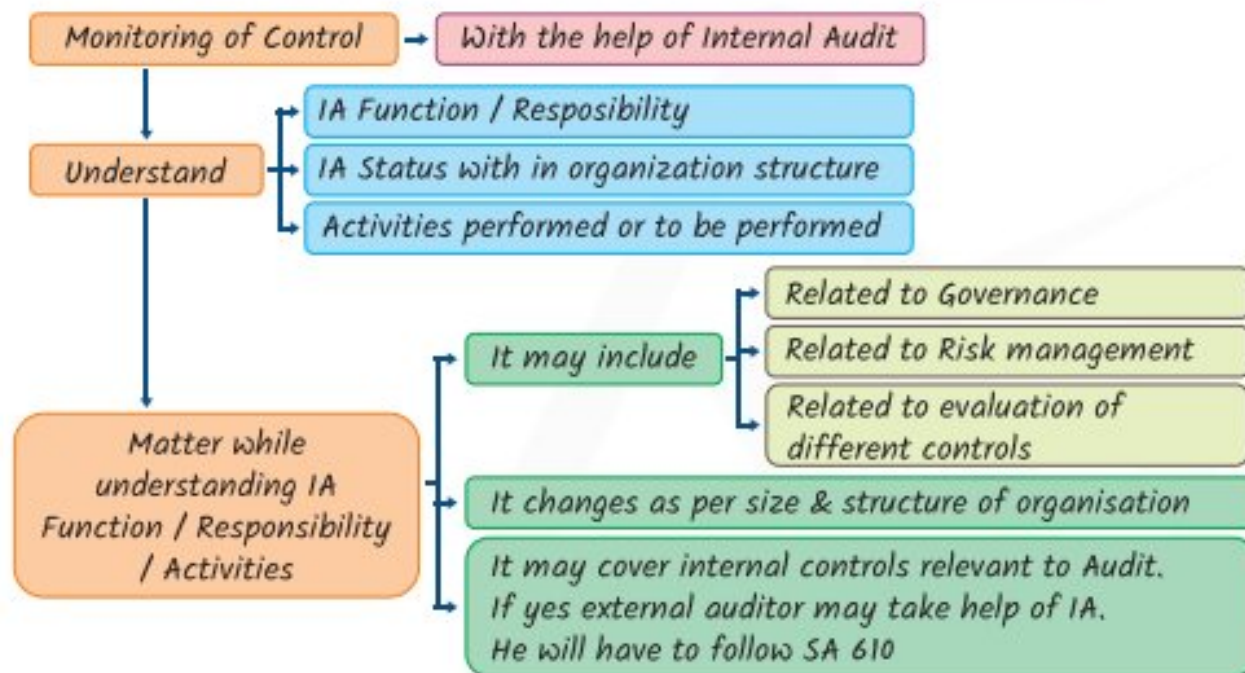
### COMPONENTS OF INTERNAL CONTROL



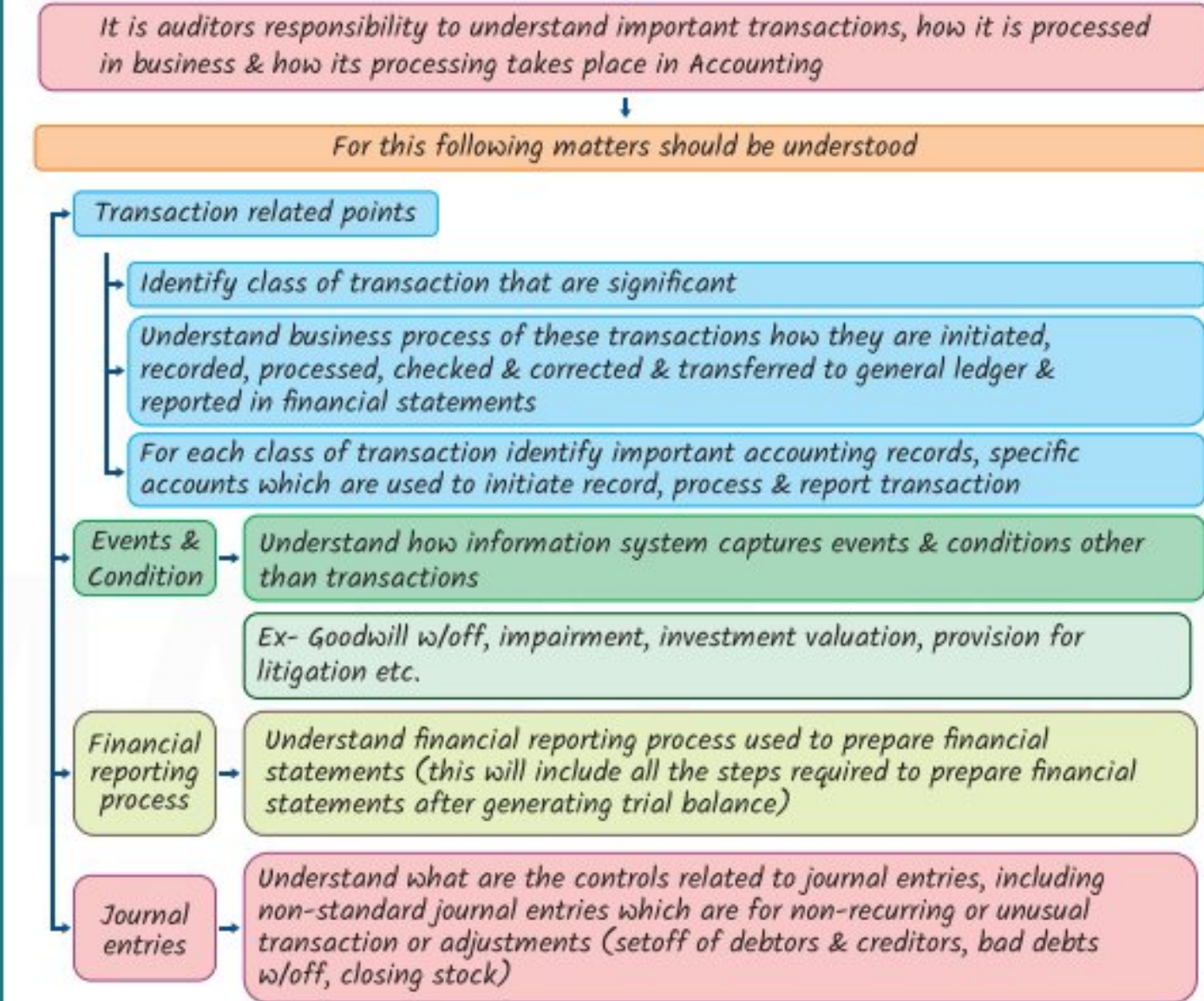
### 4. MONITORING CONTROLS



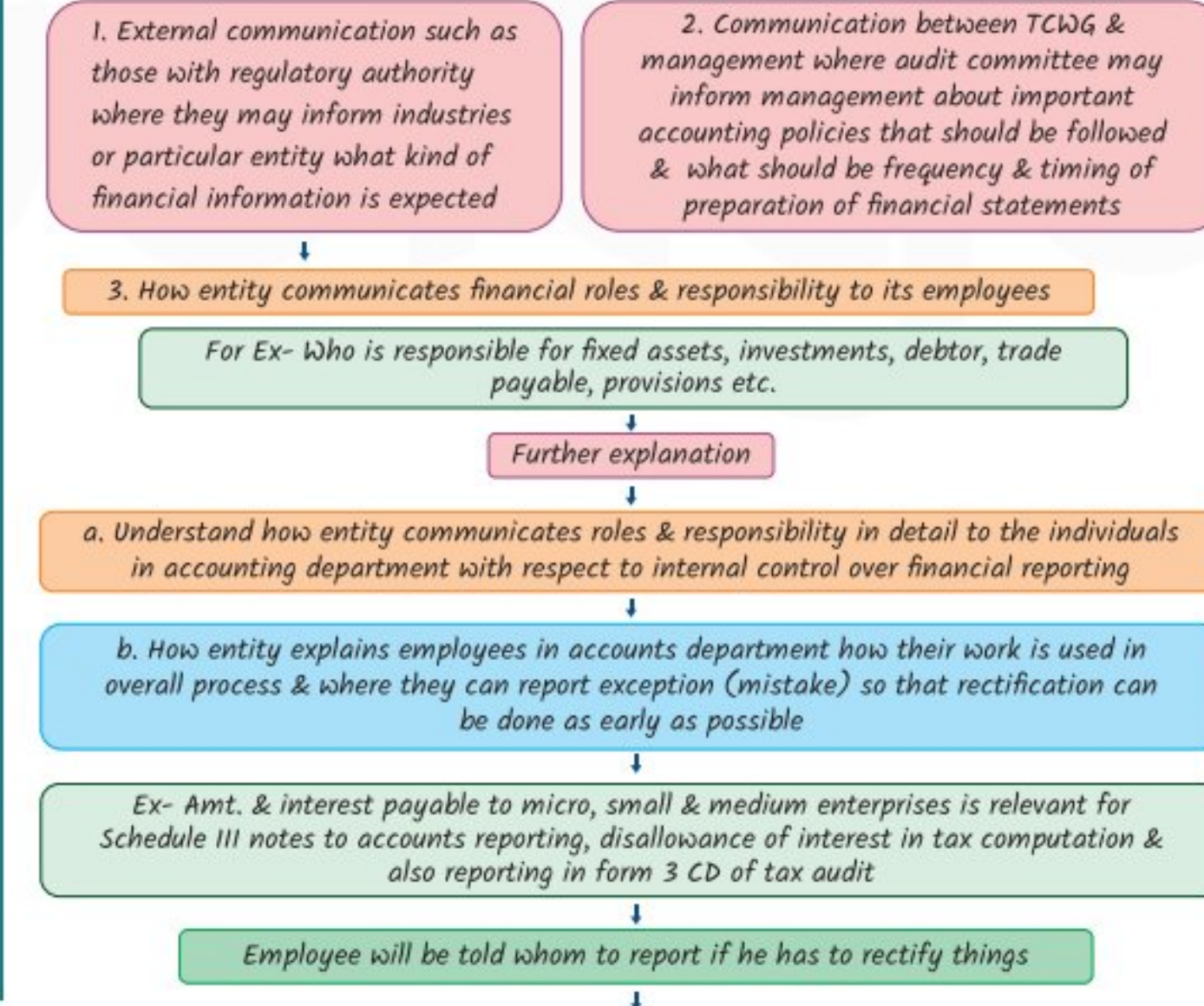
### MONITORING OF CONTROLS - IN THE ENTITY HAS AN INTERNAL AUDIT FUNCTION



### 5. UNDERSTANDING INFORMATION SYSTEM & COMMUNICATION



### COMMUNICATING FINANCIAL ROLES & RESPONSIBILITY

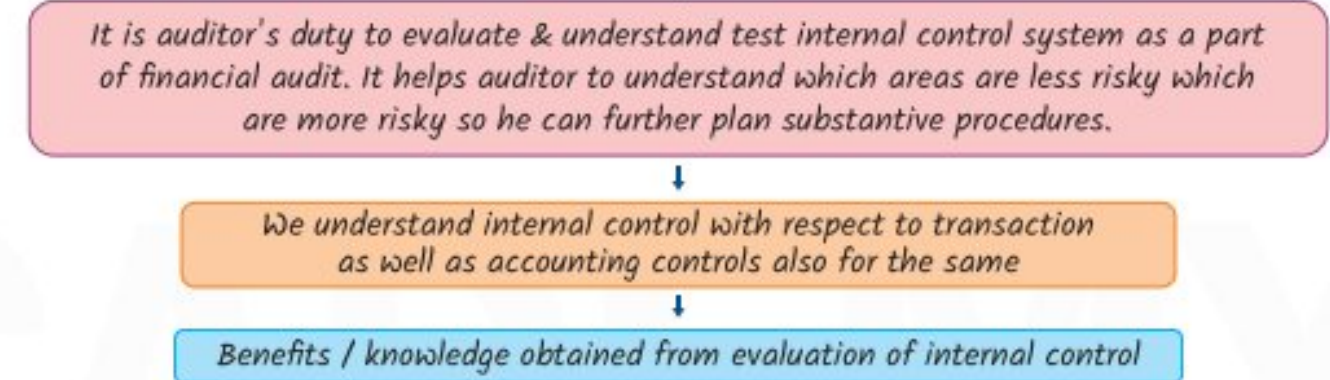


c. Whether entity has company policy manual & financial reporting manuals explaining how to deal with transaction & events

d. Whether entity promote open communication so that exceptions are reported & rectifications are done as soon as possible.

e. In small entities, communication is less structured so it is fast clear & action is taken immediately. But in larger entities, communication can be slow formal & it may take time to reach people & to initiate rectification

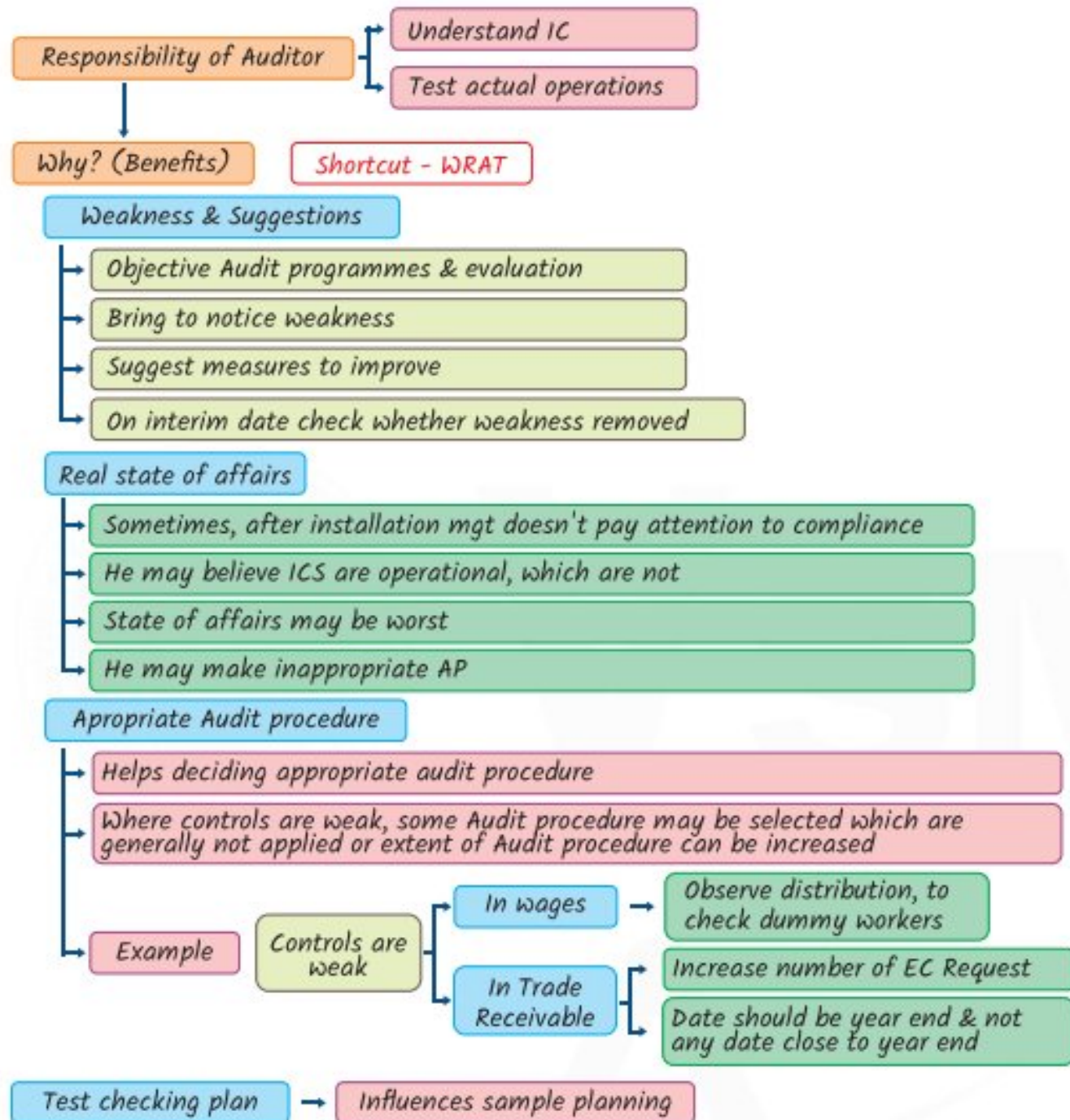
### EVALUATION OF INTERNAL CONTROL BY AUDITOR



Shortcut - A'R'I'S'E' for benefits

- A** - Adequacy of internal control system to cover all the areas and circumstances
- A** - Administrative control (system related to managing staff) like if there is weakness in recruitment of employees then it will increase risk of dummy employees which auditor needs to be careful
- A** - Audit techniques & Audit procedures that will be required to test assertions where controls are not performing properly
- A** - Areas of controls which are weak & where there are excessive controls
- A** - Areas of controls which are weak & where there are excessive controls
- R** - Whether management successful in correct Recording of transaction
- R** - Whether management is getting Reliable records, reports, certificate from its information system & professional which are hired
- I** - Whether Internal audit department is operating effectively
- S** - Whether system is Safeguarding assets properly
- S** - Auditor may come across Suggestions for management in improving internal control system
- E** - Types of Error & frauds which are likely to be located in ordinary course of business
- E** - Extend the depth of examination that will be required in certain accounting areas

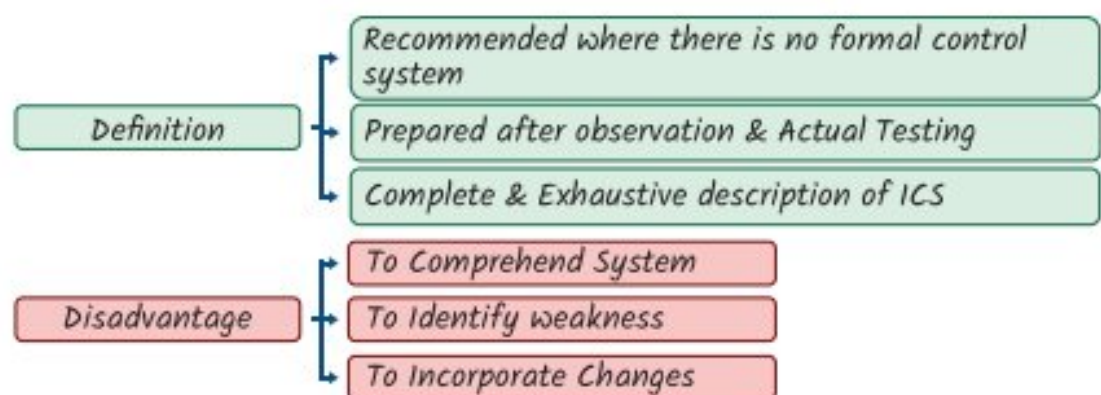
### FORMULATE AUDIT PROGRAMME AFTER UNDERSTANDING IC



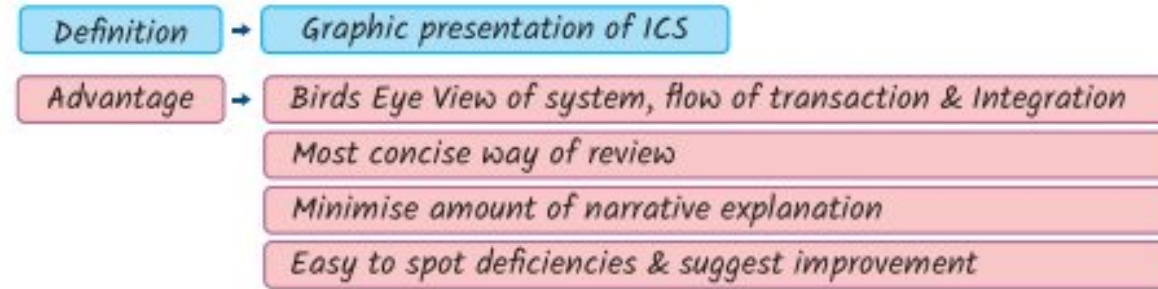
### TOOLS OF ICS REVIEW



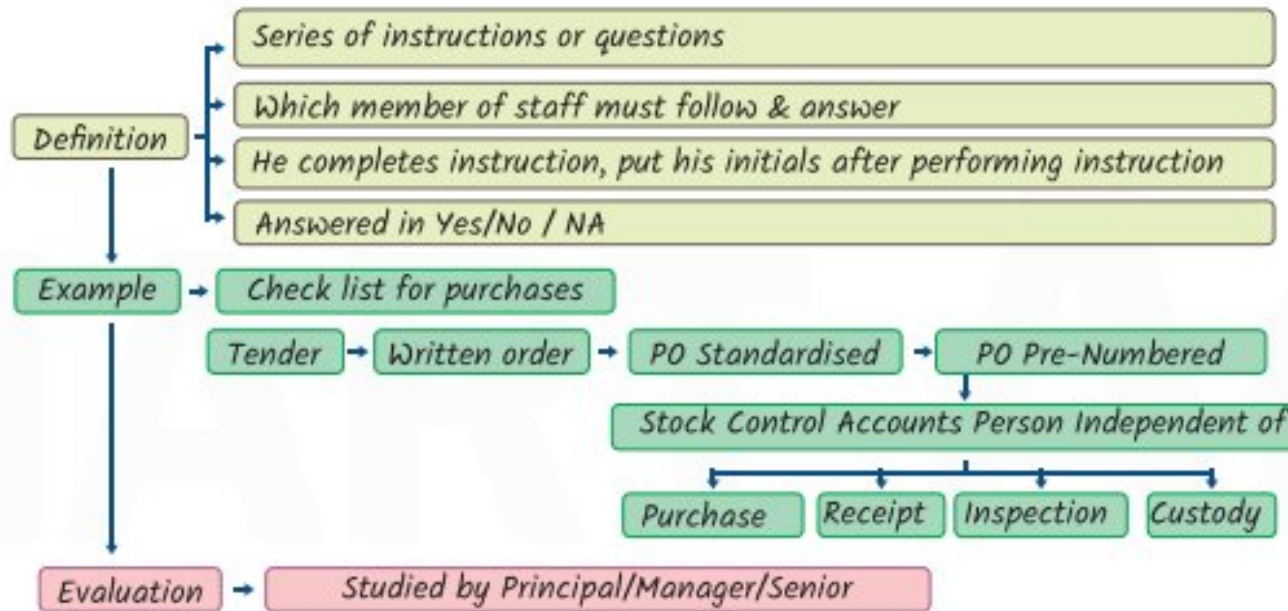
### NARRATIVE RECORDS



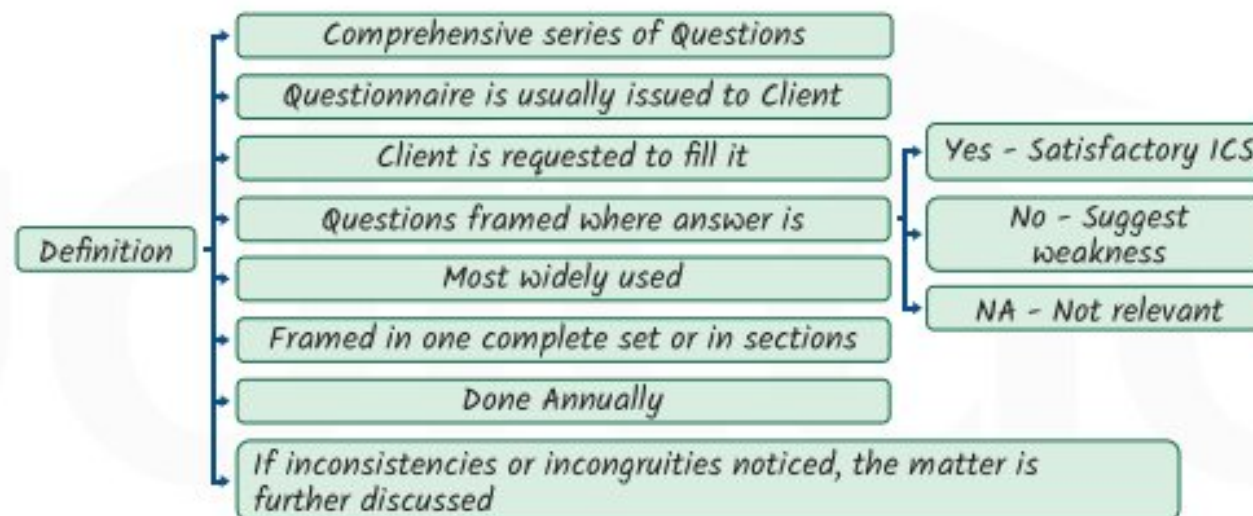
### FLOW CHART



### CHECK LIST



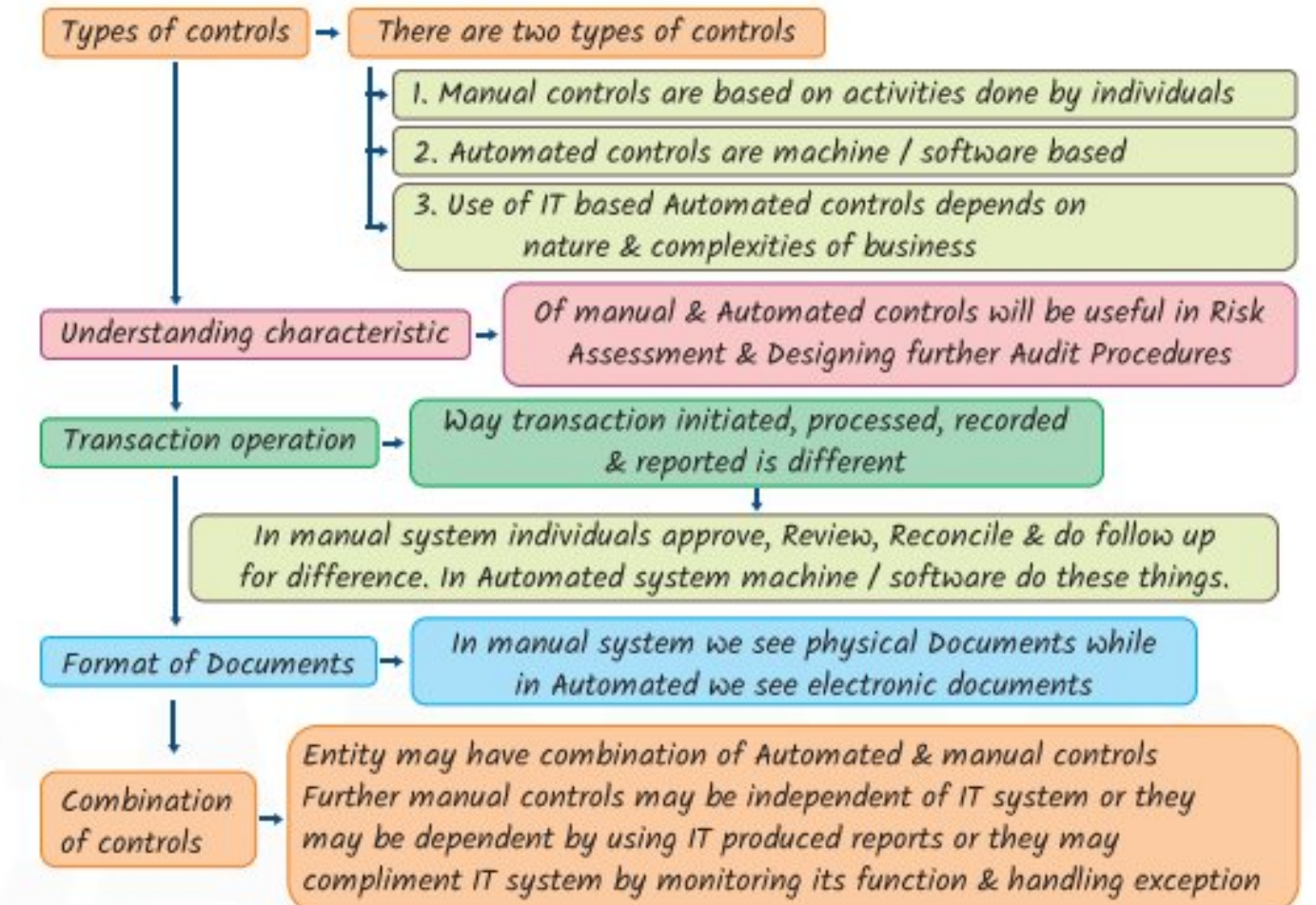
### INTERNAL CONTROL QUESTIONNAIRE



### INTERNAL CONTROLS IN SMALL BUSINESS



### MANUAL & AUTOMATED INTERNAL CONTROL

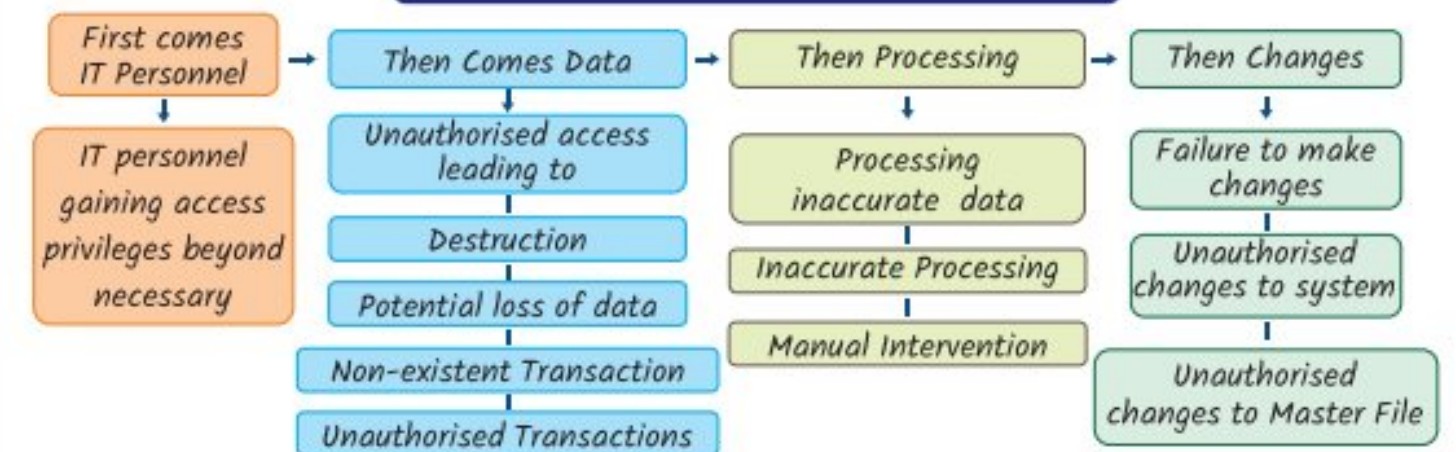


### BENEFITS OF IT IN ENTITY'S INTERNAL CONTROLS

Shortcut - SMART & C<sup>2</sup> Lever

- 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

### RISK BECAUSE OF IT SYSTEMS

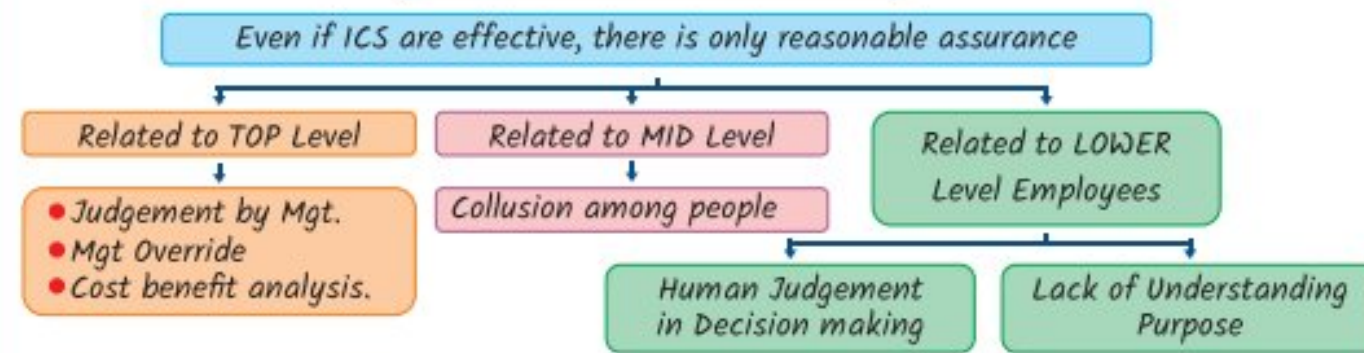


VSMART ACADEMY Auditguru.in

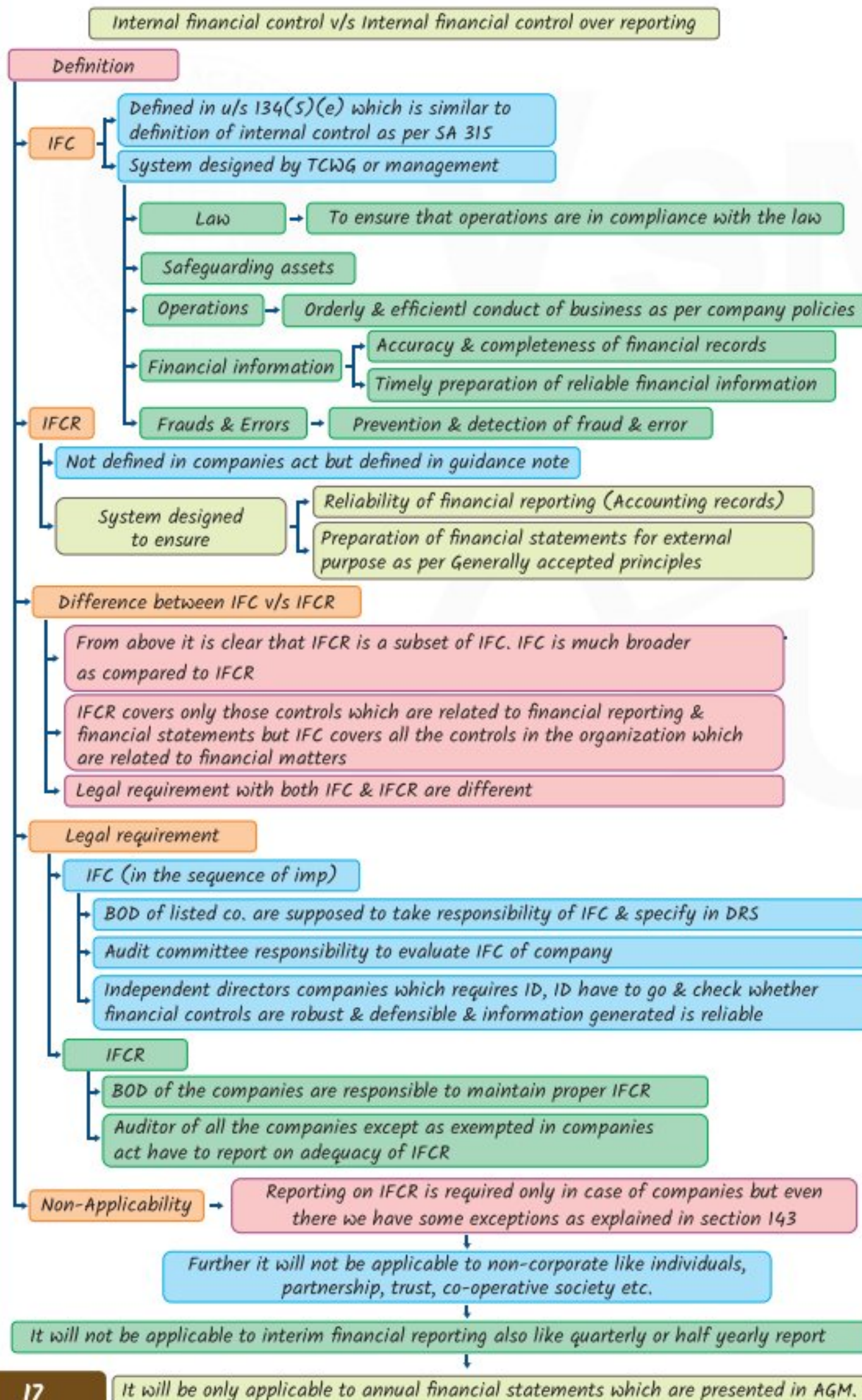
CA Ravi Taori



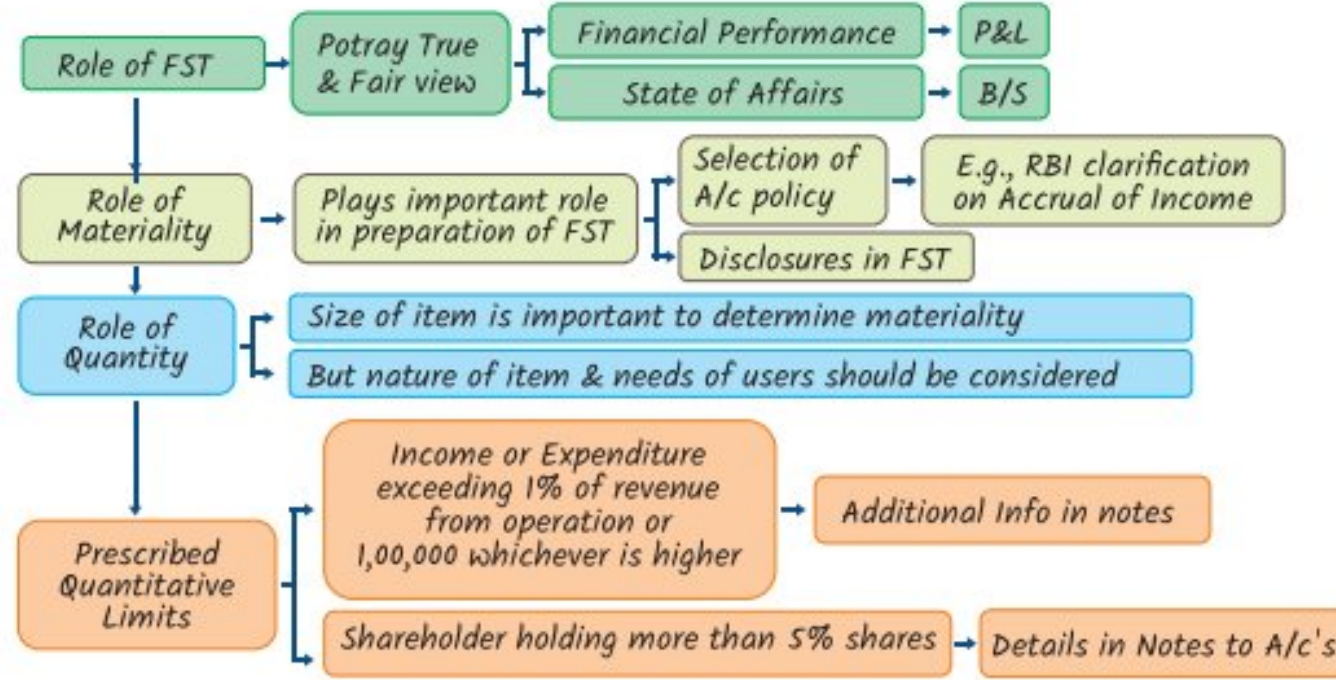
### LIMITATION OF ICS



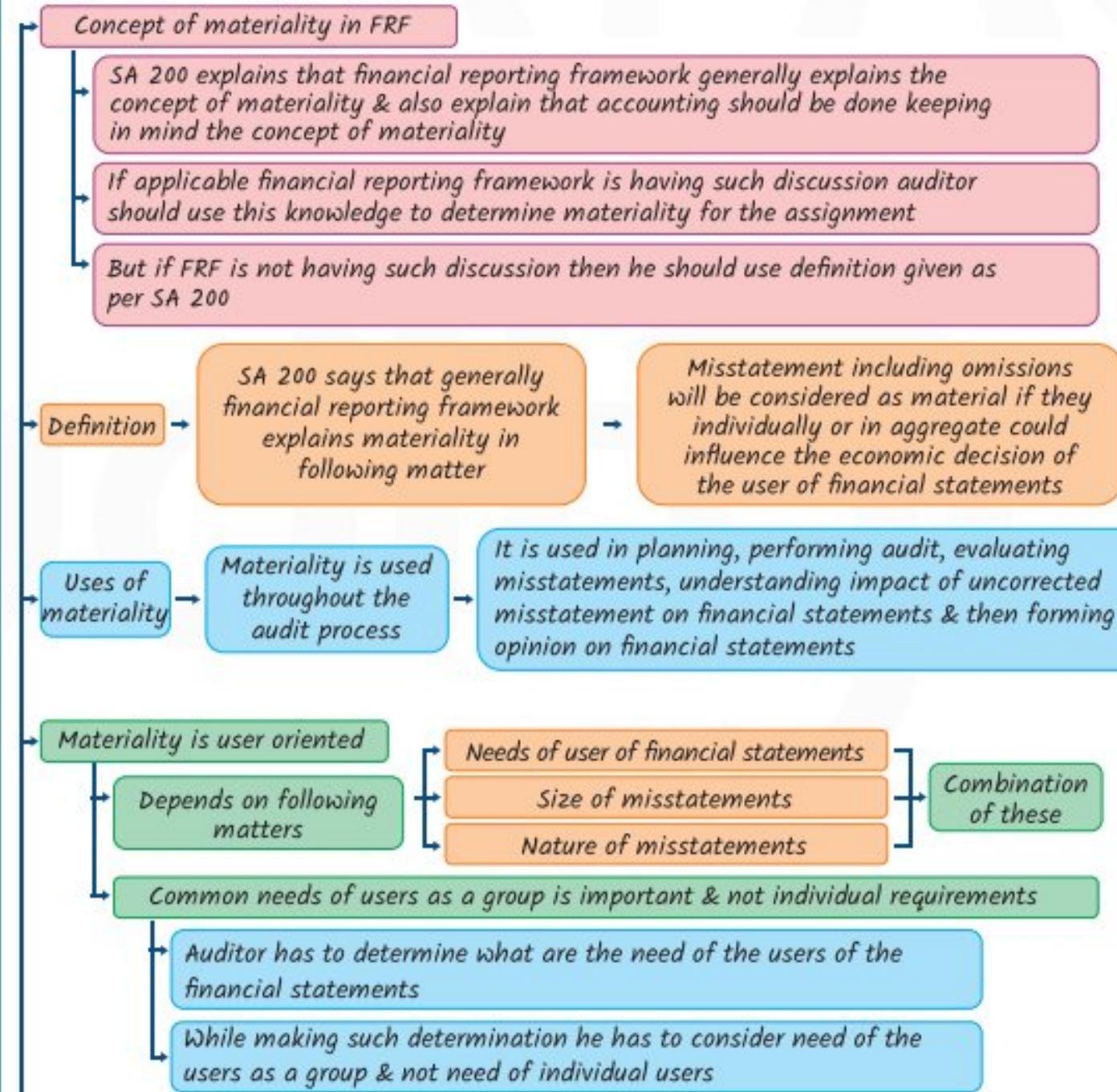
### IFC v/s IFCR



### Part 3 - SA 320

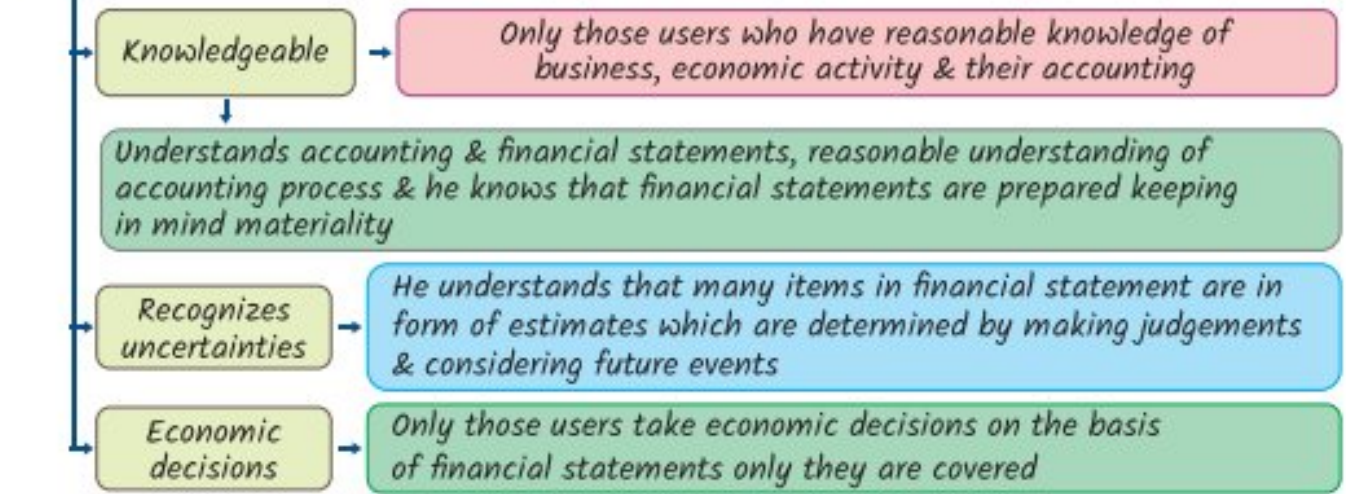


### SHORT NOTE ON MATERIALITY



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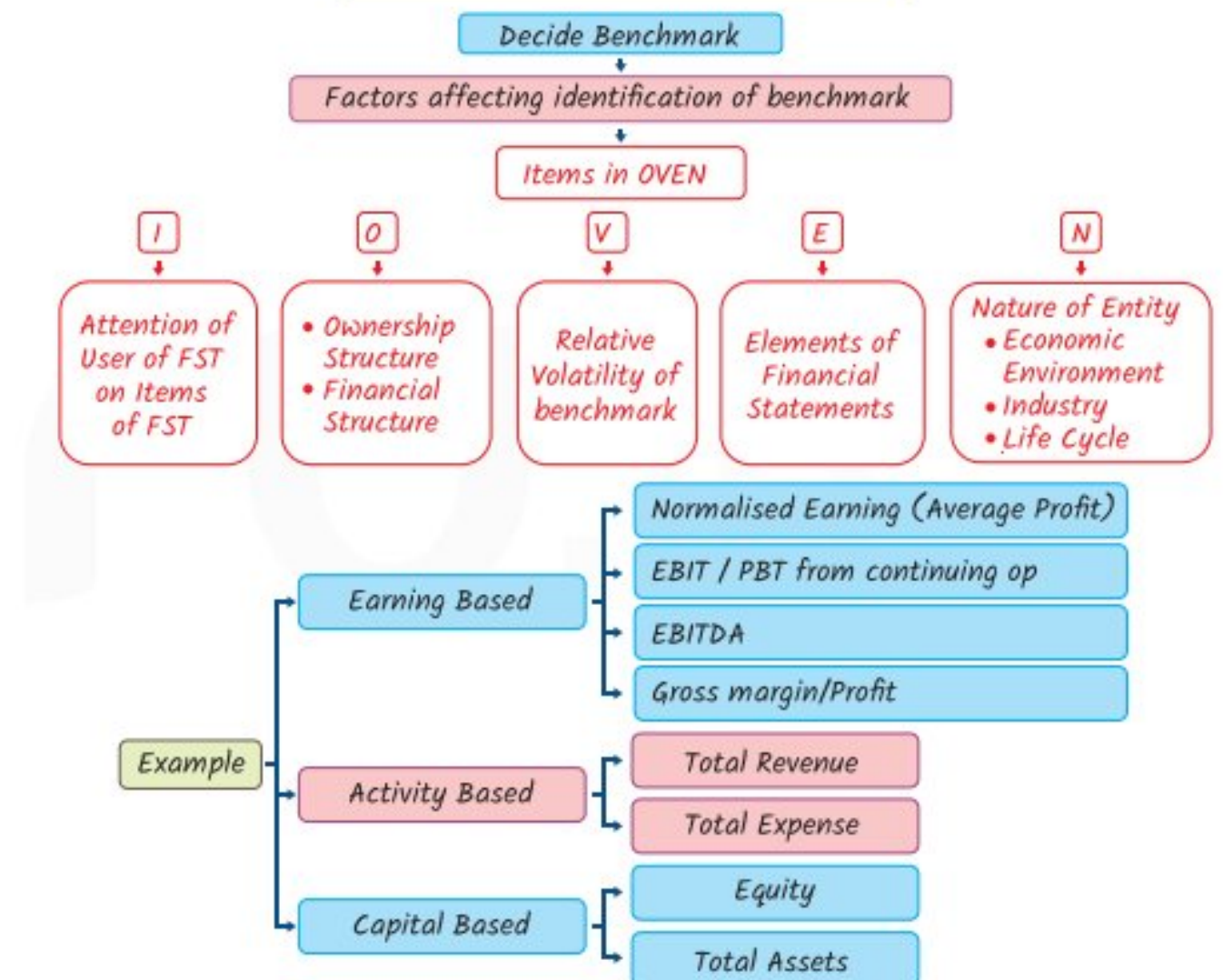
### Assumption about users



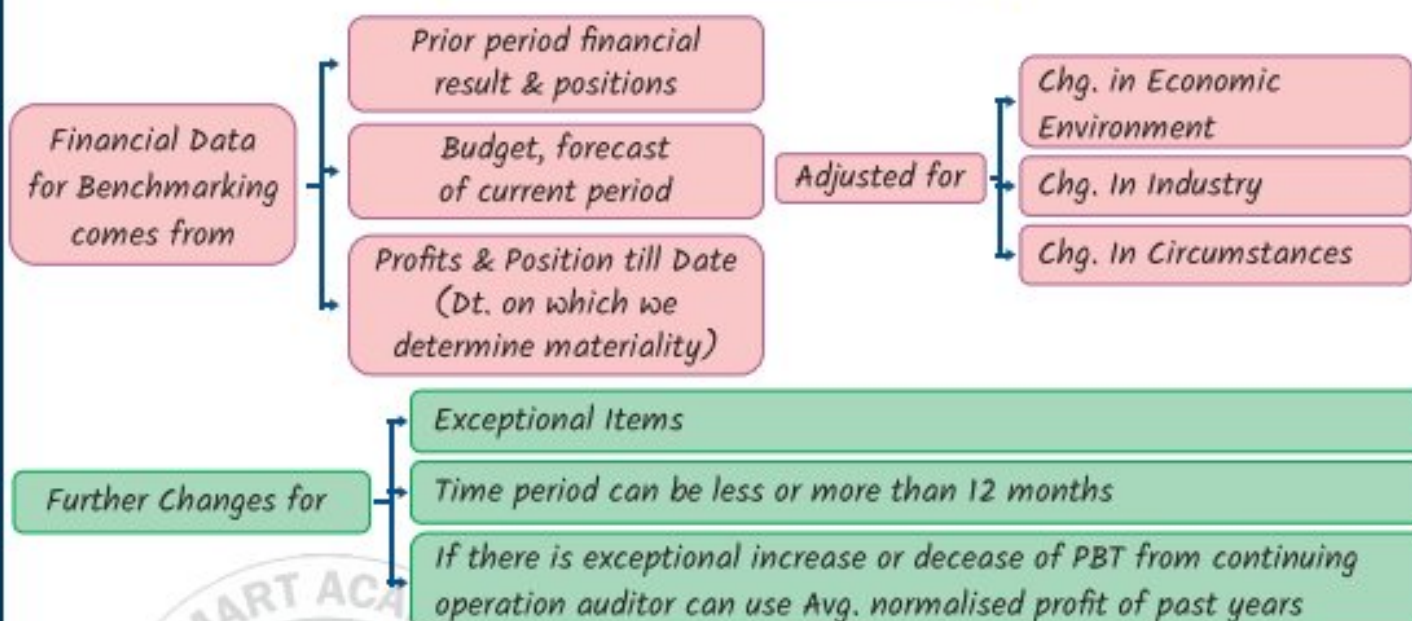
### BENCHMARKING

It is a method of computing materiality level.  
 Materiality Level = Benchmark (Base) x Percentage

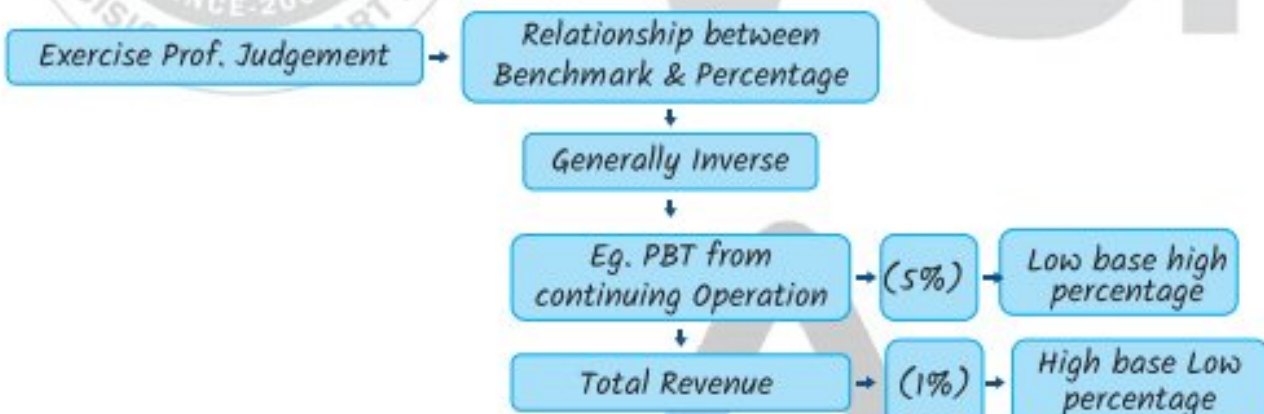
### STEP 1 DECIDE BENCHMARK



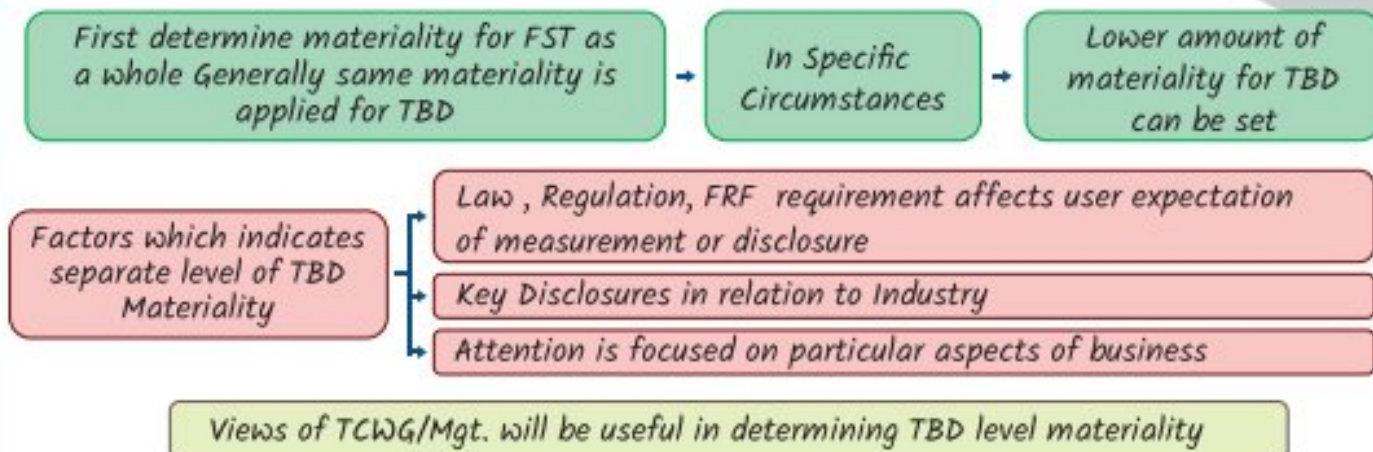
**STEP 2 NORMALIZATION**



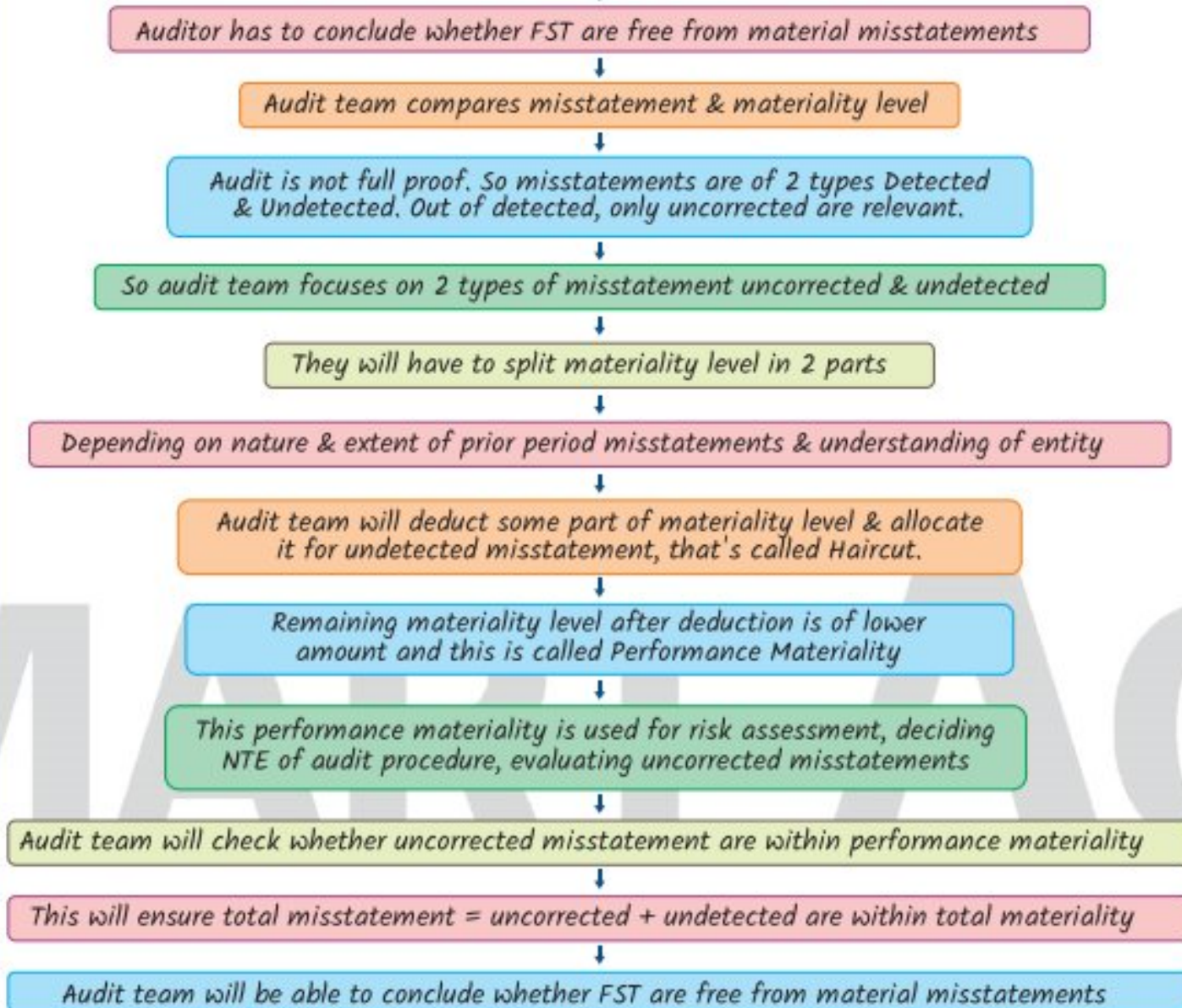
**STEP 3 DETERMINE PERCENTAGE**



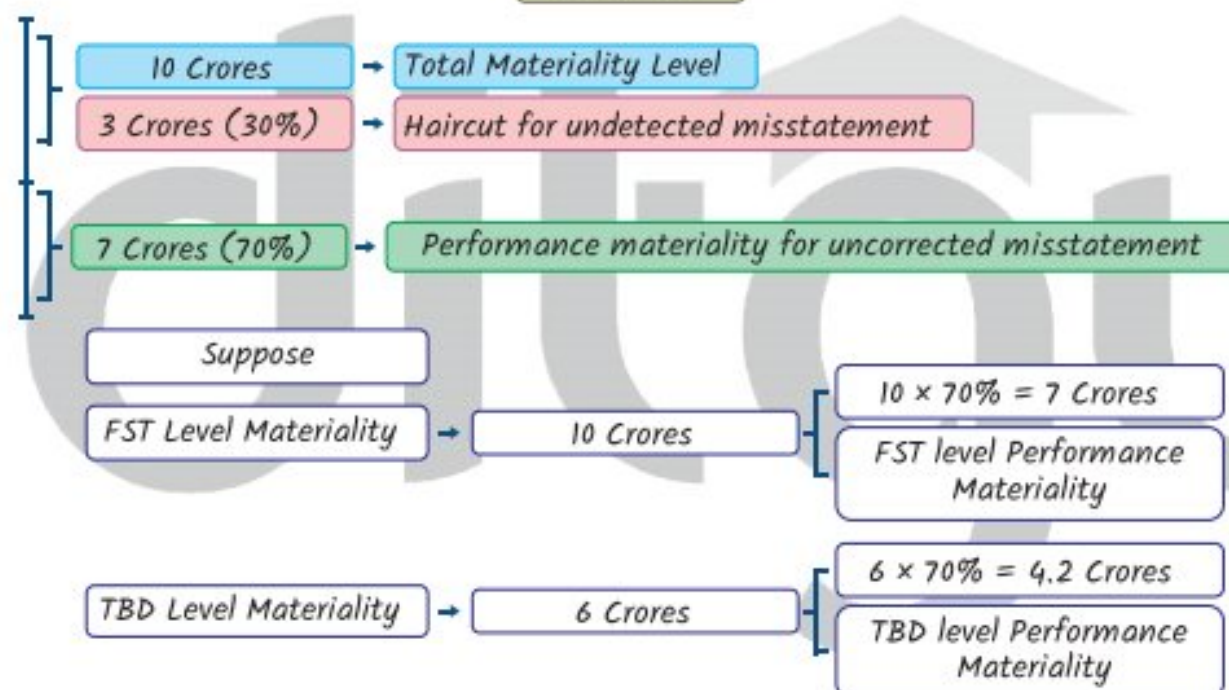
**MATERIALITY FST LEVEL VS TBD LEVEL**



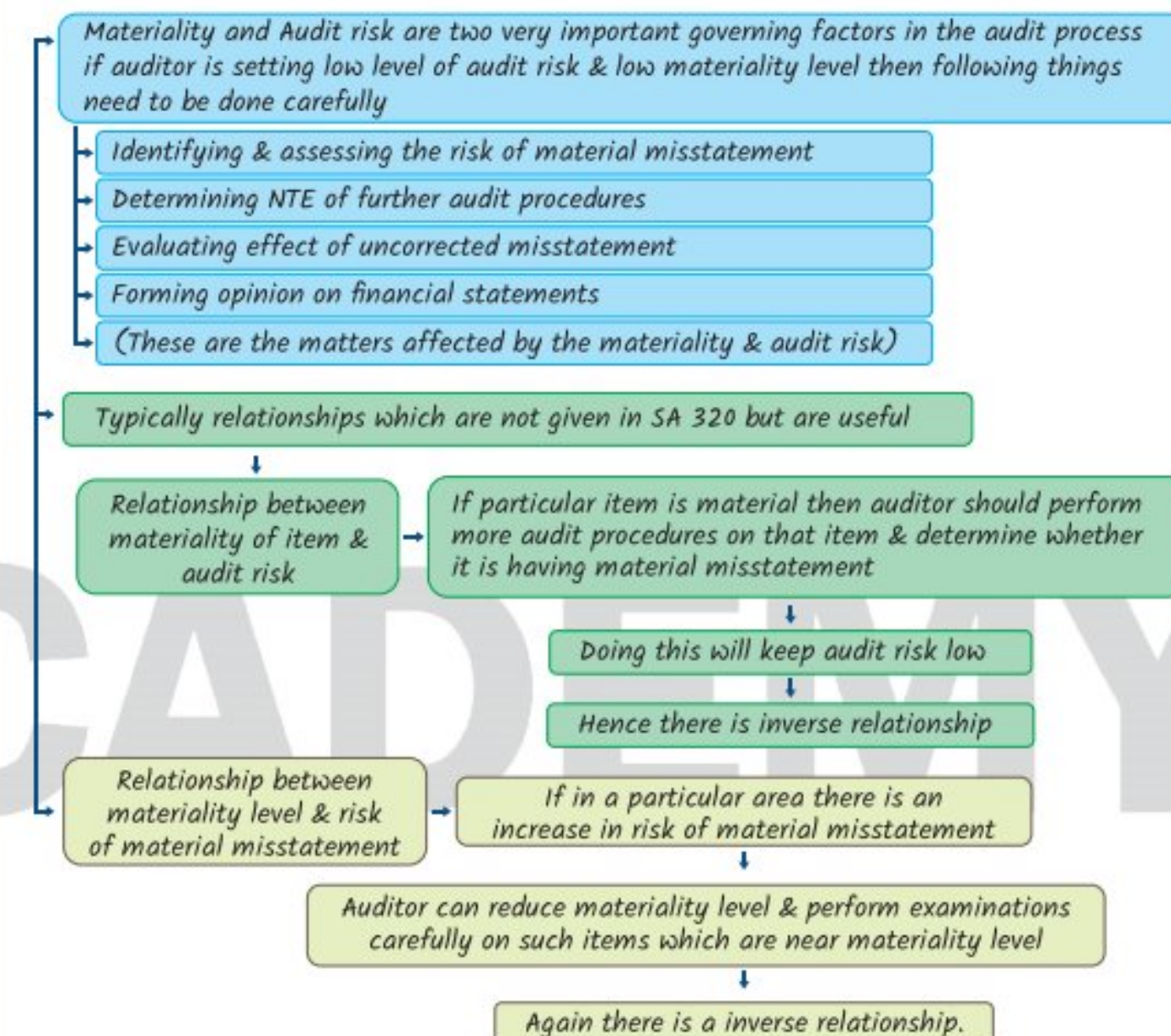
**PERFORMANCE MATERIALITY**



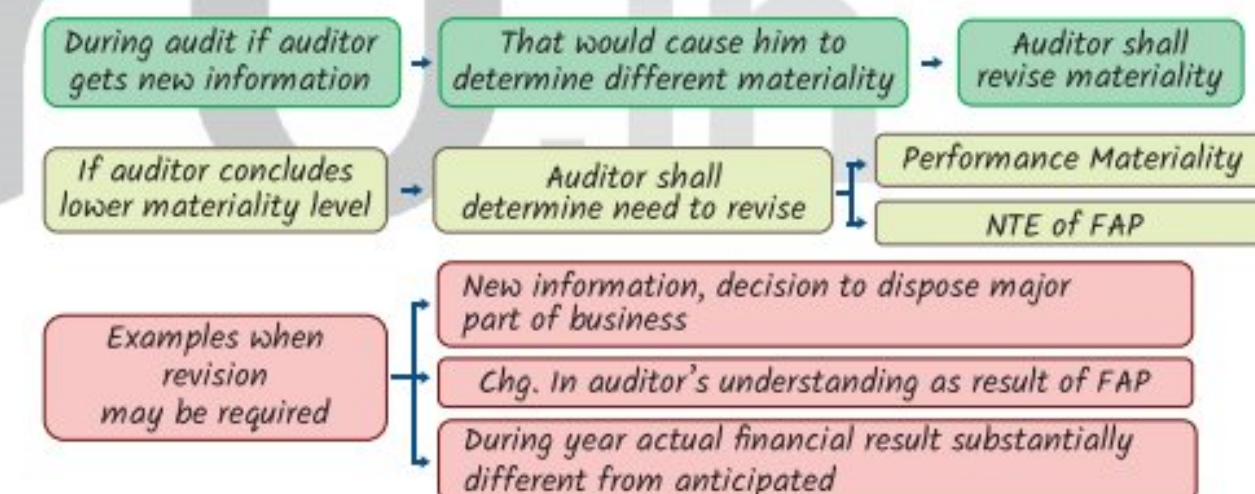
**EXAMPLE**



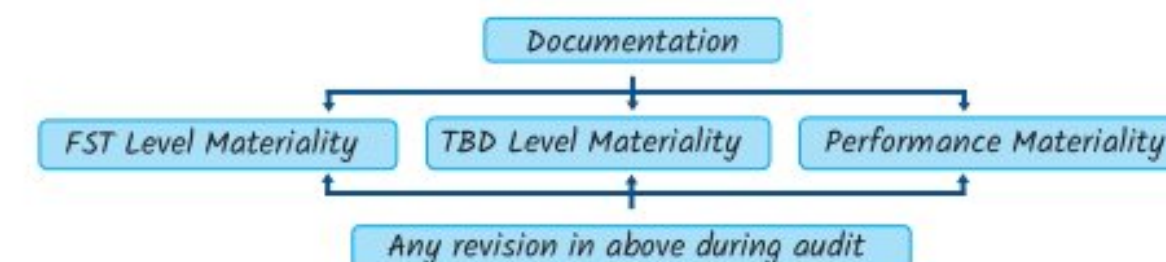
**RELATIONSHIP BETWEEN MATERIALITY & AUDIT RISK**



**REVISION OF MATERIALITY**

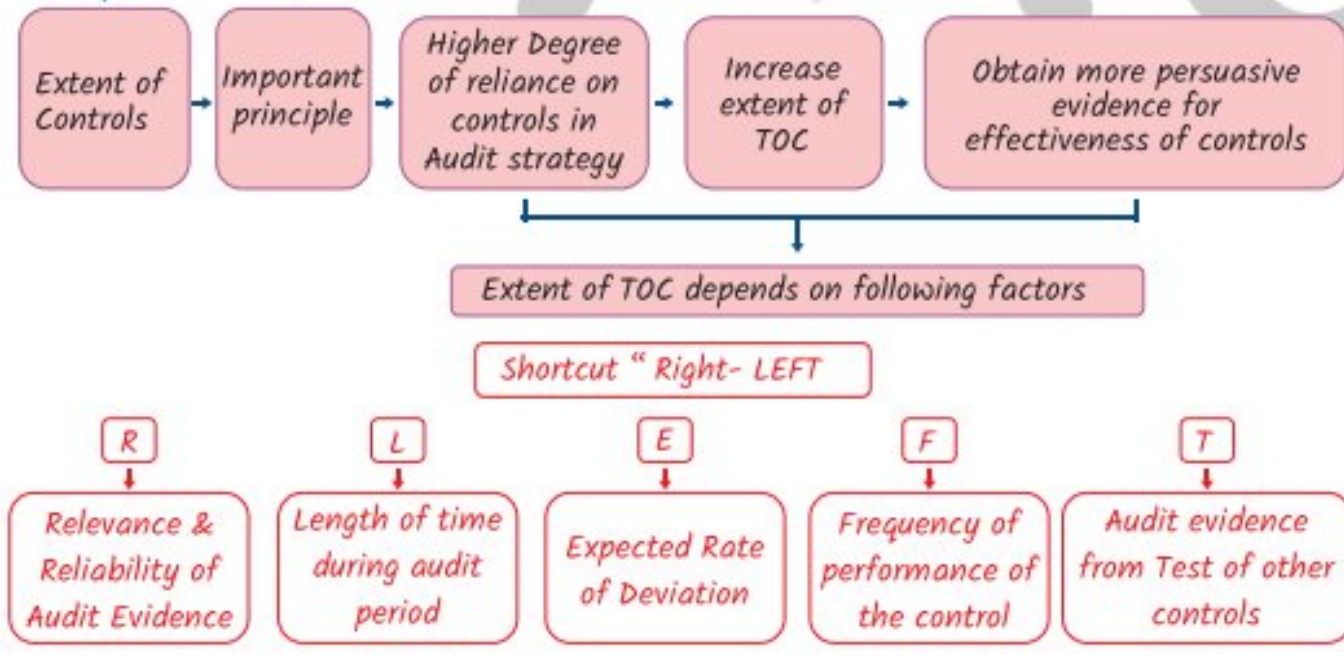
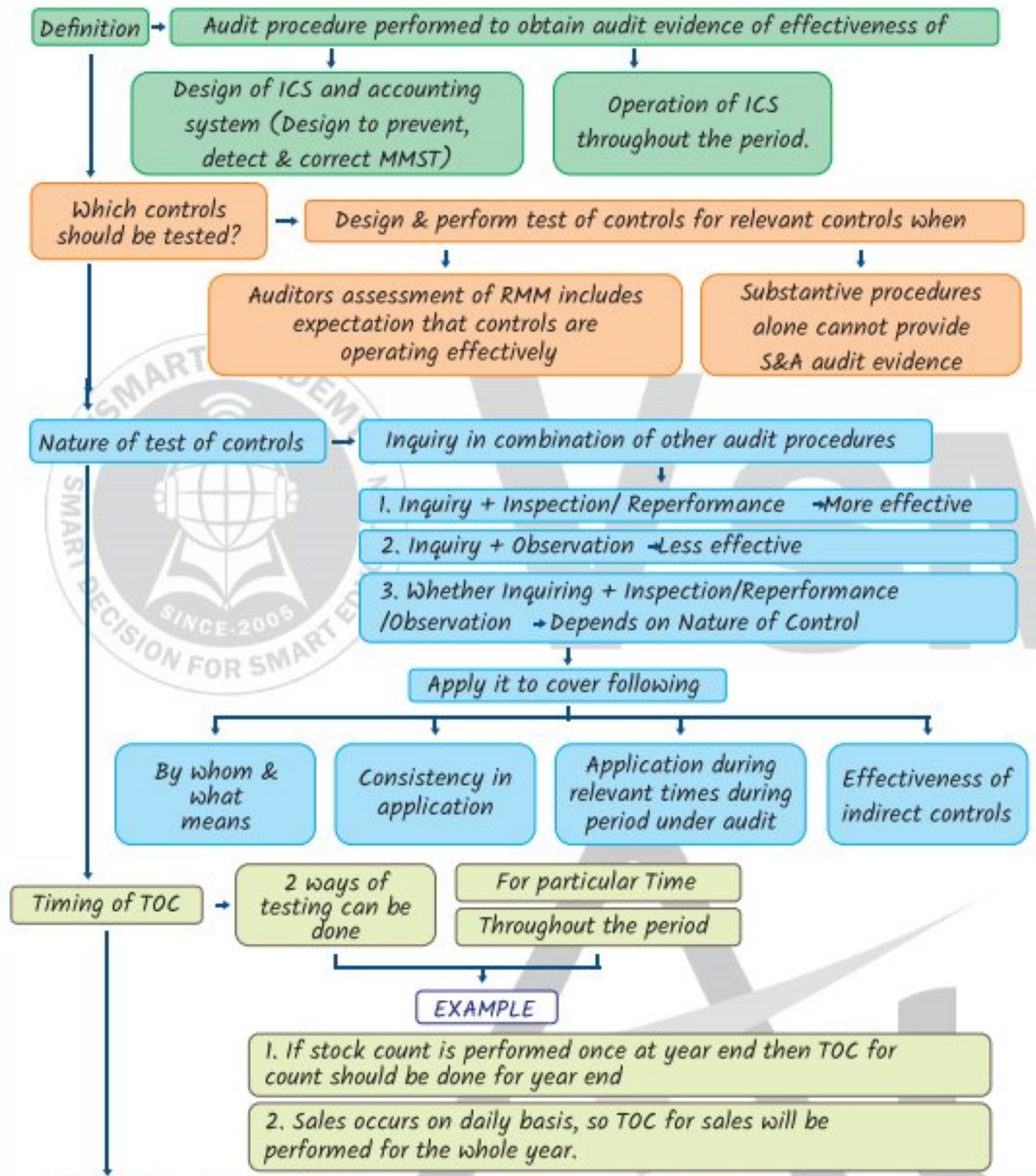


**DOCUMENTING THE MATERIALITY**



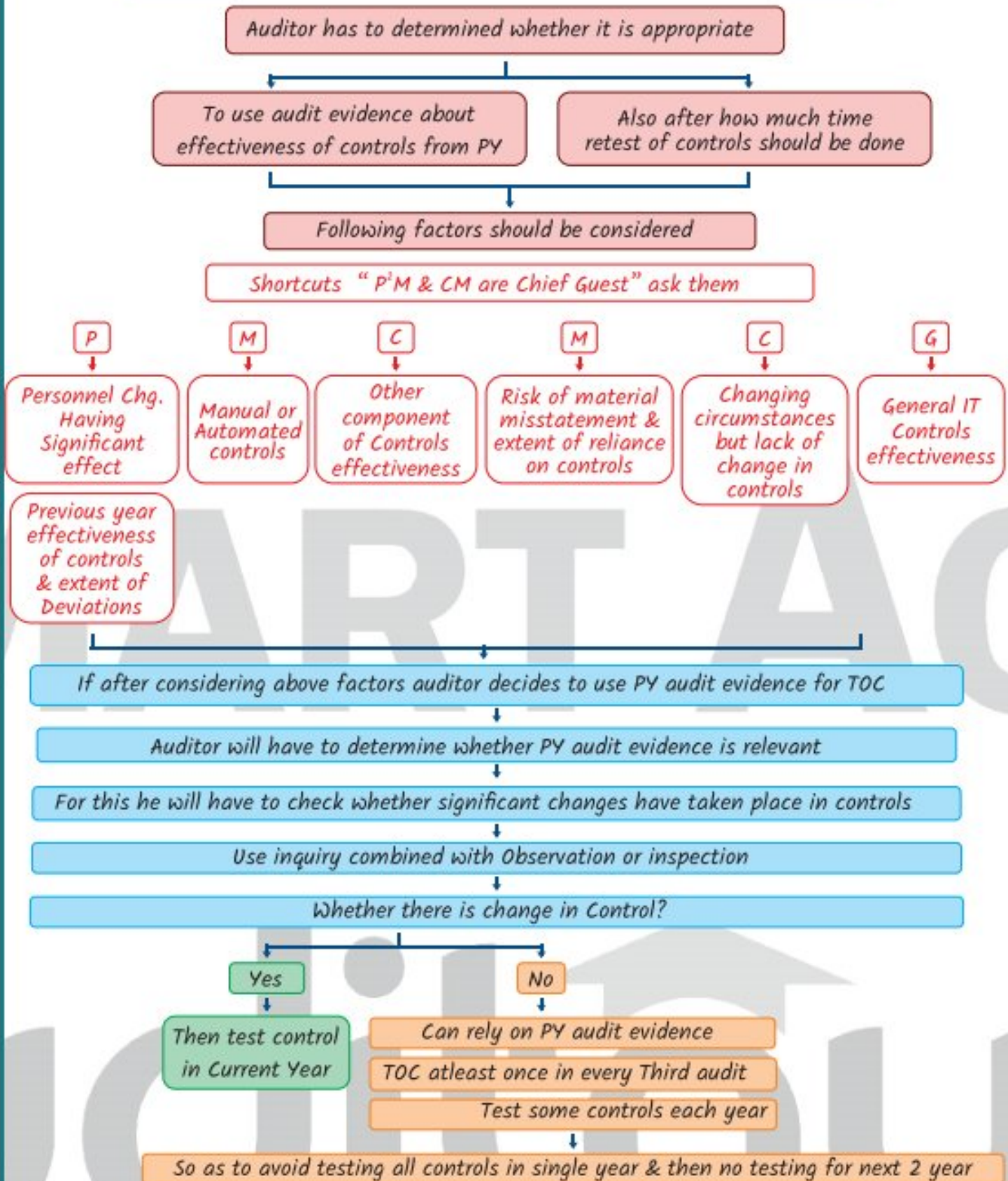
(CNO--SA330.040) QNO-330.01, 330.03, 330.05, 330.07 (MCQ-330.4, 330.5, 330.2, 330.6)(MCQ-Incs.23.5, Incs.53.5)

**TEST OF CONTROLS (TOC)**



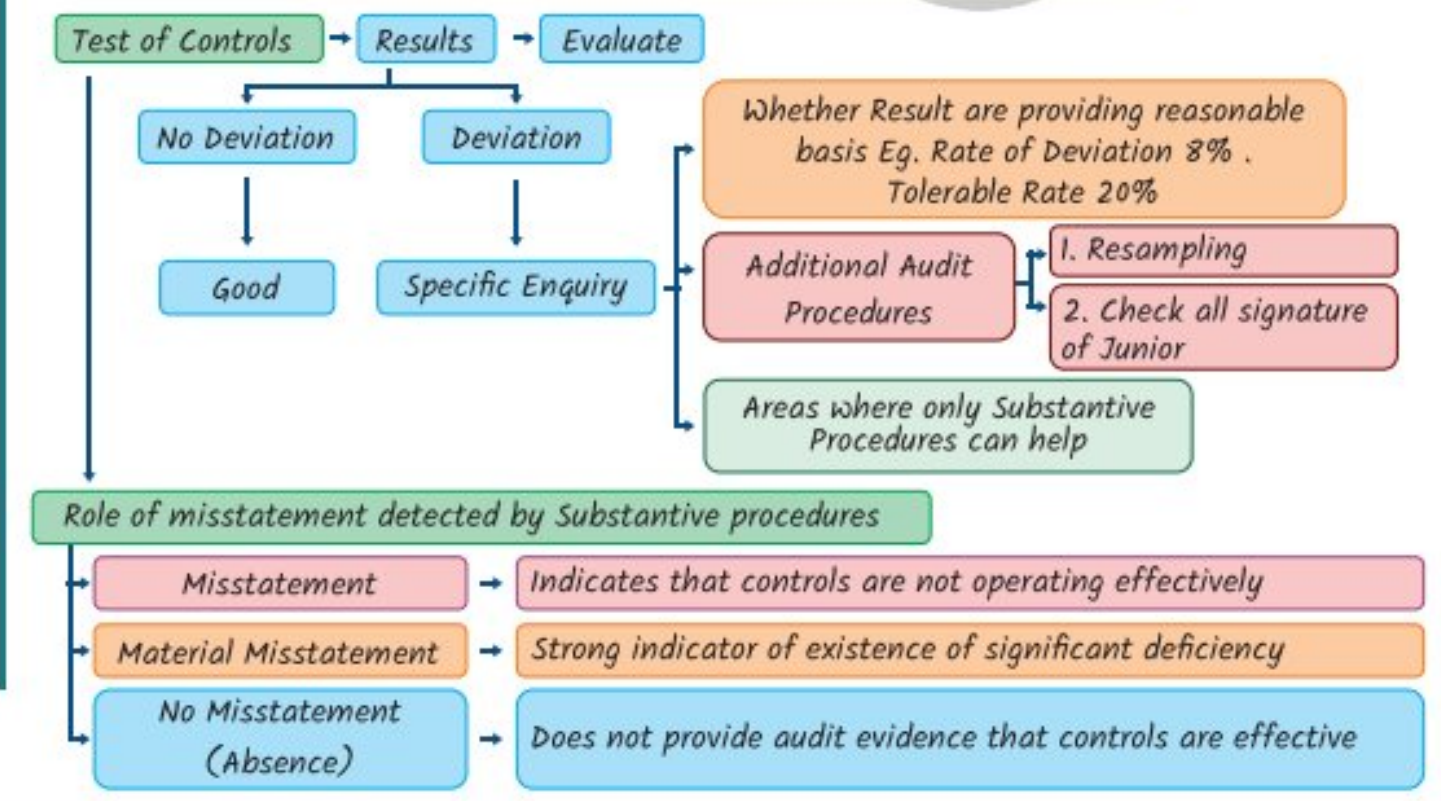
(CNO--SA330.060) (QNO-330.09)

**USING AUDIT EVIDENCE OBTAINED IN PREVIOUS YEAR**



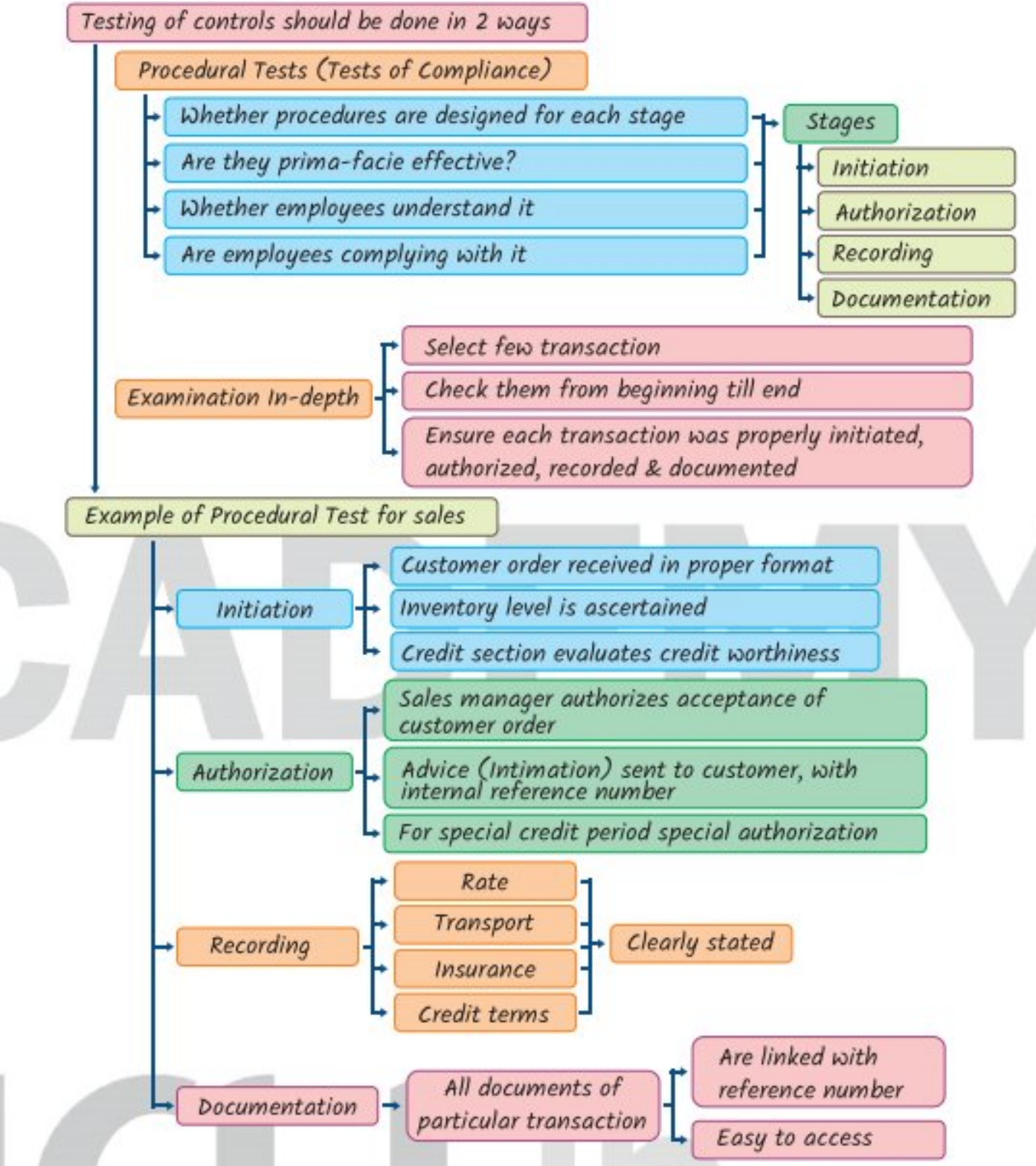
(CNO--SA330.080) QNO-330.13 (MCQ-330.1, Incs.48.5)

**EVALUATING OPERATING EFFECTIVENESS OF CONTROLS**



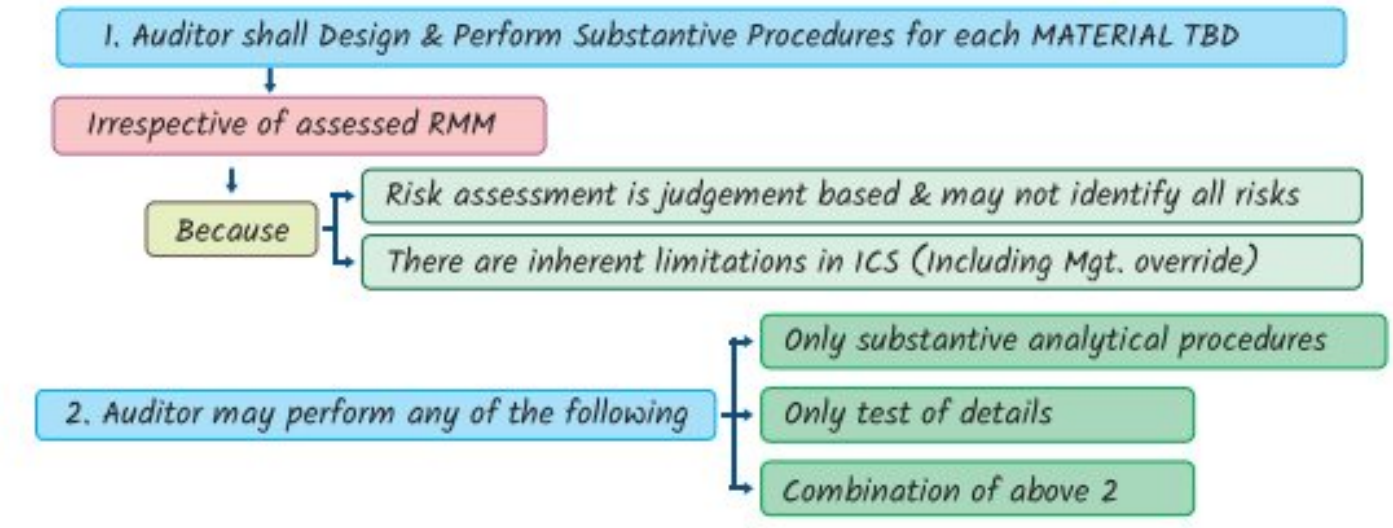
(CNO--SA330.090) (QNO-330.14)

**PROCEDURAL TESTS (TRADITIONAL THEORY)**



(CNO--SA330.100) (QNO-330.15, 330.03) (MCQ-330.3, 330.20, Incs.23.3, Incs.23.5)

**DESIGNING & PERFORMING \ SUBSTANTIVE PROCEDURES (SP)**



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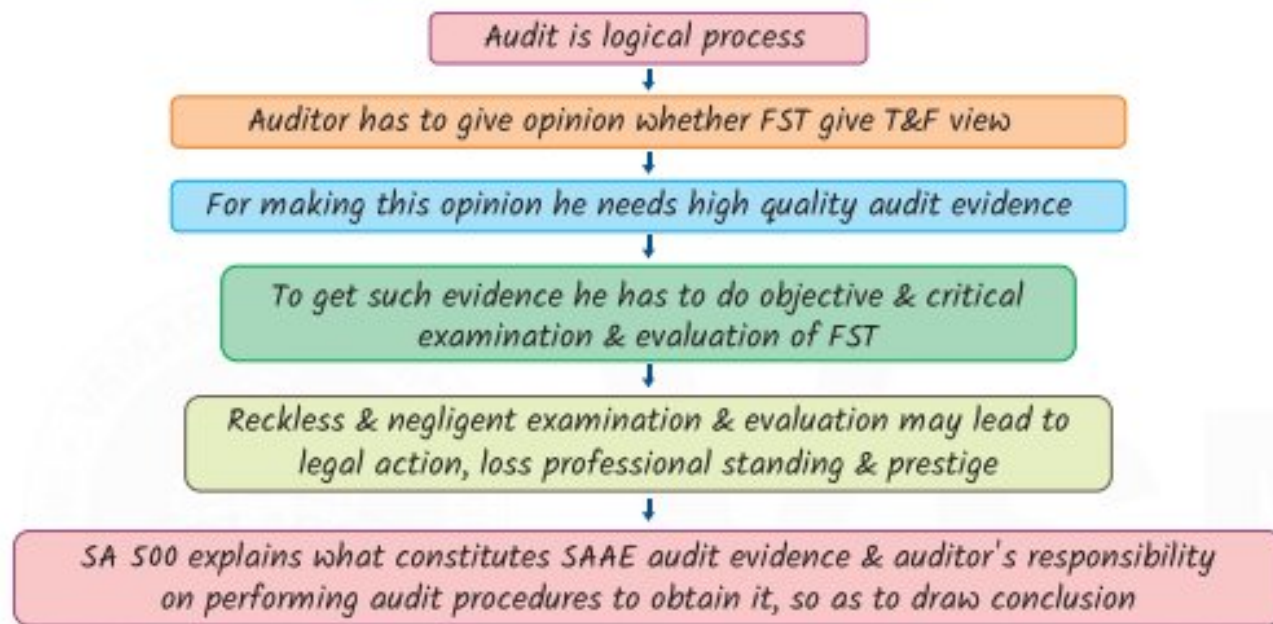




Part I -- SA 500

(CNO--SAS00.010)

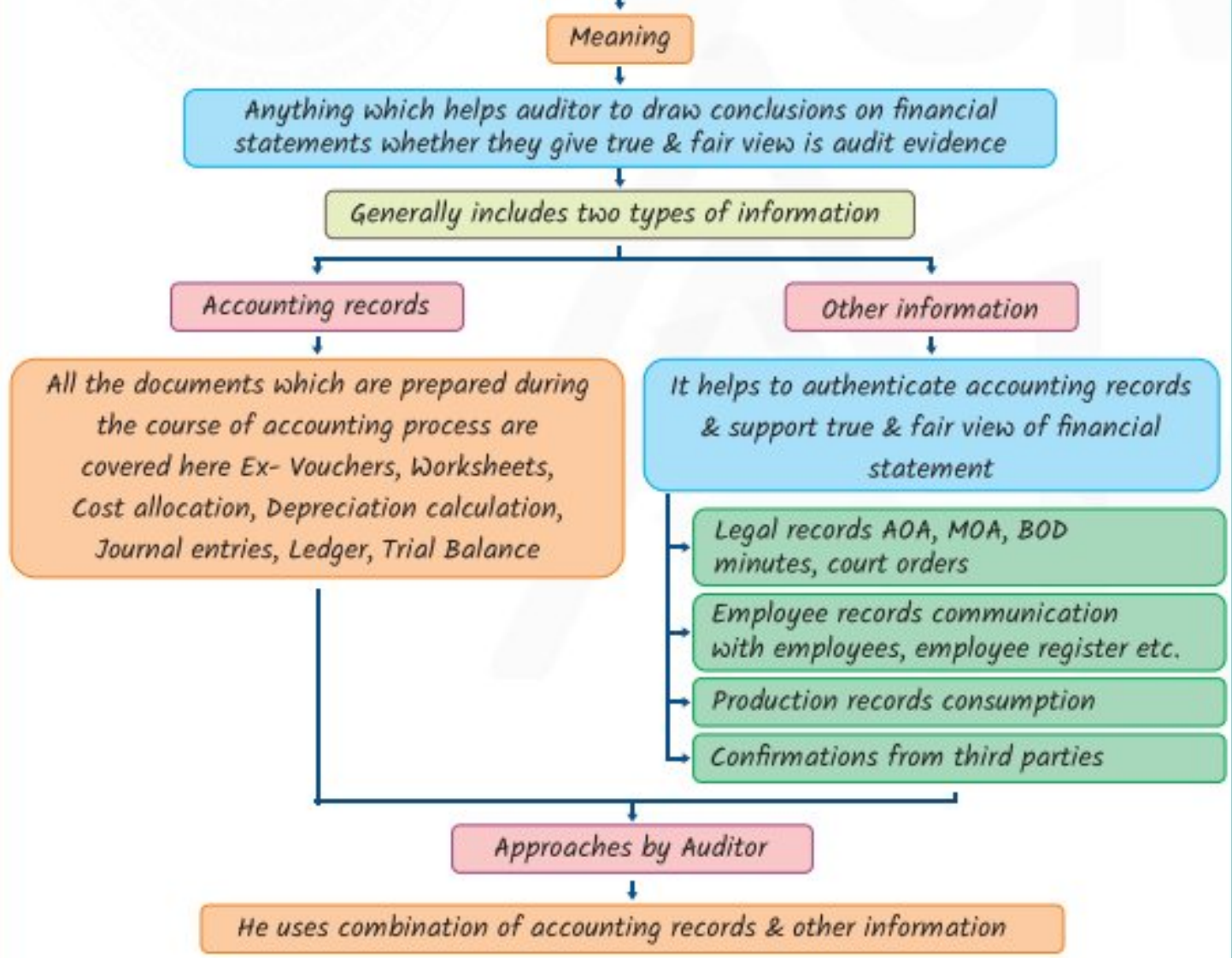
ROLE OF AUDIT EVIDENCE



(CNO--SAS00.020)

(QNO-500.01) (MCQ-500.1)

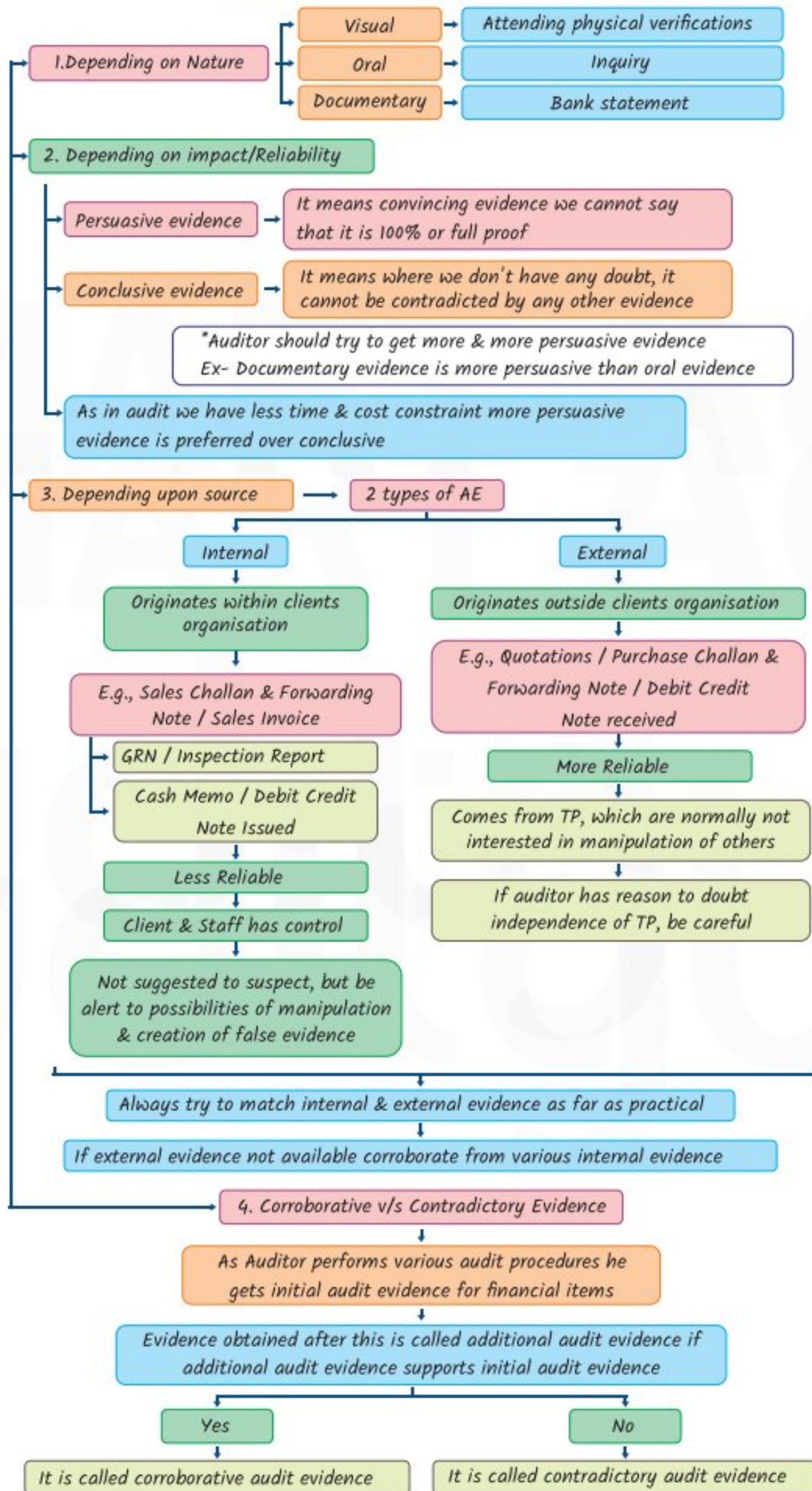
AUDIT EVIDENCE



(CNO--SAS00.040)

(MCQ- Incs.18.4)

TYPES OF AUDIT EVIDENCE



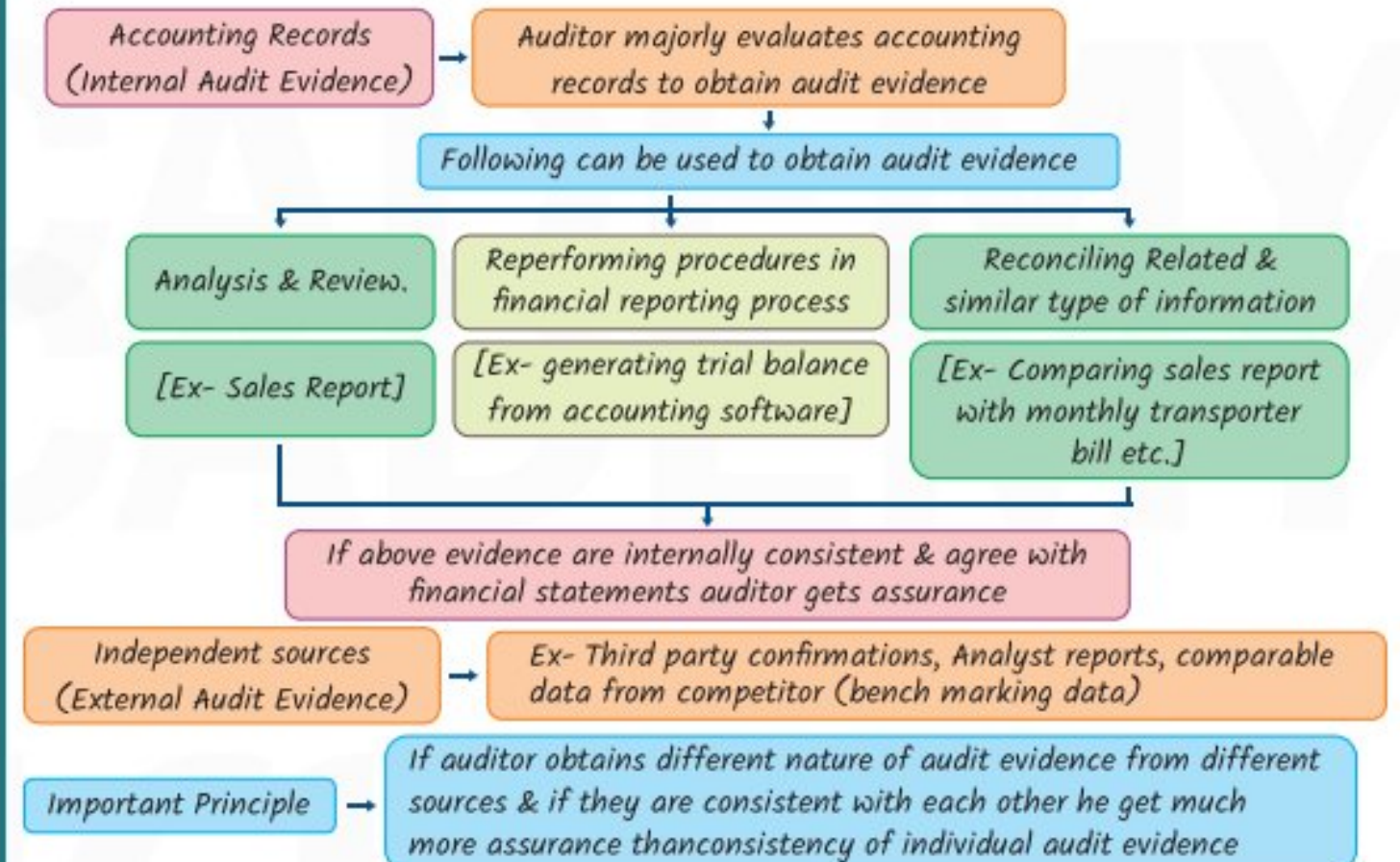
(CNO--SAS00.050)

OBJECTIVE OF SA 500



(CNO--SAS00.060)

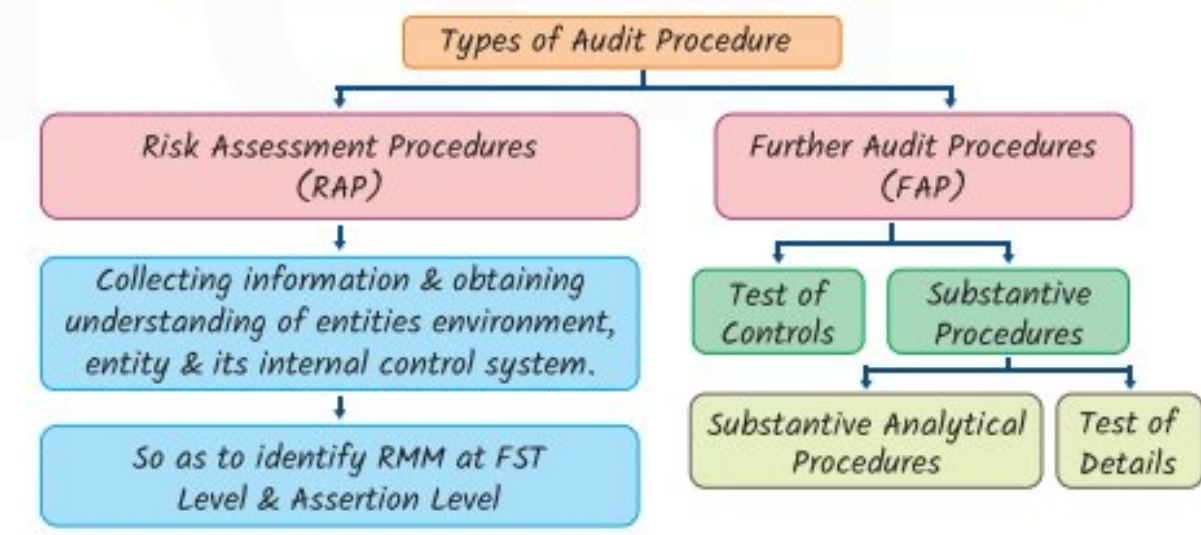
SOURCE OF AUDIT EVIDENCE  
ROLE OF A/C RECORDS



(CNO--SAS00.070)

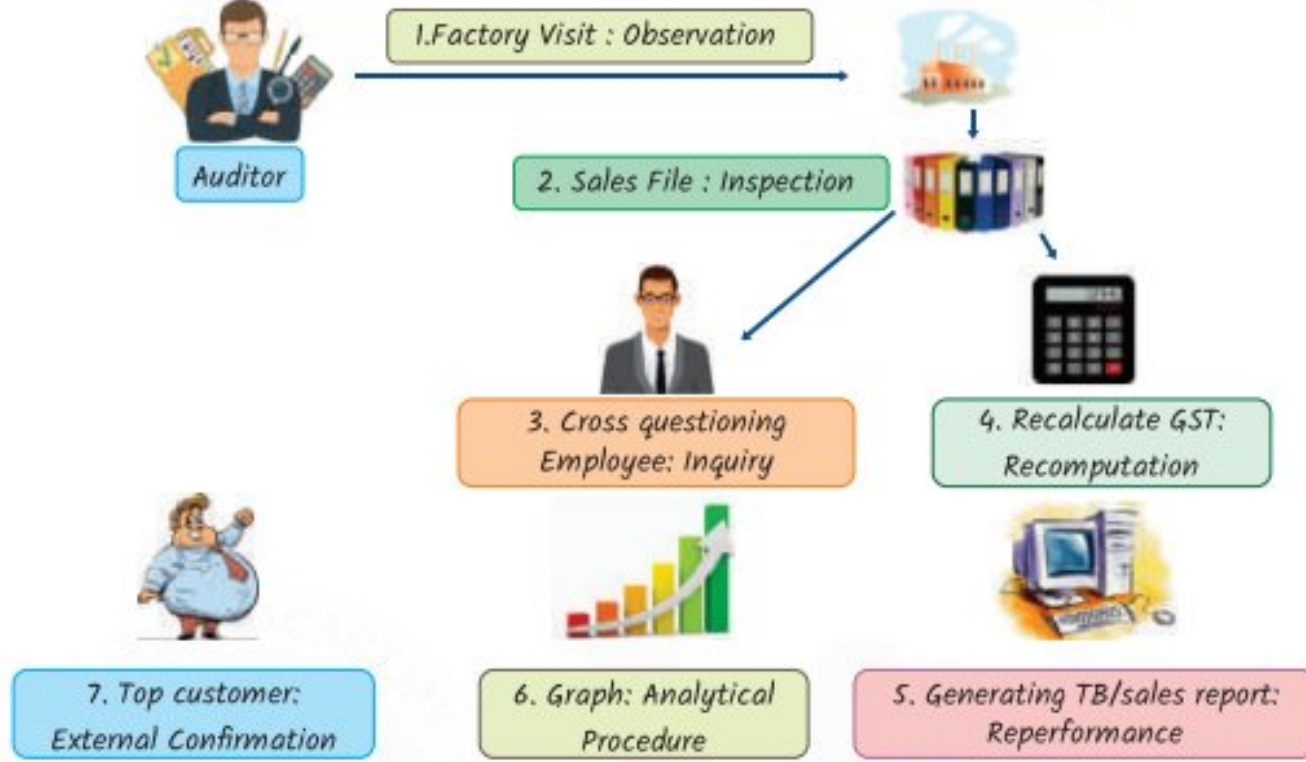
(MCQ-500.14,500.15)

AUDIT PROCEDURE TO OBTAIN EVIDENCE



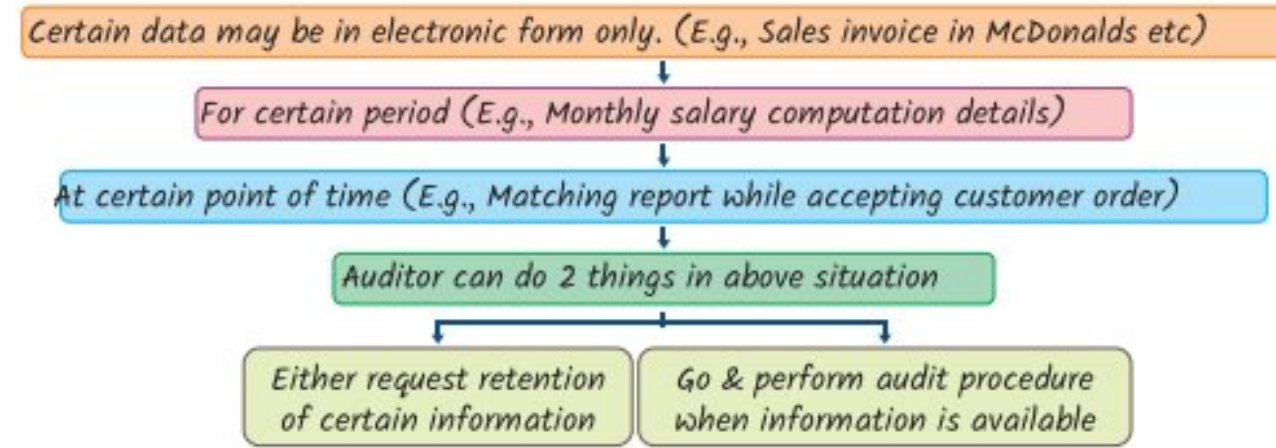
(CNO--SAS00.080) (QNO-500.05) (MCQ-500.3, 500.7, 500.8, 500.13, 500.16, Incs.51.1, Incs.51.2, Incs.51.3, Incs.51.4, Incs.51.5)

### METHOD OF COLLECTING AUDIT EVIDENCE



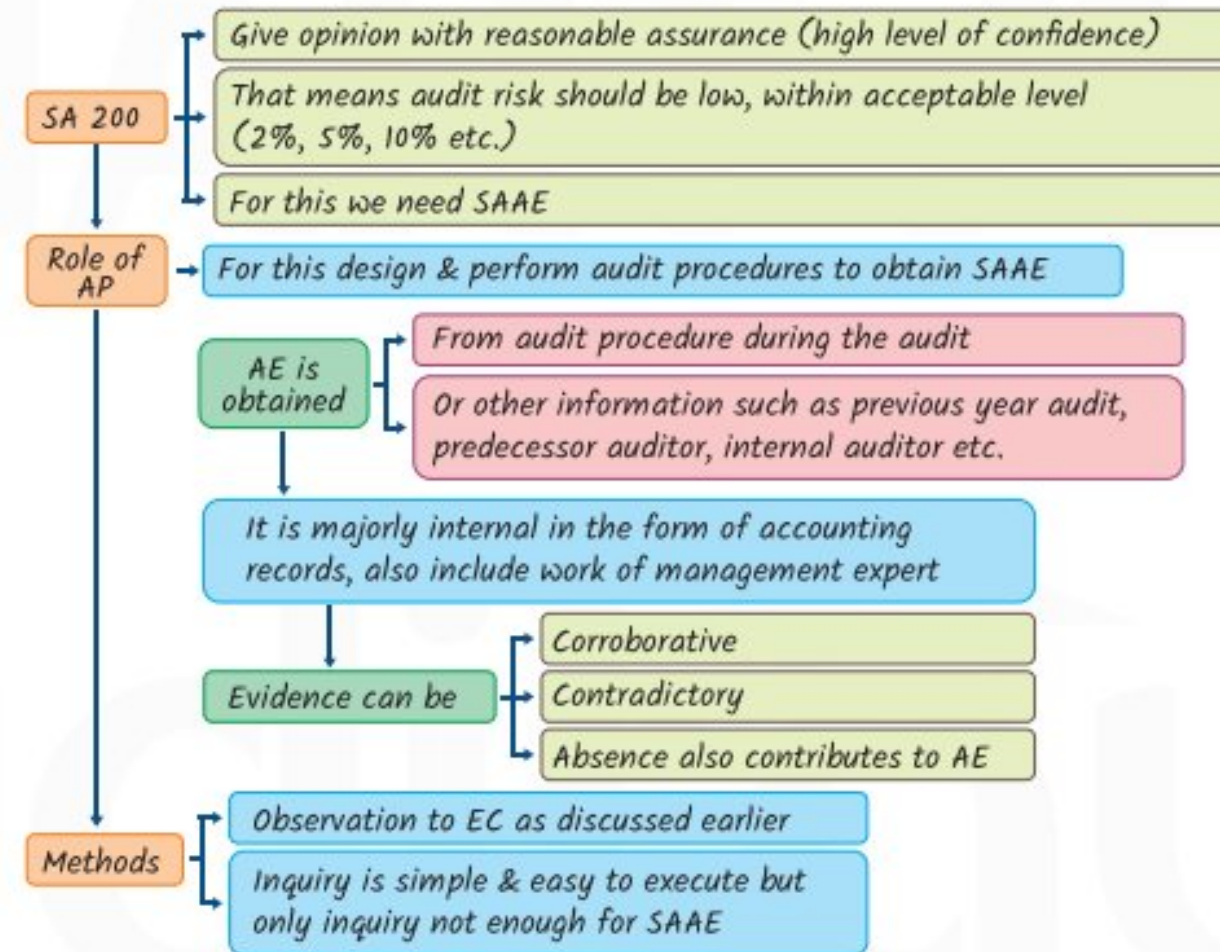
(CNO--SAS00.110) (QNO-500.14)

### NATURE & TIMING OF AP CHANGE IF DATA IS IN ELECTRONIC FORM



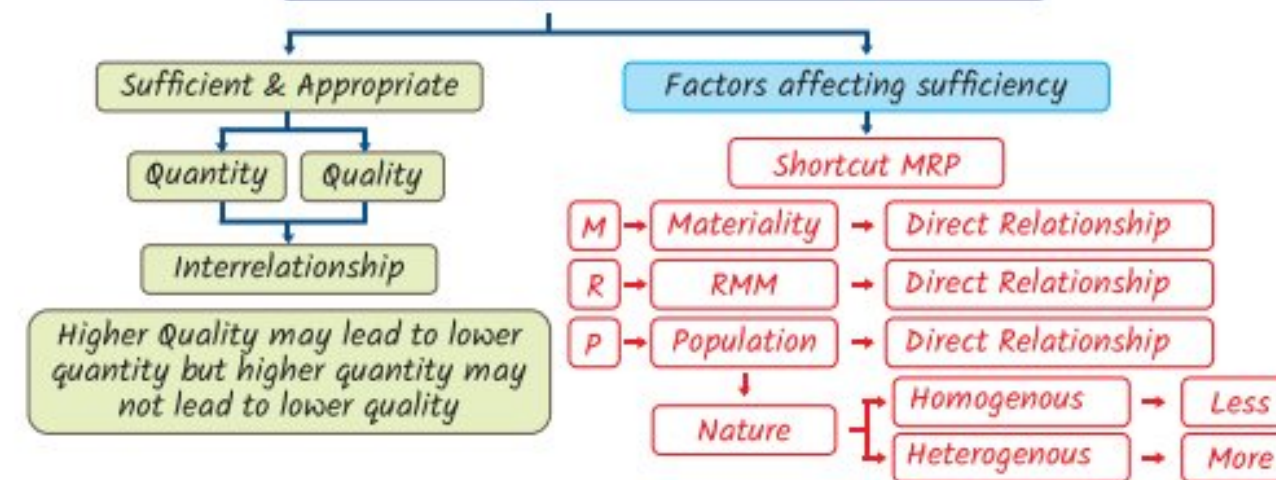
(CNO--SAS00.120) (QNO-500.03) (MCQ-Incs.44.5)

### SUFFICIENT & APPROPRIATE EVIDENCE



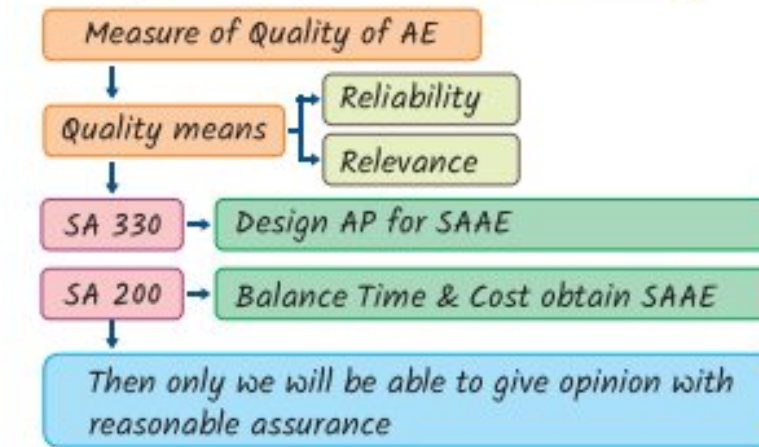
(CNO--SAS00.125) (QNO-500.07) (MCQ-500.4, 500.11)

### SUFFICIENCY OF AUDIT EVIDENCE



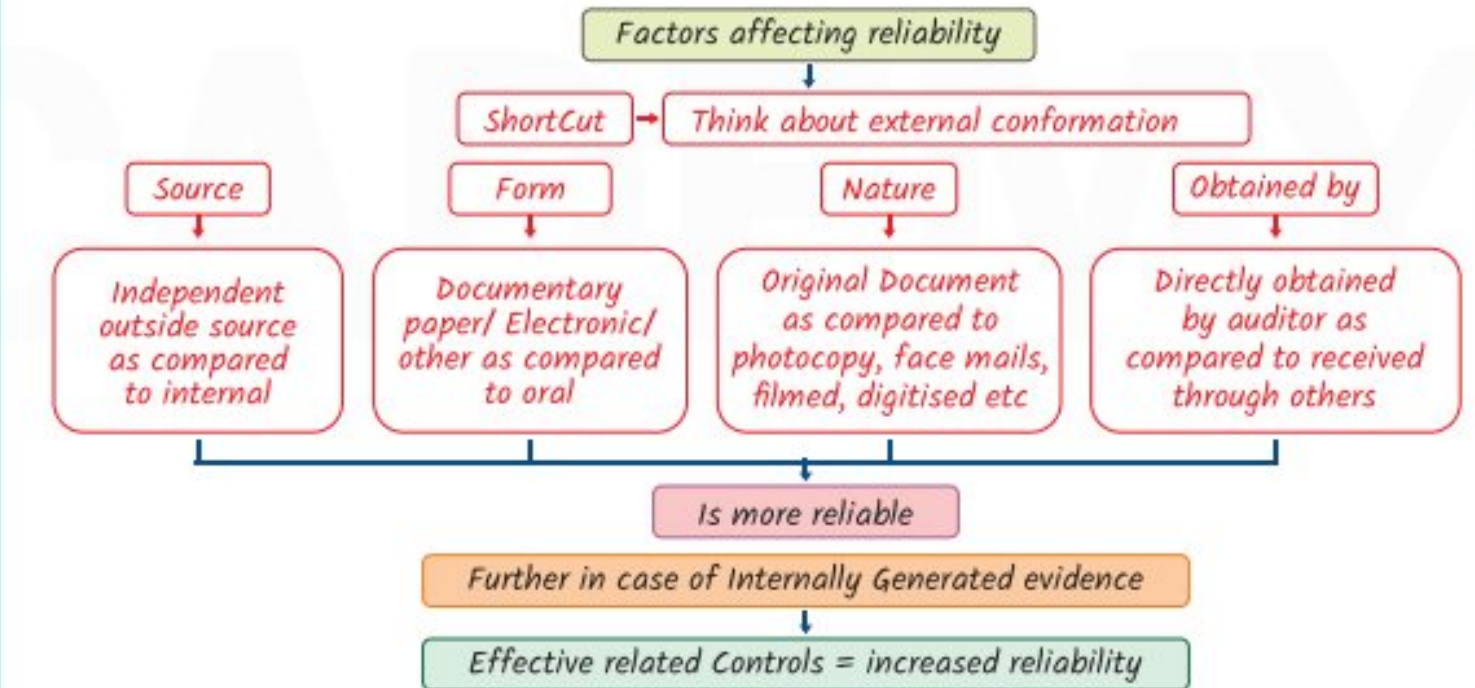
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### APPROPRIATENESS OF AE



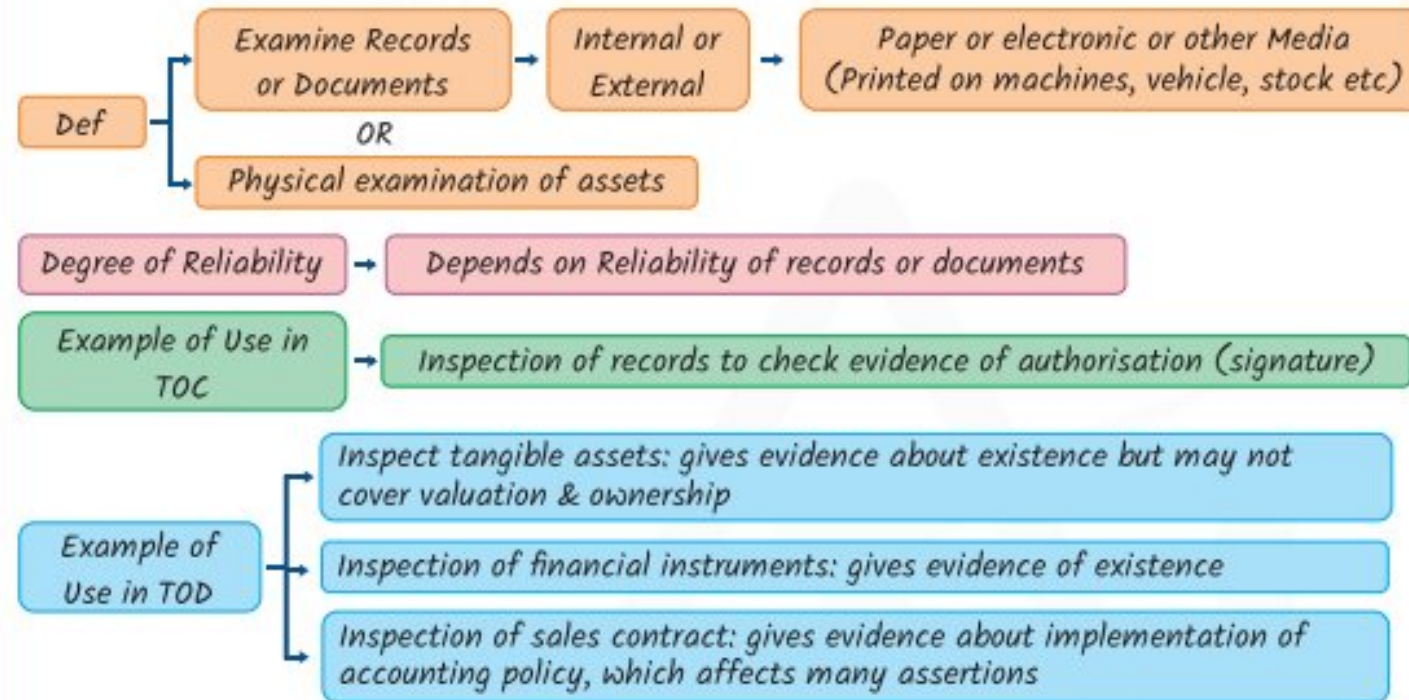
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### RELIABILITY



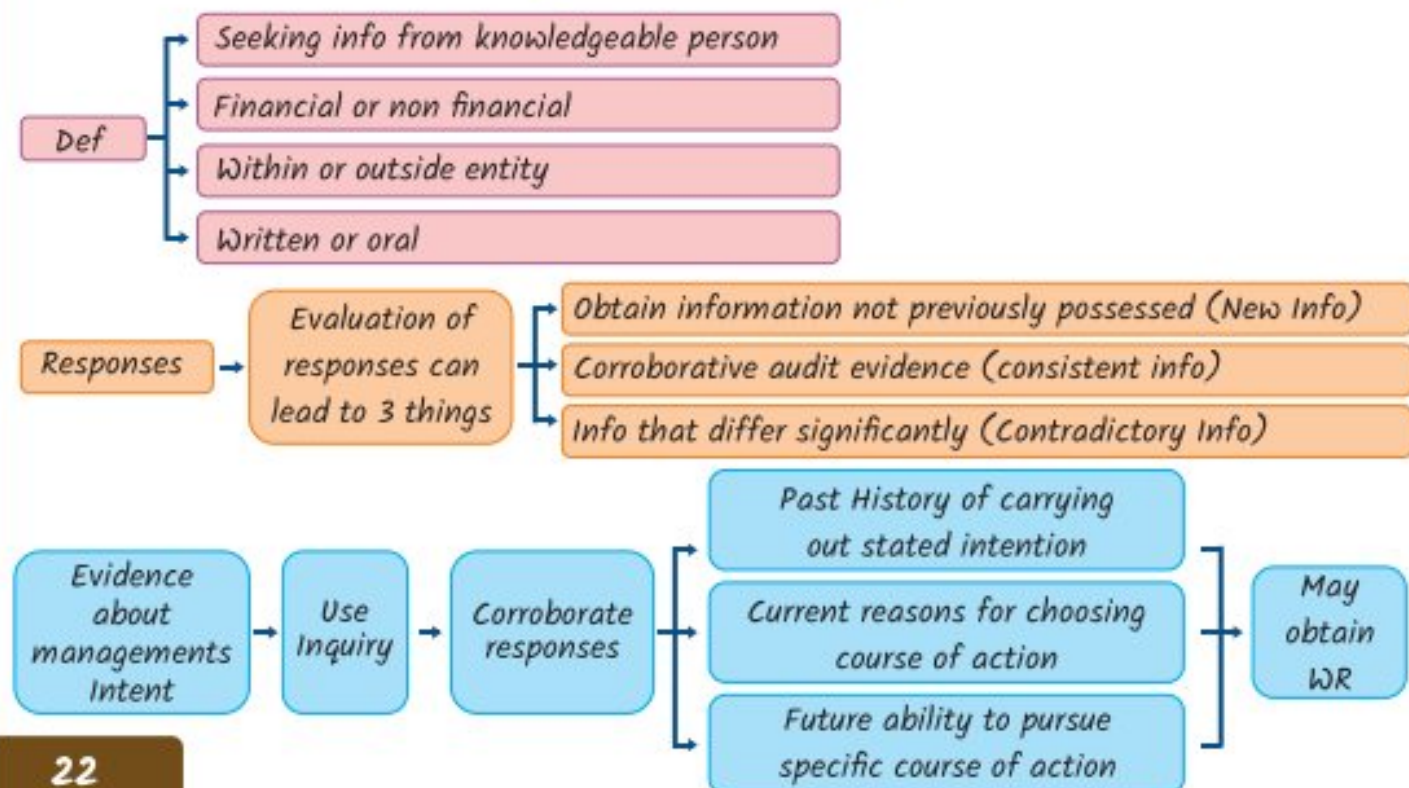
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### INSPECTION



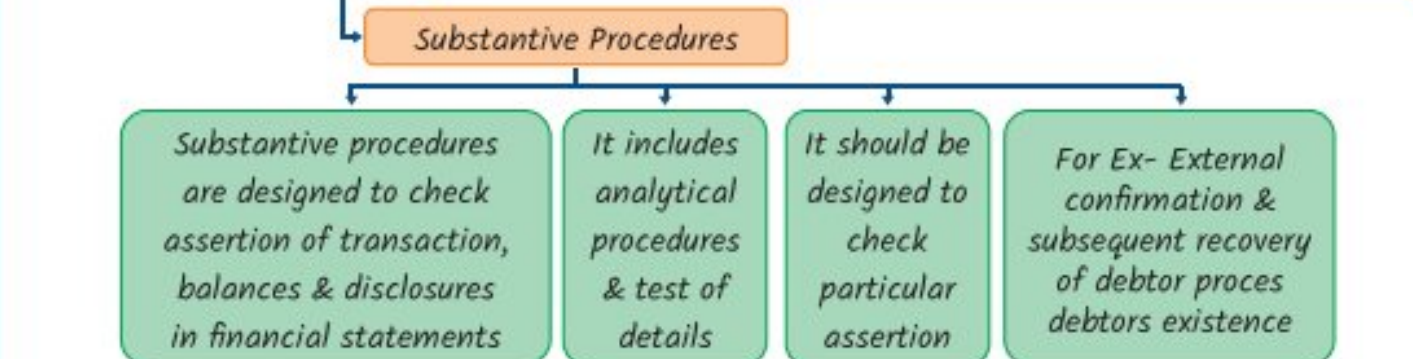
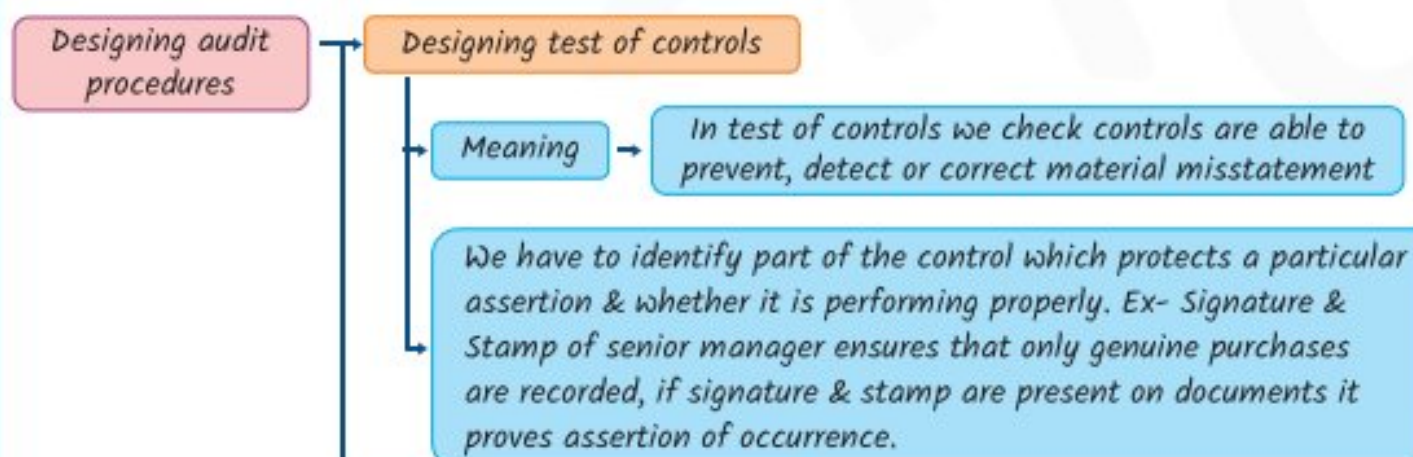
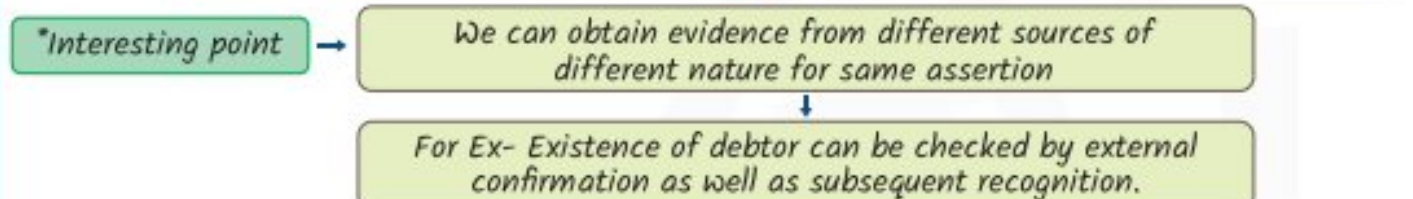
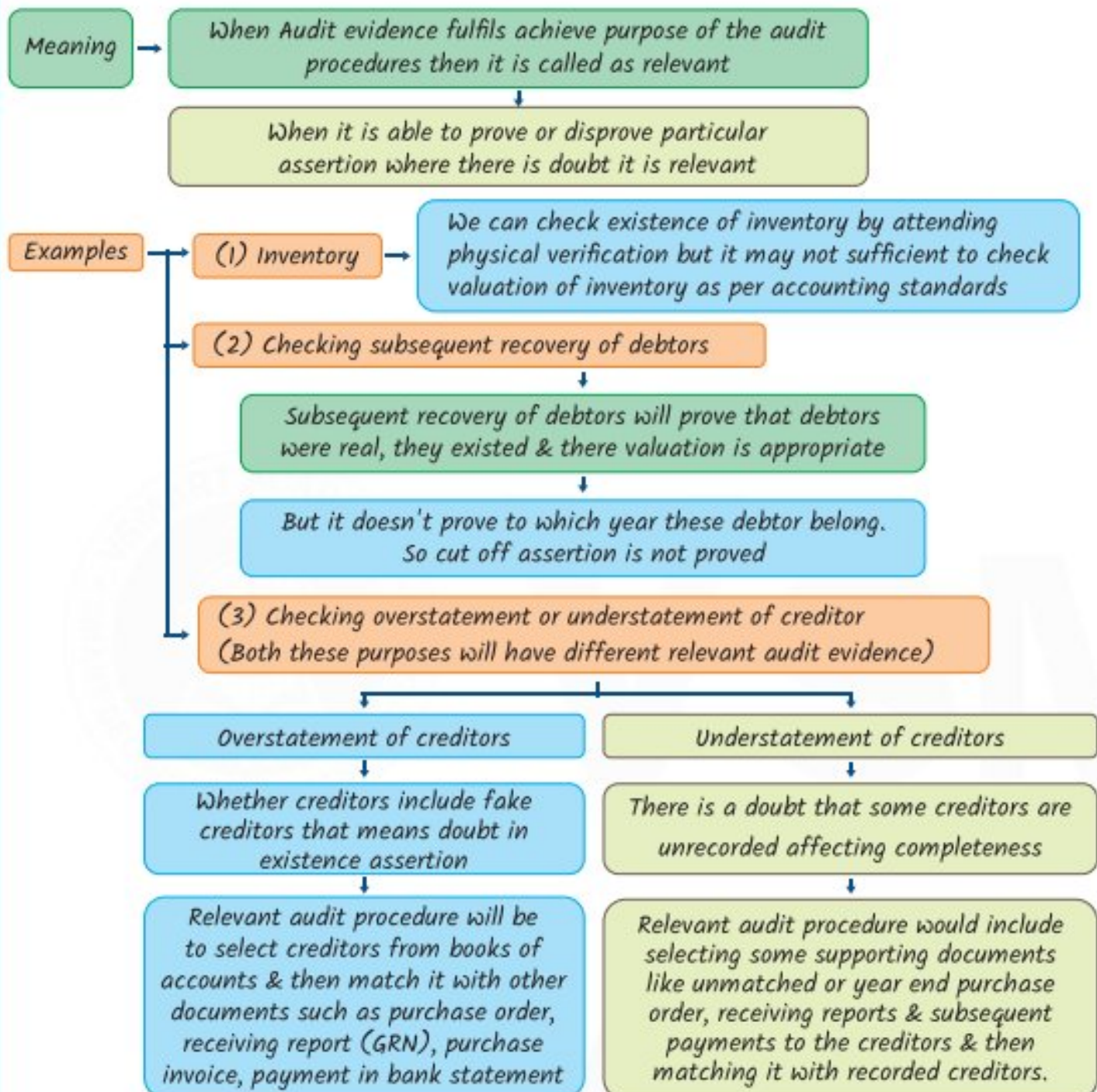
(CNO--SAS00.100)

### INQUIRY

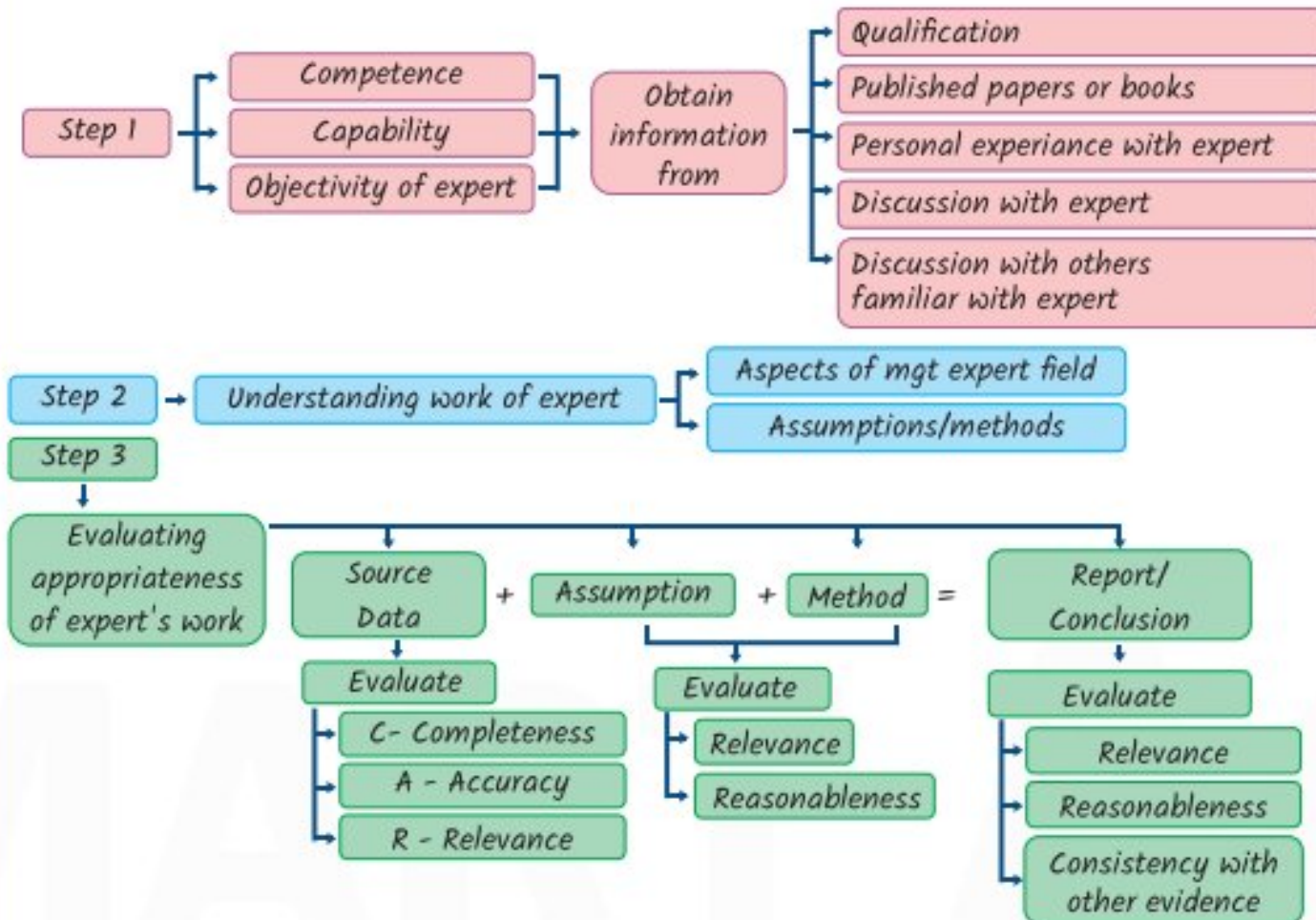


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### RELEVANCE OF AUDIT EVIDENCE



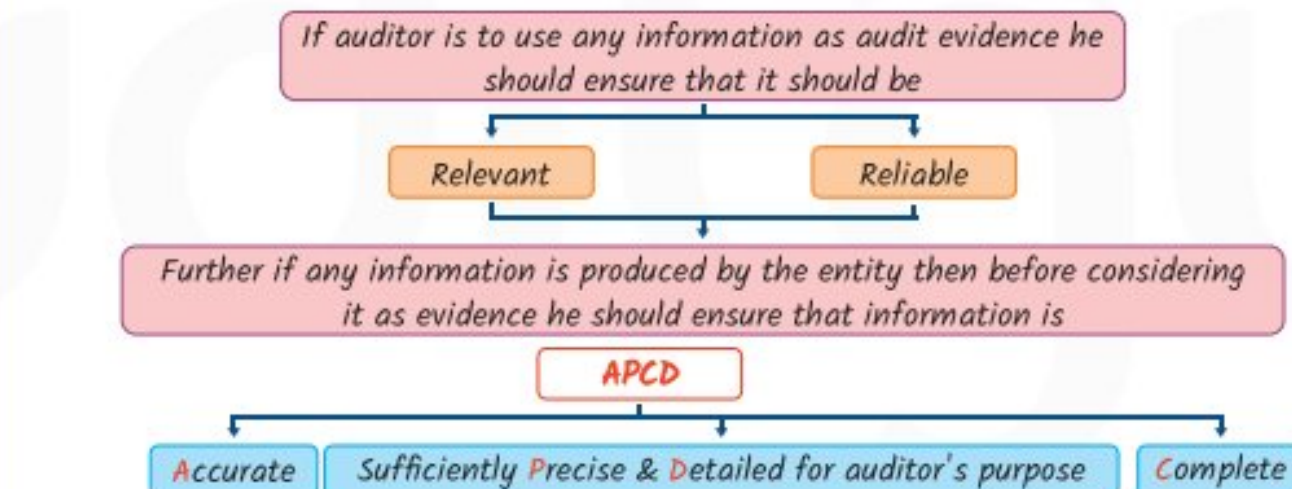
### USING THE WORK OF MGT EXPERT



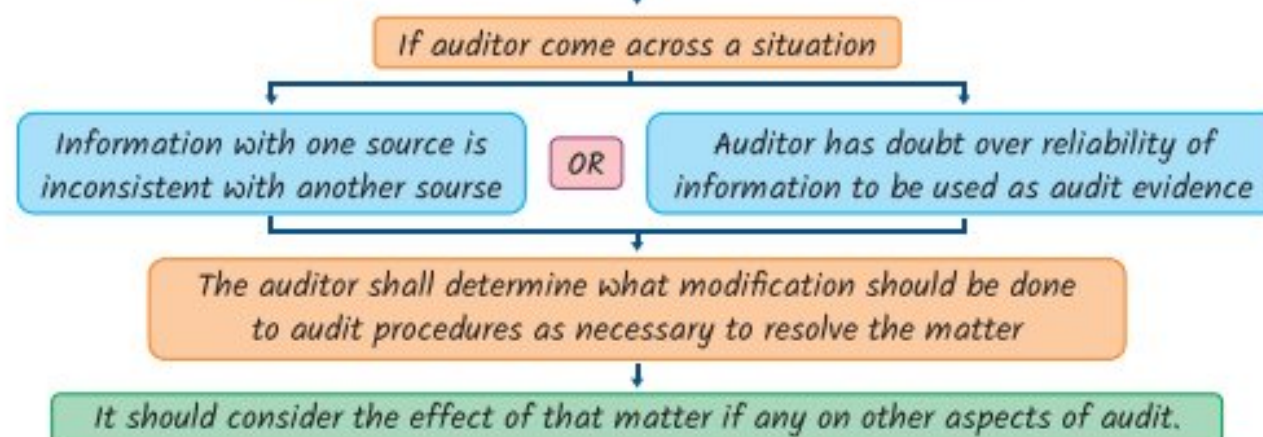
### NTE OF AUDIT PROCEDURES WHEN MANAGEMENT EXPERT IN INVOLVED

For this Concept refer PDF

### INFORMATION TO BE USED AS AUDIT EVIDENCE



### INCONSISTENCY OR DOUBT OVER RELIABILITY OF AUDIT EVIDENCE



### SELECTING ITEMS FOR AE

For this Concept refer PDF

### AUDIT TRAIL

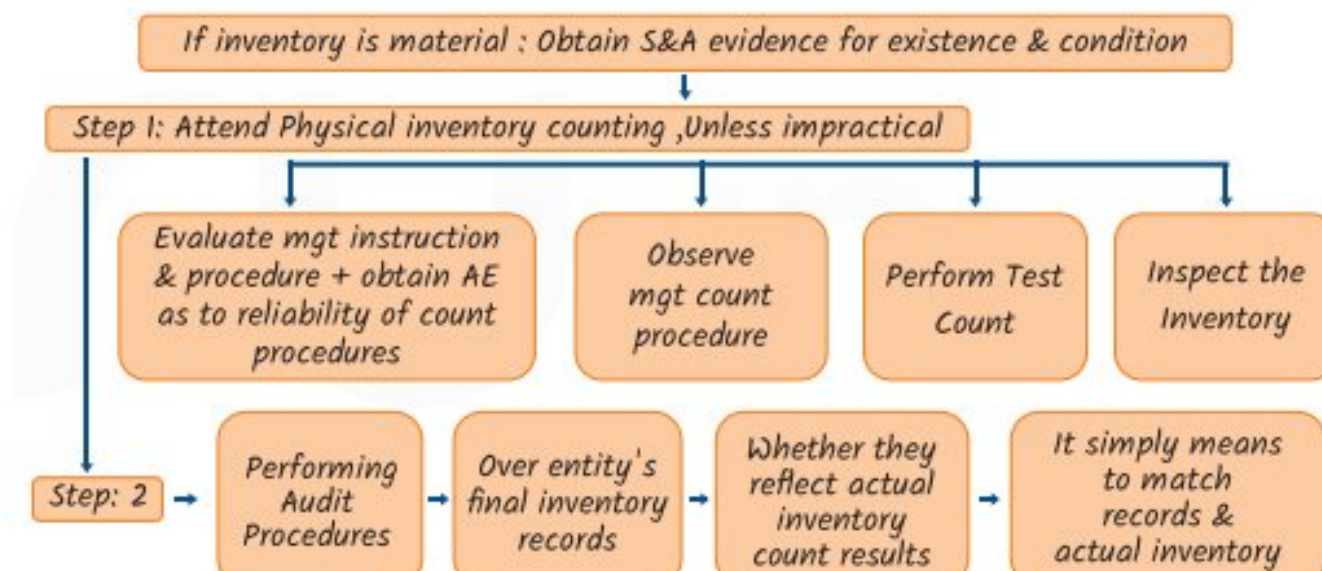
For this Concept refer PDF

### Part 2 -- SA 501

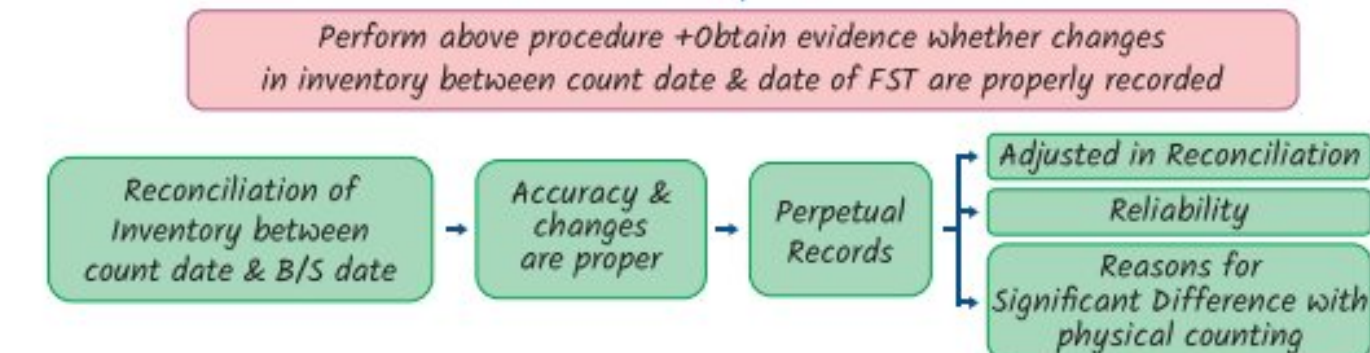
### OBJECTIVE AS PER SA 501

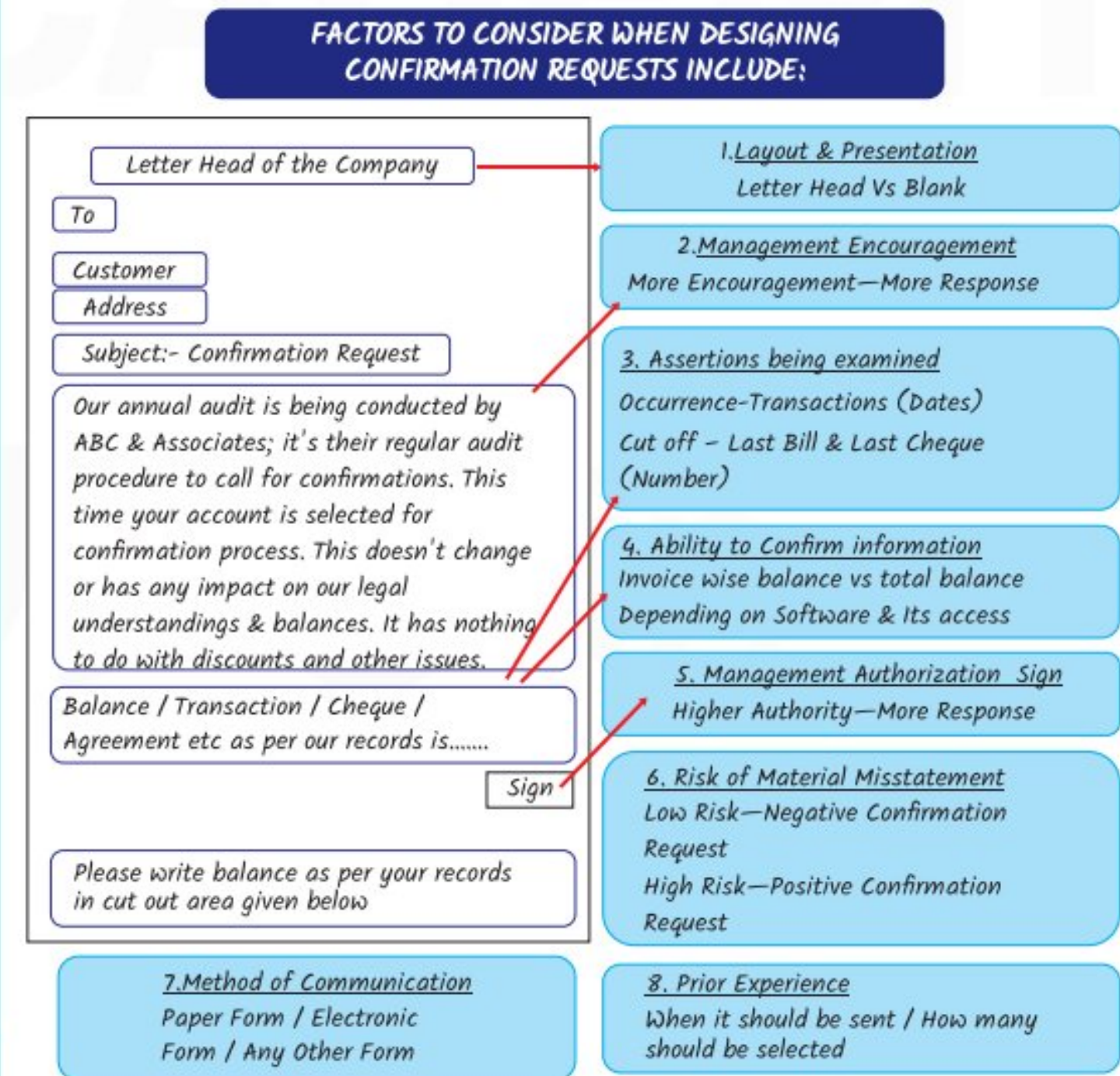
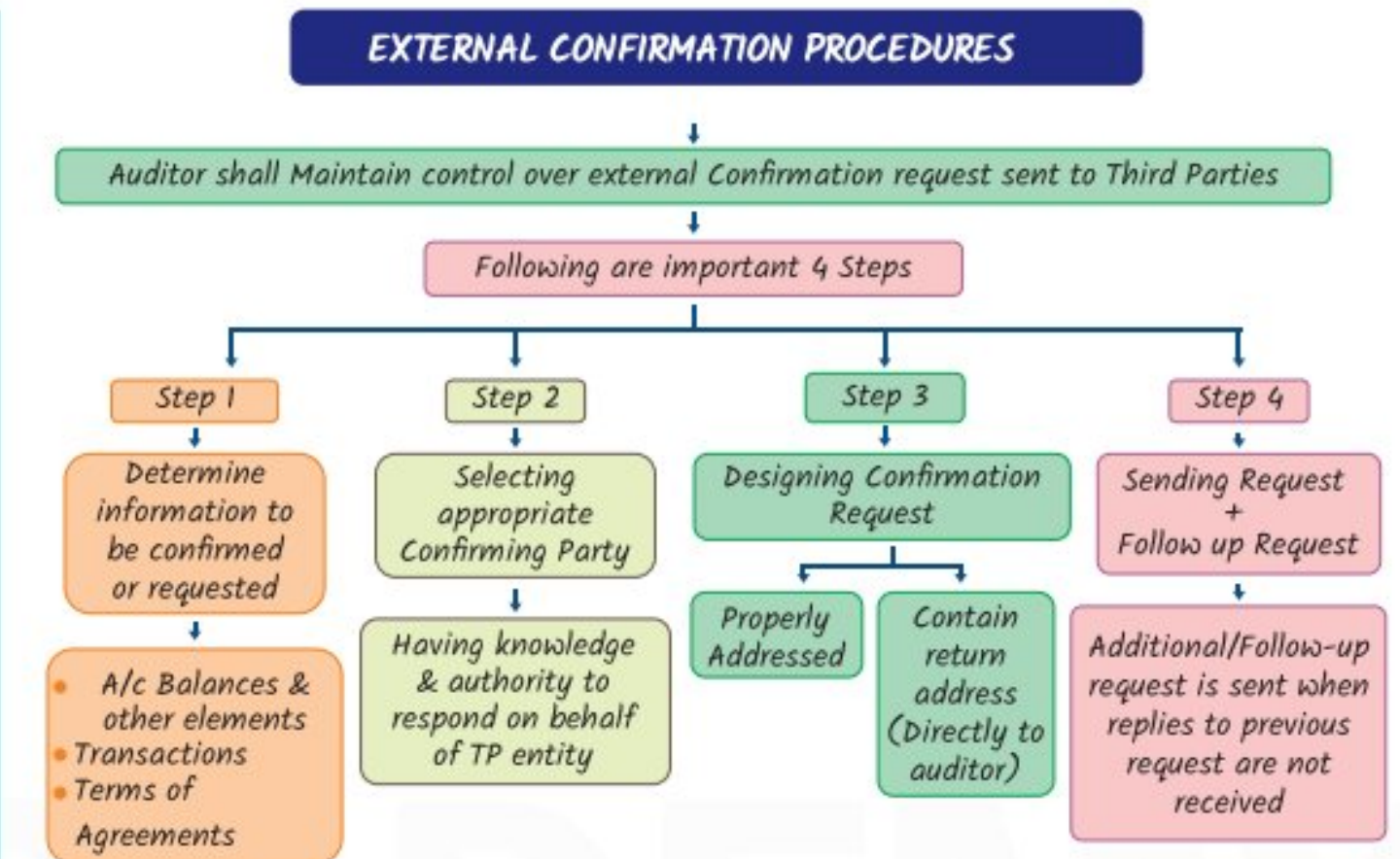
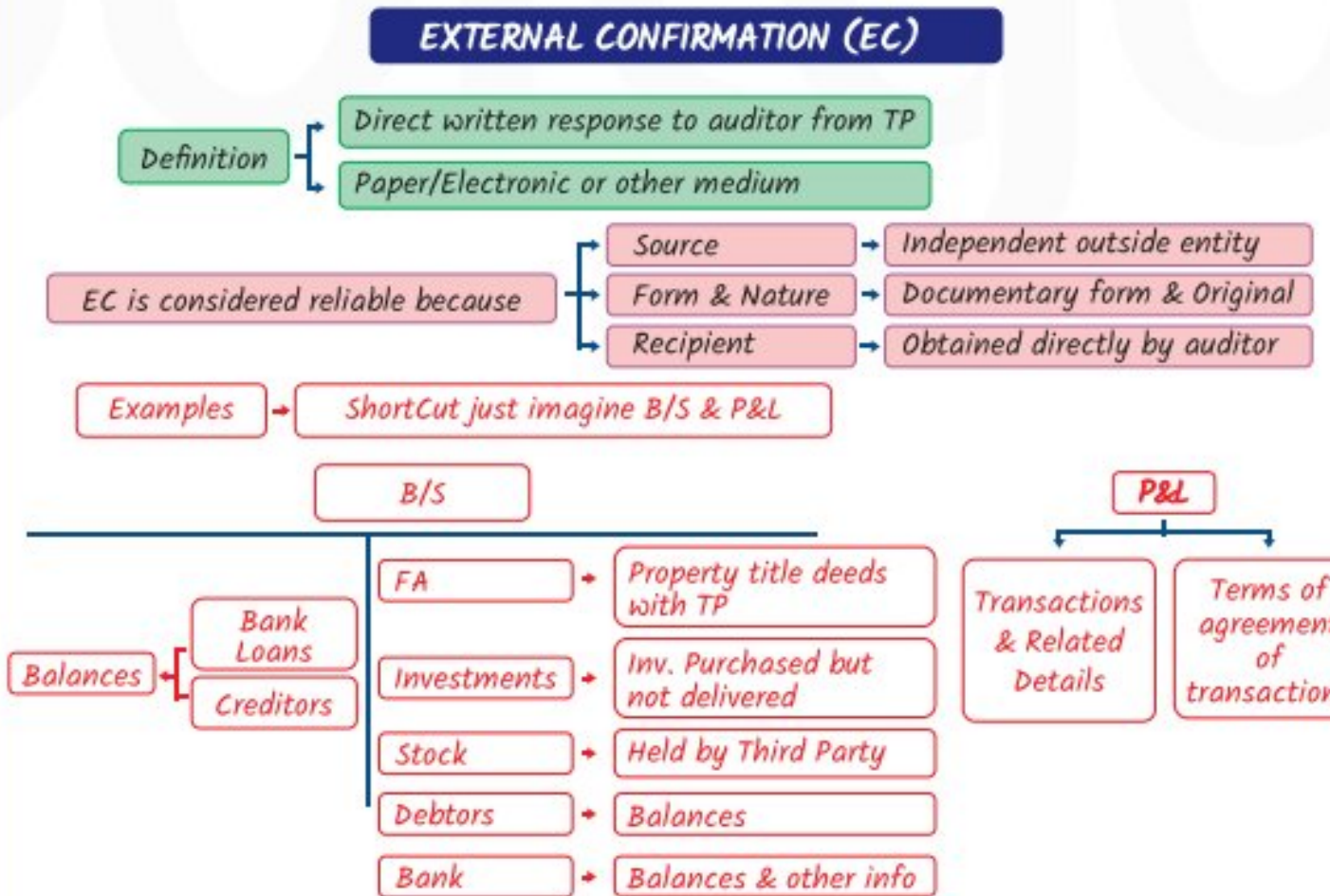
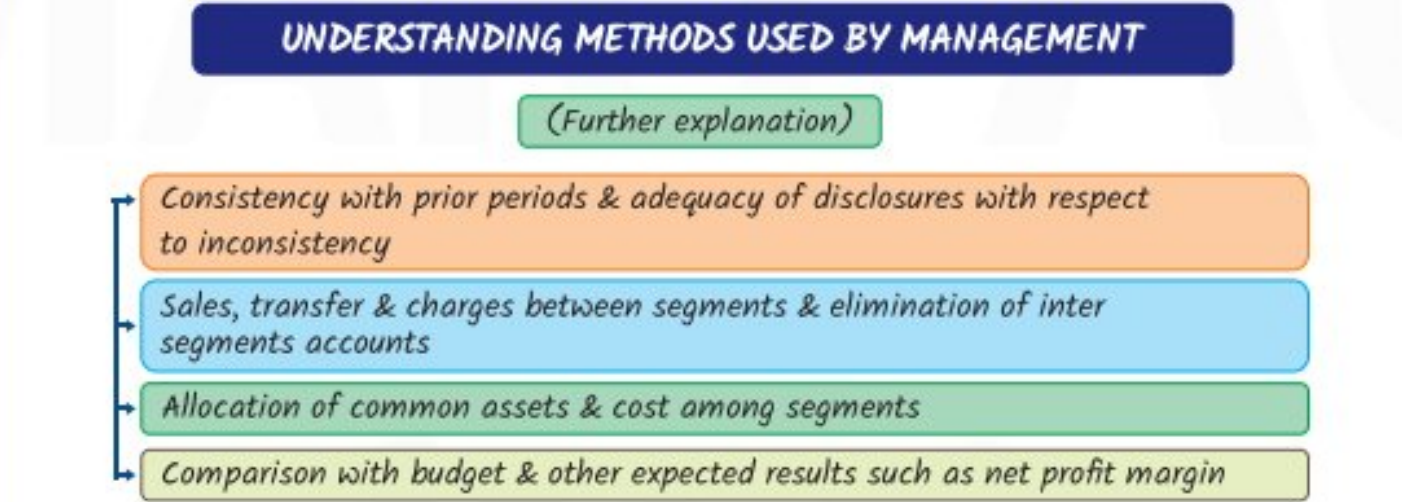
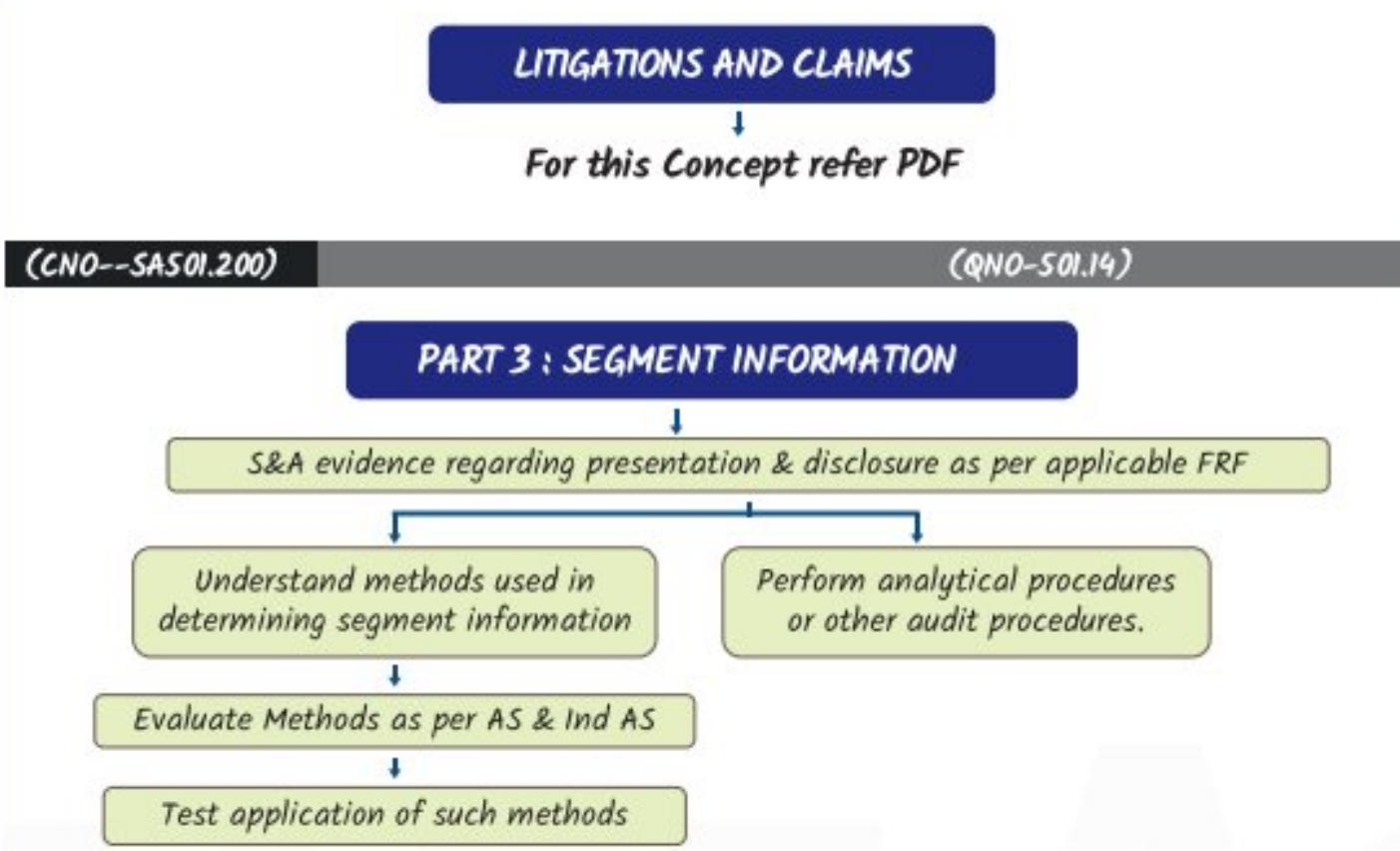
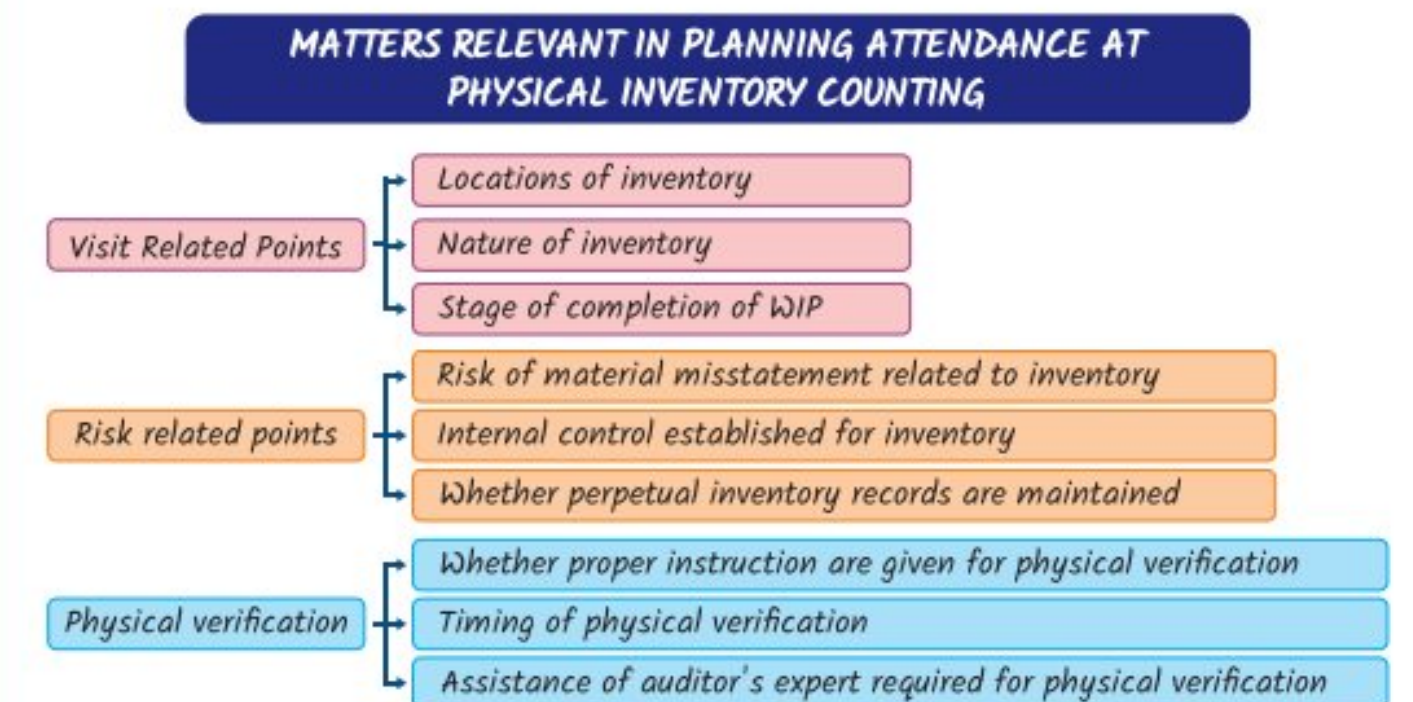
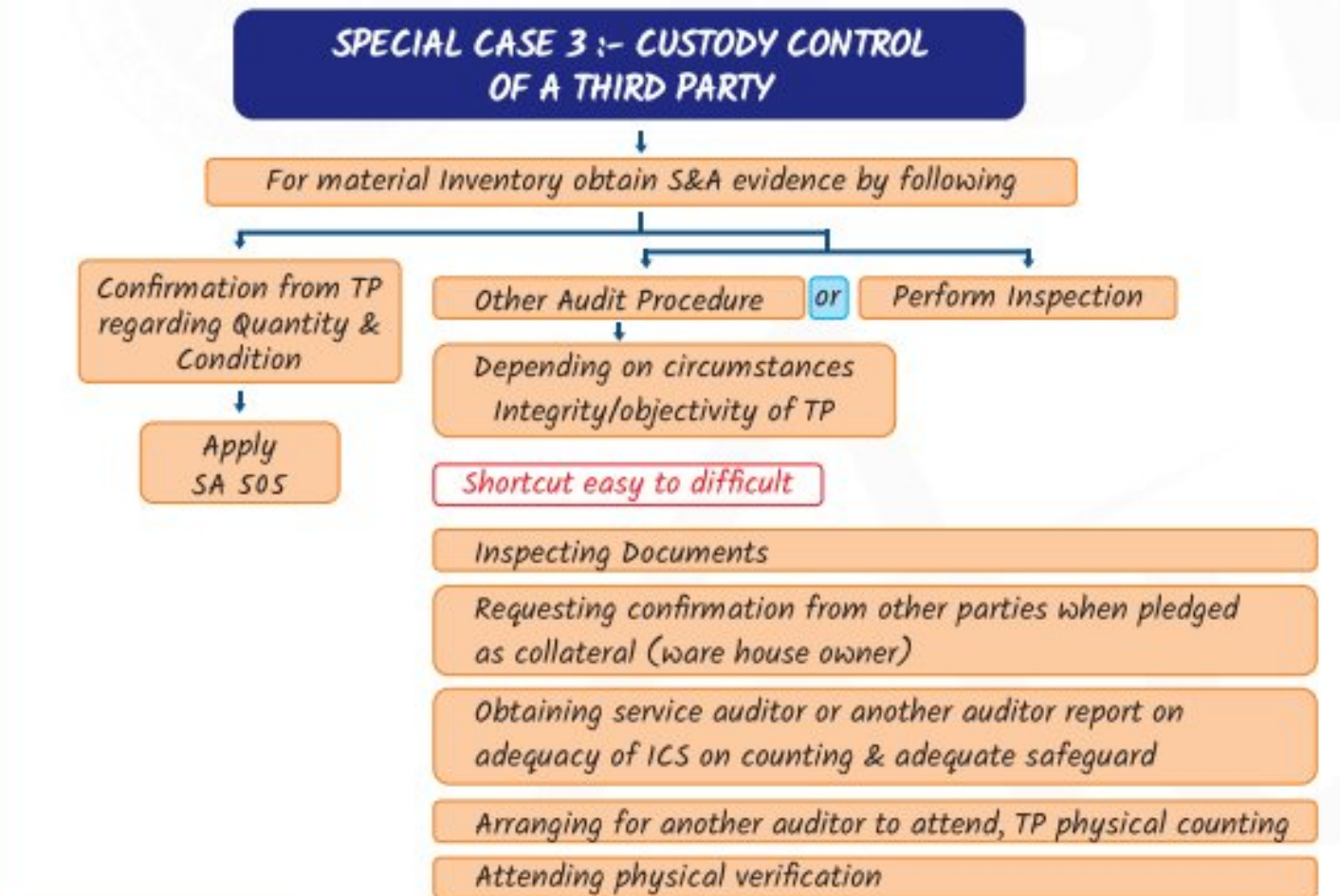
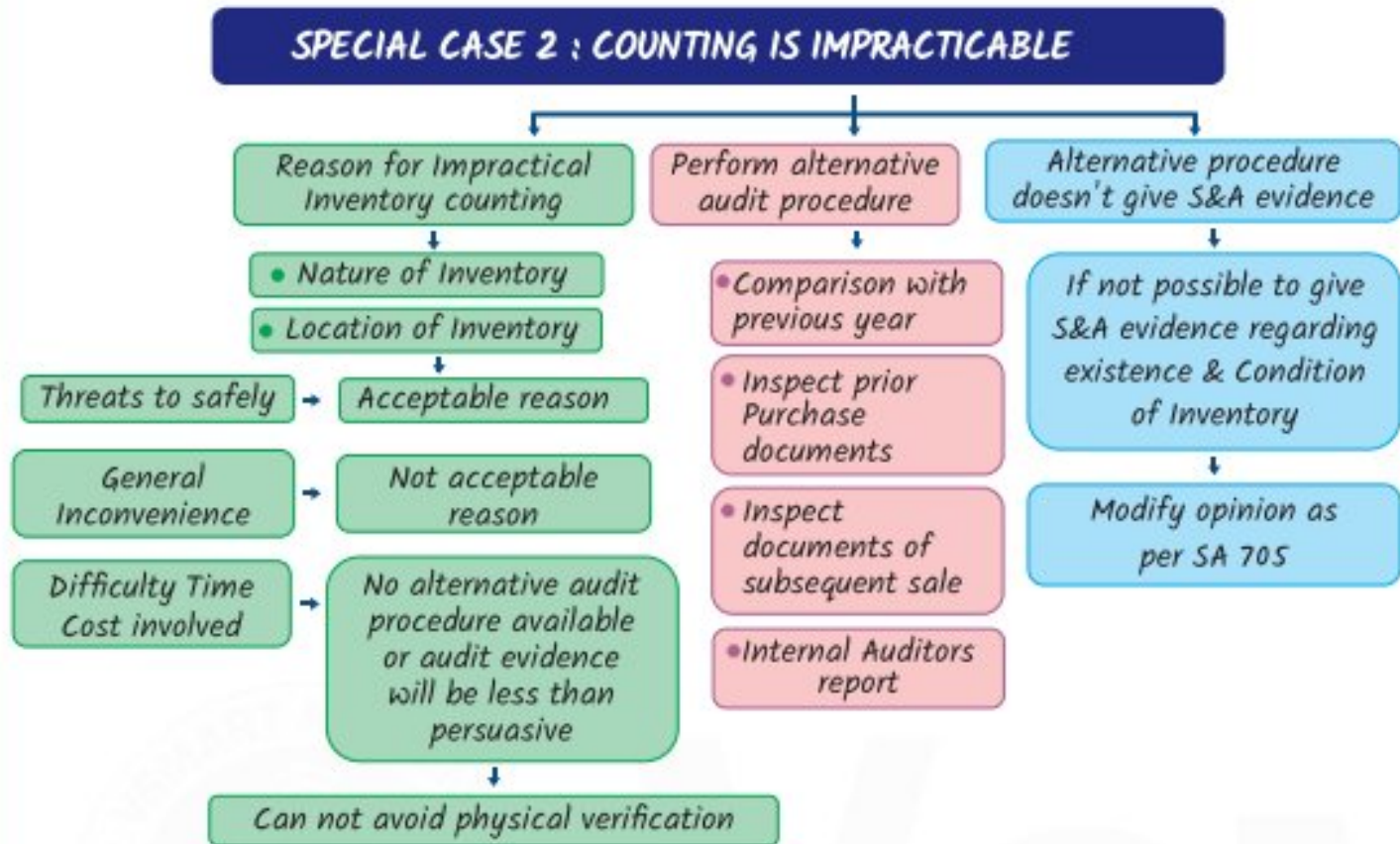


### Part 1 :- Existence & Condition of Inventory

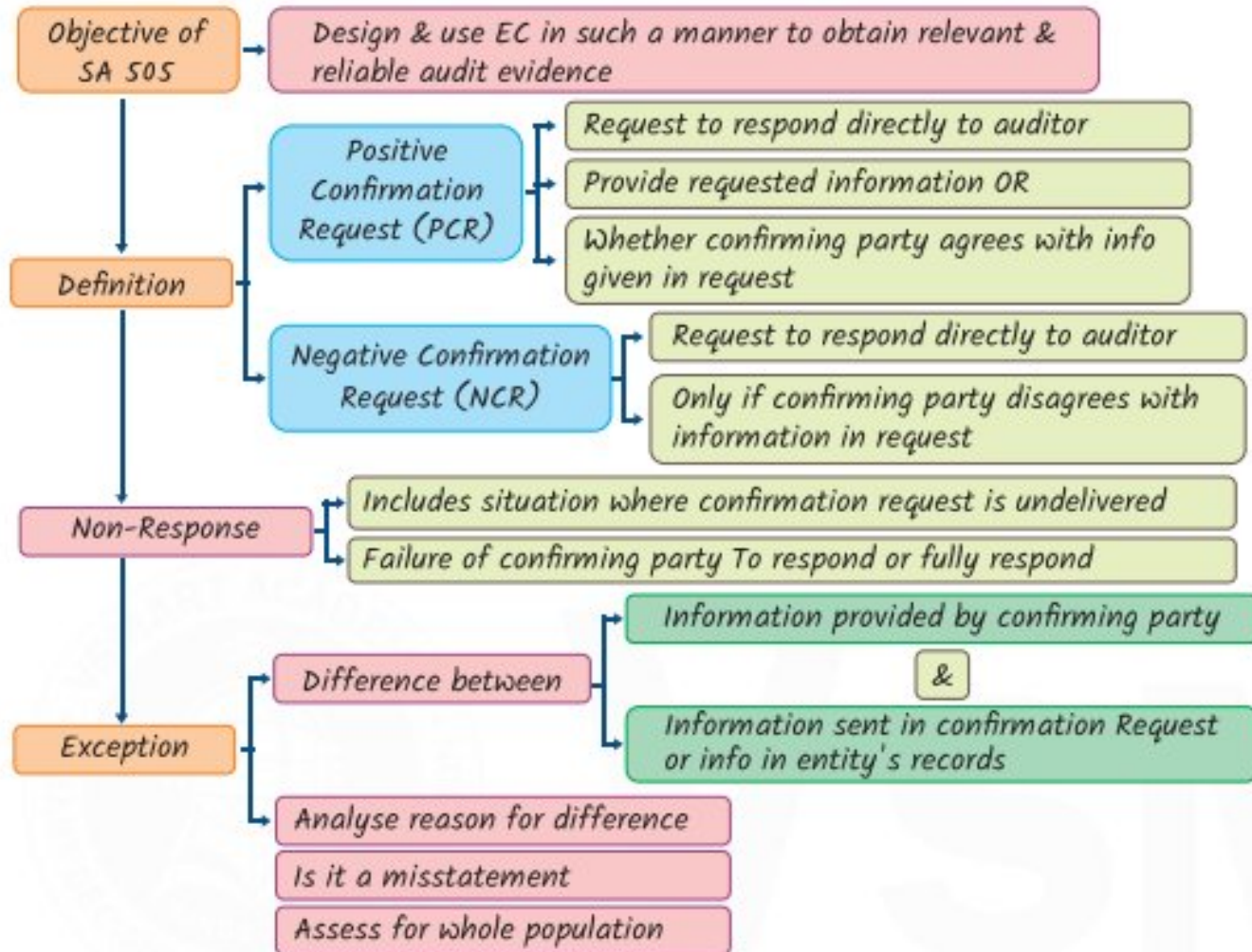


### SPECIAL CASE 1 : COUNTING IS CONDUCTED AT DATE OTHER THAN YEAR END

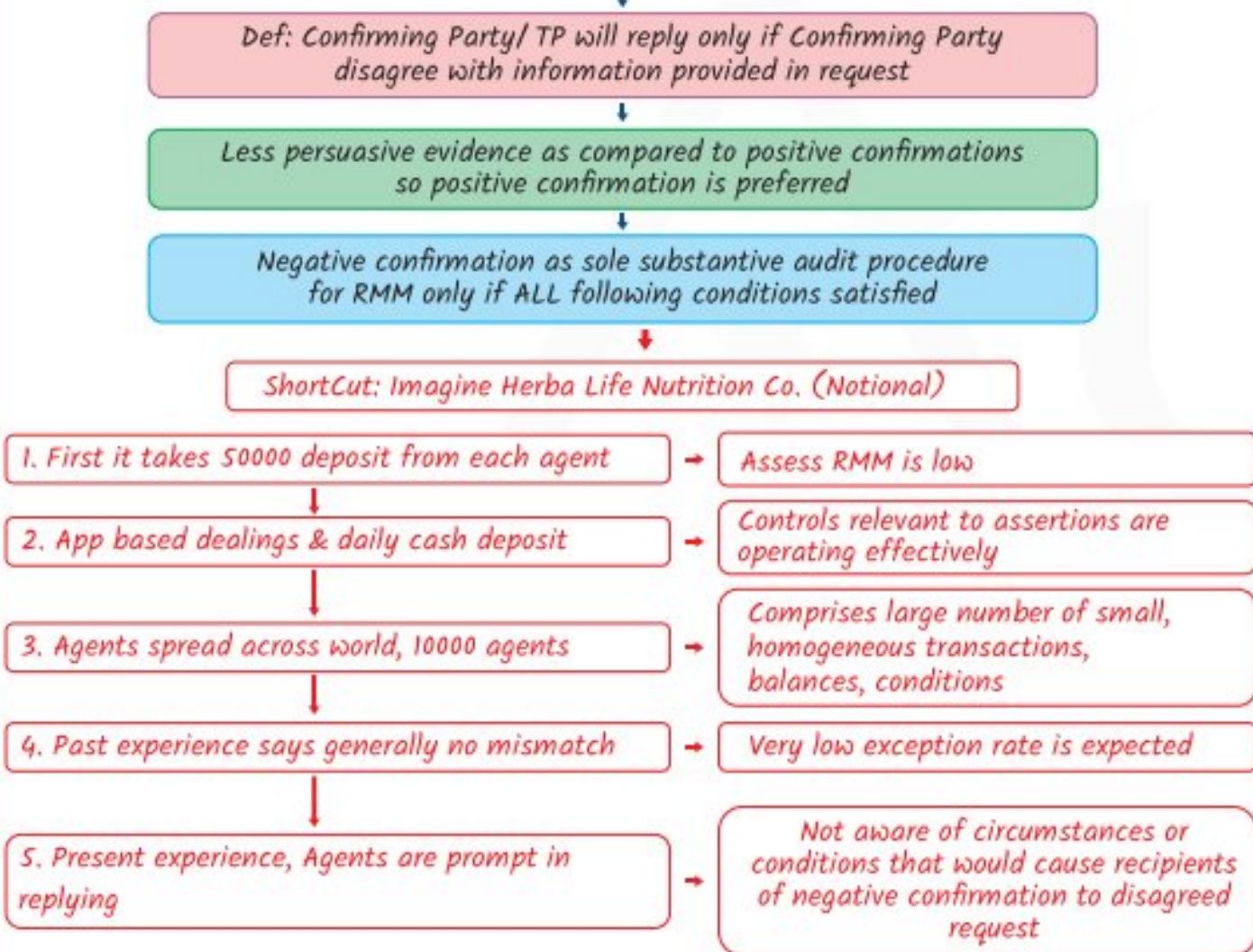




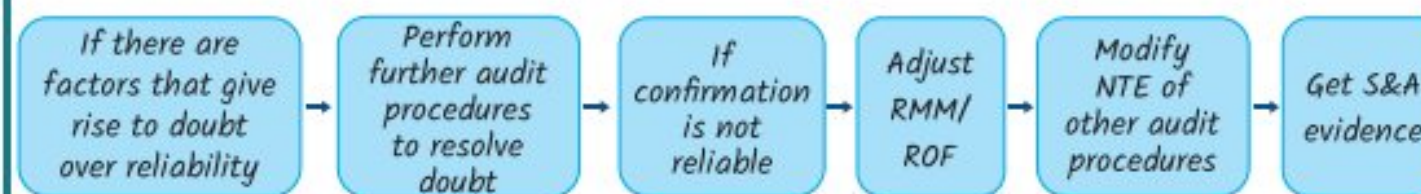
OBJECTIVE & DEFINITION



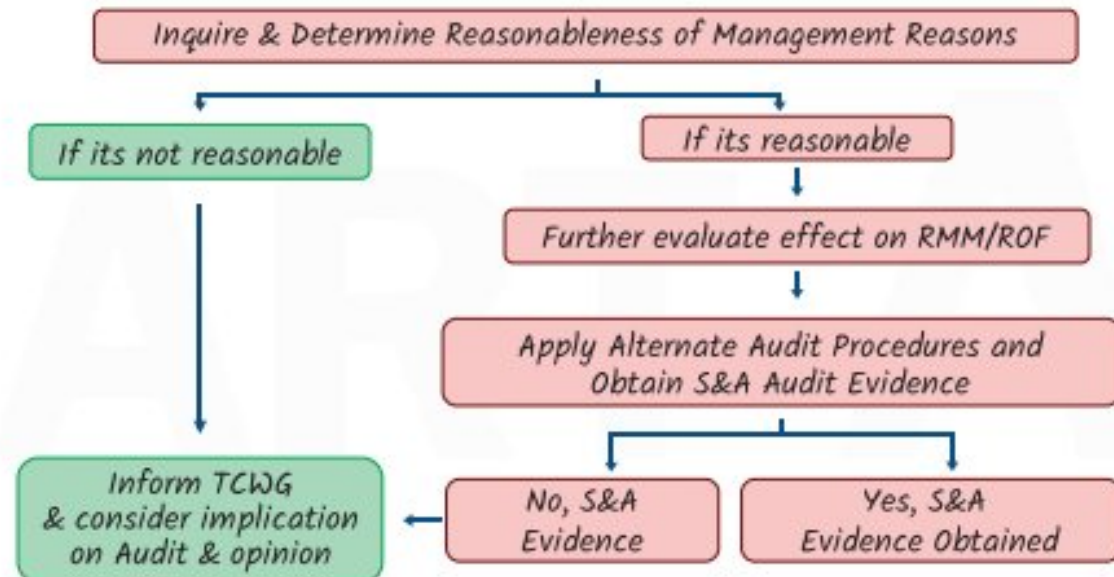
NEGATIVE CONFIRMATION



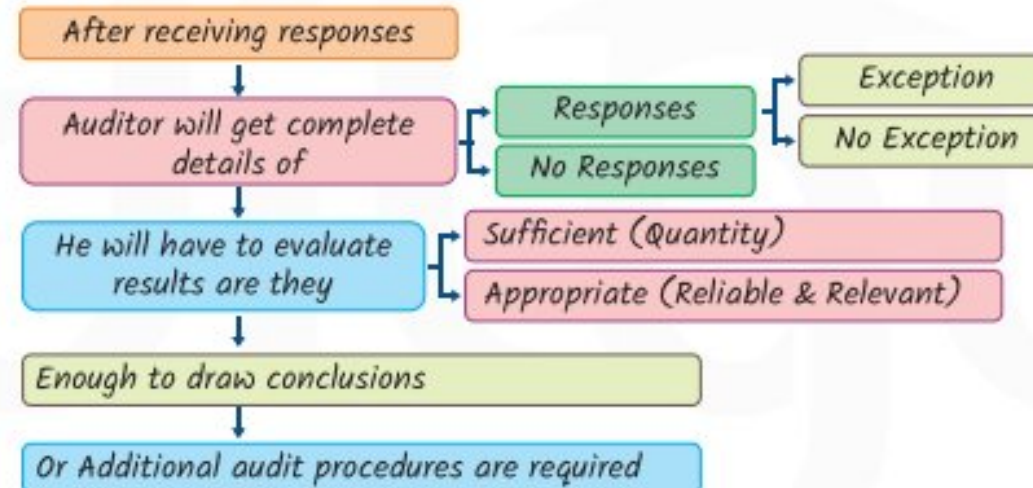
DOUBTS OVER RELIABILITY OF RESPONSES TO EC



MGT'S REFUSAL TO ALLOW AUDITOR TO SEND CONFIRMATION REQUEST

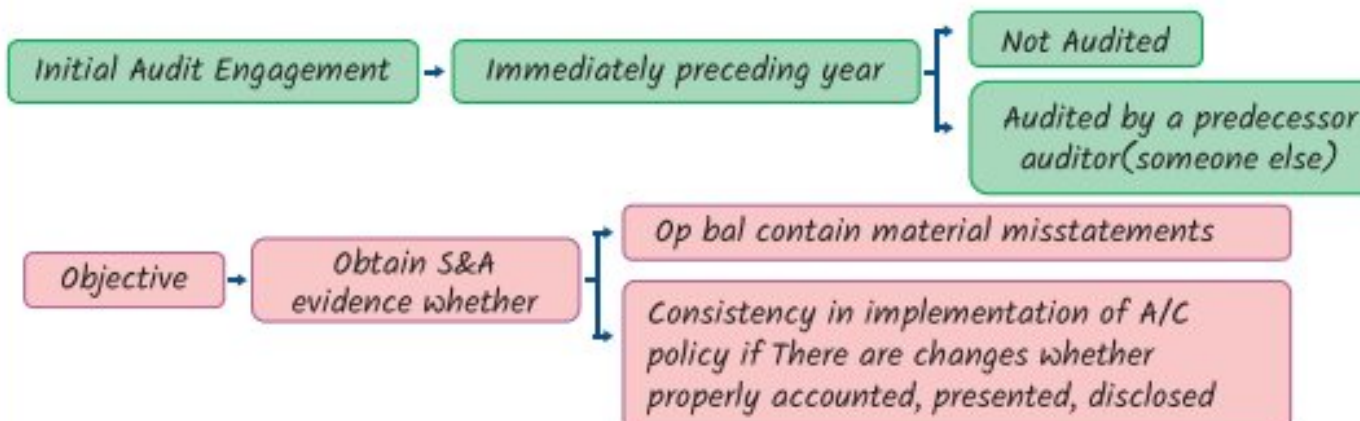


EVALUATING EVIDENCE OBTAINED

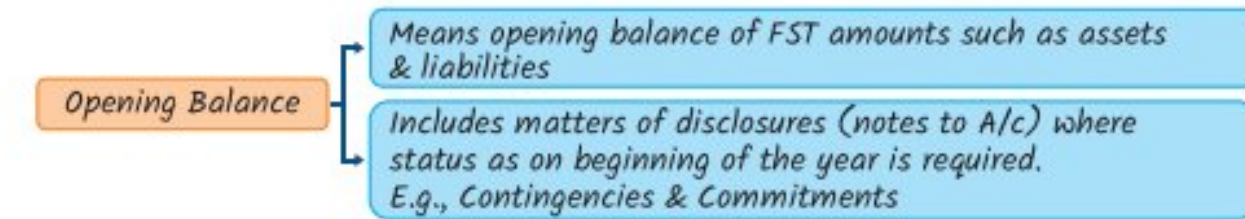


Part 4 -- SA 510

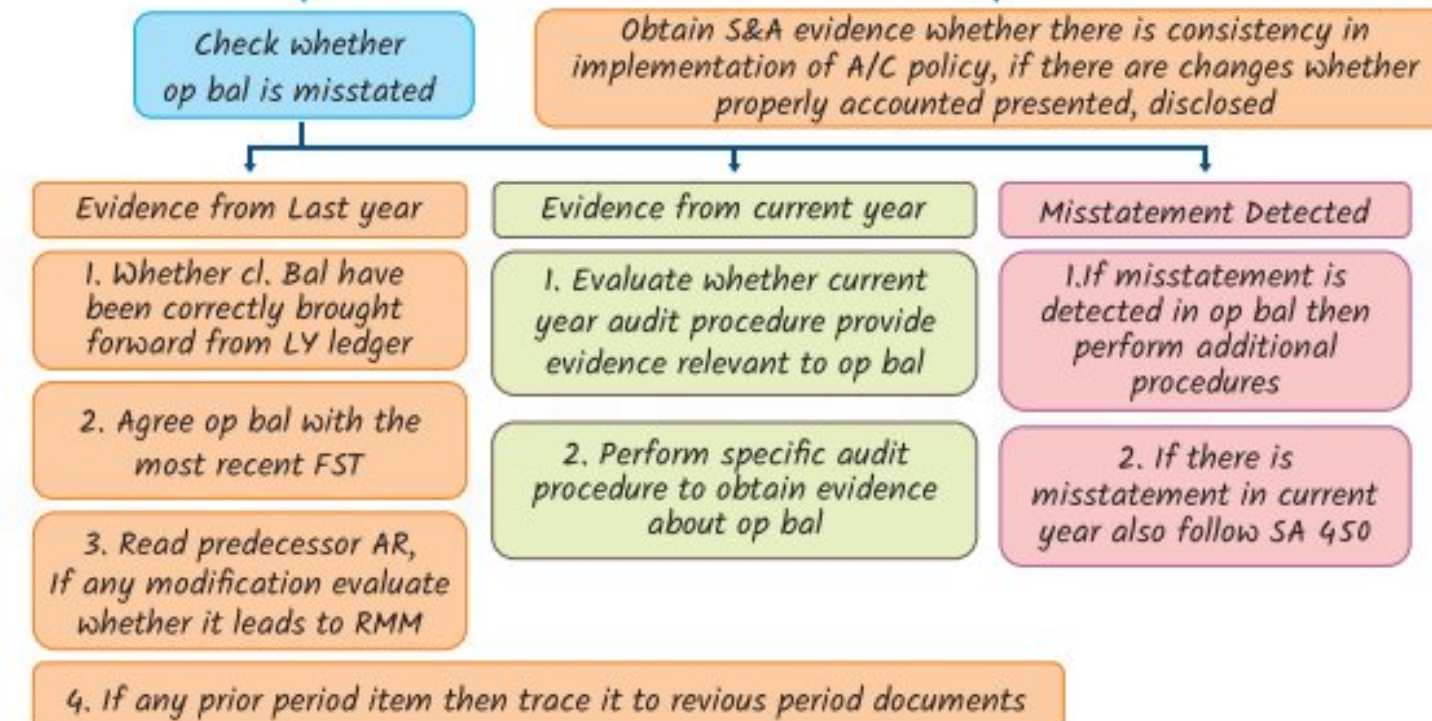
APPLICABILITY: APPLICABLE TO INITIAL AUDIT ENGAGEMENTS

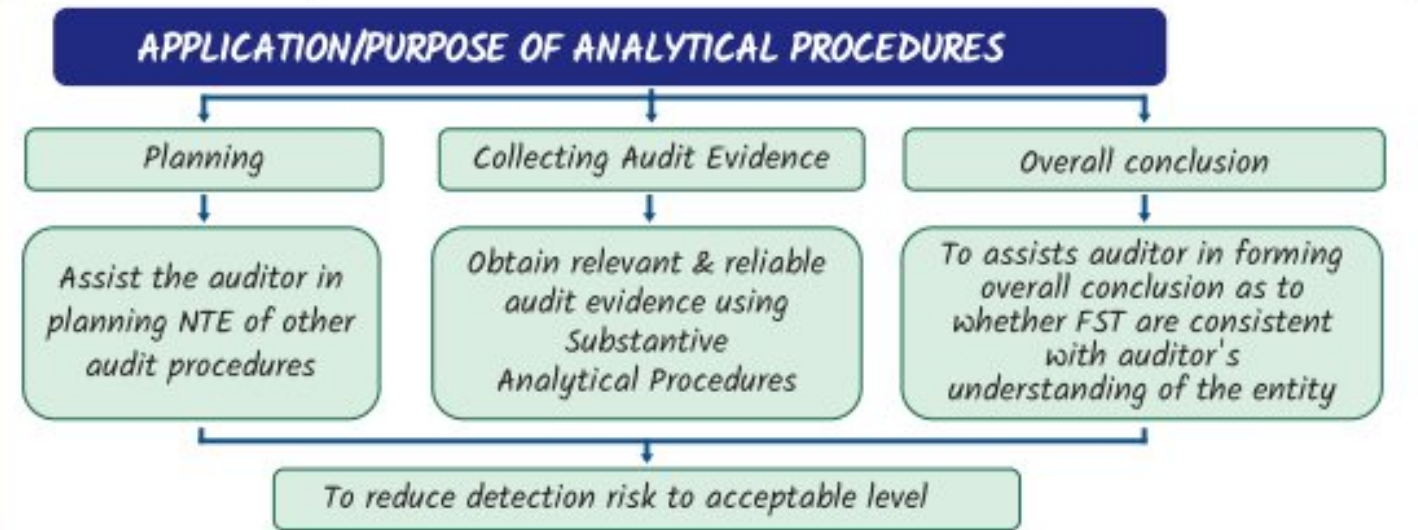
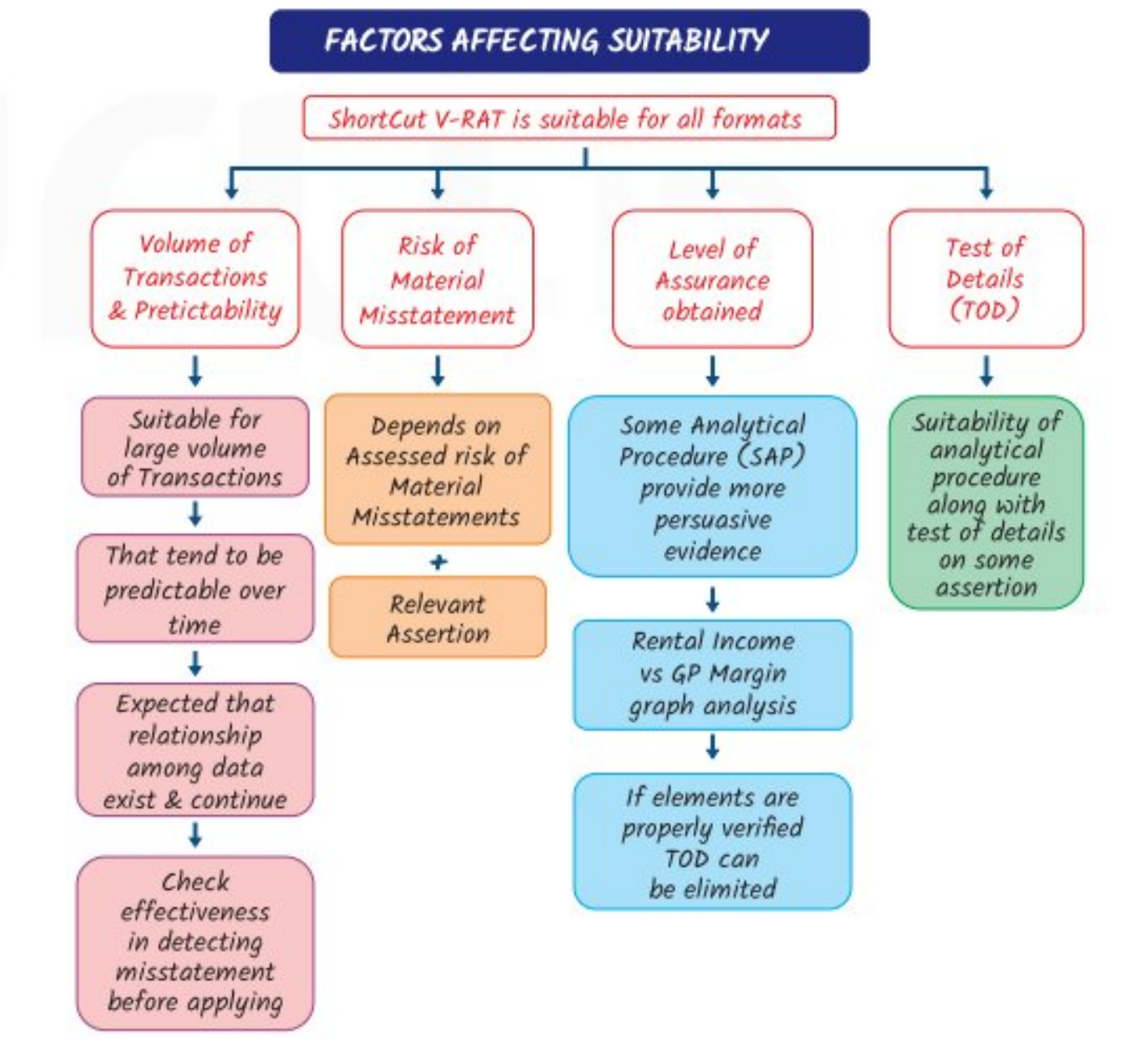
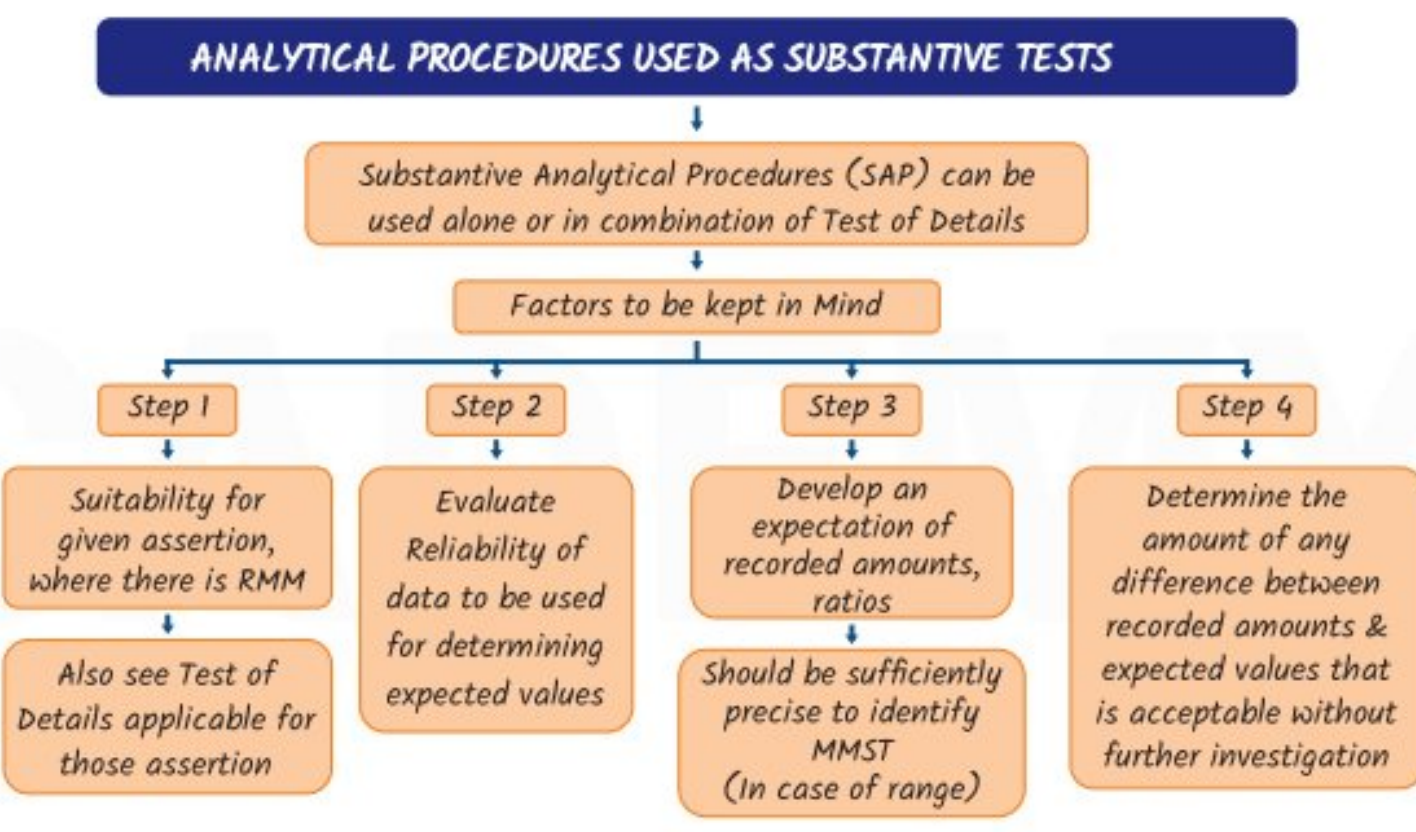
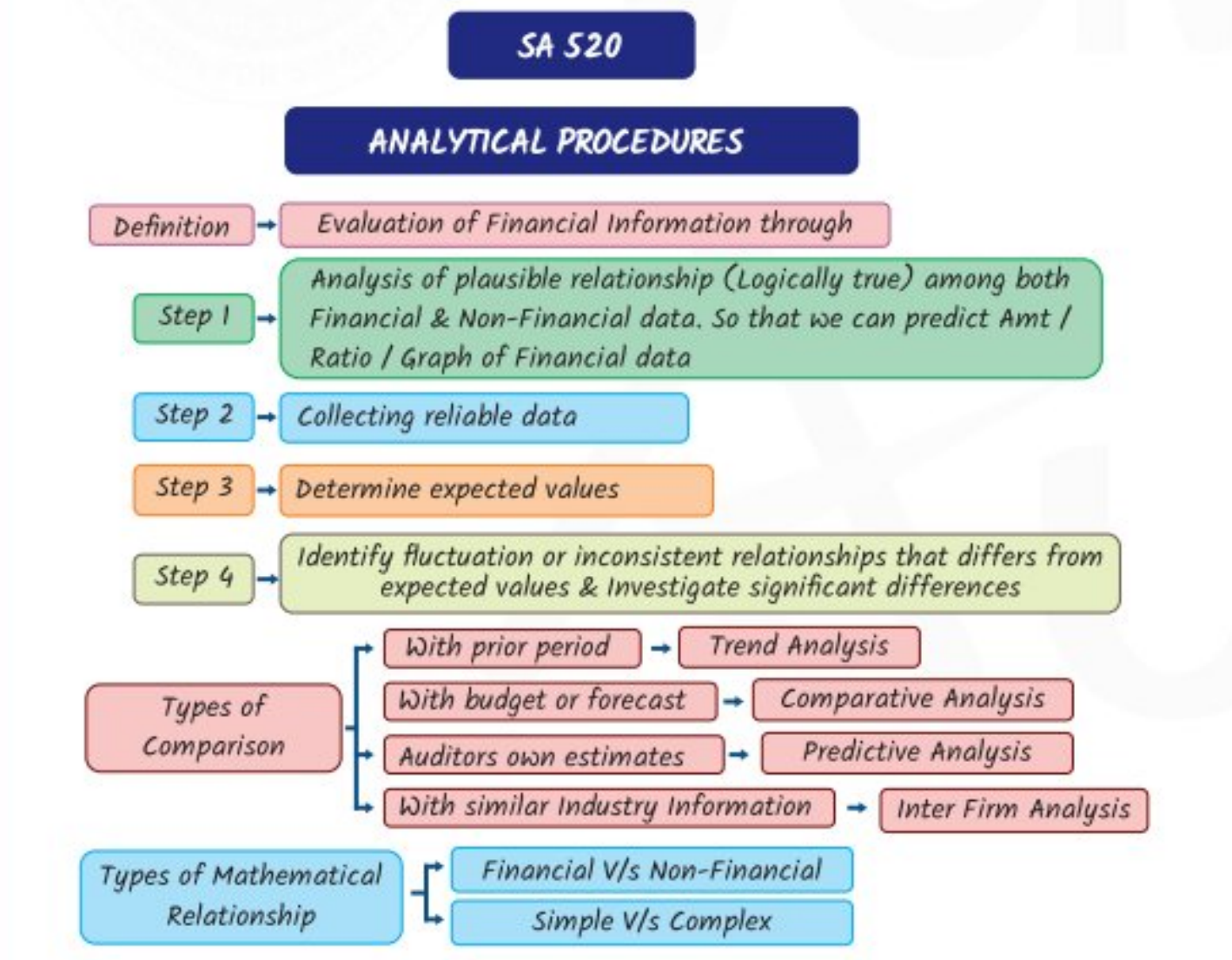
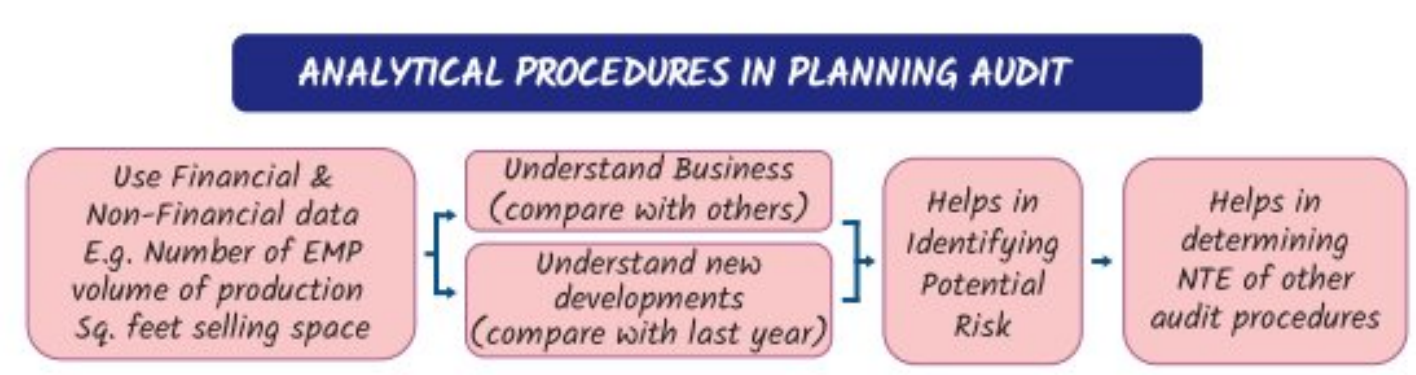
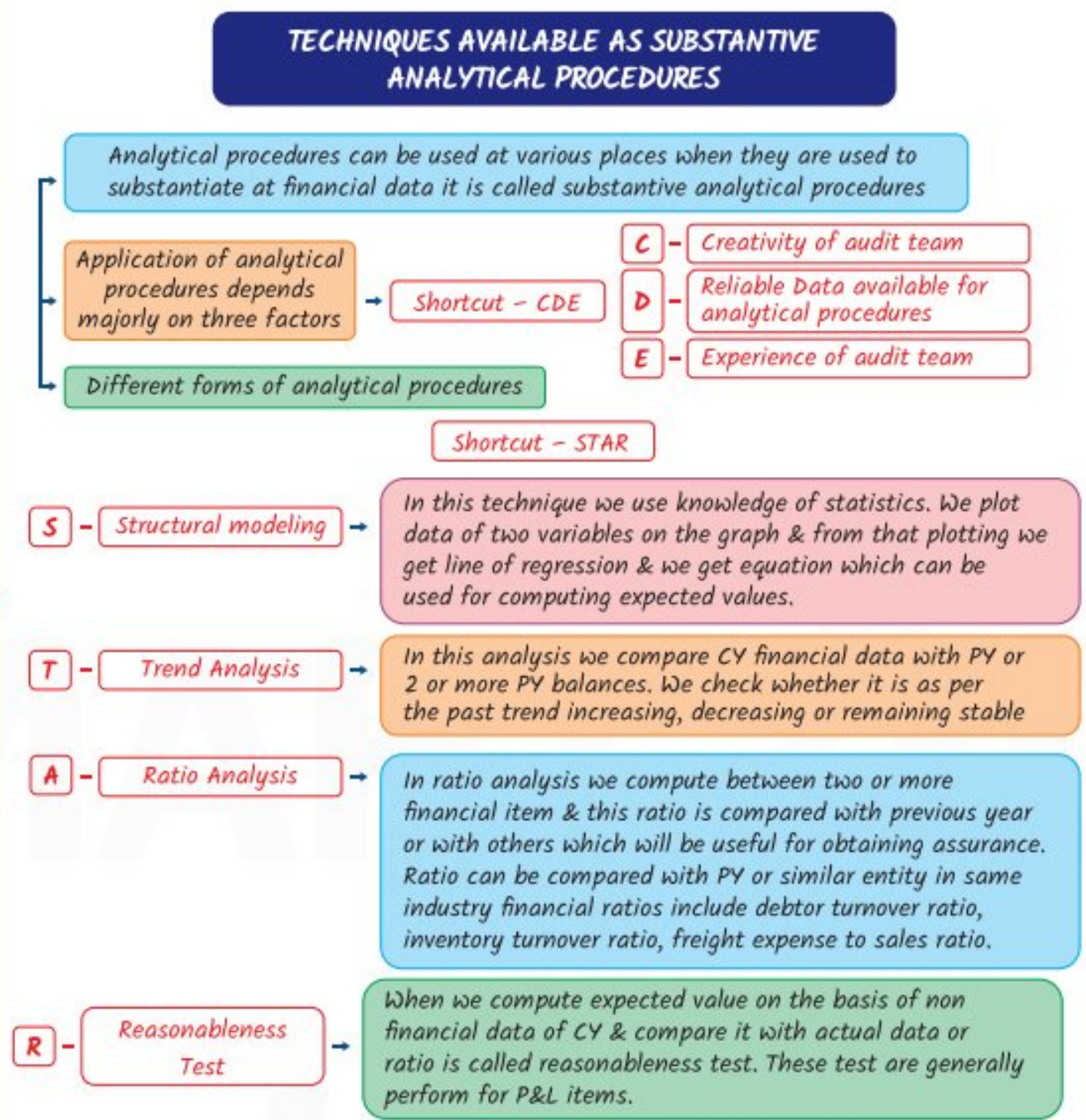
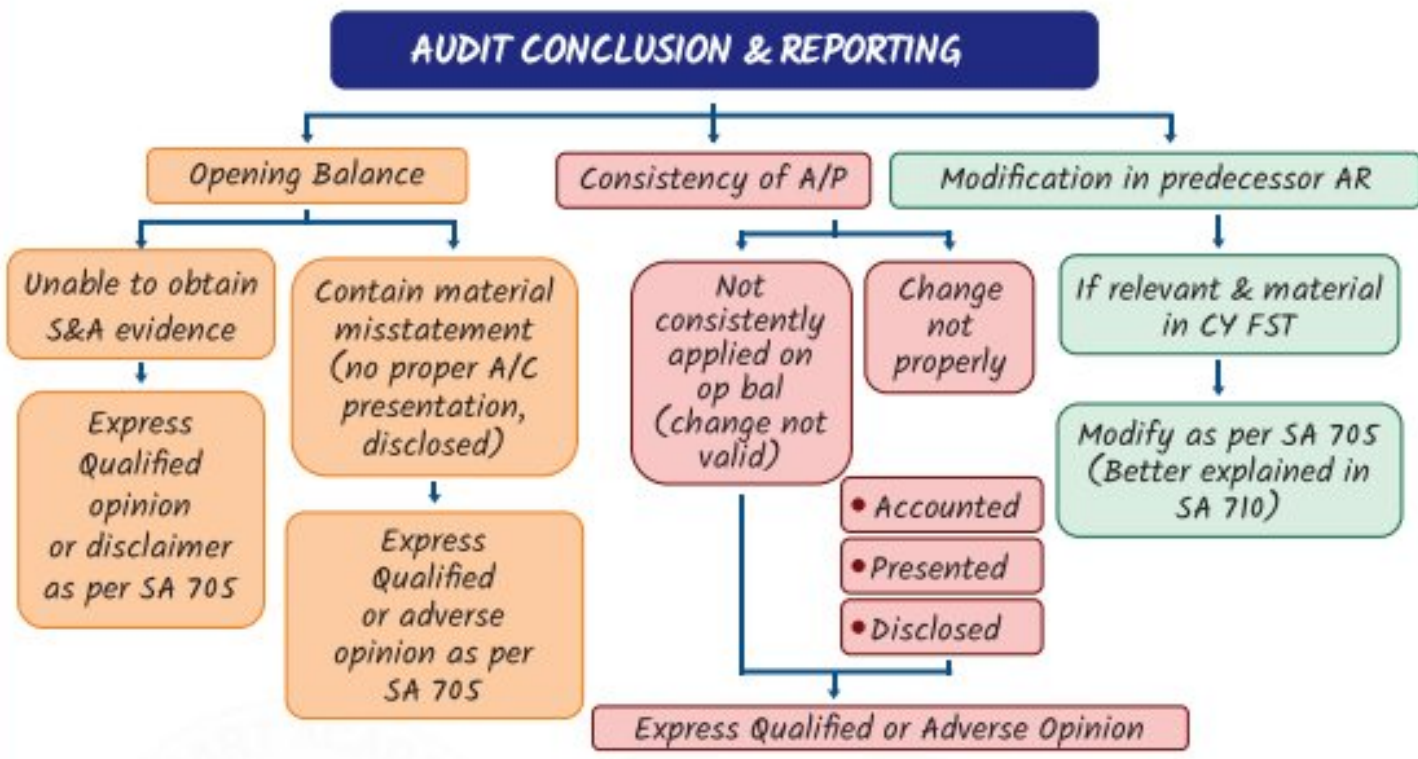


INCLUSION IN OPENING BALANCES



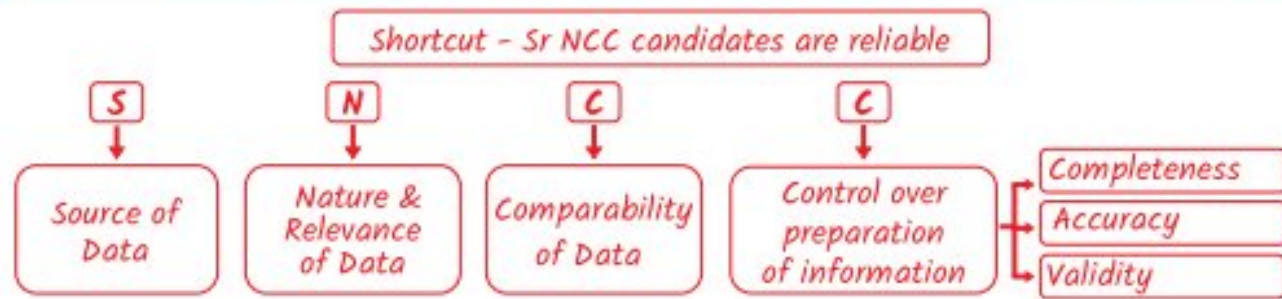
AUDIT PROCEDURE TO EXAMINE OPENING BALANCES





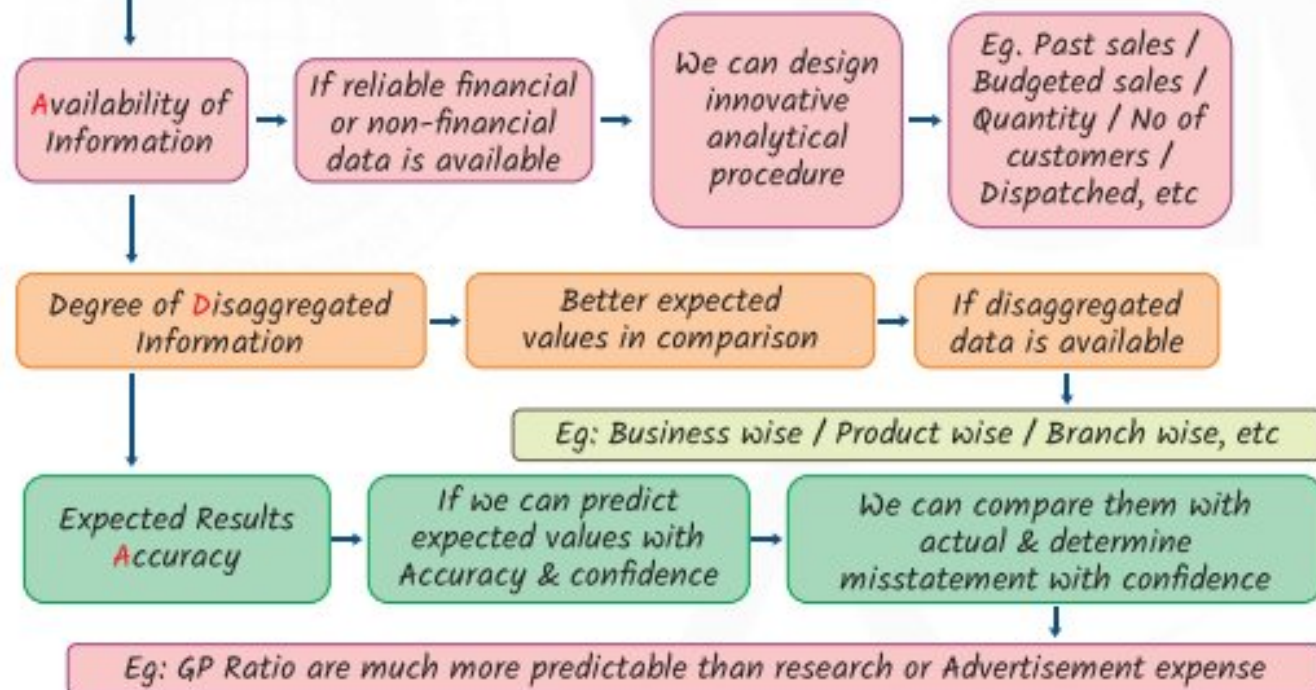
### FACTORS AFFECTING RELIABILITY OF DATA / EXTENT OF RELIANCE ON SAP

Following are the criteria's that should be considered while deciding reliability of data

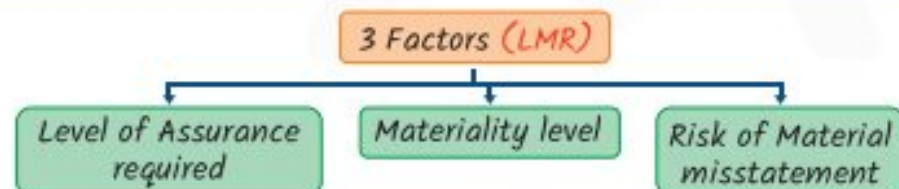


### FACTORS AFFECTING DEVELOPING EXPECTATION

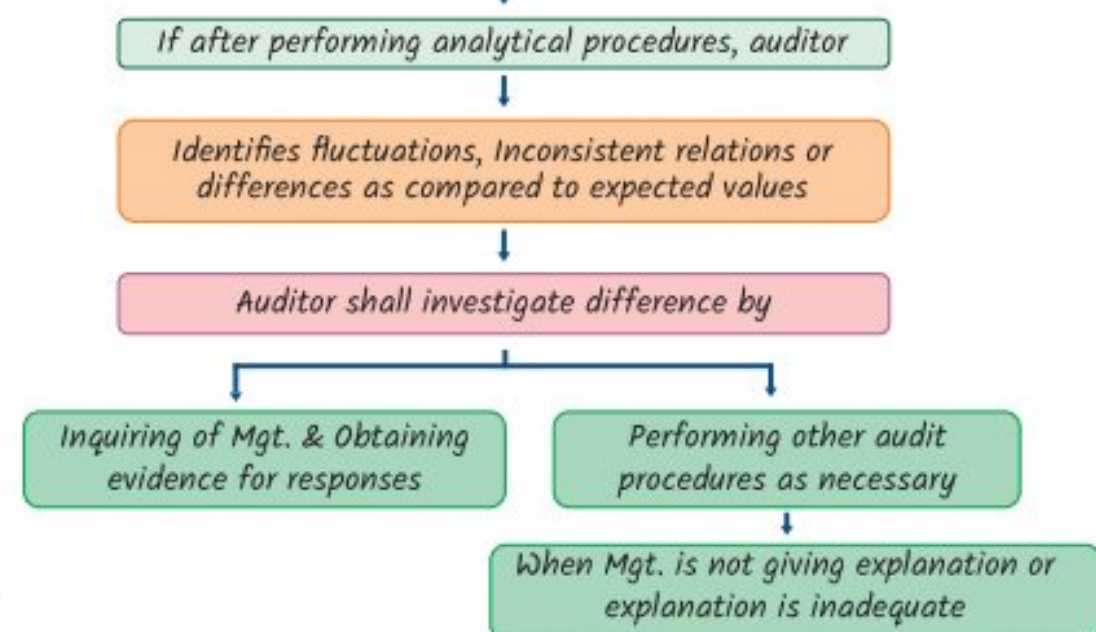
Below factor will affect whether we can develop precise expectation & compare them with actual to get misstatement (ADA)



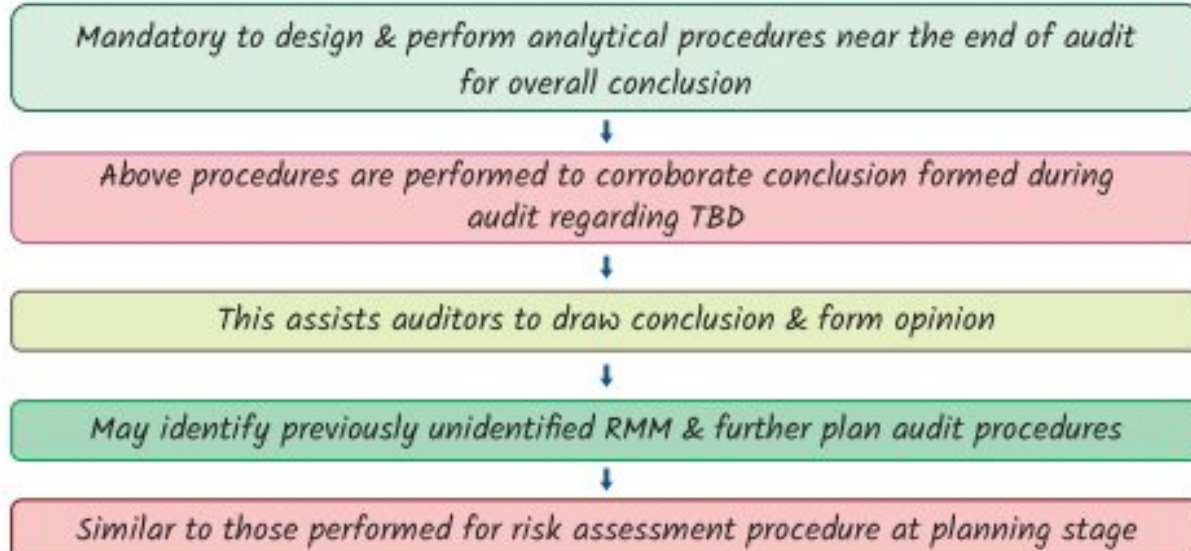
### DETERMINE WHETHER DIFFERENCE IS ACCEPTABLE



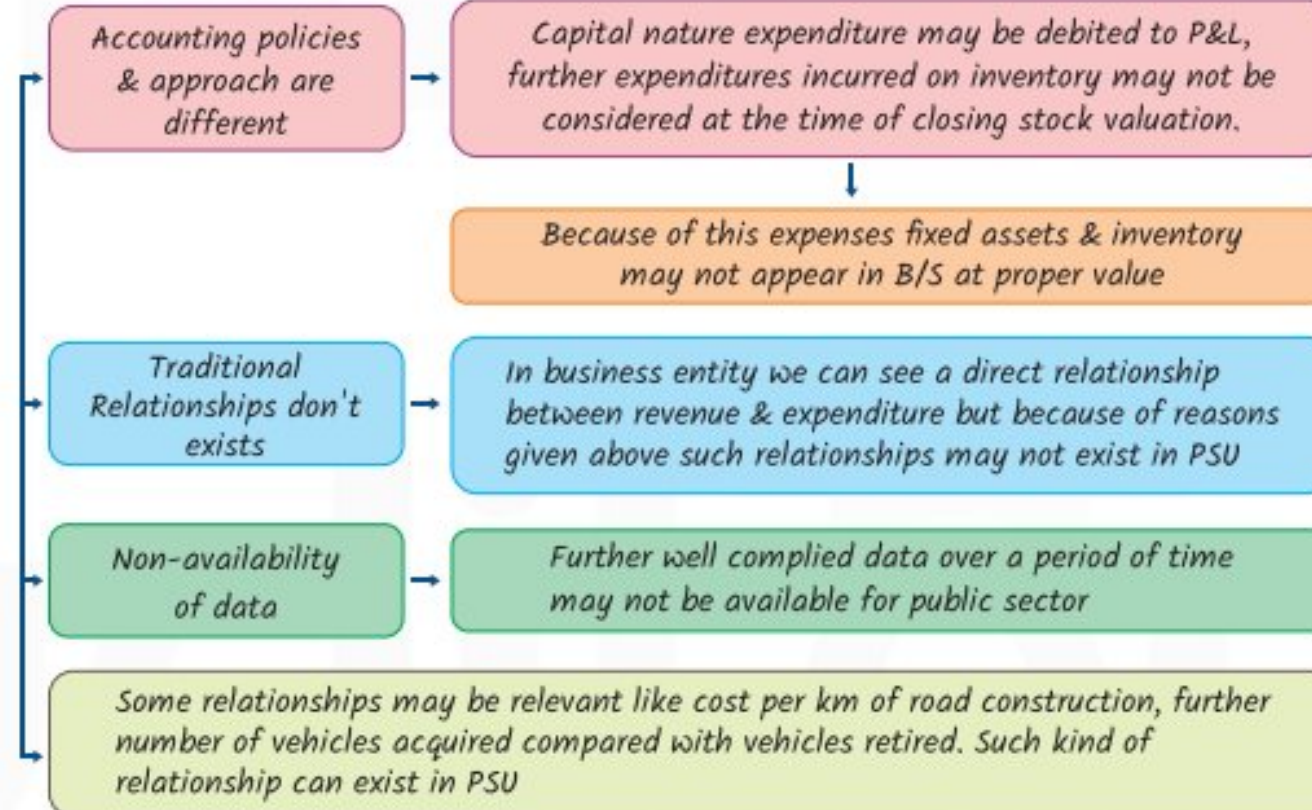
### INVESTIGATING RESULTS OF ANALYTICAL PROCEDURES



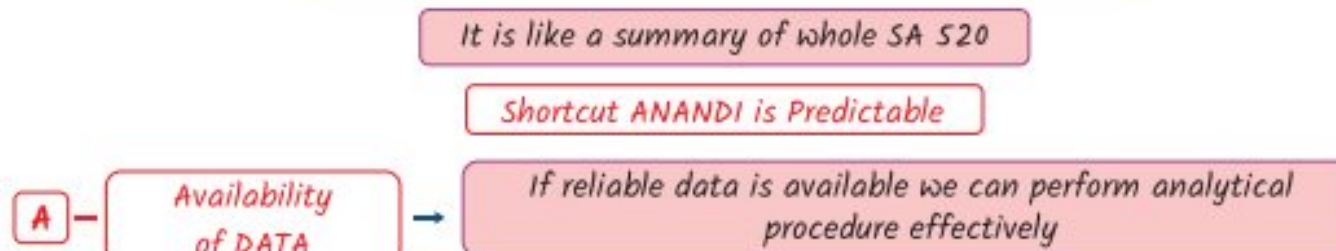
### ANALYTICAL PROCEDURES THAT ASSIST WHEN FORMING OVERALL CONCLUSION



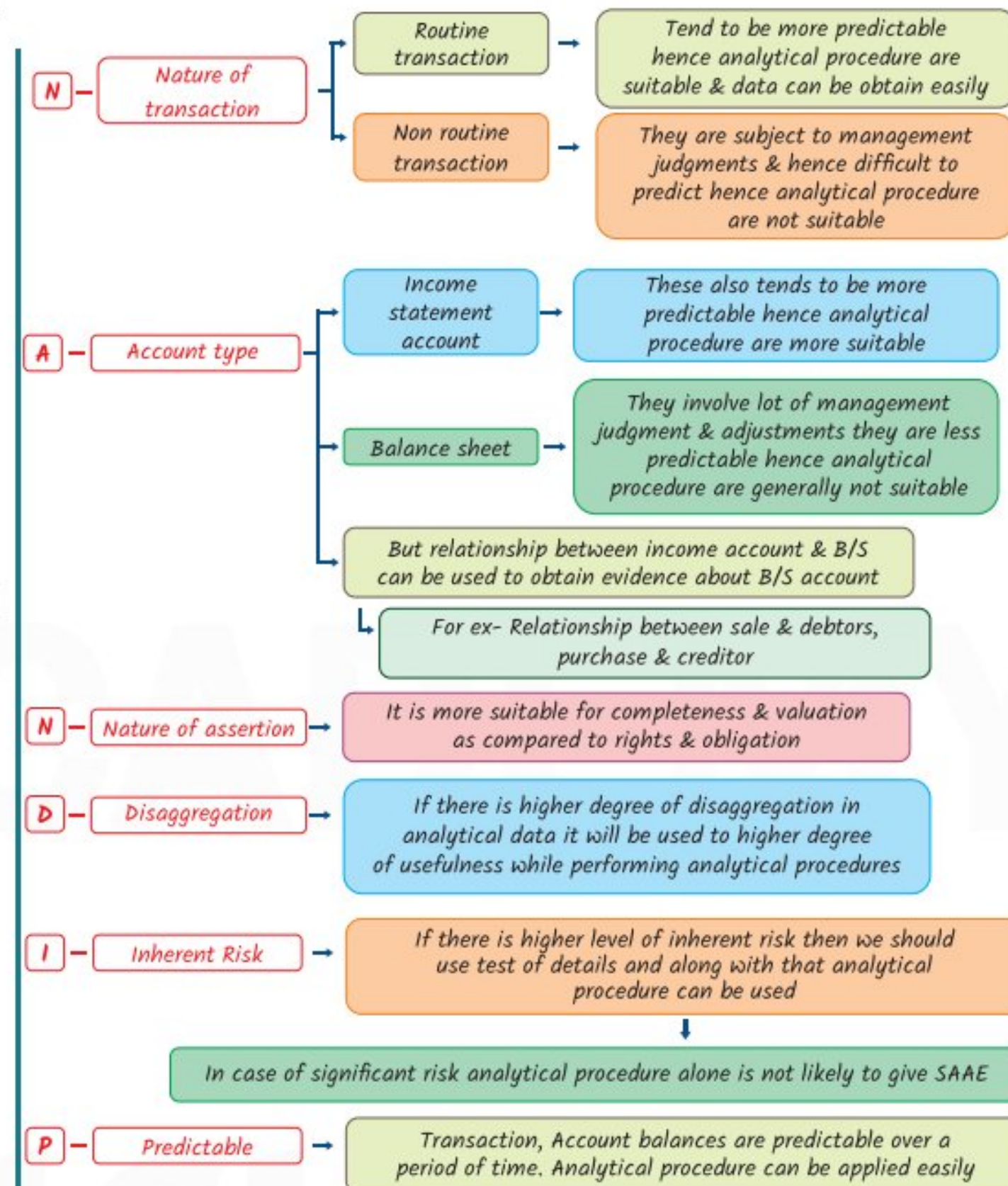
### ANALYTICAL PROCEDURE IN PUBLIC SECTOR UNDERTAKING (PSU)



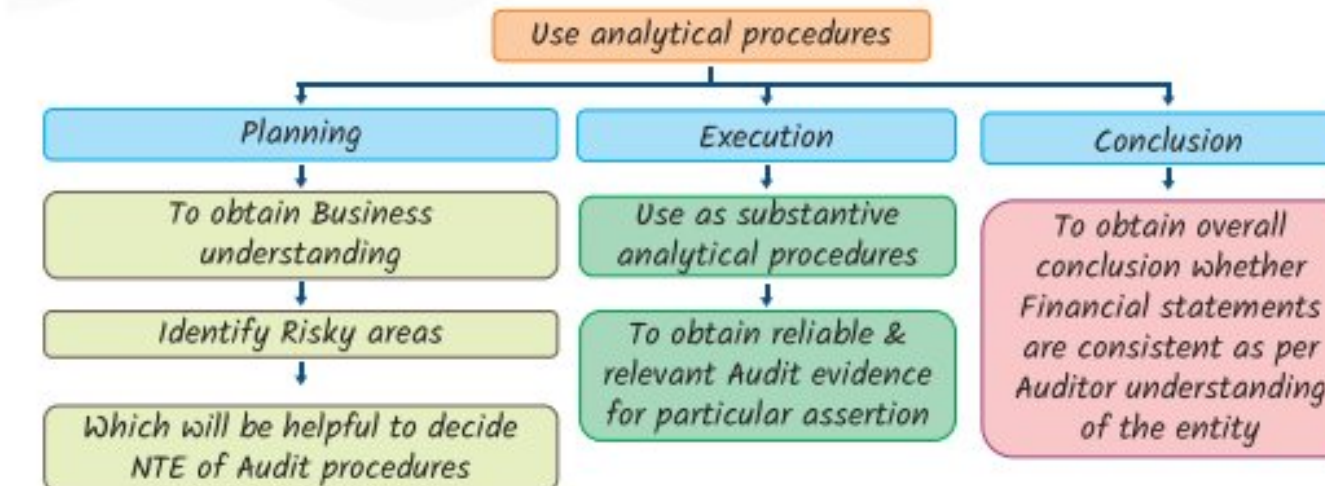
### FACTORS TO BE CONSIDERED FOR SUBSTANTIVE ANALYTICAL PROCEDURE



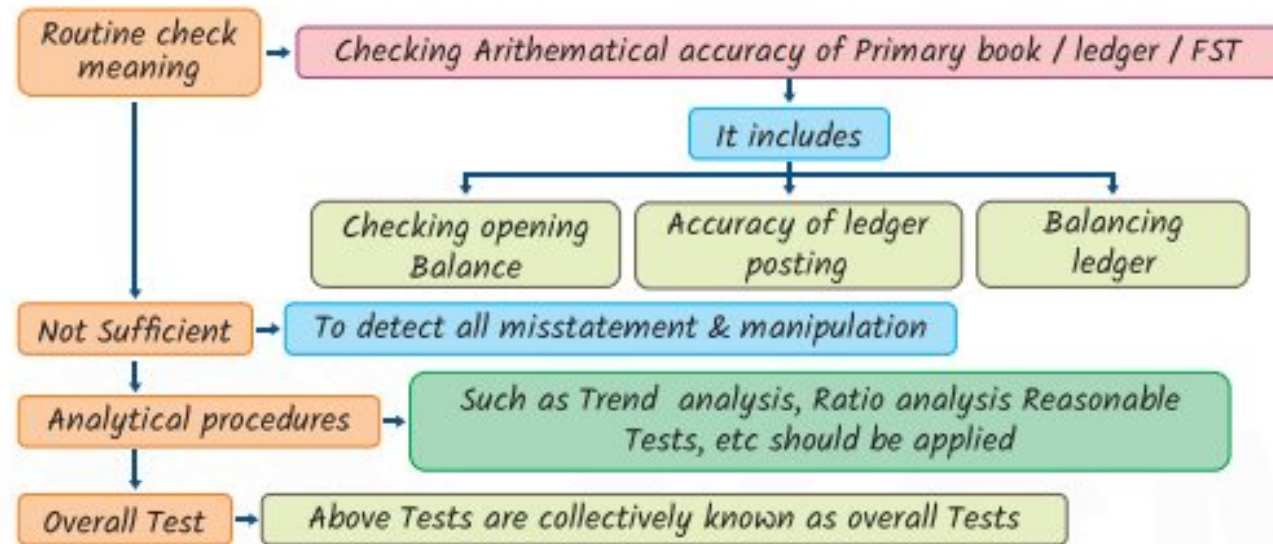
Continue on next column...



### OBJECTIVE AS PER SAS20



### ROUTINE CHECK CANNOT IDENTIFY ALL MISSTATEMENTS



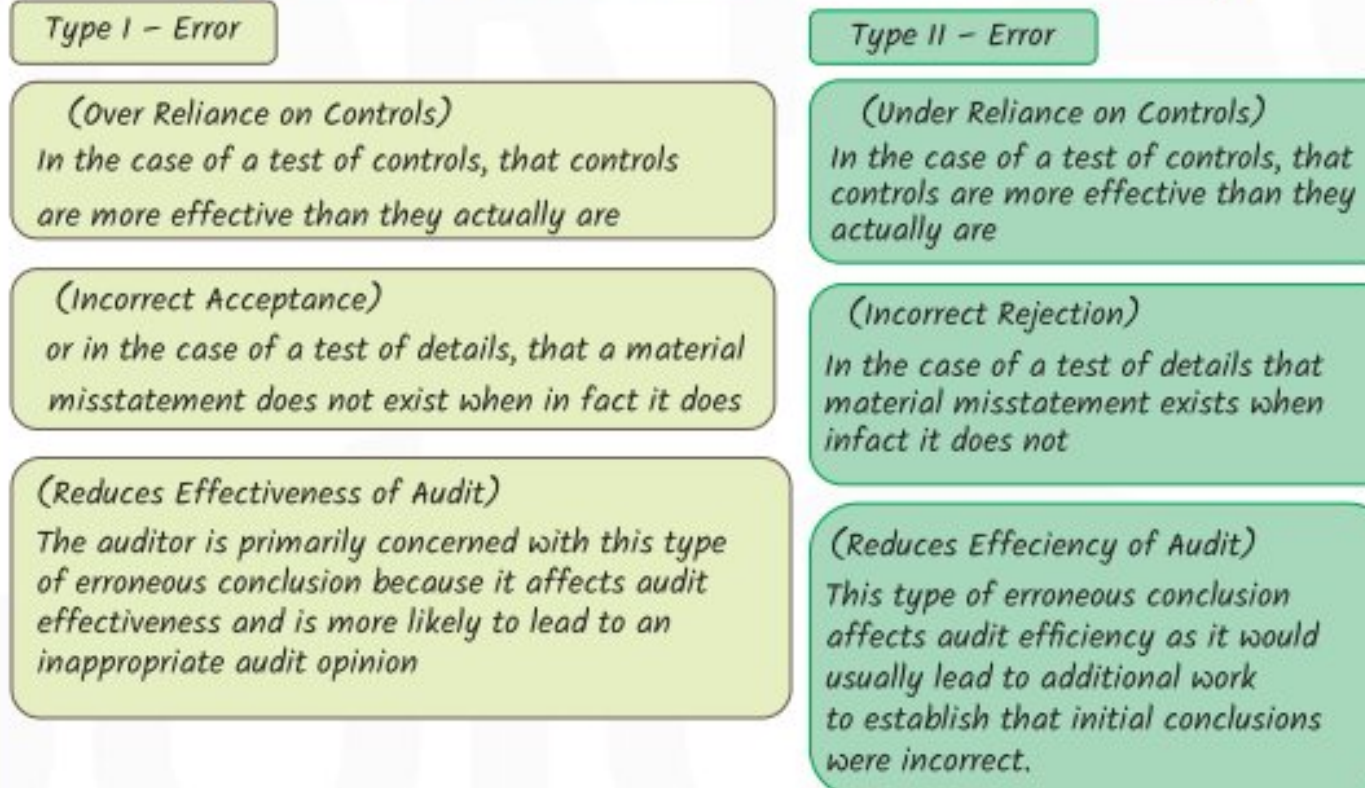
If we want to check existence of debtors we may use party wise balances as sampling unit for confirmation if we want to check penal interest is applied on debtors we may consider invoices wise balance as appropriate sampling unit

R - Reliable → Ensure that info used in the sampling process is sufficiently reliable

### SAMPLING RISK

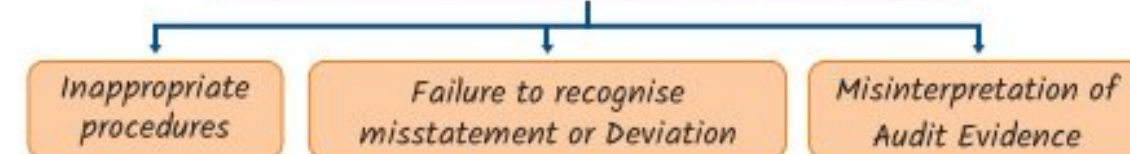
The risk that the auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure

Sampling risk can lead to two types of erroneous conclusions

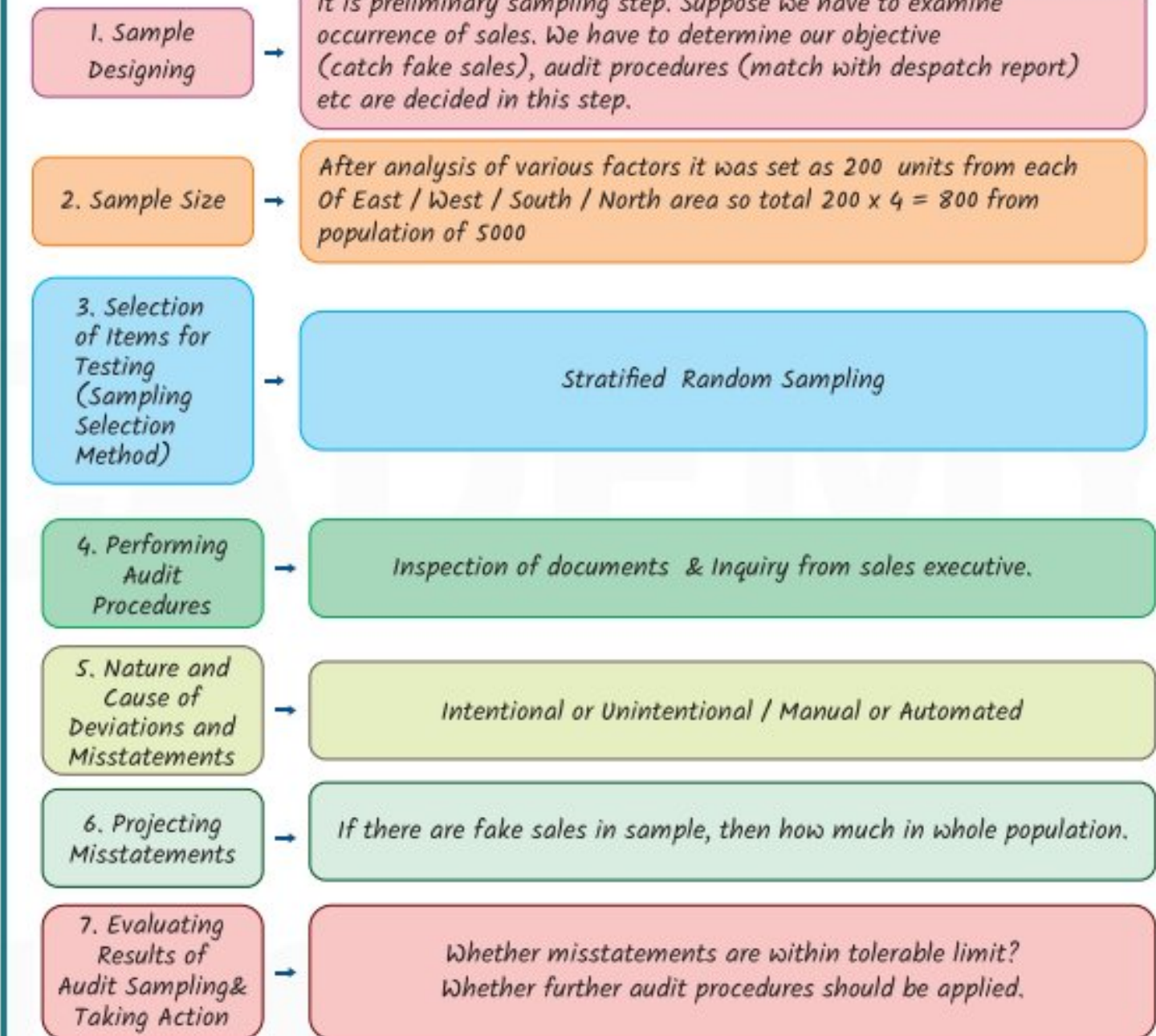


### NON-SAMPLING RISK

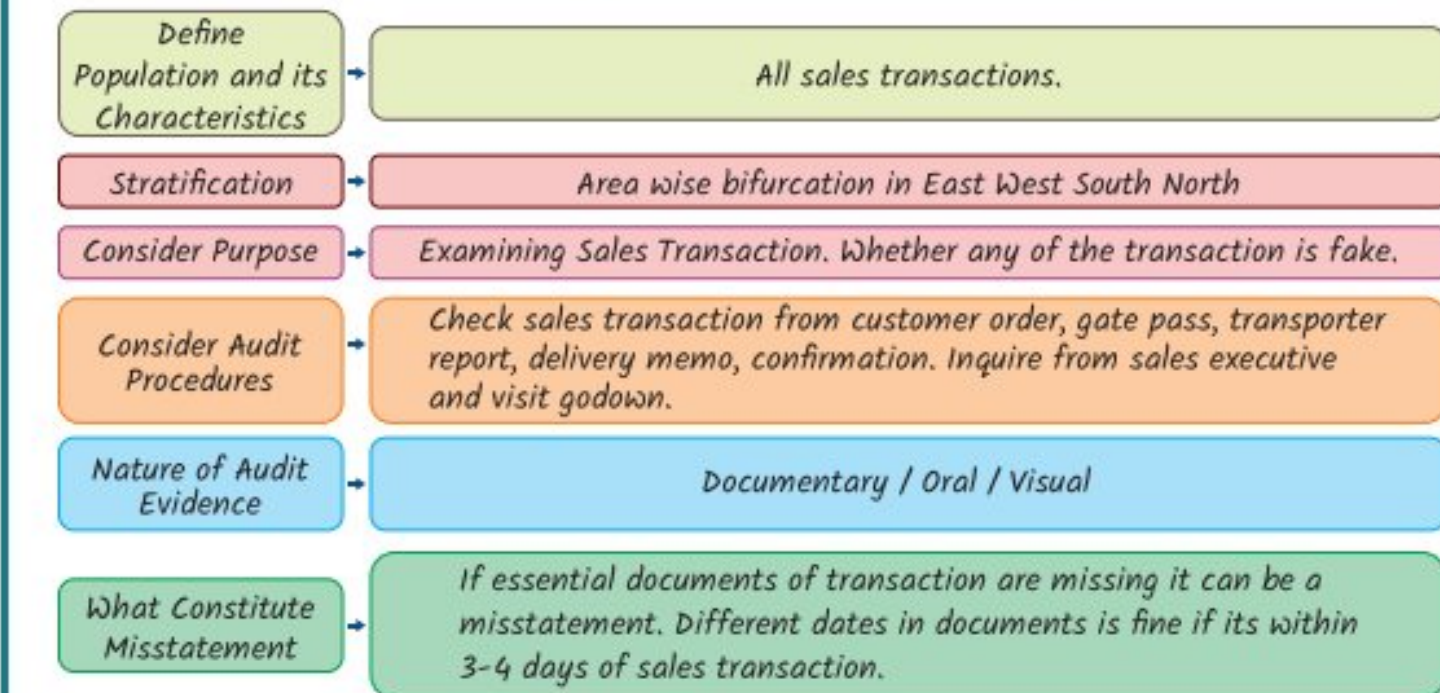
Chances that auditors reaches inappropriate conclusions because of reasons given below



### SAMPLING PROCESS



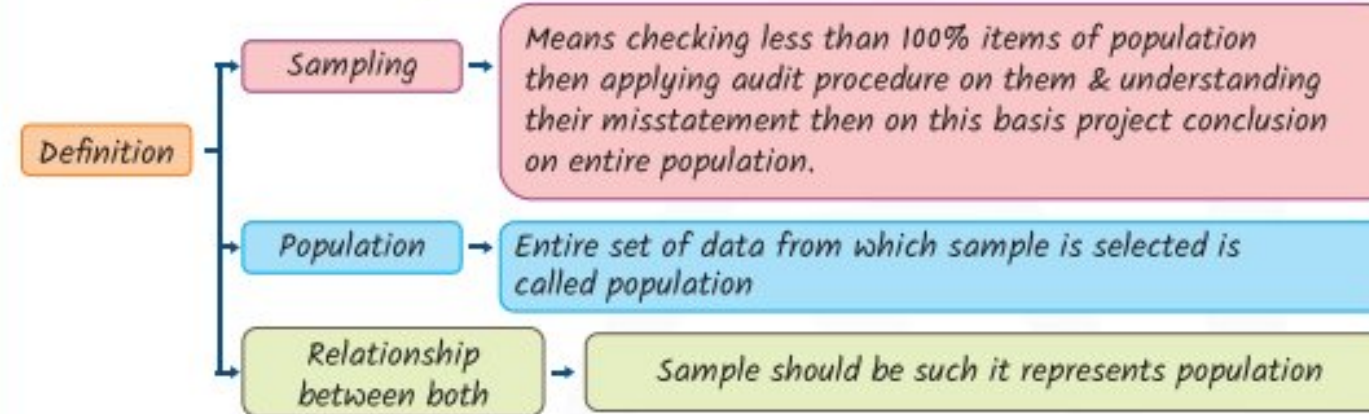
### STEP 1 SAMPLE DESIGNING



### Part 6 - SA 530

### SA 530

### SAMPLING & POPULATION



C - **Completeness** → Auditor should ensure that population is complete.  
For. Ex. if we are performing test of control then it should cover control activities which are done throughout the accounting period

A - **Appropriateness**

- Population should be appropriate as per the objective of audit procedure
- We should consider direction of testing while defining population
- Ex. 1. to check over statement of accounts receivable list of accounts receivable will be population
- Ex. 2. On the other hand while testing understatement of accounts payable then population will not be list of account payable but is will be list of unmatched GRNs, unpaid suppliers, suppliers statement, subsequent disbursement
- Appropriate sampling unit individual items that make up the population are know as sampling units population can be divided into variety of units
- Ex. Debtors can be divided into partay wise account balances or it can also be divided individual customer wise invoices

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QR codes for Doubts and Telegram



### SPECIAL MATTERS IN SAMPLE DESIGNING

#### WHAT CONSTITUTES MISSTATEMENT OR DEVIATION

First auditor design audit objective then

Which condition will be consider deviation or misstatement with the help of this he will able to decide audit procedure which should be applied on sample items

Such clear understanding will be useful at the end while making projections & evaluating results

Ex. - 1. If there is a mismatch between account receivables balance & confirmation because of non accounting of particular receipt it is not called misstatement (Temporary)  
2. If credit sale of one customer is posted to another customer it is not a misstatement at balance sheet level

Above examples are not misstatement by applying a procedure but they may be useful for the assessment of fraud risk & they may have effect on assessment of fraud risk

#### ROLE OF EXPECTED RATE OF DEVIATION & MISSTATEMENT IN SAMPLING DESIGNING

Before we perform sampling auditor computes expected rate of deviation & expected level of misstatement

Expected rate of deviation / misstatement is determined taking into consideration his previous year experience & present circumstances etc

Expected rate of deviation is determine/ on the basis of understanding of the relevant controls on the other hand expected level of misstatement is determine on the basis of cheking of small number of items from population

These expected are important characteristics of the population

Important sampling decisions are taken on the basis

Test of control

Test of details

If expected rate of deviation is higher than tolerable level of deviation

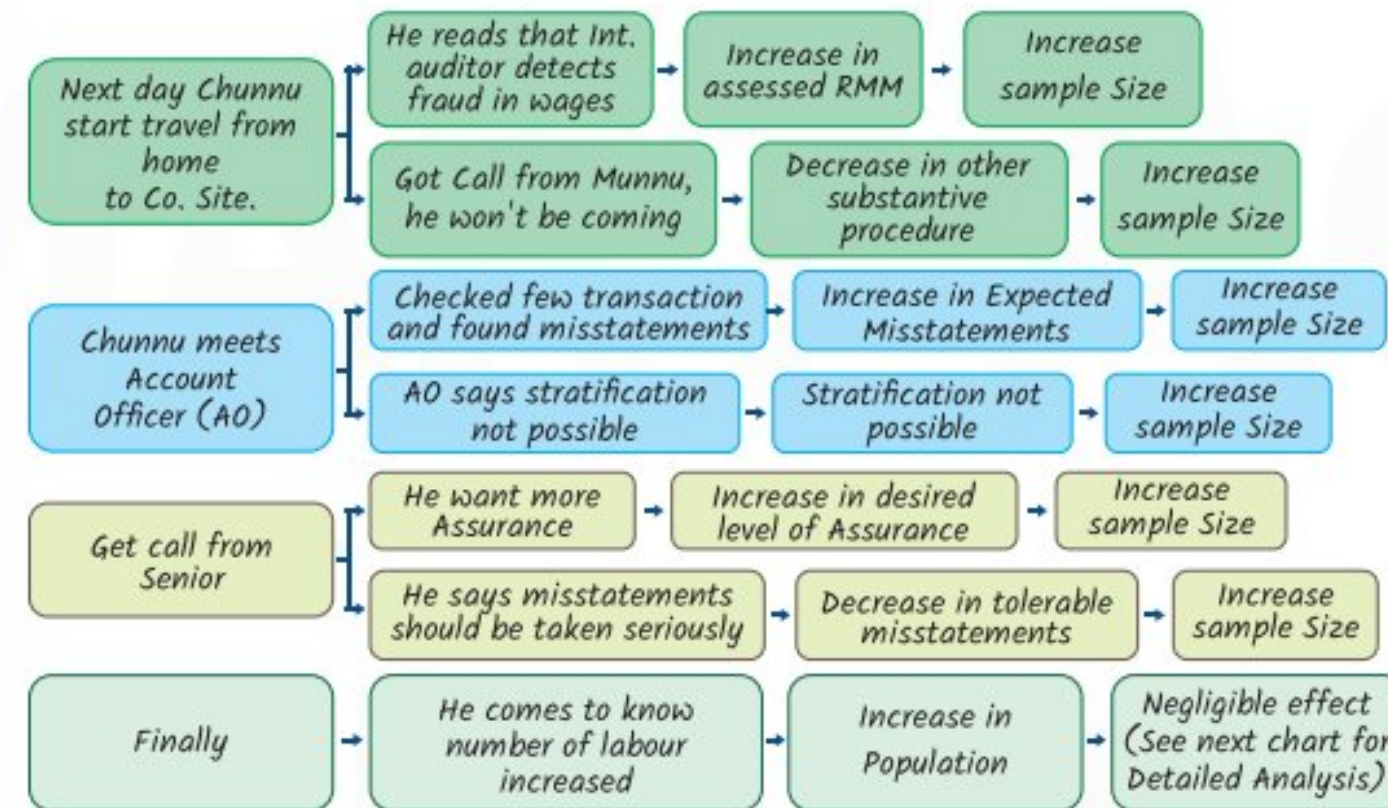
Then we should not perform test of controls infact we should perform more substantive procedure in this situation

If expected misstatement is higher than tolerable misstatement then we should not perform sampling in test of details instead we can go for 100% checking of the population

### STEP 2 SAMPLE SIZE

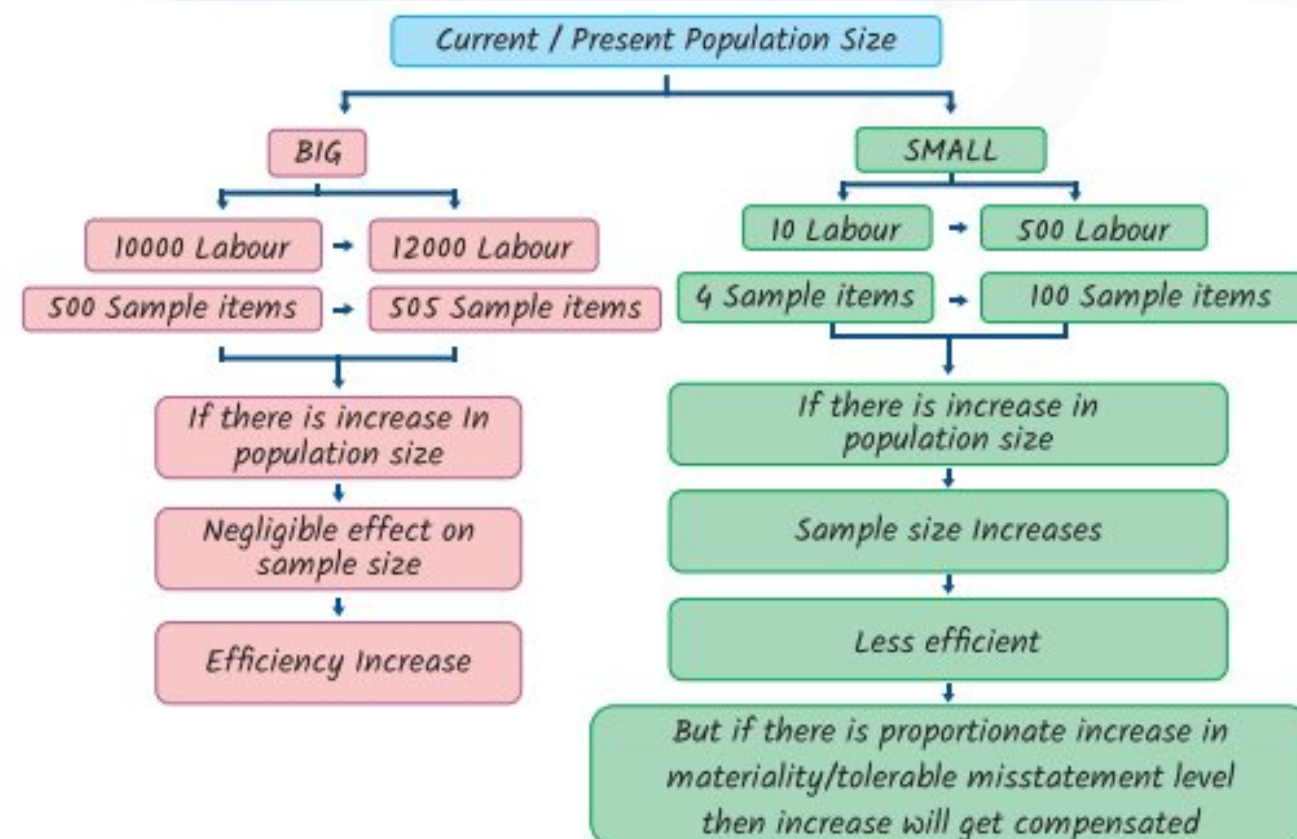


### CHUNNU, MUNNU ARE ASSIGNED TO AUDIT „WAGES IN THE CONSTRUCTION COMPANY



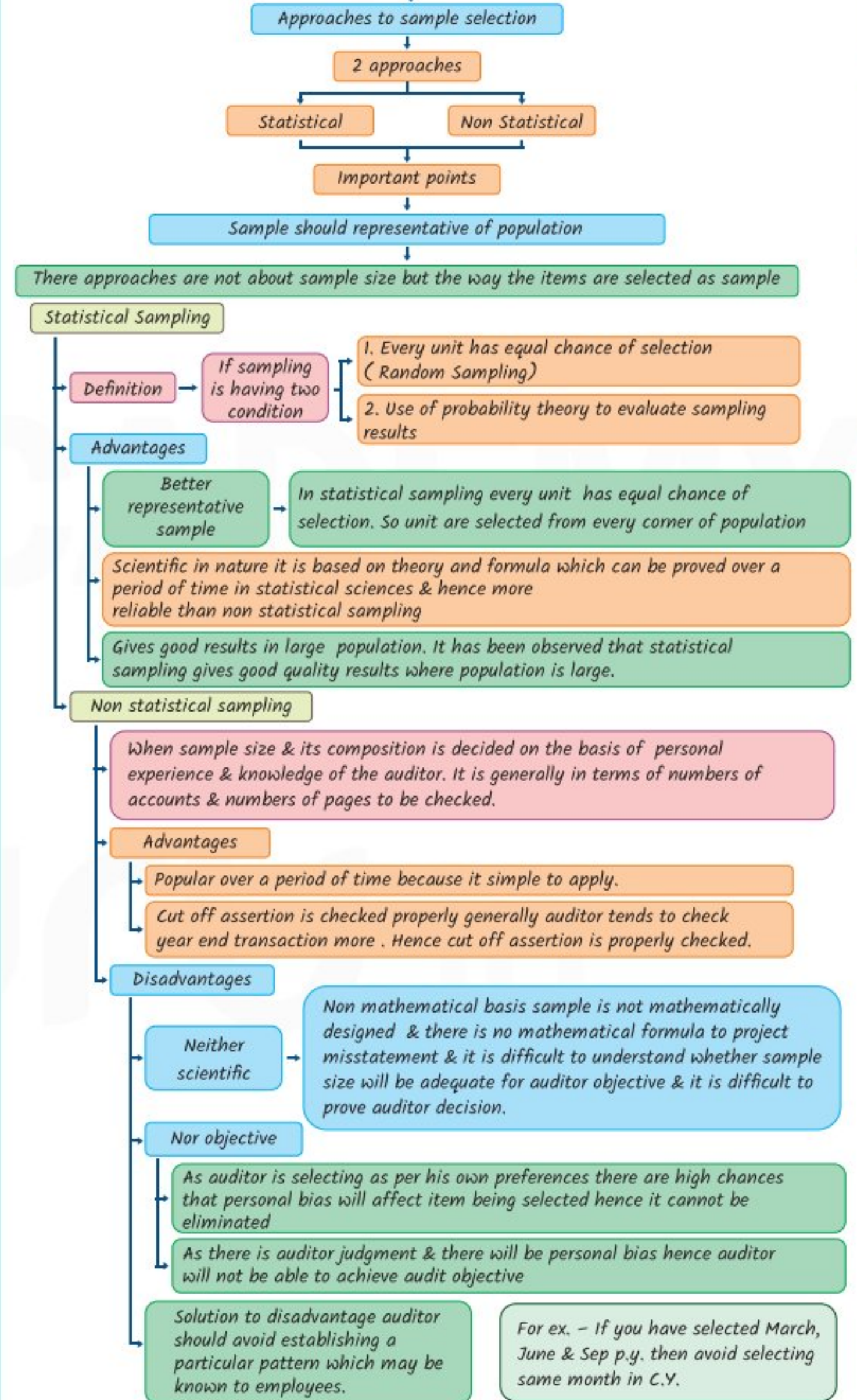
Above points are presented from point of sampling in test of detail, similar points applicable for sampling in TOC

### EFFECT OF POPULATION SIZE ON SAMPLE SIZE



Continue on next column...

### STEP 3 SELECTION OF ITEMS FOR TESTING



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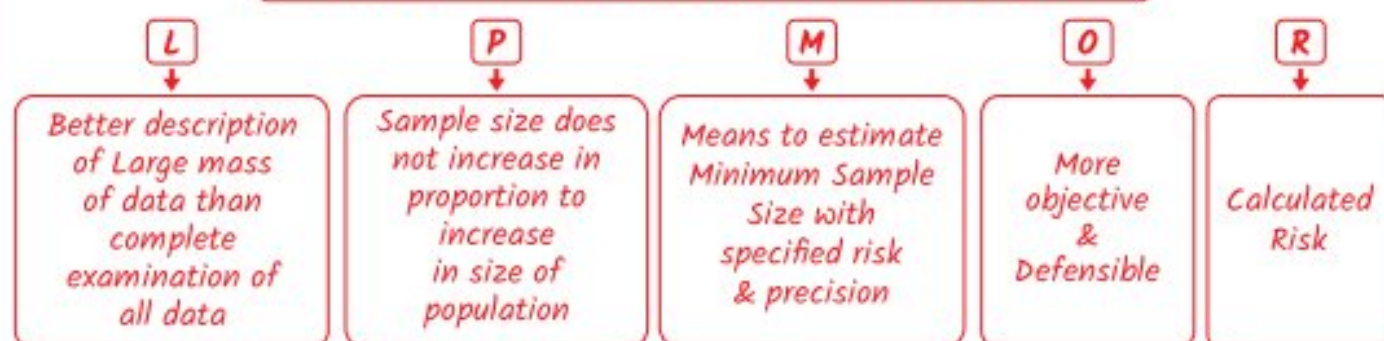


Doubts

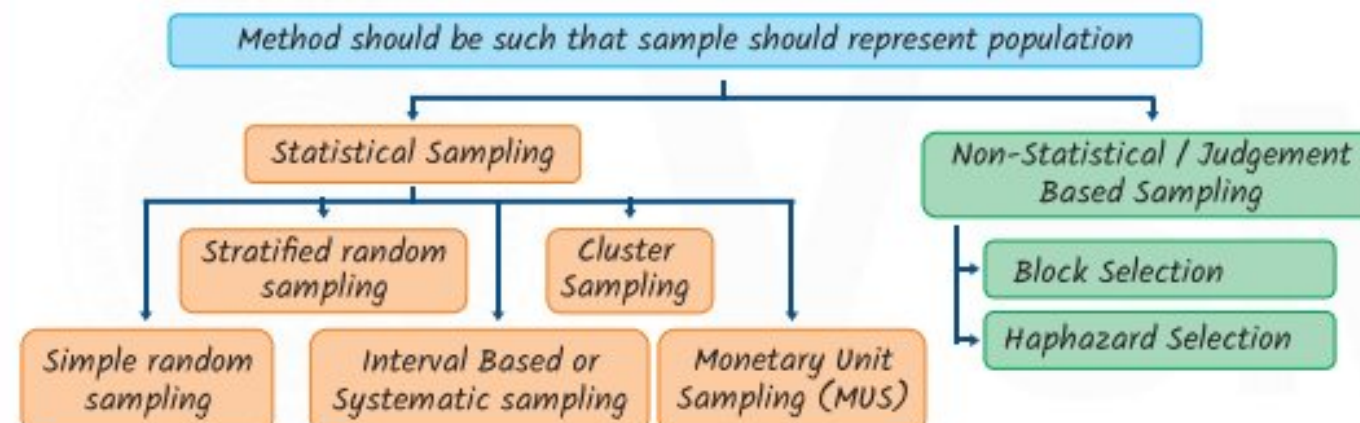
Telegram

### ADVANTAGES OF STATISTICAL SAMPLING

Benefits of Statistical Sampling "Large Powerful & MOR"

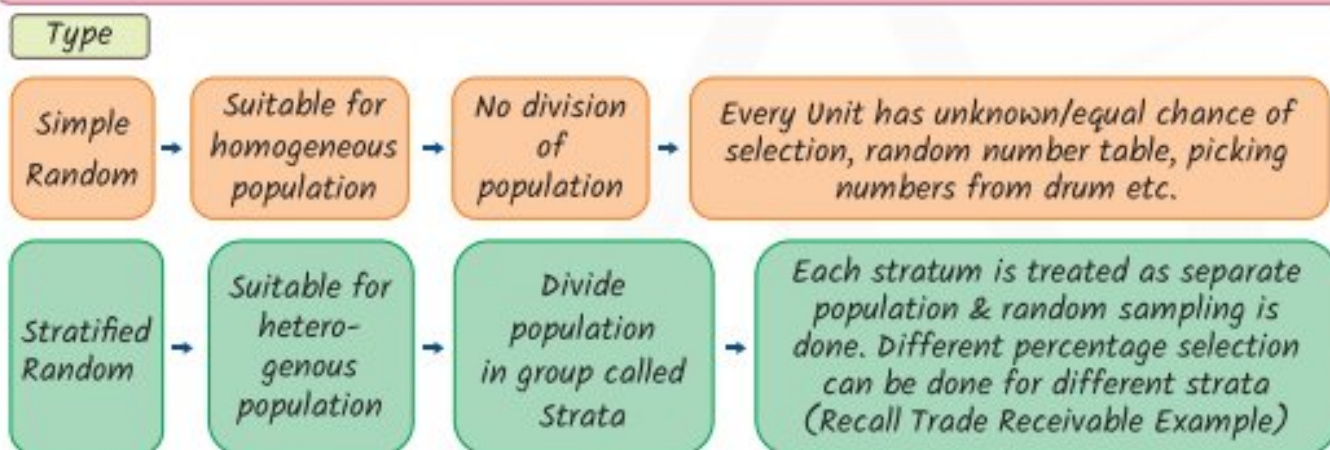


### SAMPLE SELECTION METHOD

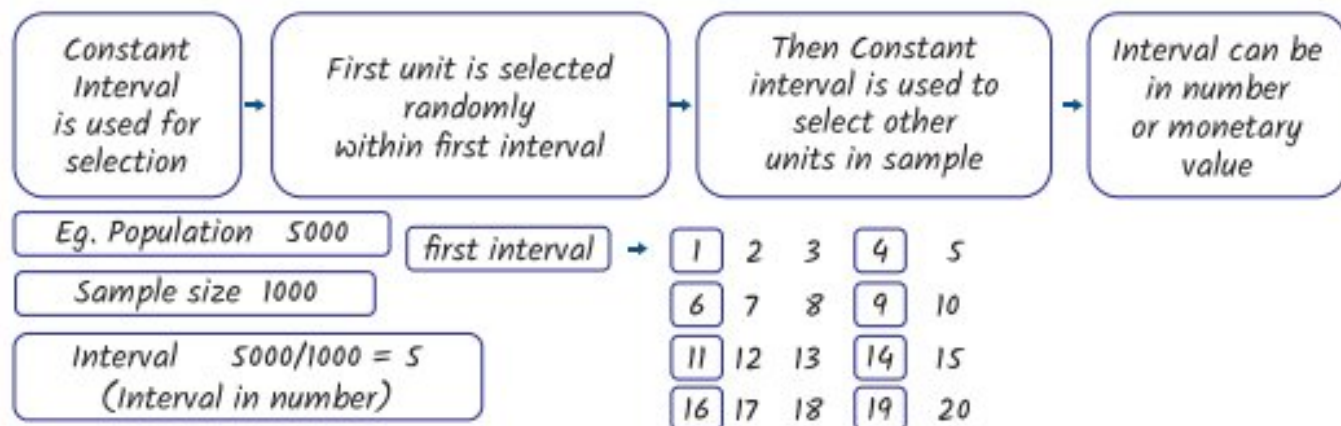


### RANDOM SAMPLING

Def :- All items in population or strata have equal chance of selection. Then we may be use random number table, random between excel function or anything like this to select sample.



### INTERVAL BASED / SYSTEMATIC SAMPLING

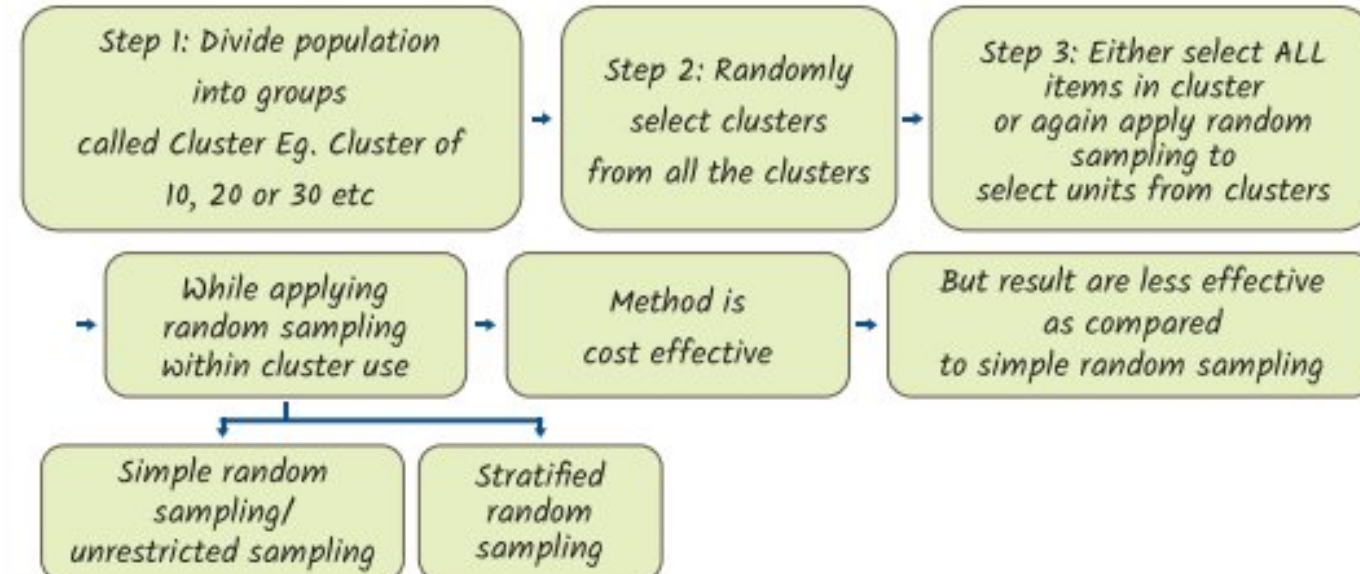


For example of interval in monetary amounts see monetary unit sampling

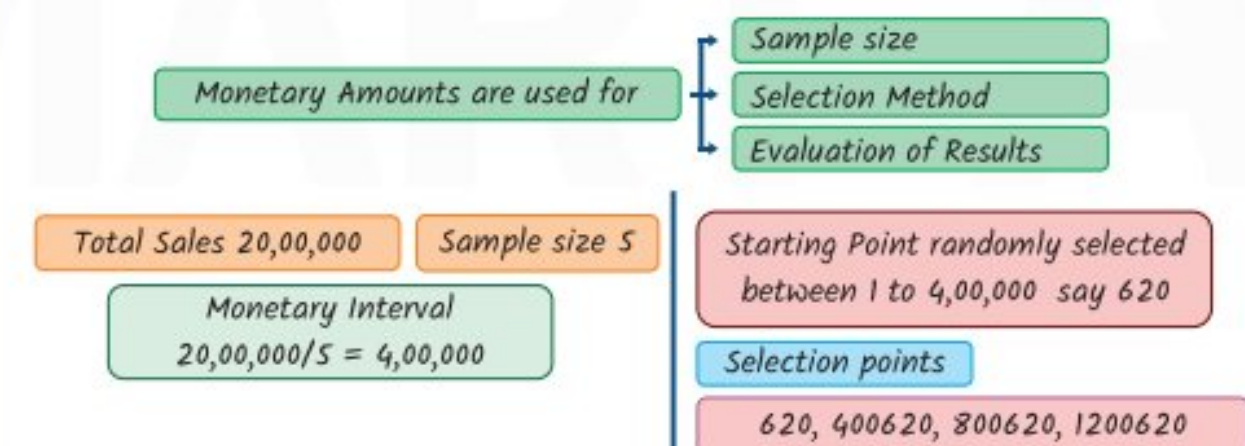
**Problem** -> If population is structured in particular manner & intervals are similar to these structures similar types of items will get selected, not representing whole population

**Solution** -> To resolve above we can have random starts after few selections

### CLUSTER SAMPLING



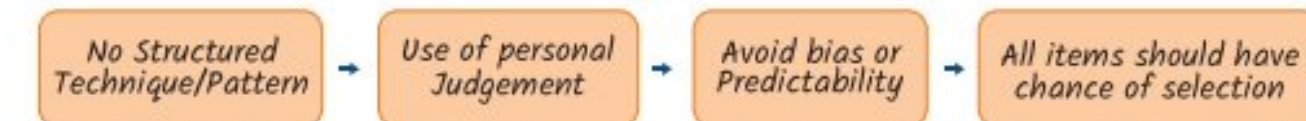
### MONETARY UNIT SAMPLING / VALUE-WEIGHTED SELECTION



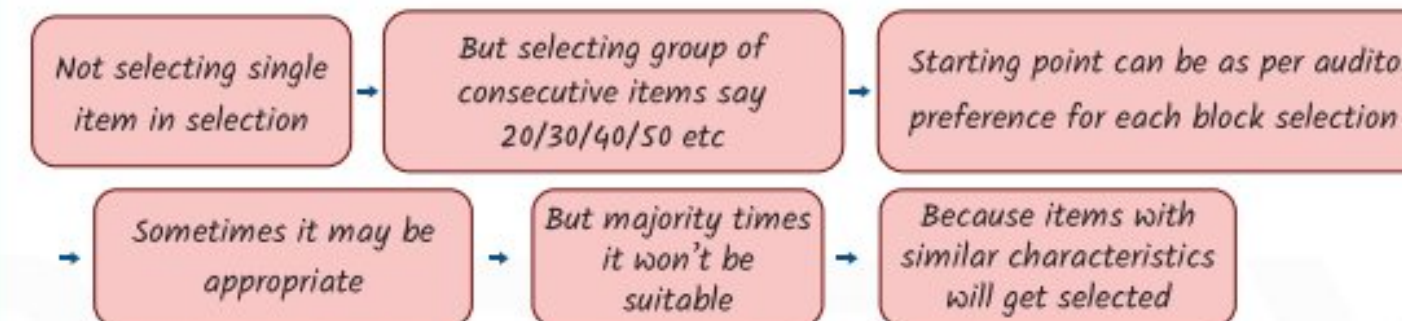
Bill No	Bill Amount	Cumulative total	Base
1	1,00,000	1,00,000	620
2	40,000	1,40,000	
3	20,000	1,60,000	
4	50,000	2,10,000	
5	2,00,000	4,10,000	4,00,620
6	1,60,000	4,70,000	
7	20,000	4,90,000	
8	70,000	5,60,000	
9	60,000	6,20,000	
10	2,50,000	8,70,000	8,00,620
11	45,000	9,15,000	
12	35,000	9,50,000	
13	1,00,000	10,50,000	
14	65,000	11,15,000	
15	1,50,000	12,65,000	12,00,620
16	20,000	12,85,000	
17	40,000	13,25,000	
18	65,000	13,90,000	
19	35,000	14,25,000	
20	95,000	15,20,000	
21	3,50,000	18,70,000	16,00,620
22	40,000	19,10,000	
23	45,000	19,55,000	
24	25,000	19,80,000	
25	20,000	20,00,000	

### NOT A STATISTICAL TECHNIQUES

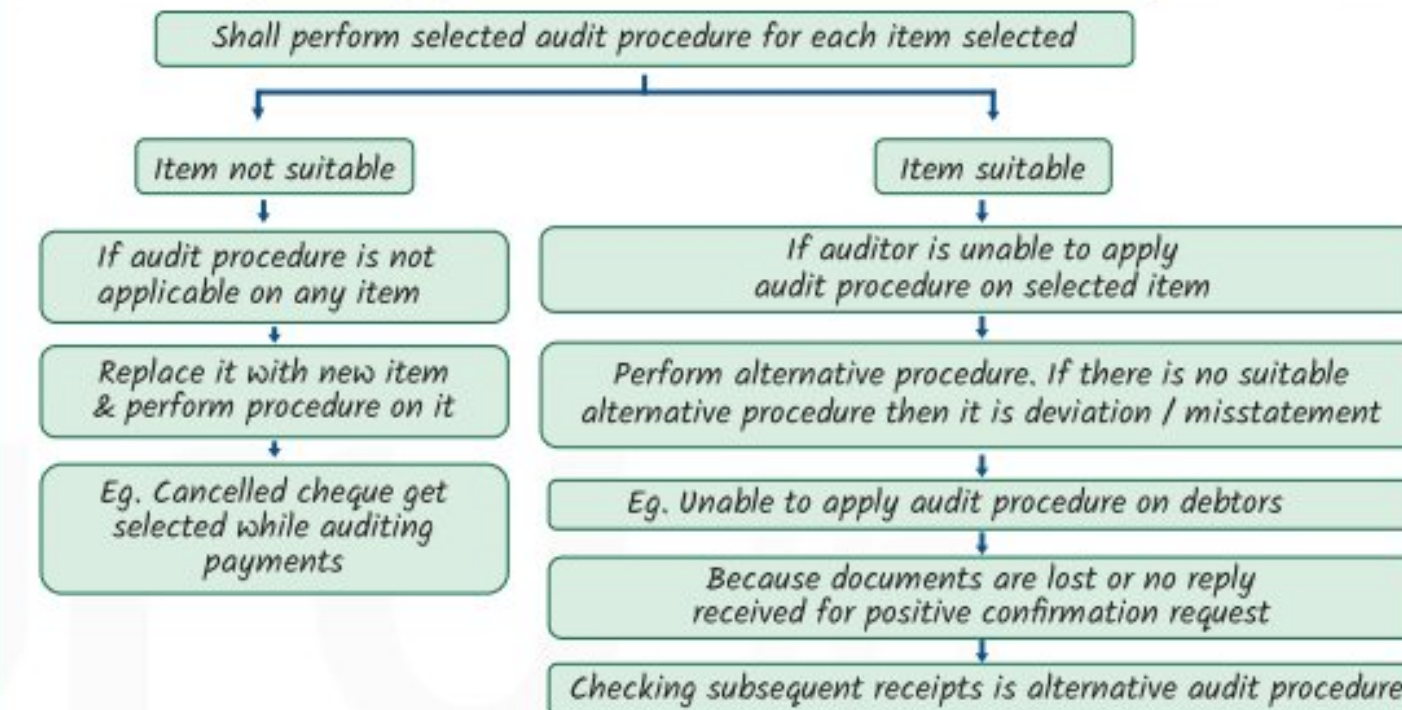
#### HAPHAZARD SELECTION



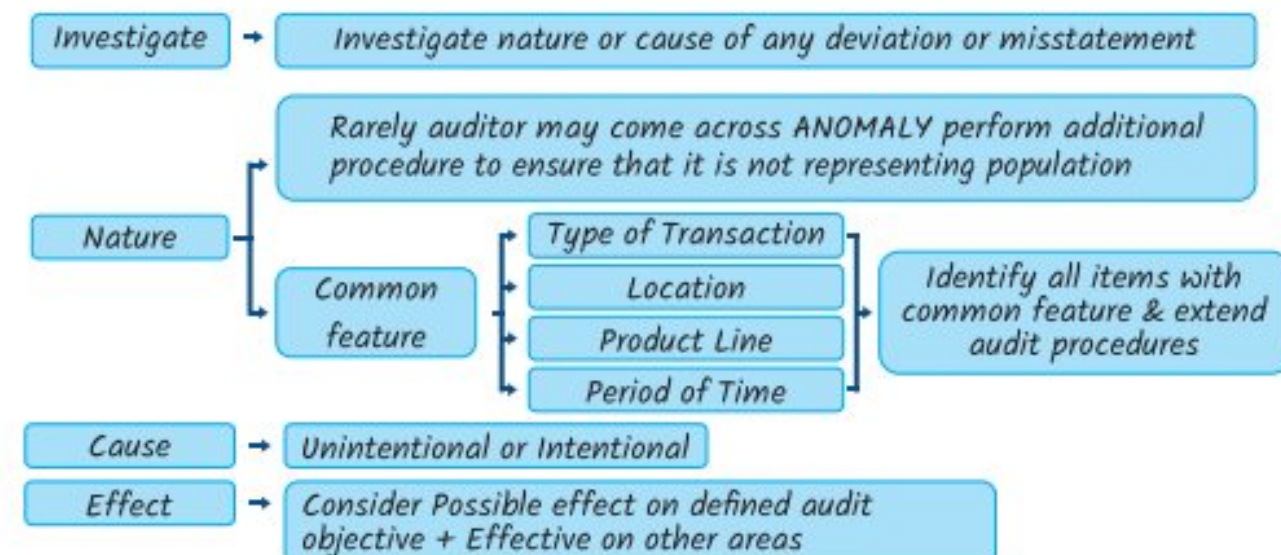
#### BLOCK SELECTION

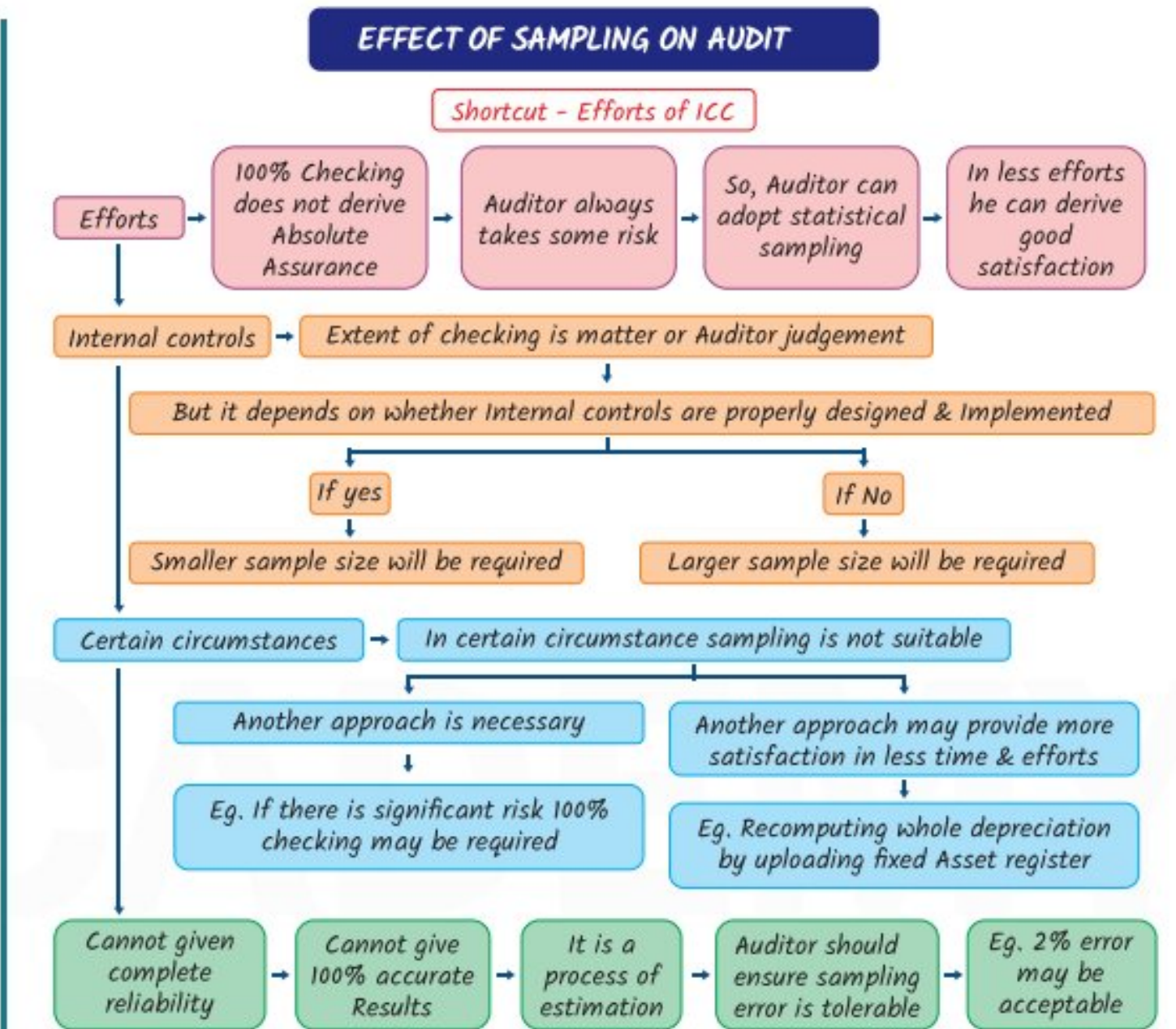
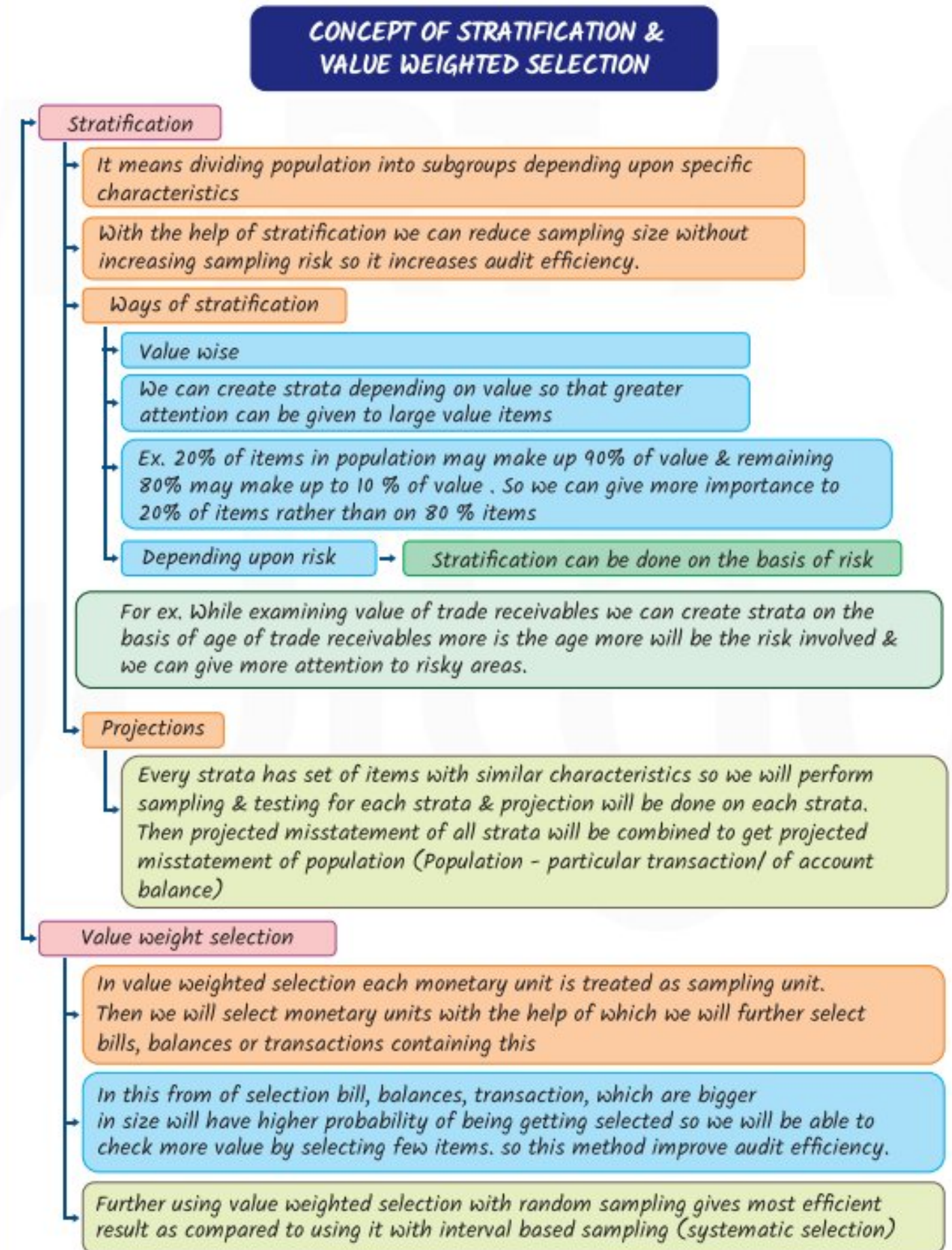
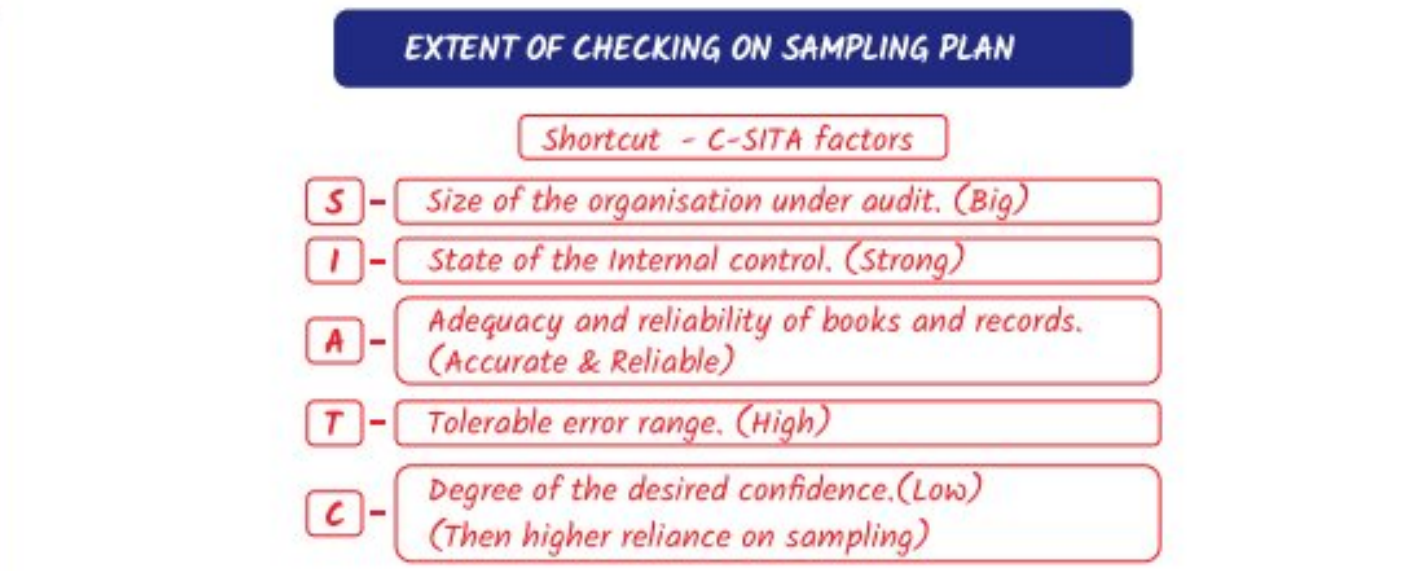
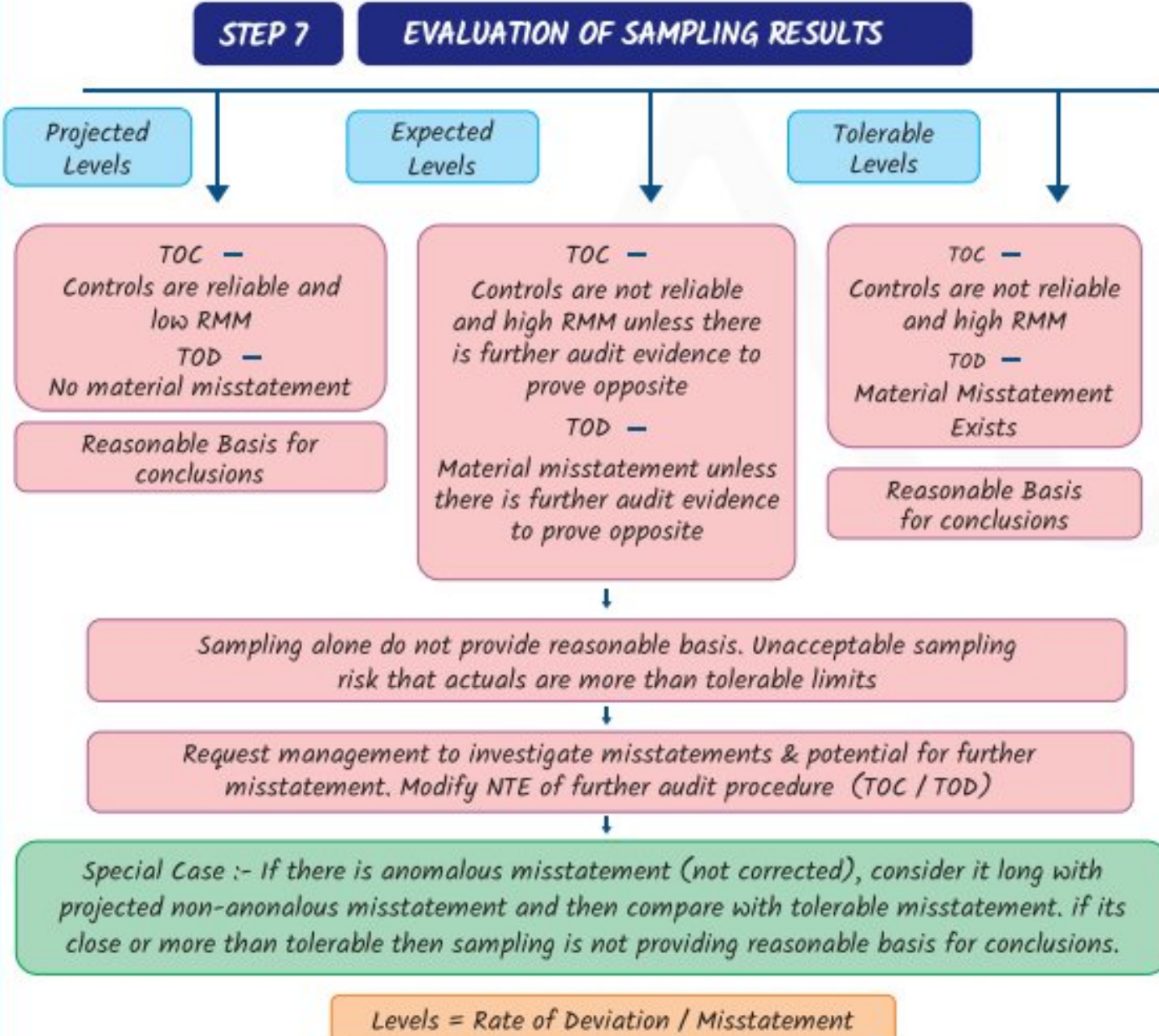
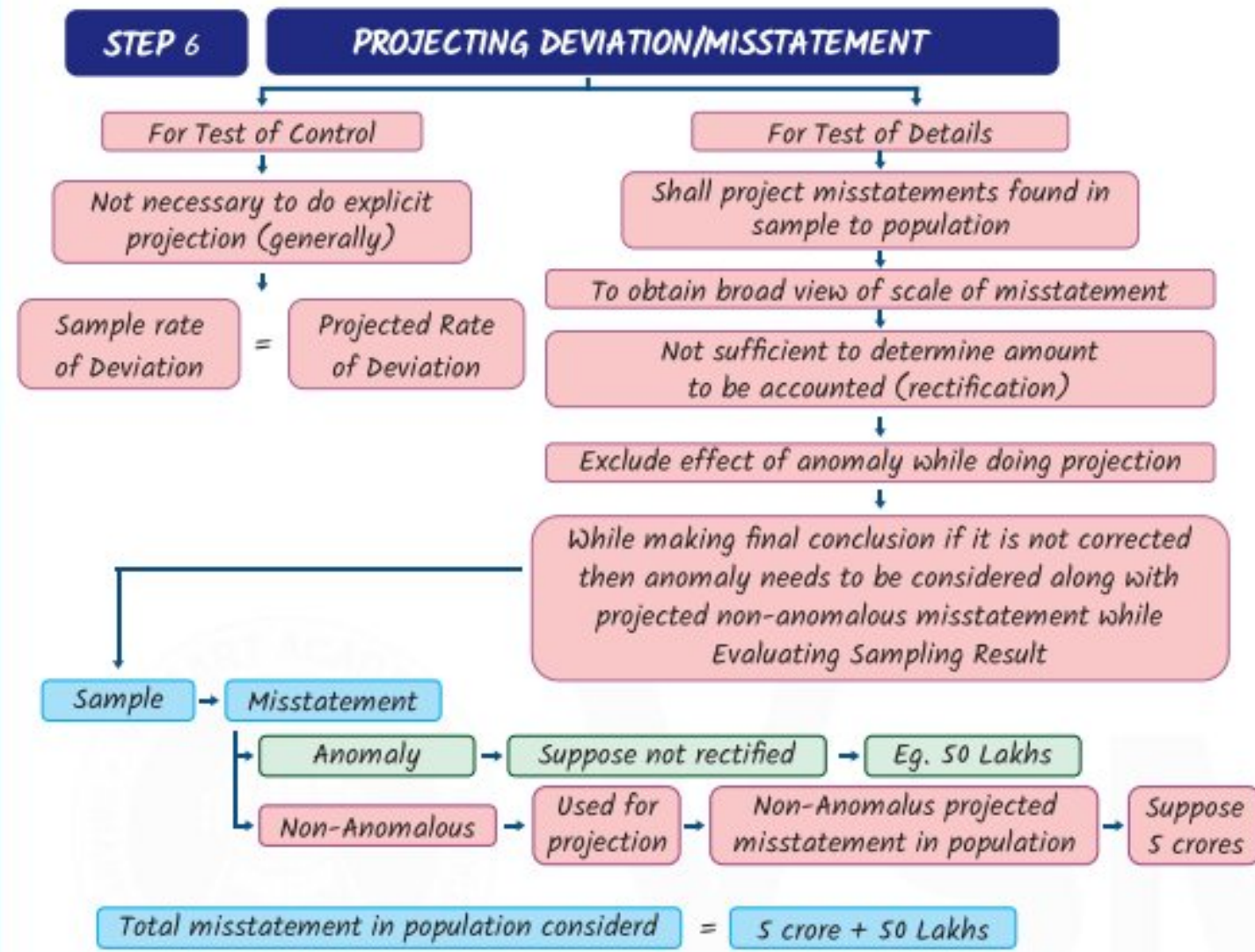


### STEP 4 PERFORMING AUDIT PROCEDURES



### STEP - 5 NATURE & CAUSE OF DEVIATION & MISSTATEMENT (Qualitative Aspect)





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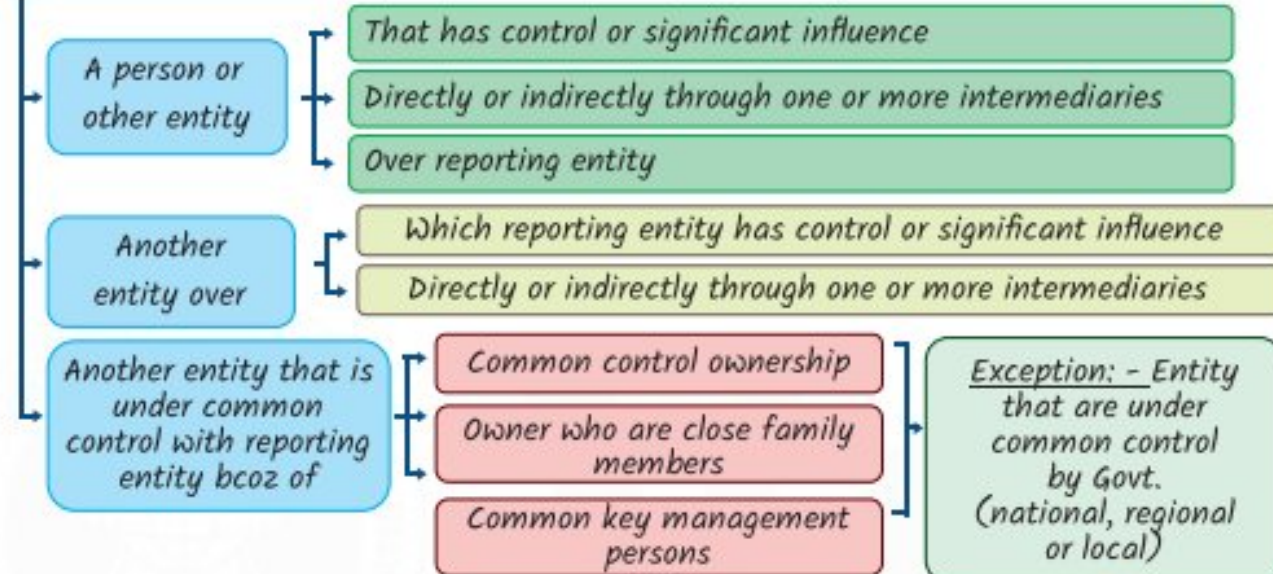
QR codes for Doubts and Telegram

(CNO--SASS0.020)

**DEFINITION OF RELATED PARTY**

Whether related party is elaborately defined in FRF

- Yes → That particular definition should be followed
- No → (or minimal description is given) then follow below definition given by SA 550



(CNO--SASS0.030)

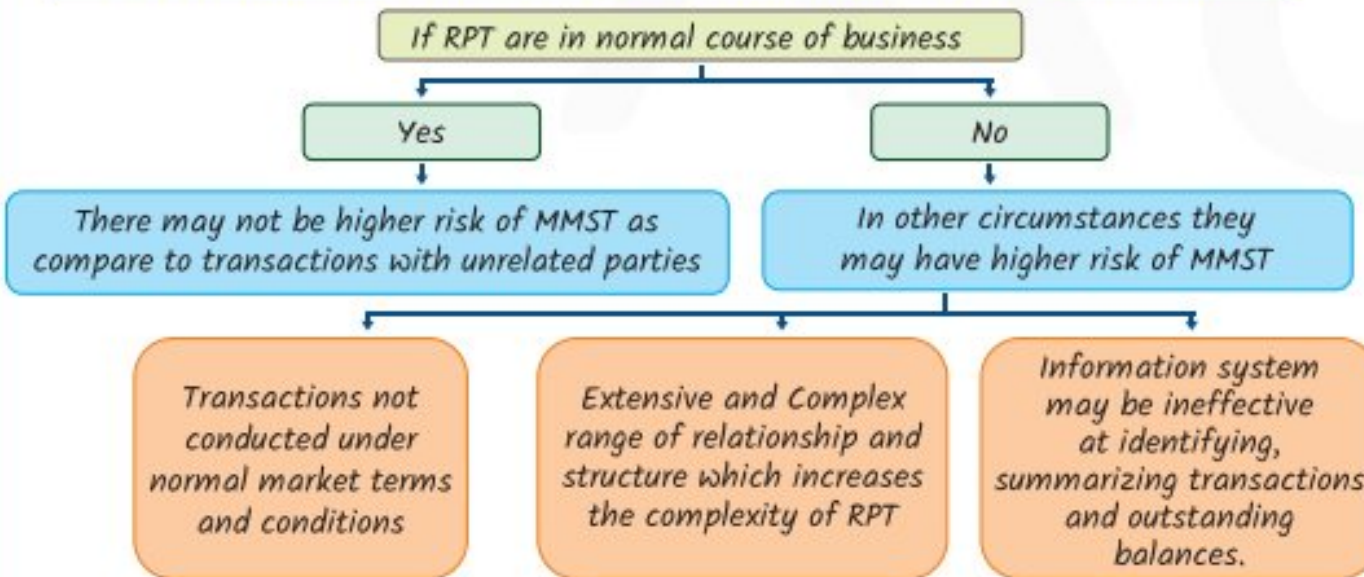
**MEANING OF CONTROL SIGNIFICANT INFLUENCE IN REFERENCE TO RELATED PARTY**

For this part refer PDF

(CNO--SASS0.040)

(QNO-550.02) (MCQ-Incs.24.5)

**NATURE OF RELATED PARTY RELATIONSHIPS AND TRANSACTIONS**



(CNO--SASS0.050)

**UNDERSTANDING THE ENTITIES RELATED PARTY RELATIONSHIPS & TRANSACTIONS**

For this part refer PDF

(CNO--SASS0.055)

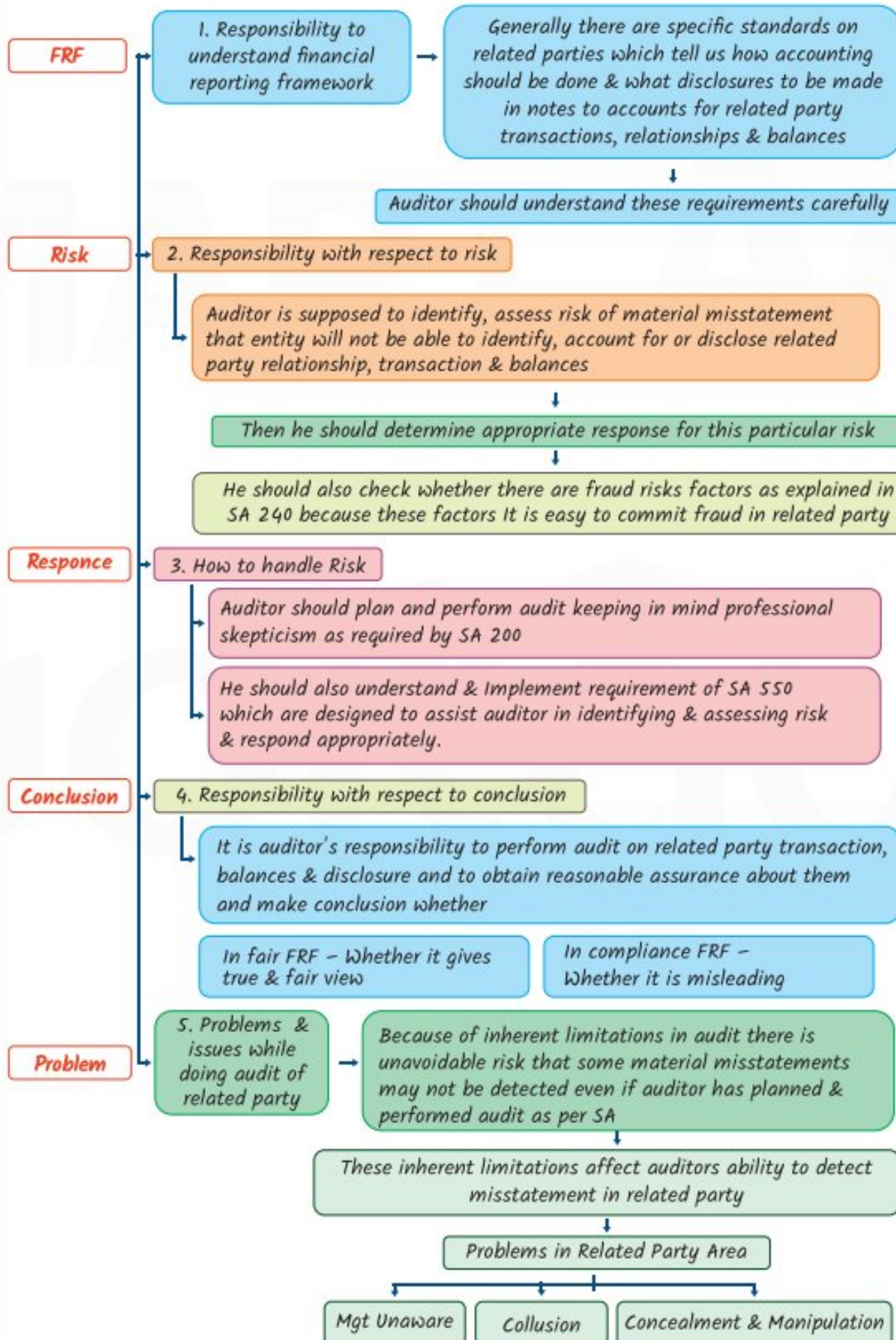
**CONSIDERATIONS SPECIFIC TO SMALLER ENTITIES BY THE AUDITOR**

For this Concept refer PDF

(CNO--SASS0.060)

(QNO-550.03)

**RESPONSIBILITIES OF THE AUDITOR**

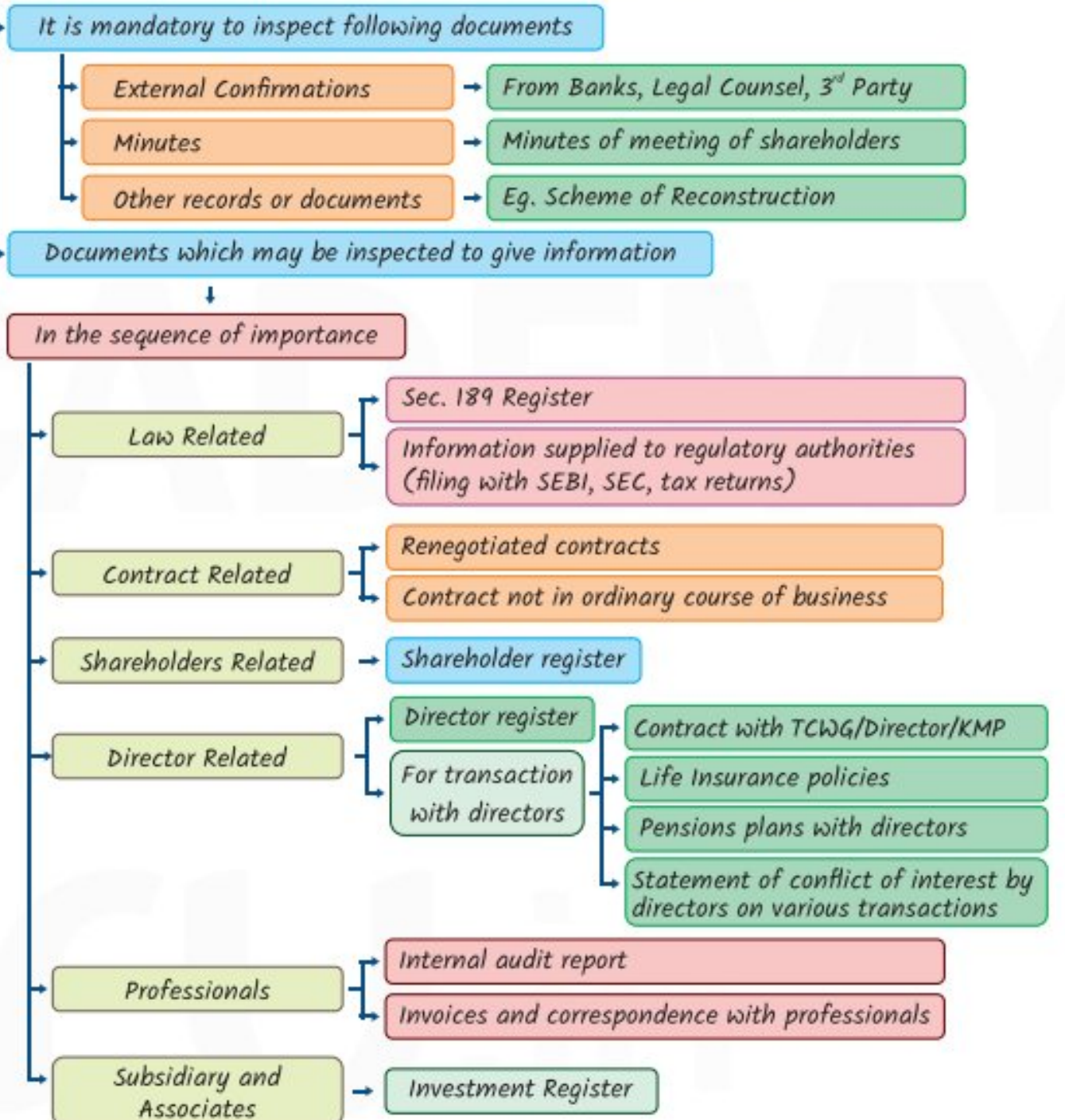


(CNO--SASS0.080)

(QNO-550.04)

**MAINTAINING ALERTNESS FOR RELATED PARTY INFORMATION WHEN REVIEWING RECORDS OR DOCUMENTS (FOLLOWING DOCUMENTS OR RECORDS ARE GOOD SOURCE OF INFORMATION)**

Auditor should remain alert while inspecting records or documents given below as they may give information about related parties relationship and transactions which were not told by management previously.



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Part I AIFS LIABILITY

(CNO.AIFS-PI.020)

## AUDIT OF SHARE CAPITAL

(How to check existence, completeness and valuation, rights and obligation related to share capital)

Tally / Compare, current year closing balances with previous year audited FST w.r.t. to authorized issue and paid up capital

If there is no change, obtain WR from company secretary

If there is a change :-

(1) Resolutions

Obtained certified copy of resolutions passed in BOD, SH meetings w.r.t. to inc/dec.

Check compliance of Companies Act no issue at discount (minimum application money, minimum subscription, separate bank a/c, return of allotment, underwriting commission)

Compliance with SEBI regulations and guidelines for listed Co.

(2) Authorized Share Capital

It should be checked with MOA and MCA website

Is it enough to accommodate paid up share capital If not, it should be increased and company is suppose to pay stamp duty and fees for it

(3) Forms

SH. 7 - for increase in authorized share capital

PAS 3 - for increase in paid up share capital

FCGPR (Foreign Currency Gross Provisional Return) for FDI

(4) Special Points

Check whether issue of share is for cash or consideration other than cash. (e.g. for promoters, underwriters etc.)

(CNO--AIFS-PI.040)

(QNO-AIFS.13) (MCQ- AIFS.22, Incs.21.1, 21.2, 21.3, 21.4, 21.5)

## ISSUE OF SHARES AT PREMIUM

Excess of issue price over nominal value is called premium

(1) Requirements of Section 52

There is no restrictions or condition to issue share at premium

Premium amount should be credited to securities premium account

This balance can be used for limited purpose as prescribed

To written off preliminary expenses

To written off commission or discount on issue of share or debentures

To issue fully paid up bonus shares

For premium payable on redemption of redeemable preference shares or debentures

To purchase of own shares or buyback

If there is reduction of security premium apart from as specified above it will be treated as reduction of share capital

(2) Verification by auditor

Whether balances are properly transferred to securities premium account

Is it applied as per requirement of Sec 52

(CNO--AIFS-PI.040)

(QNO-AIFS.11)

## ISSUE OF SHARE AT DISCOUNT (SECTION 53)

Prohibition → Company cannot issue share at discount

What if contravention

Issue will be consider as void

Penalty equal to amount raised or 5 lakhs whichever is lower

Refund of money @ 12% p.a. from the date of issue

Exception (Shares can be issued at discount)

Under section 54 w.r.t. issue of sweat equity shares

Issue of shares to creditors, provided it is as per: -

Statutory Resolution Plan

Debt restructuring

As per guidelines and directions of RBI

Audit Procedures

Check whether issue of shares is at discount, if yes whether sec 53 is complied

(CNO.AIFS-PI.060)

(QNO-AIFS.16, AIFS.17)

## ISSUE OF SWEAT EQUITY SHARES (SECTION 54)

Meaning

Equity shares issue to director or employee

At free discount for consideration other than cash

For know-how intellectual property rights, value addition

Requirement of Section 54

Special Resolution

Resolution should specify class of directors, employees to whom equity shares are issued, number of shares, consideration if any, market price.

If shares are listed, requirement of SEBI regulations should be followed.

Pari-Passu rights, limitations, restrictions on these shares will be same as any other equity shares.

(CNO.AIFS-PI.060)

## REDUCTION OF SHARE CAPITAL (SECTION 66)

1. Modes of reduction

1. Repay excess paid up capital if any.

2. Reduce unpaid capital

3. Reduce paid up capital, if corresponding assets are lost

2. Pre-condition

AOA should authorize reduction of Capital

No existing default w.r.t. to repayment of deposit or payment of interest on it

3. Special Resolution

Whether proposal was circularized in advance

Whether meeting was properly conveyed

Whether SR was passed

4. Tribunal

Examine whether tribunal has passed order approving reduction

Check whether company complies with term & conditions imposed by tribunal.

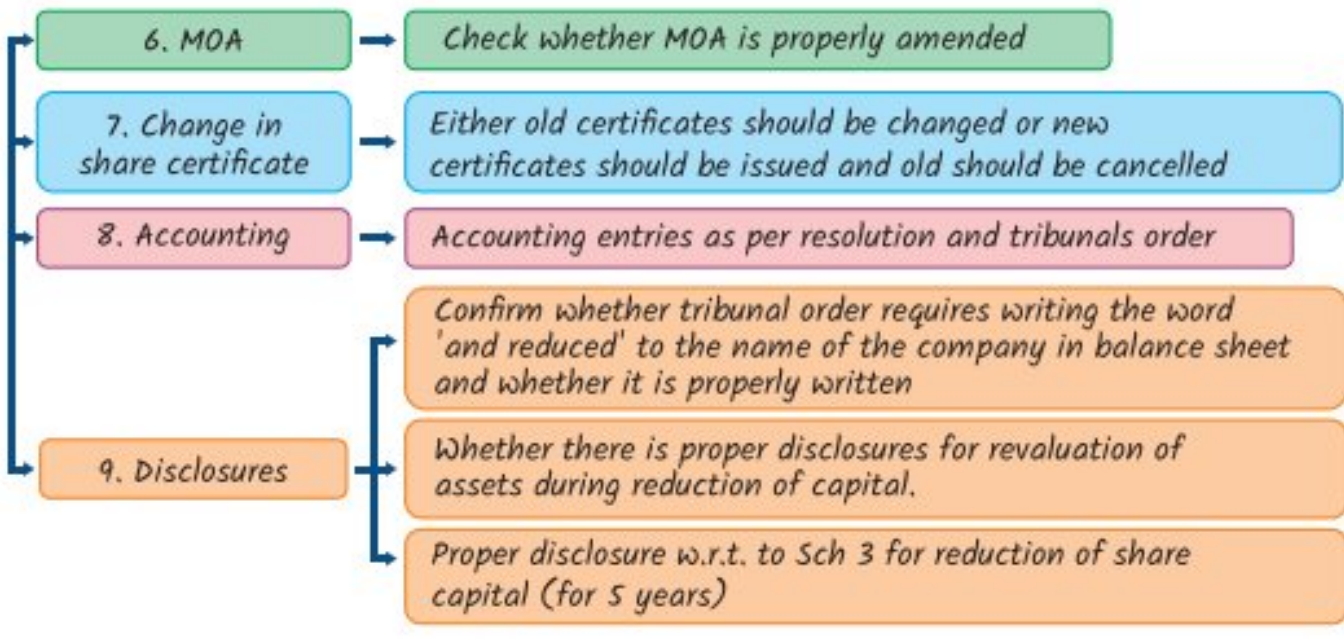
5. ROC

Whether company has sent, copy of minutes of shareholders meetings and copy of order of tribunal to Registrar

Check whether certificate for reduction of capital is issued

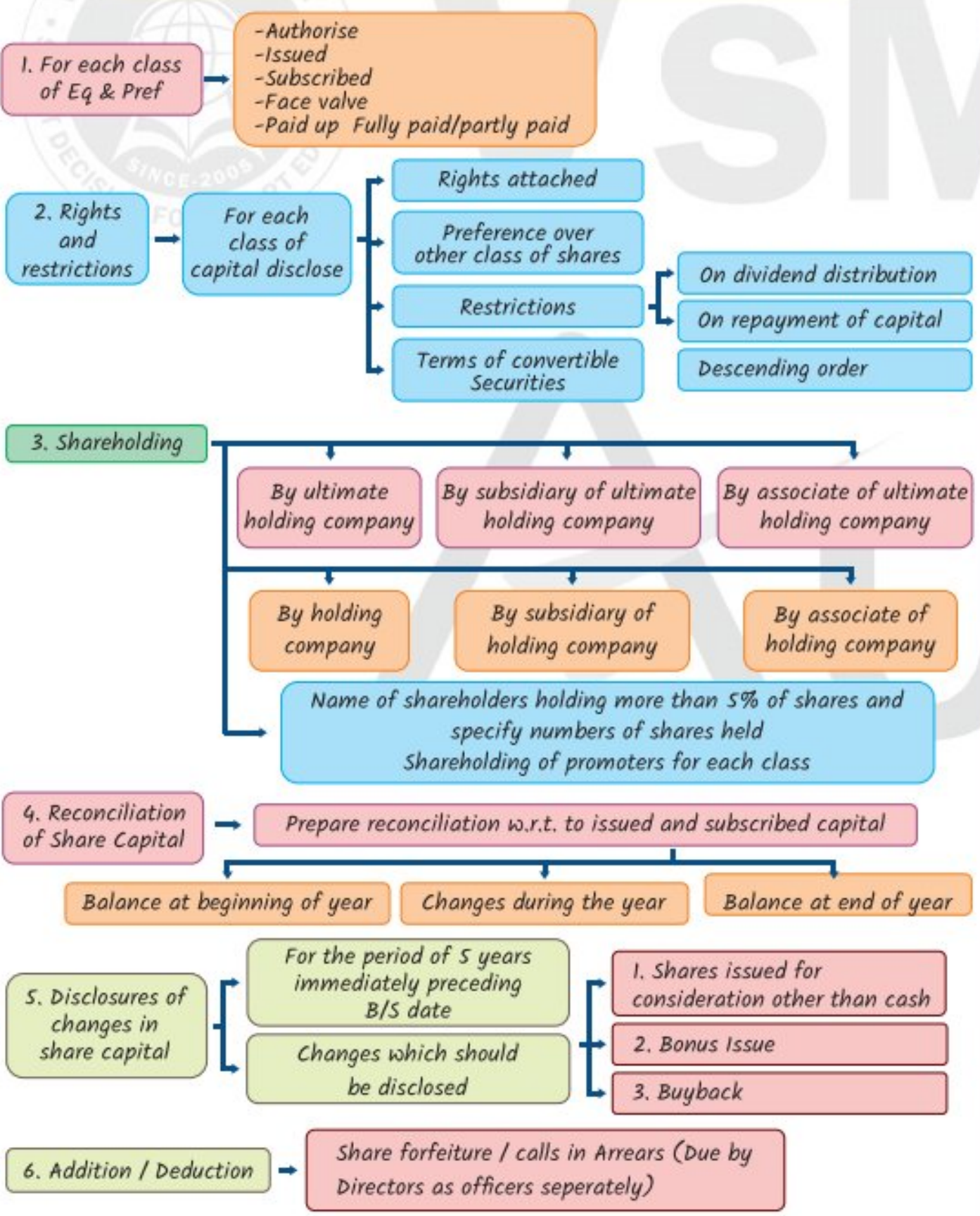
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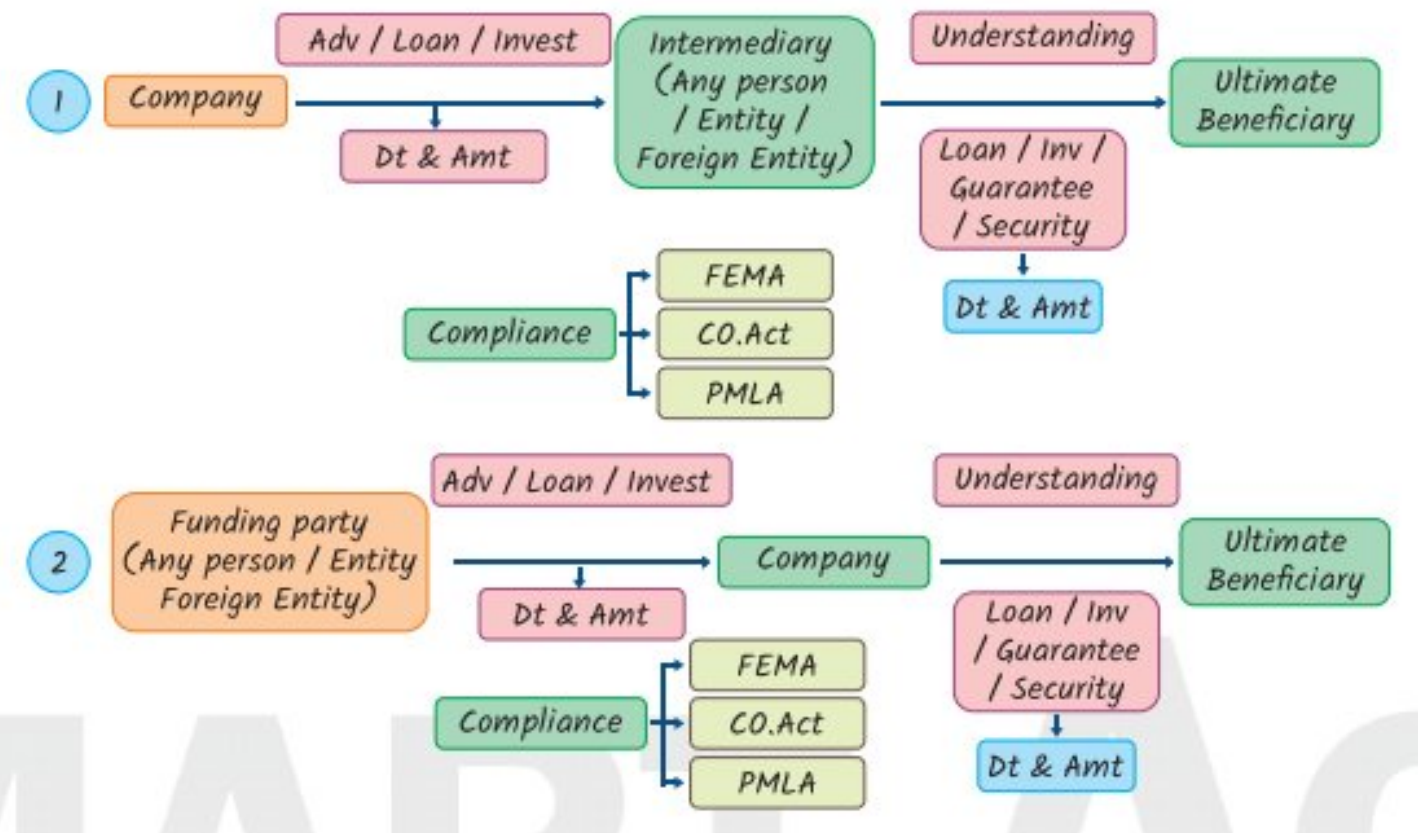
(CNO.AIFS-PI.070)

**DISCLOSURES OF EQUITY SHARES AS PER SCH III**



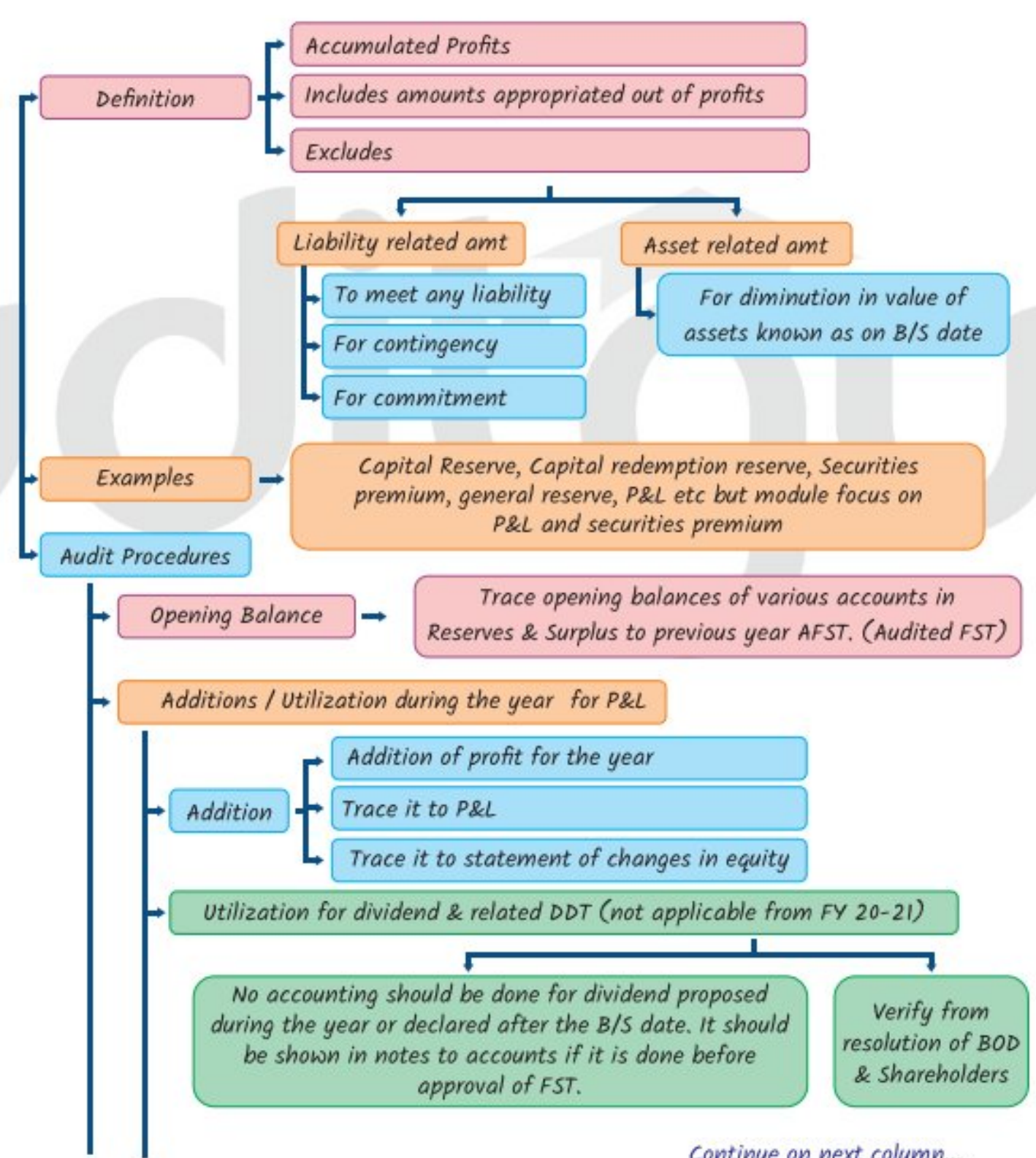
(CNO.AIFS-PI.075)

**UTILISATION OF BORROWED FUNDS AND SHARE PREMIUM**

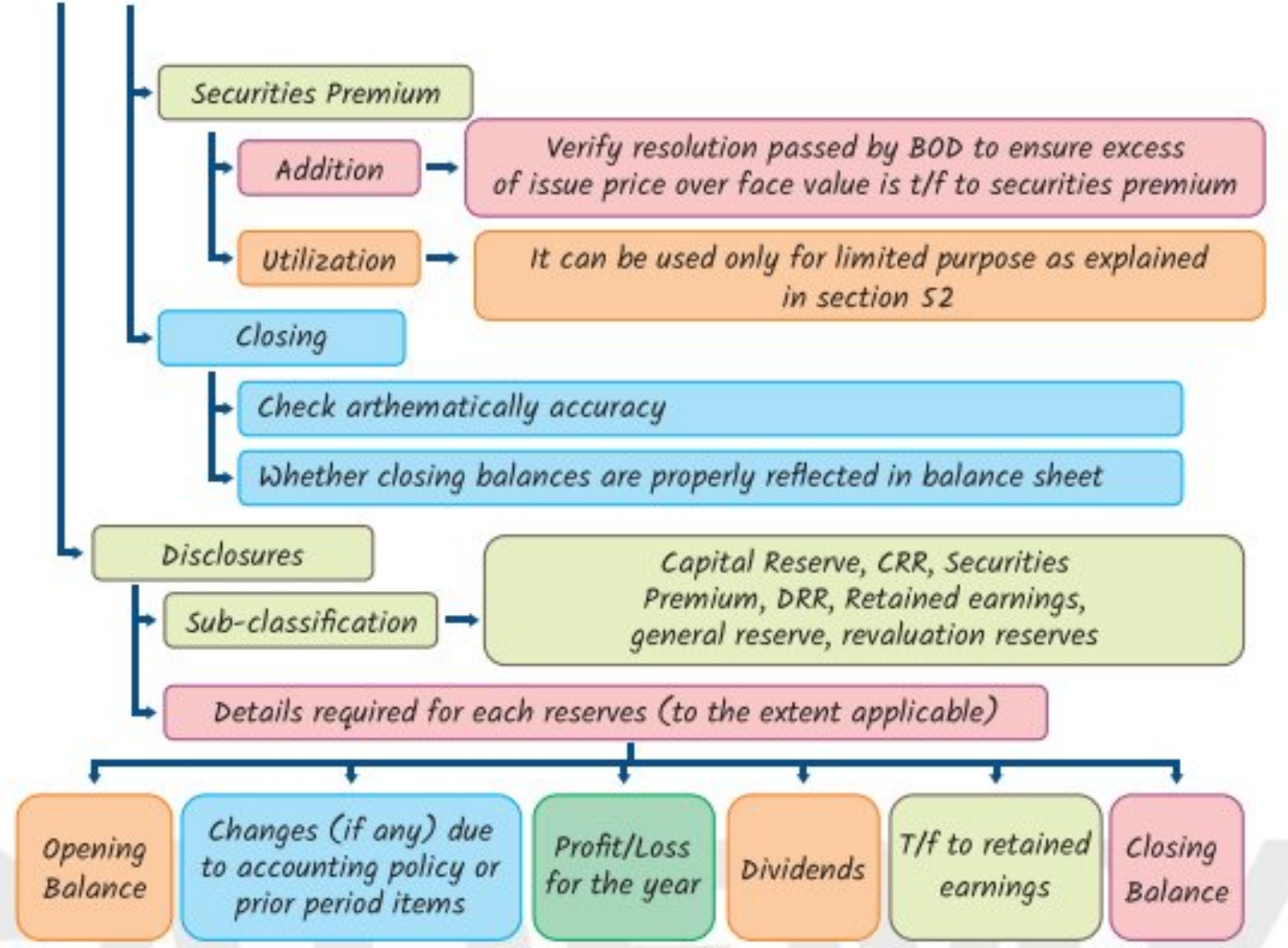


(CNO.AIFS-PI.080) (QNO-AIFS.17.50) (MCQ-AIFS.21, Incs.19.5, Incs.49.3, Incs.53.1, Incs.56.5)

**AUDIT OF RESERVES & SURPLUS**



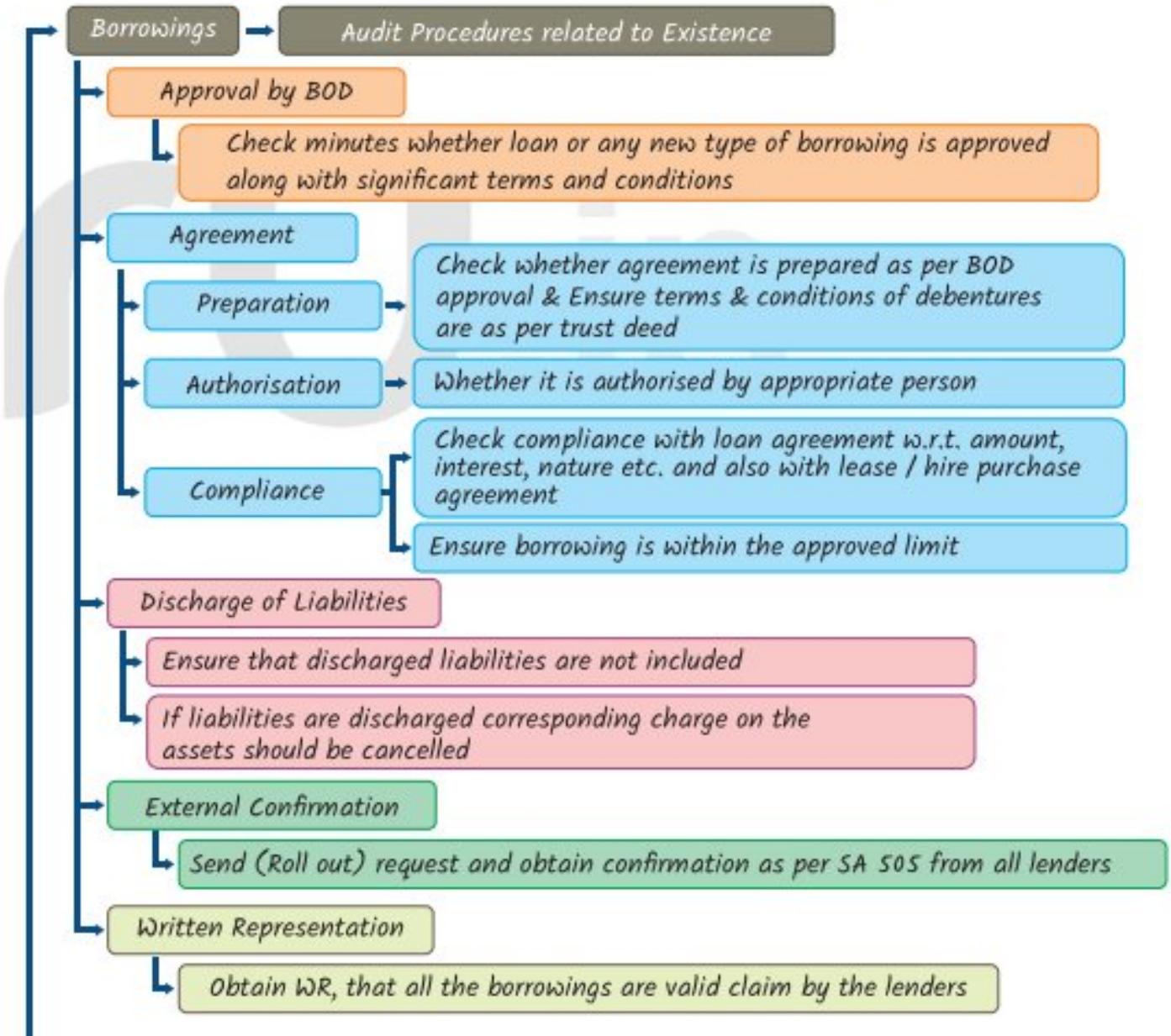
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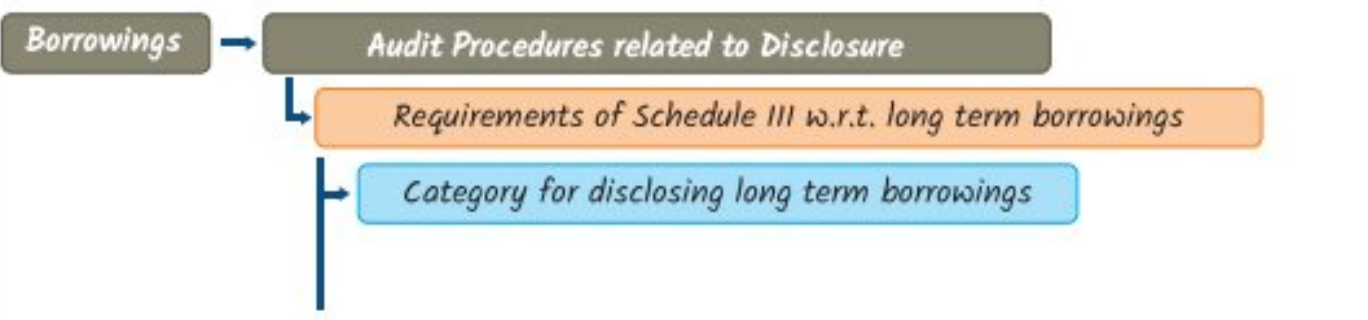
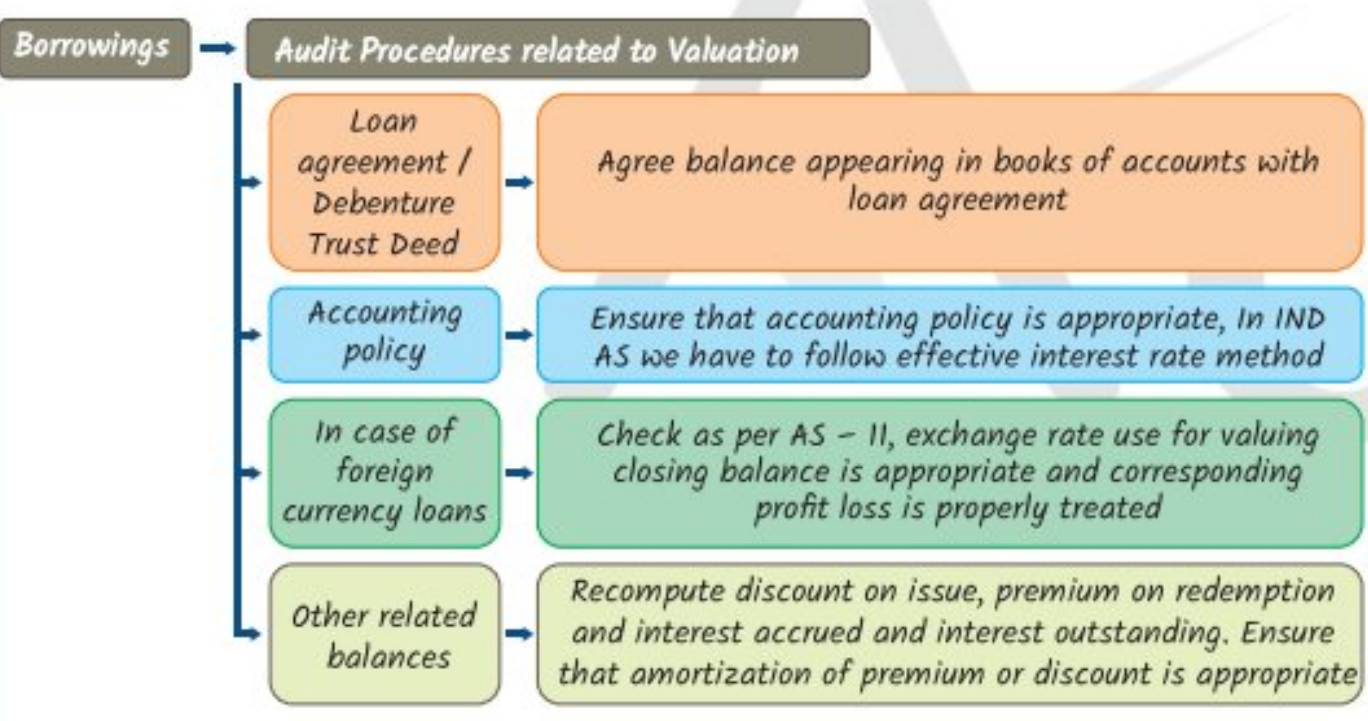
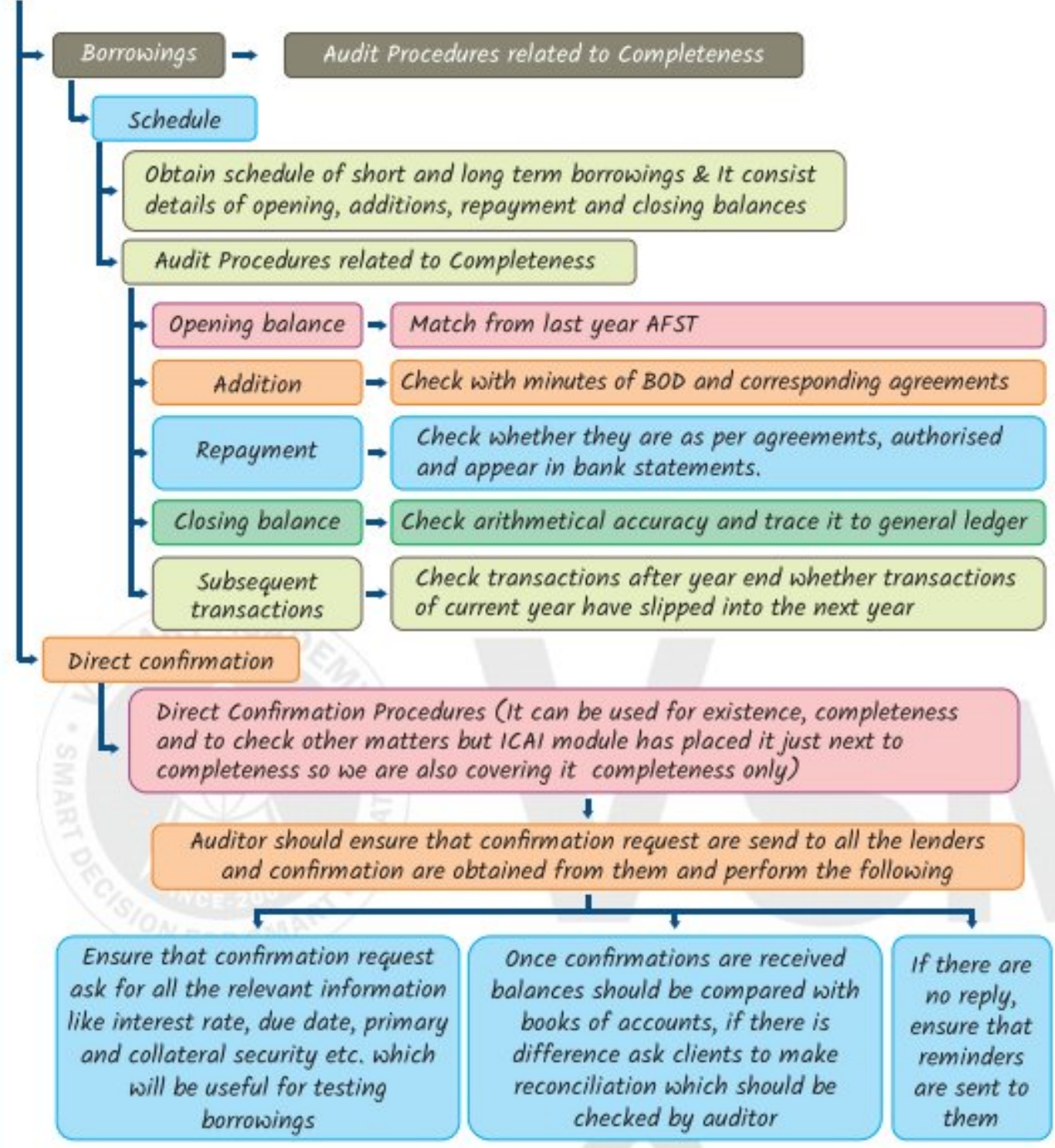
Note :- Reserves represented by earmarked investment should be denoted as Fund. Debit balance of P&L should be shown as negative figure in surplus. If overall reserve and surplus become negative still it should be shown in reserve and surplus

(CNO.AIFS-PI.100) (QNO-AIFS.23/AIFS.25) (MCQ-Incs.49.4)

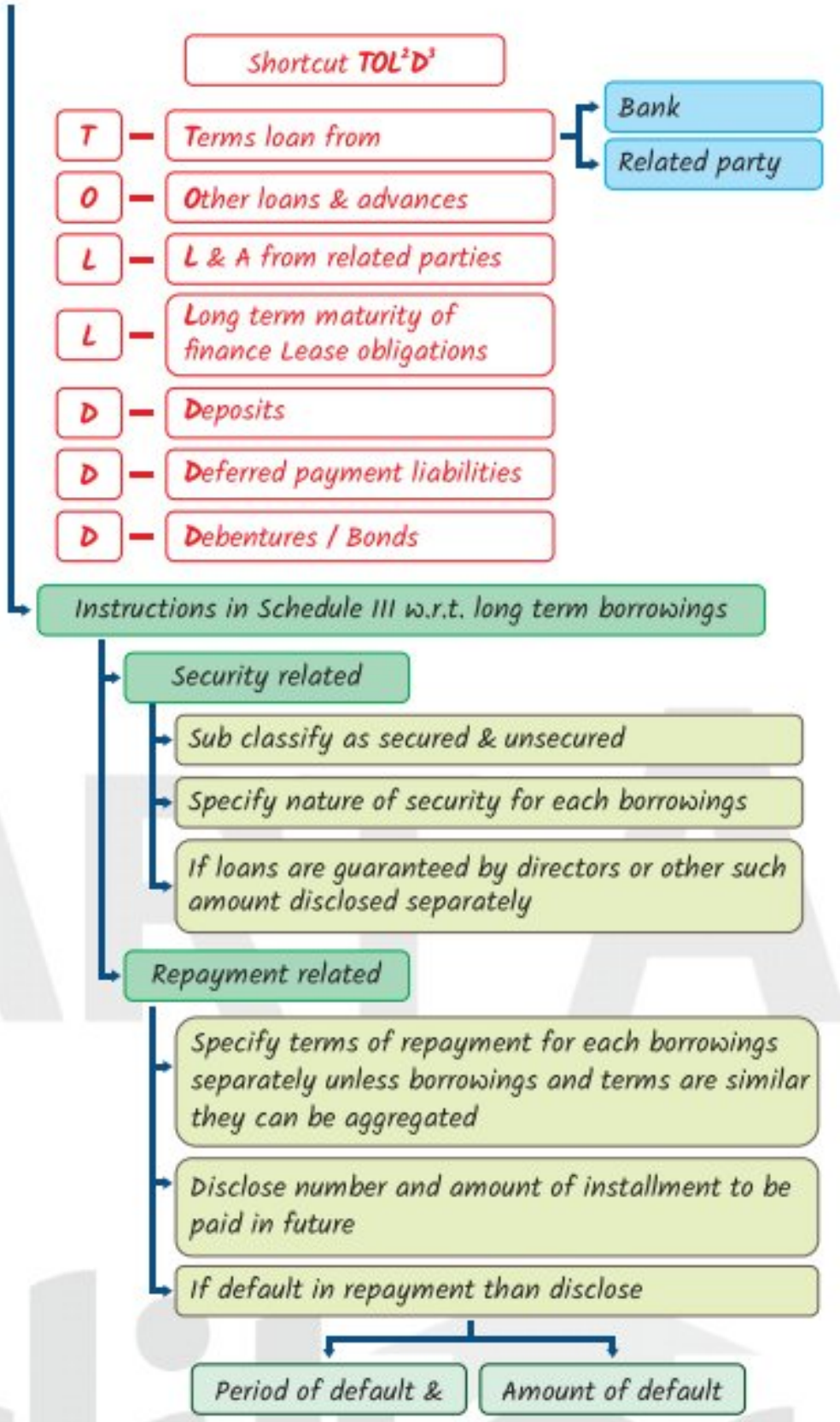
**AUDIT OF BORROWING**



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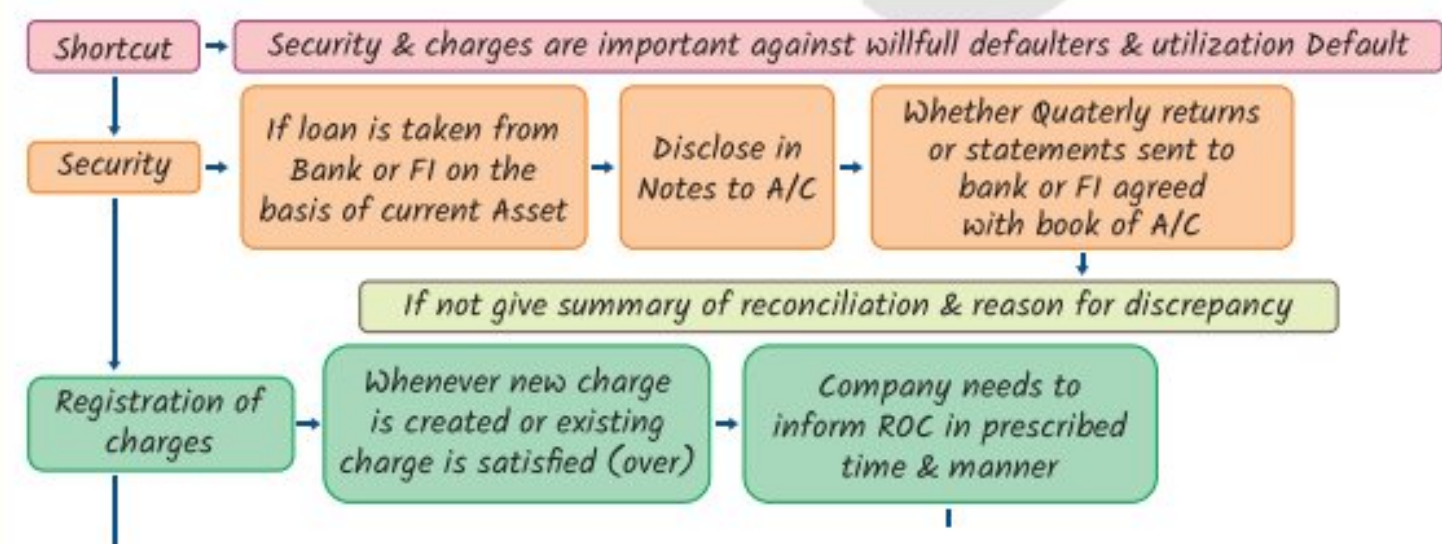
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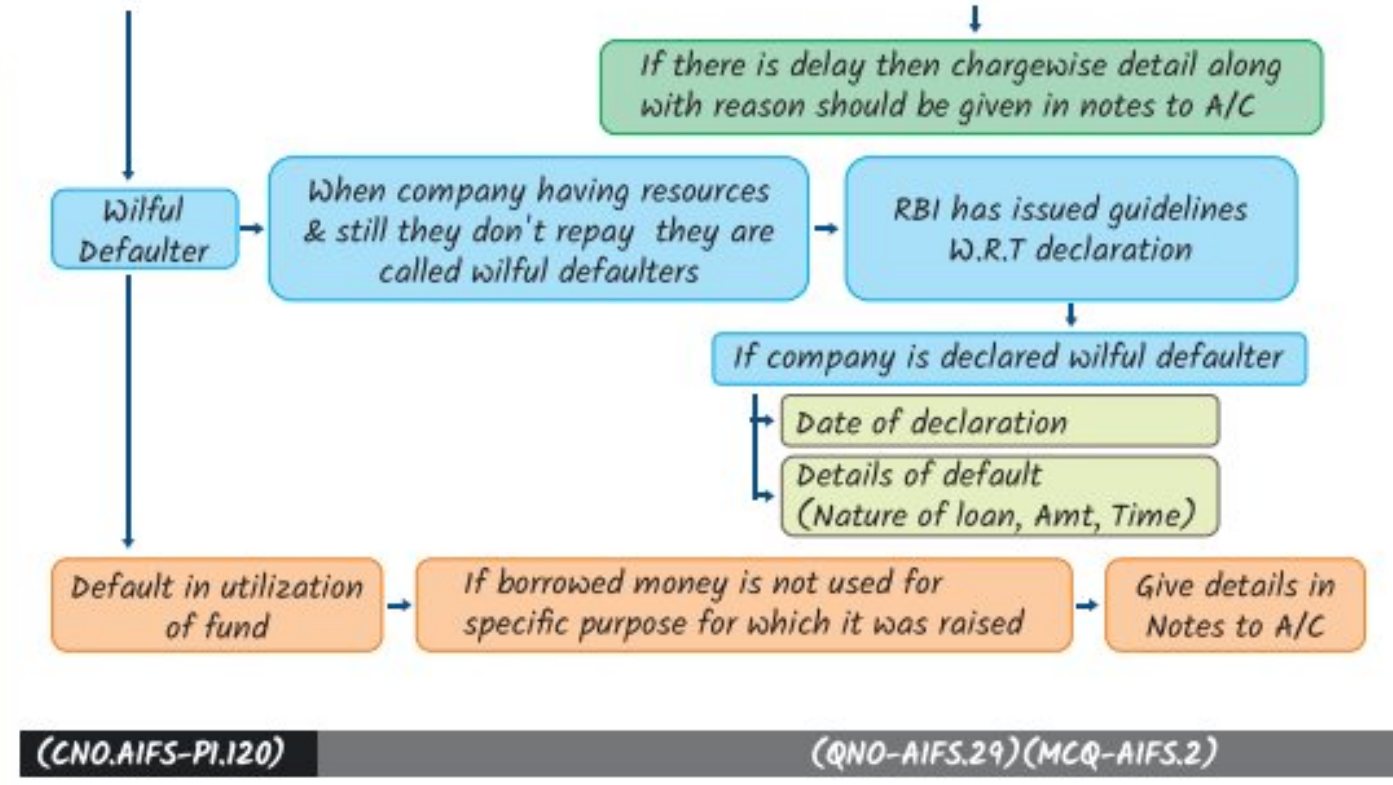
Note :- Disclosure of short term borrowing is similar to long term borrowing. As per recent amendment current maturity of long term borrowing should be shown under short term borrowing, Earlier it was shown under other current liabilities

(CNO.AIFS-PI.110)

**SPECIAL DISCLOSURES RELATED TO BORROWINGS**



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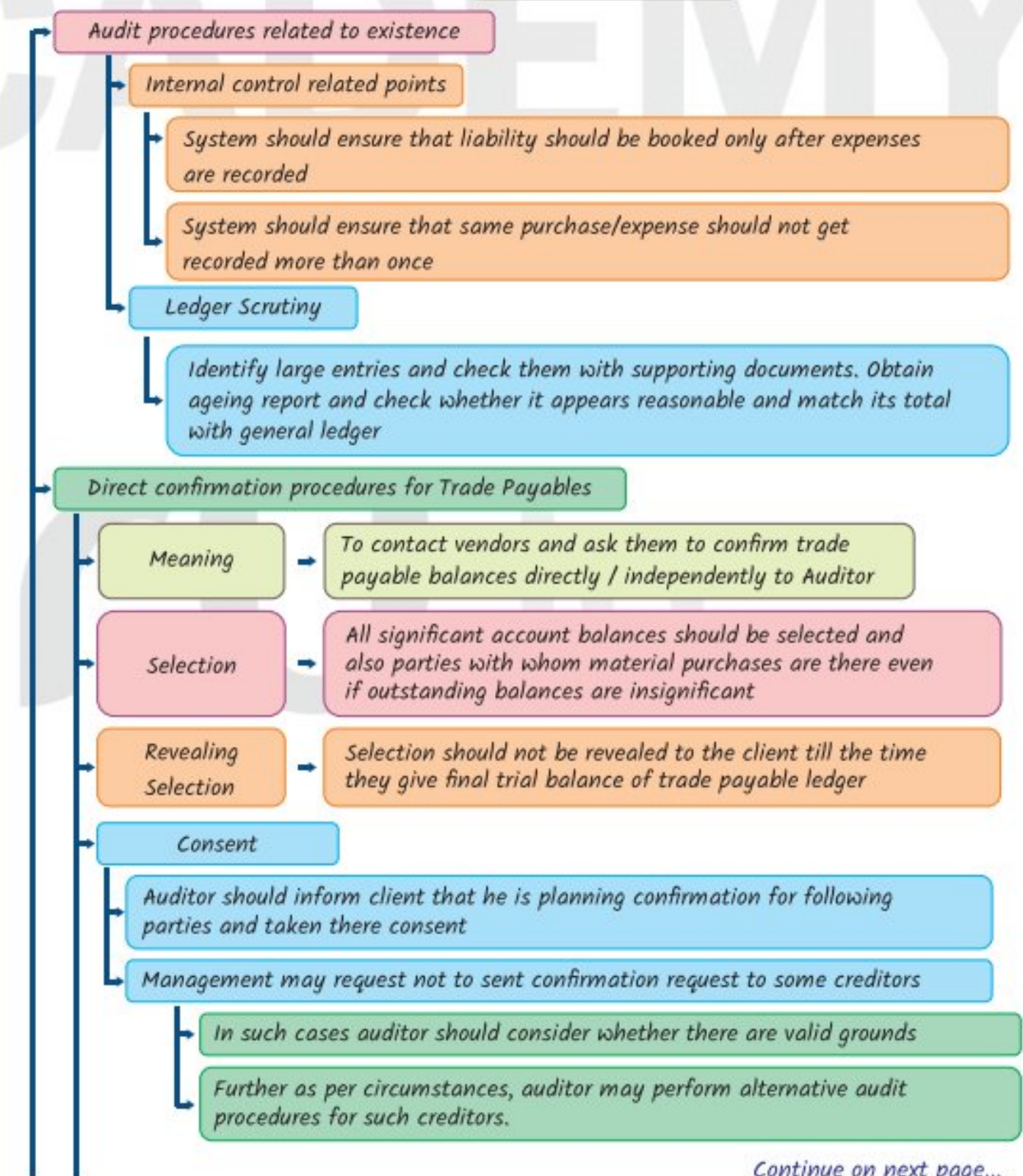


(CNO.AIFS-PI.120)

(QNO-AIFS.29)(MCQ-AIFS.2)

**TRADE PAYABLES**

**EXISTENCE**



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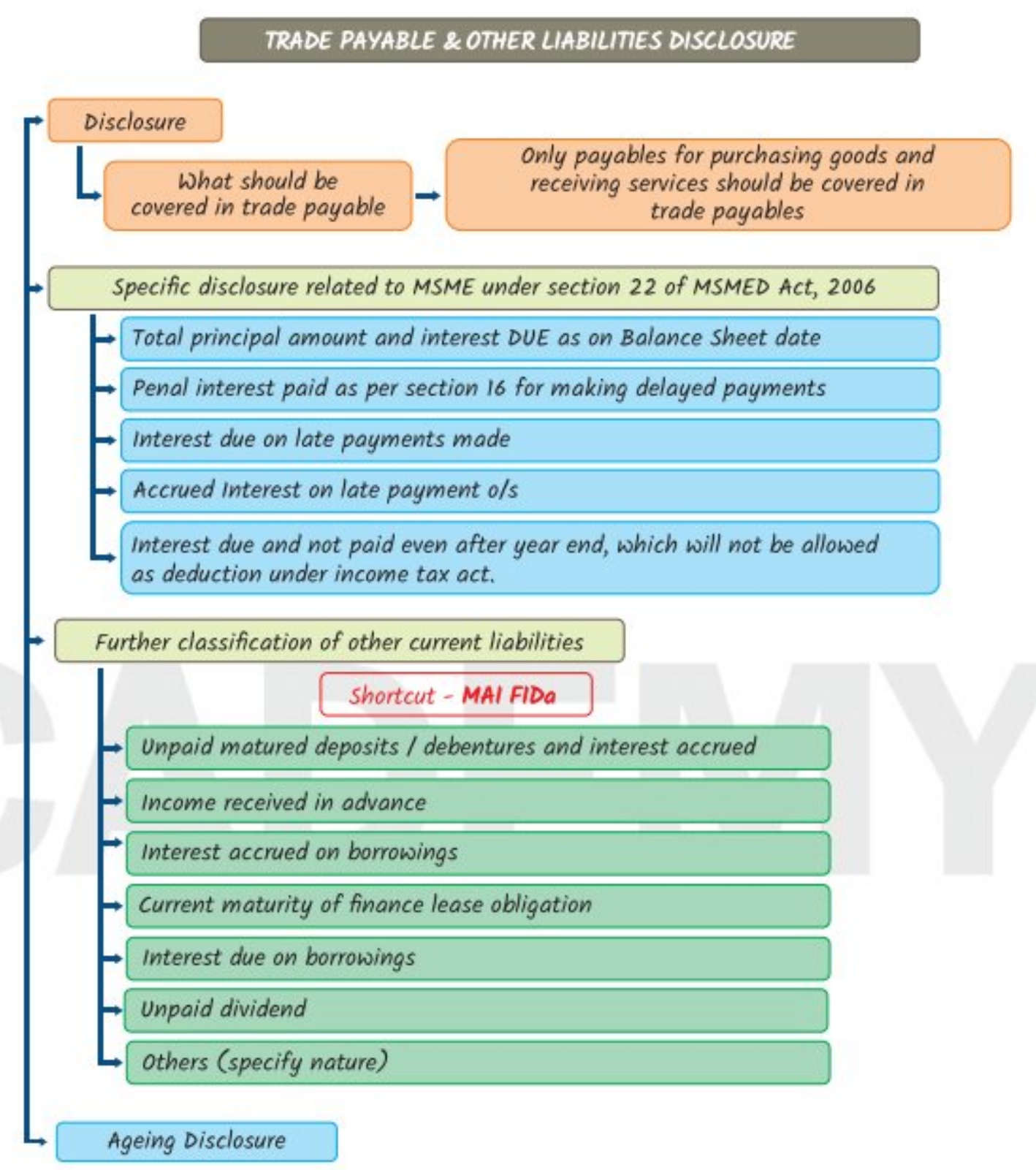
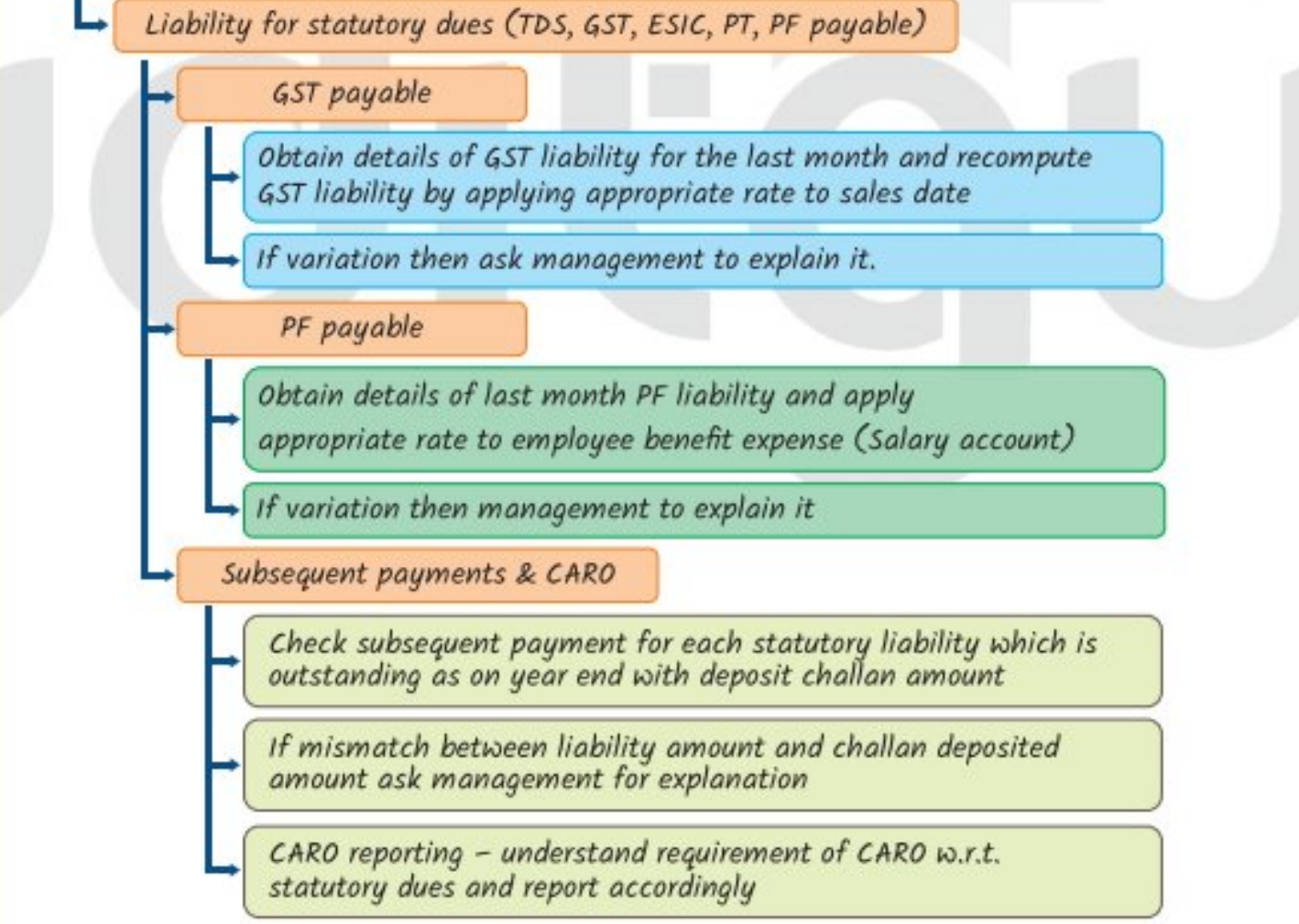
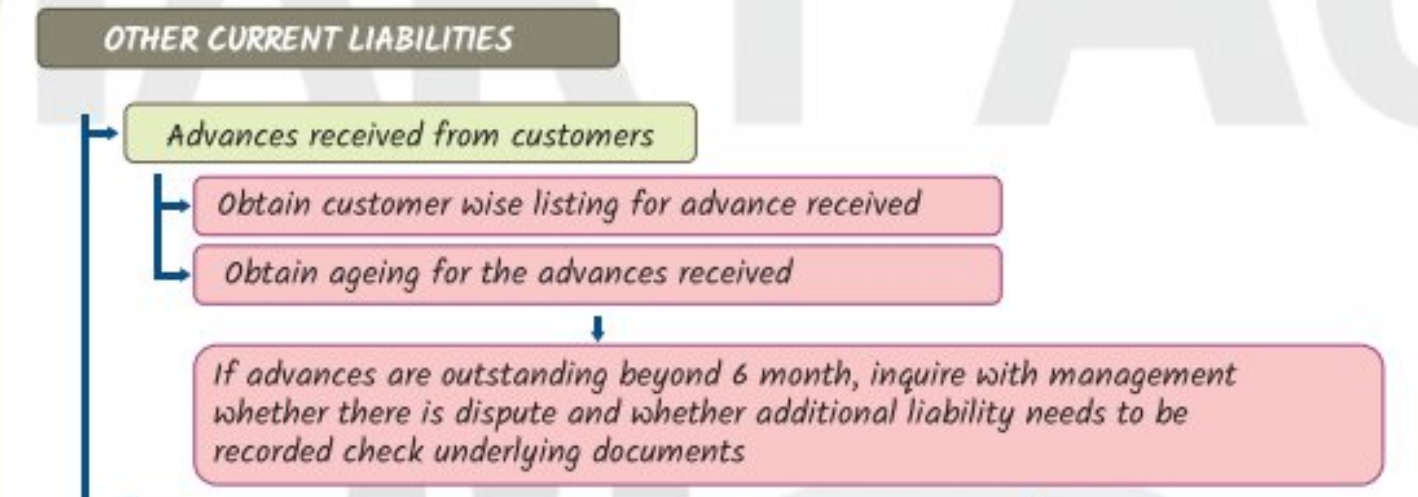
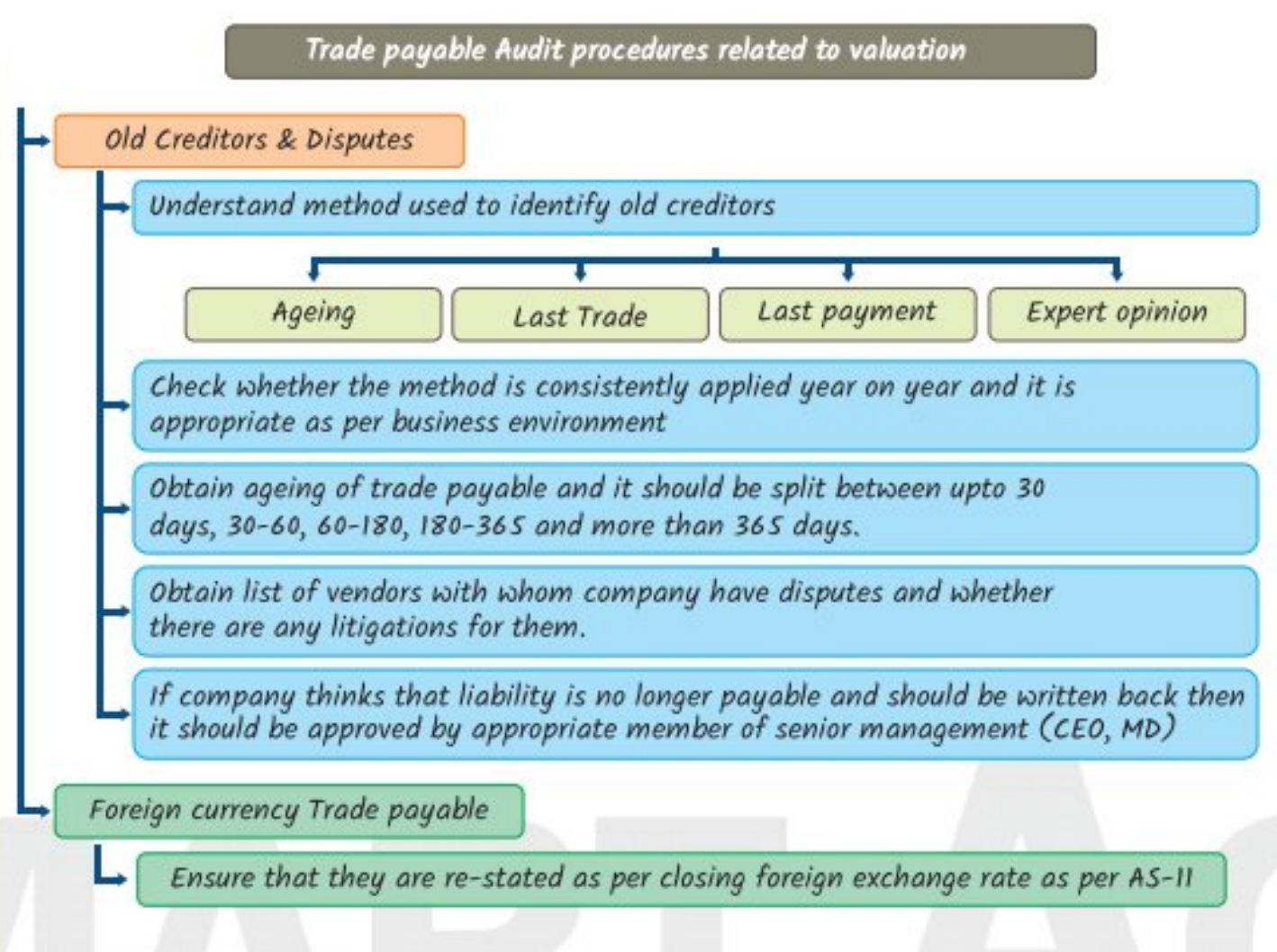
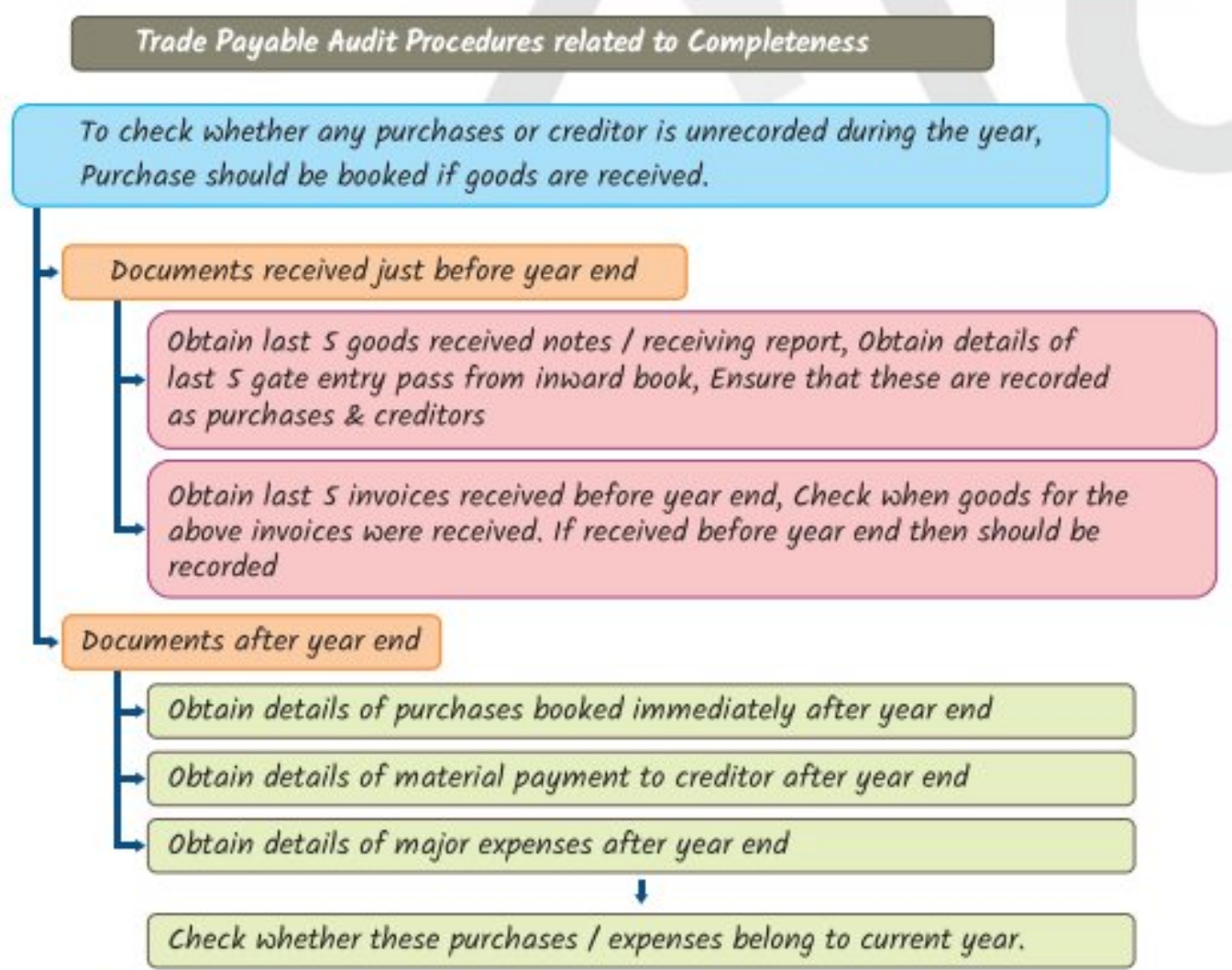
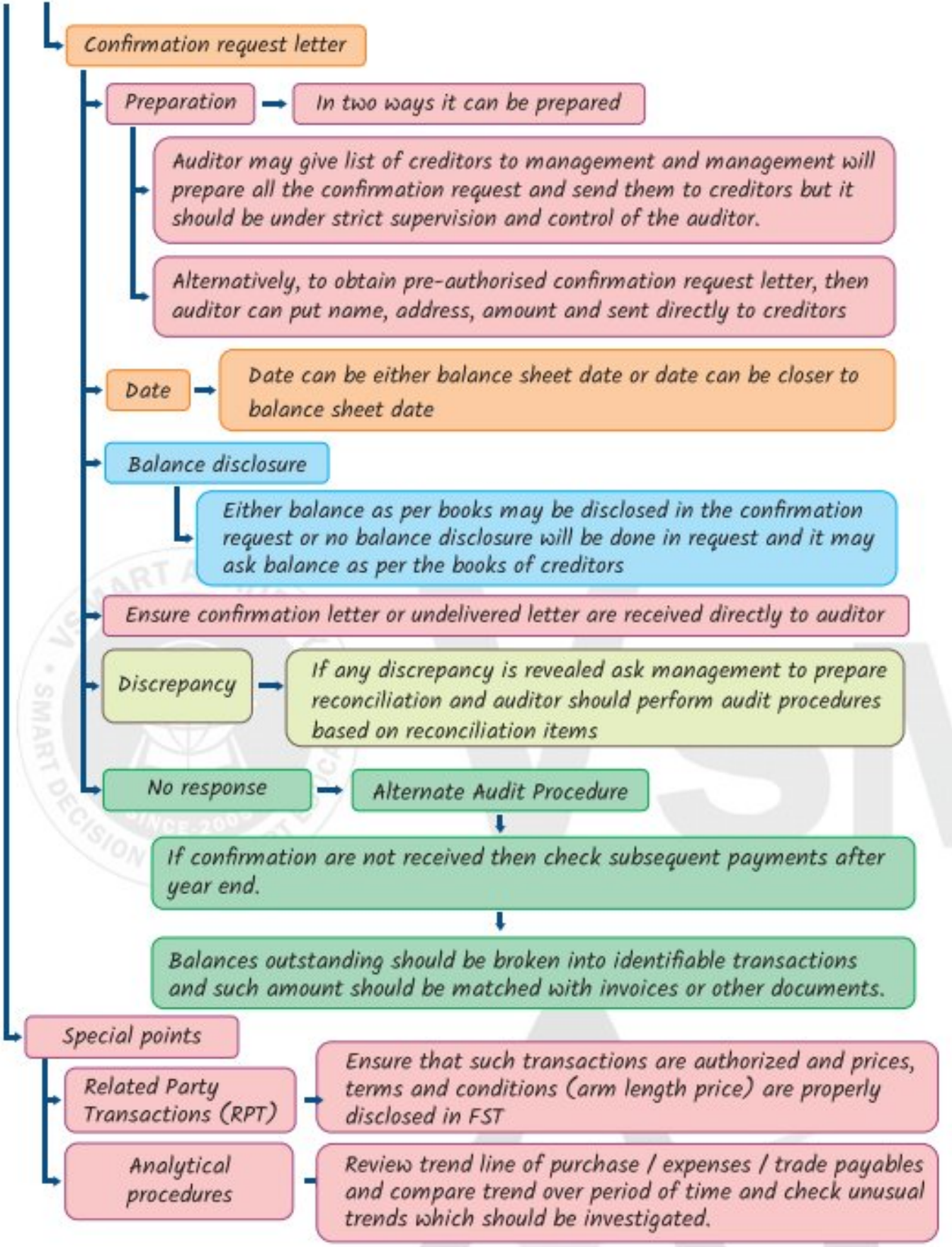
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	less than 6 M	6 M to 1 yr	1 yr to 2 yr	2 yr to 3 yr	More than 3 yr	Total
(i) Undisputed Trade payable considered good						
(ii) Undisputed Trade payable considered doubtful						
(iii) Disputed Trade payable considered good						
(iv) Disputed Trade payable considered doubtful						

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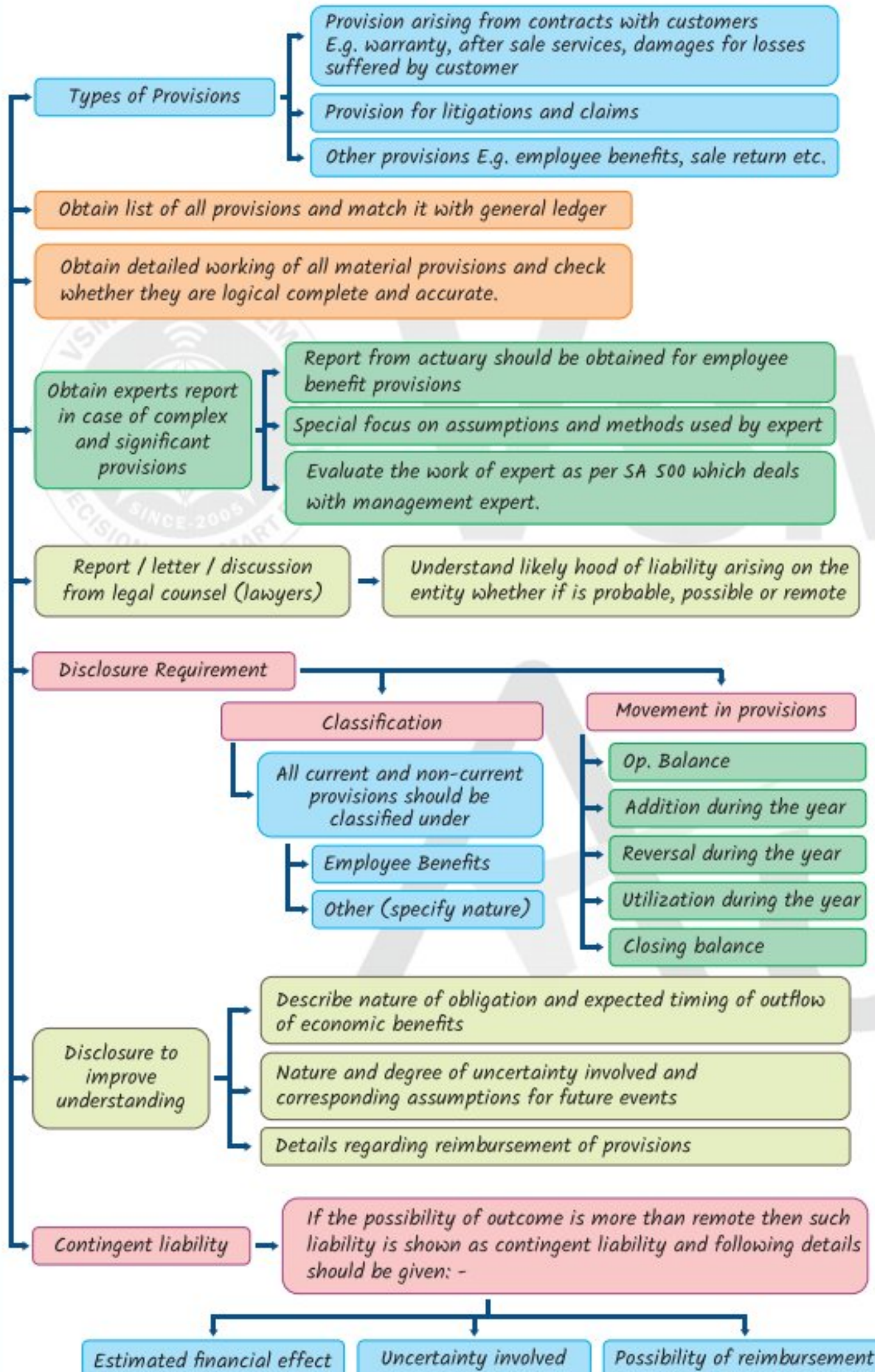
Doubts



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**AUDIT OF PROVISIONS**

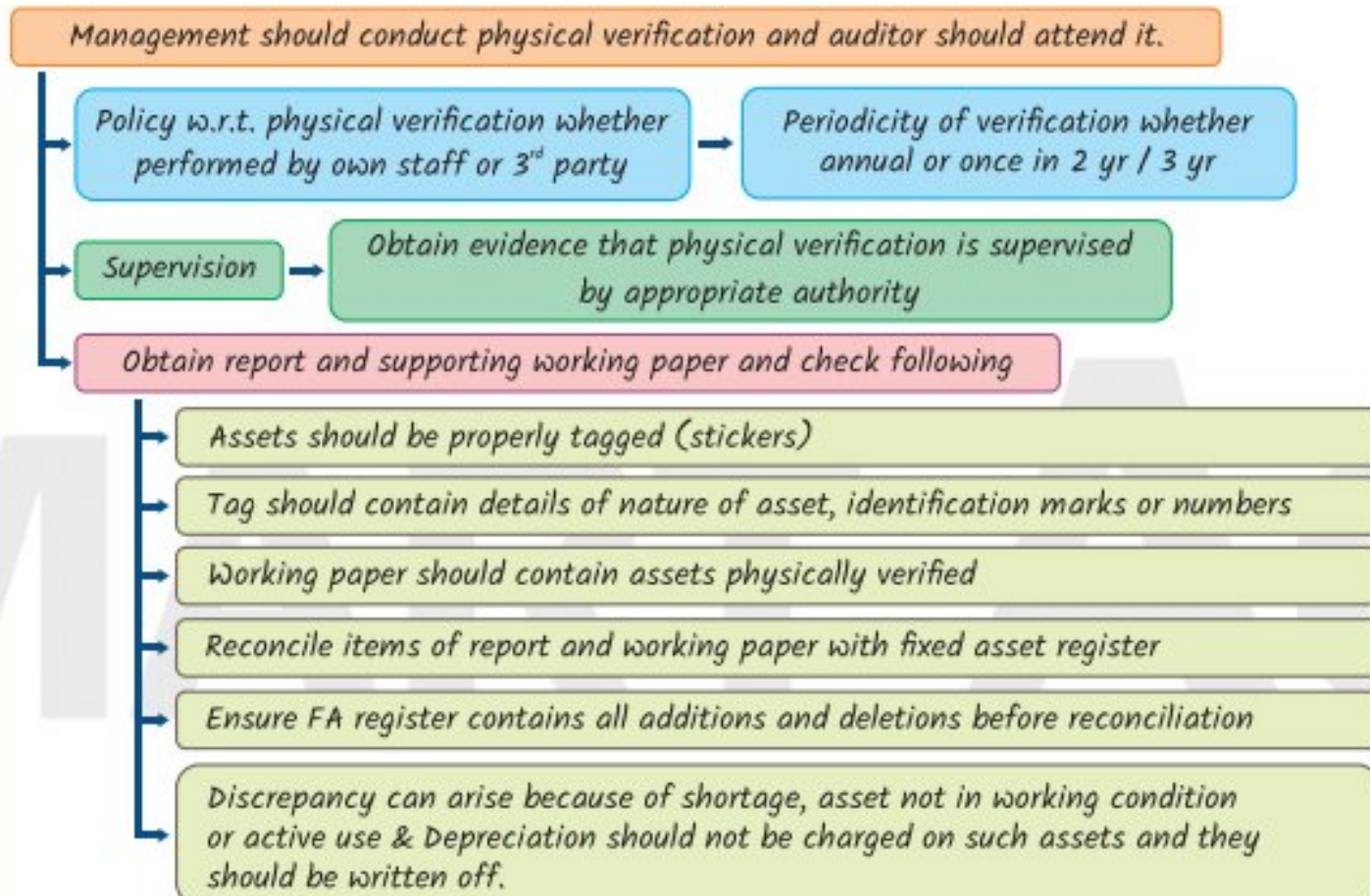
(In this item module has not given audit procedures assertion wise, so we are having combined audit procedures)



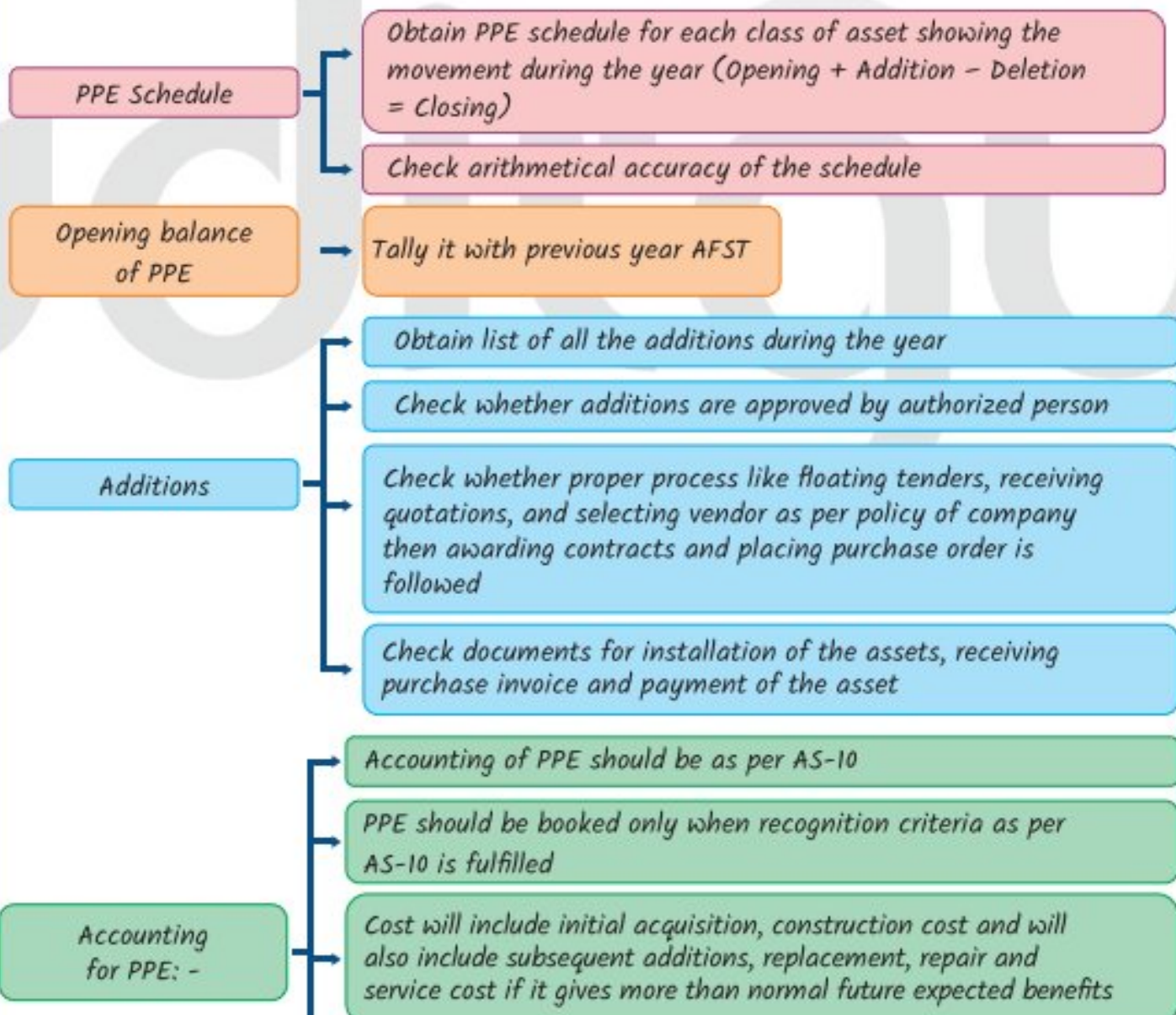
**Part 2 AIFS ASSETS**

**AUDIT OF PPE**

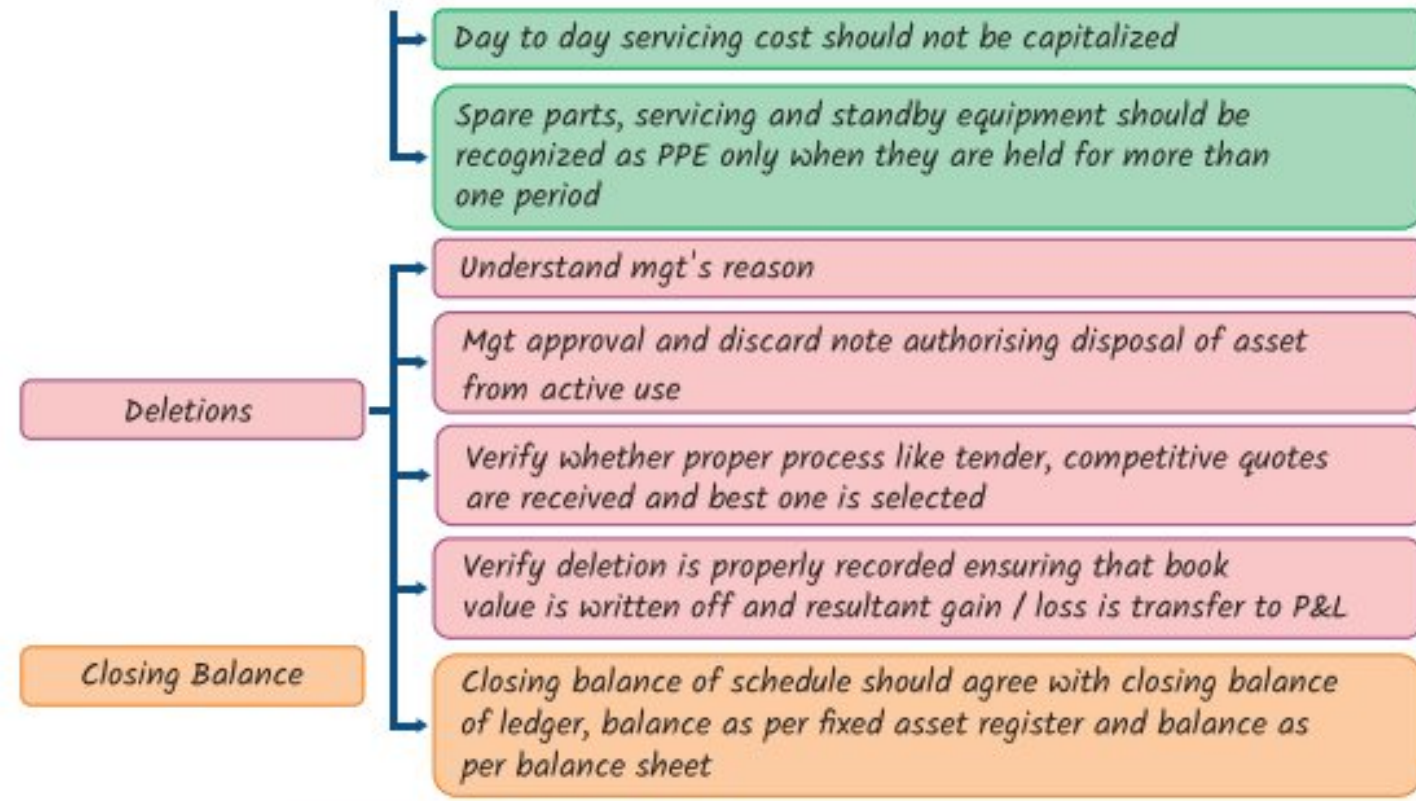
**AUDIT PROCEDURES FOR EXISTENCE**



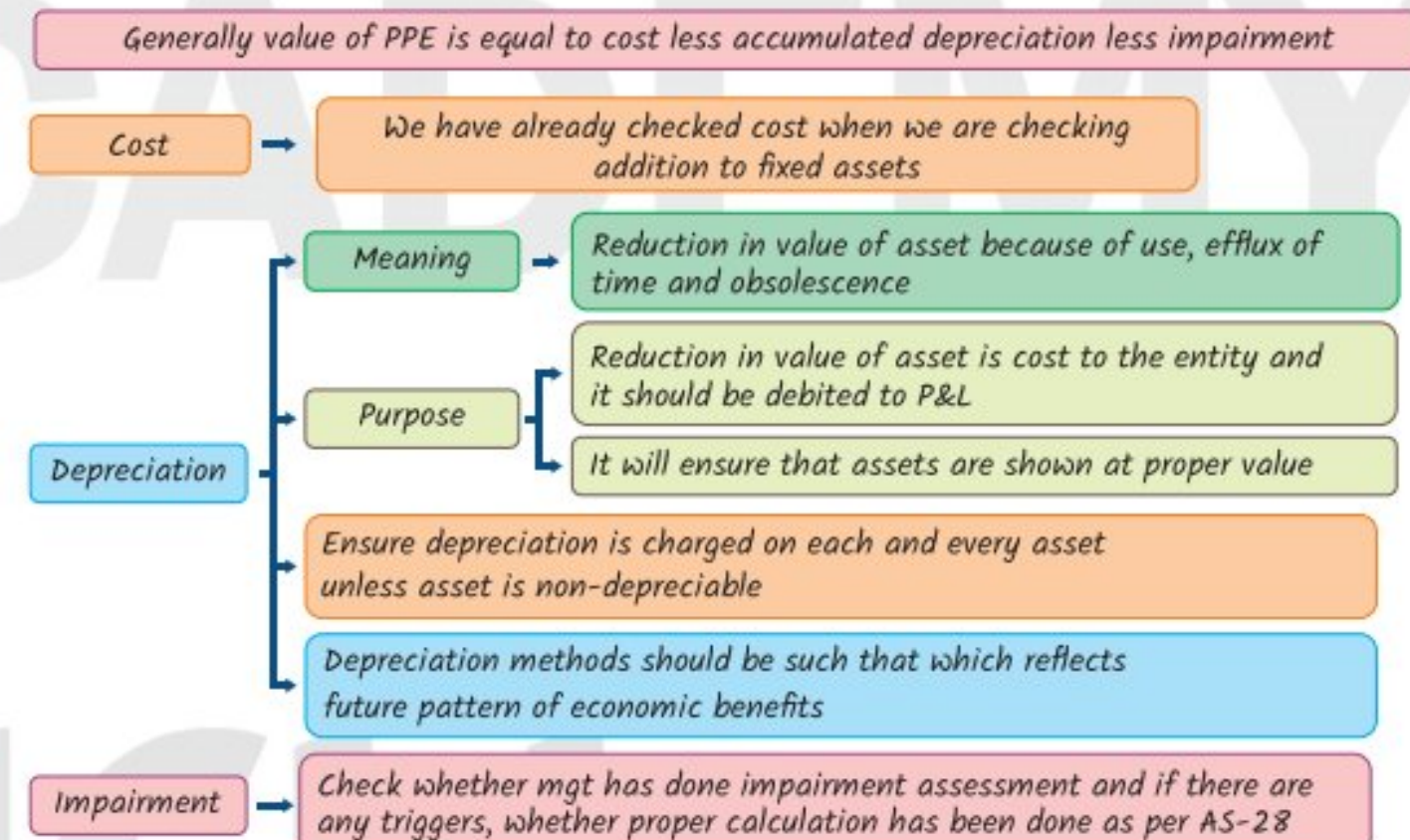
**AUDIT PROCEDURES FOR COMPLETENESS OF PPE**



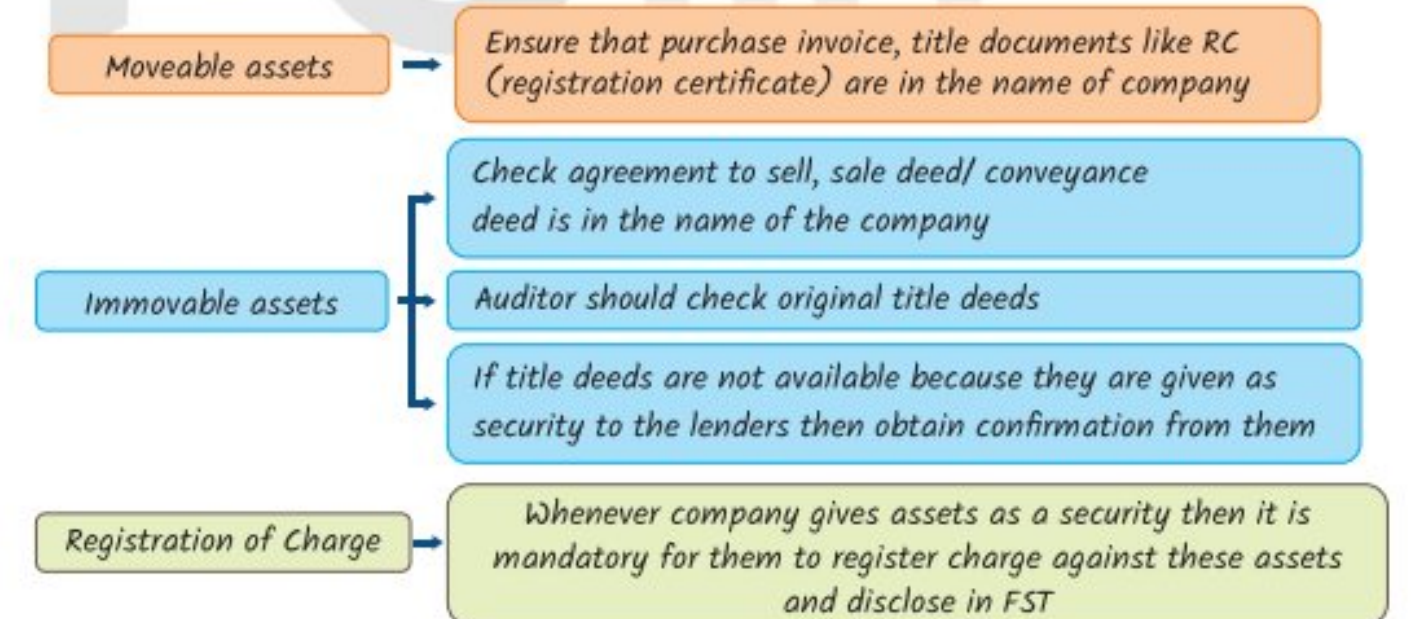
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**AUDIT PROCEDURES FOR VALUATION OF PPE**



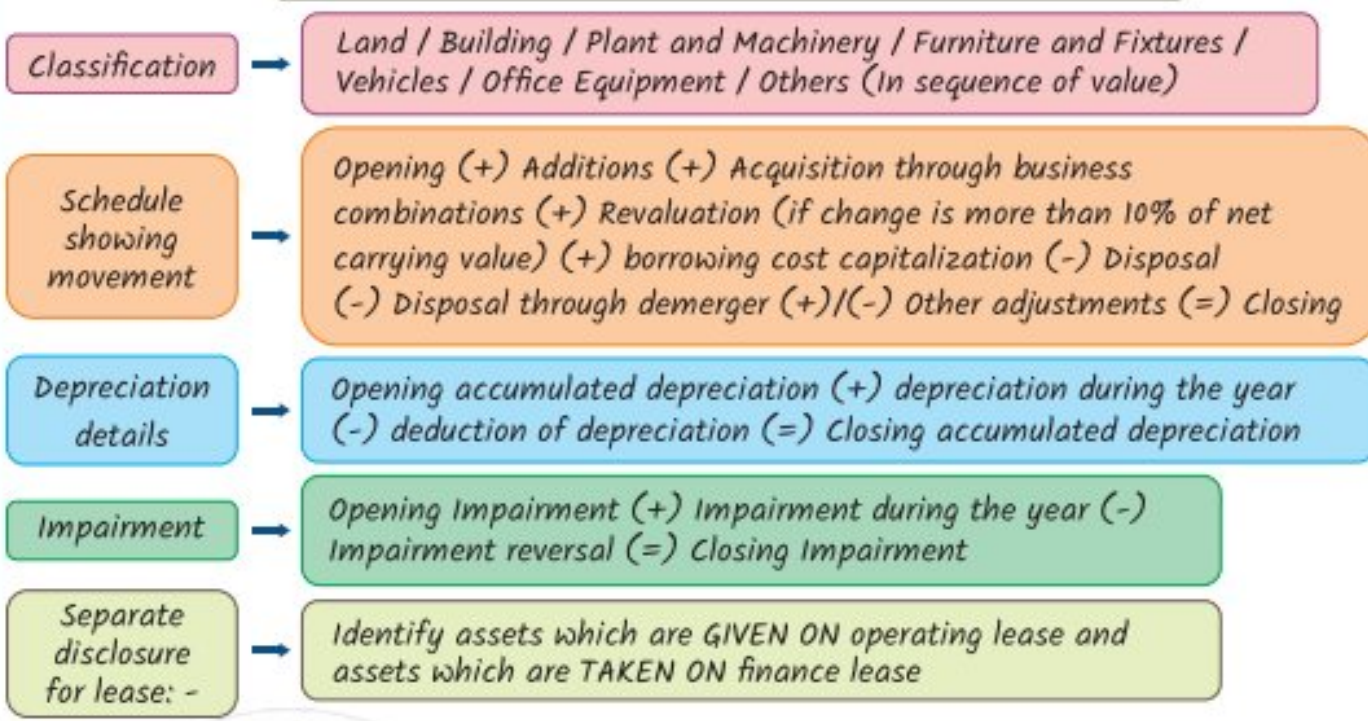
**AUDIT PROCEDURES FOR RIGHTS AND OBLIGATION OF PPE**



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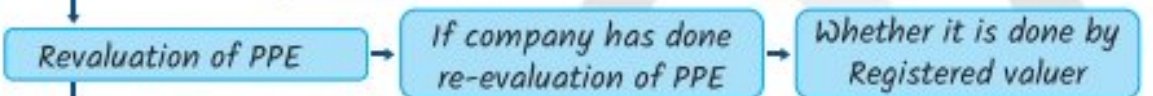
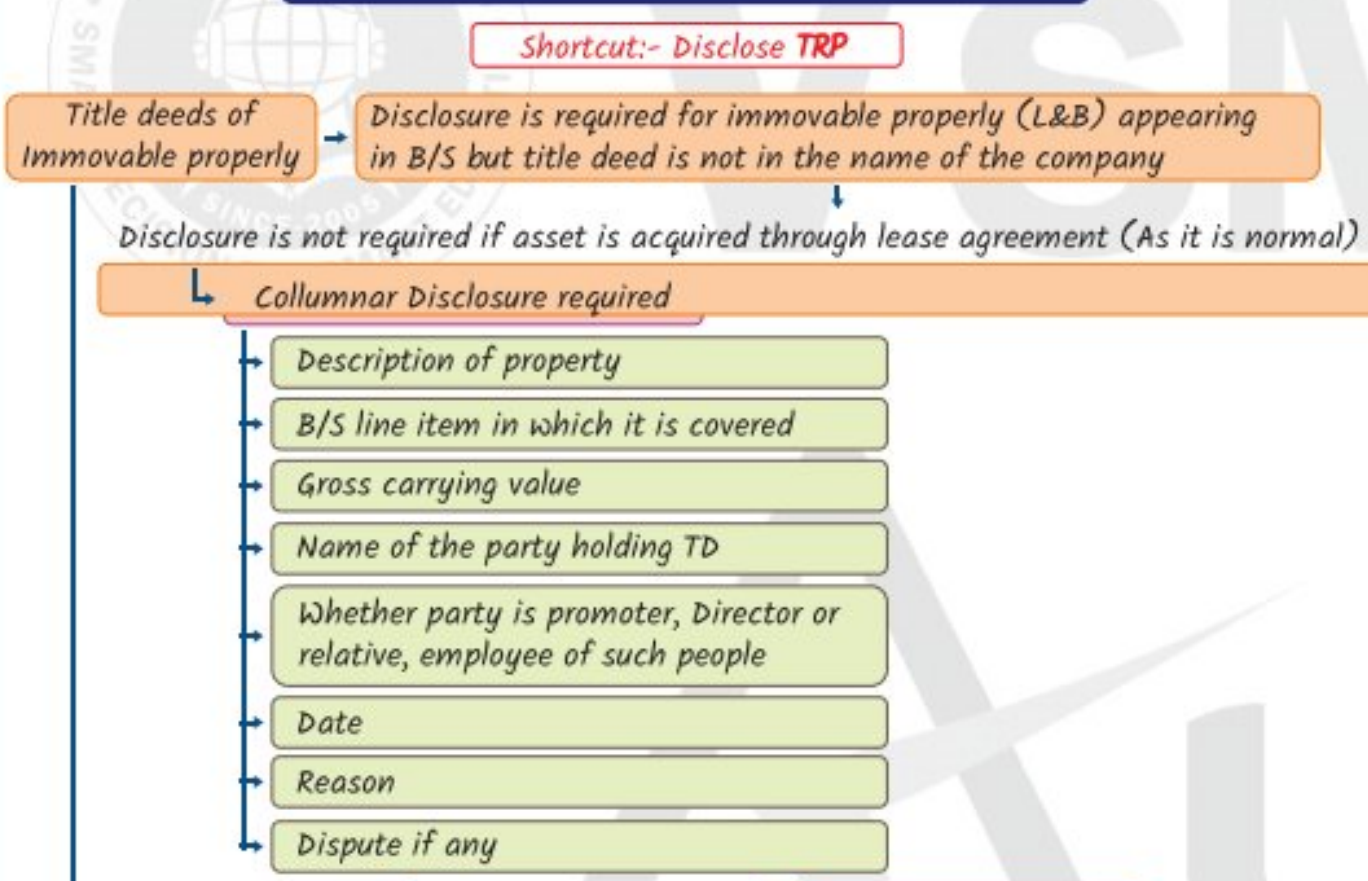
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**AUDIT PROCEDURES FOR DISCLOSURES OF PPE**



**(CNO.AIFS-P2.030)**

**SPECIAL DISCLOSURES RELATED TO PPE**



**Capital WIP Projects** → Ageing schedule on aggregate basis

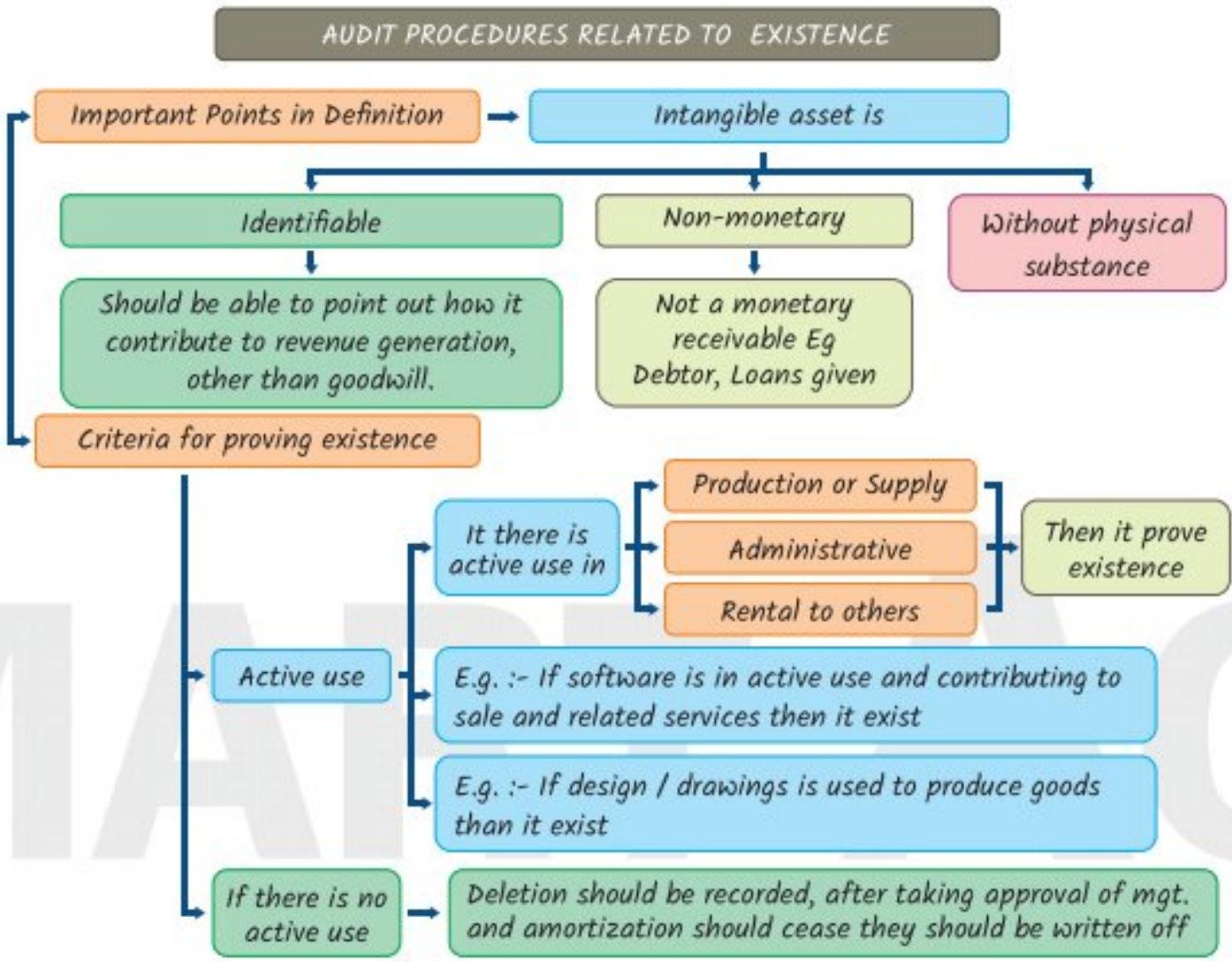
	WIP Time			Total
	Less than 1Y	1-2Y	More than 3Y	
Project in progress	XXX	XXX	XXX	XXX
Project temp suspended	XXX	XXX	XXX	XXX
				XXX (Amt should Tally with BS)

**Project wise details where time or cost limit is exceeded**

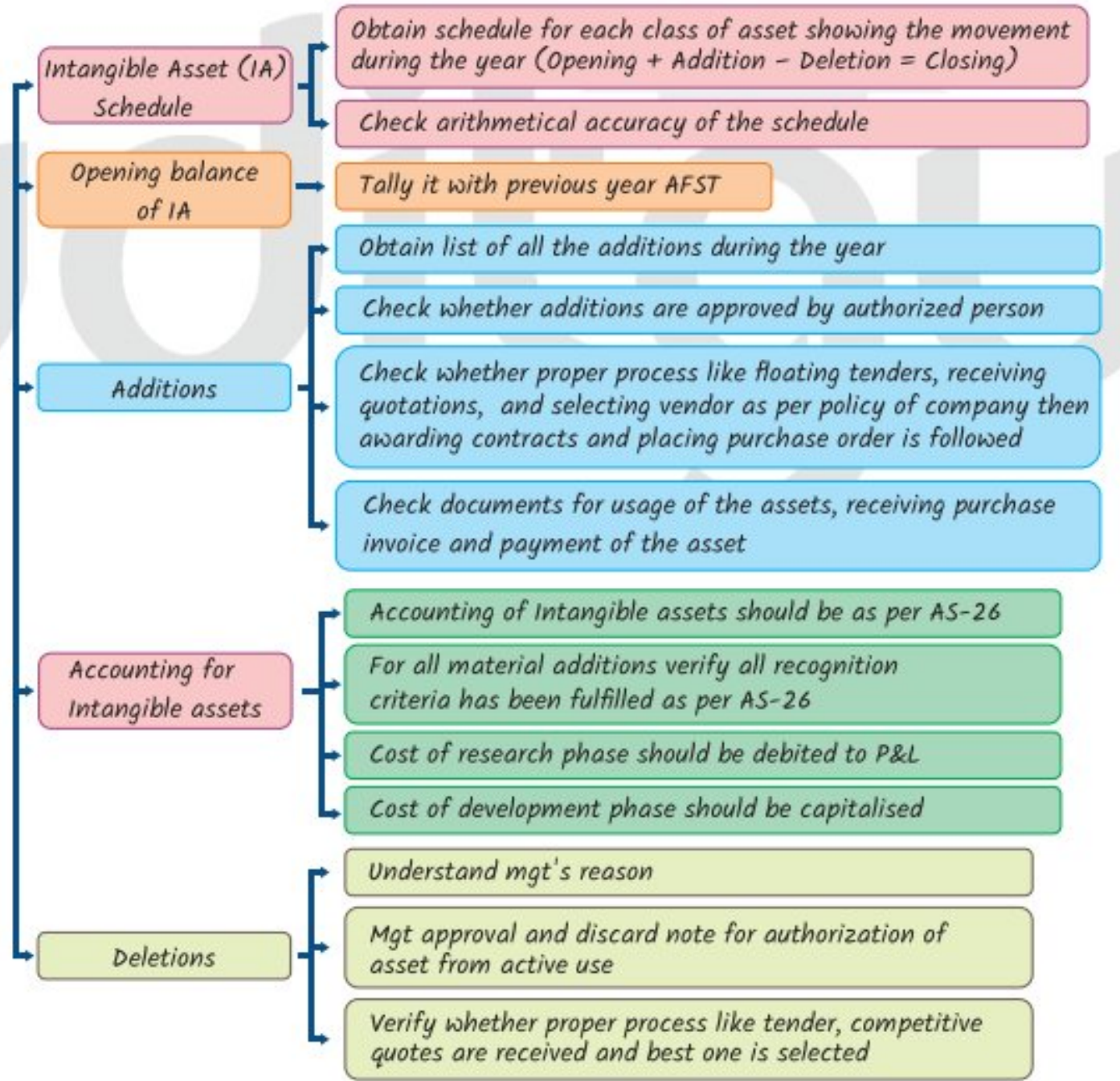
	Time for Completion			Total
	Less than 1Y	1-2Y	More than 3Y	
Project 1	XXX	XXX	XXX	XXX
Project 2	XXX	XXX	XXX	XXX
				XXX

**(CNO.AIFS-P2.040) (QNO-AIFS.35, AIFS.35.S0, AIFS.36, AIFS.36.S0) (MCQ-AIFS.3,AIFS.6, AIFS.18, AIFS.19, Incs.13.2, Incs.13.4, Incs.13.5, Incs.49.5)**

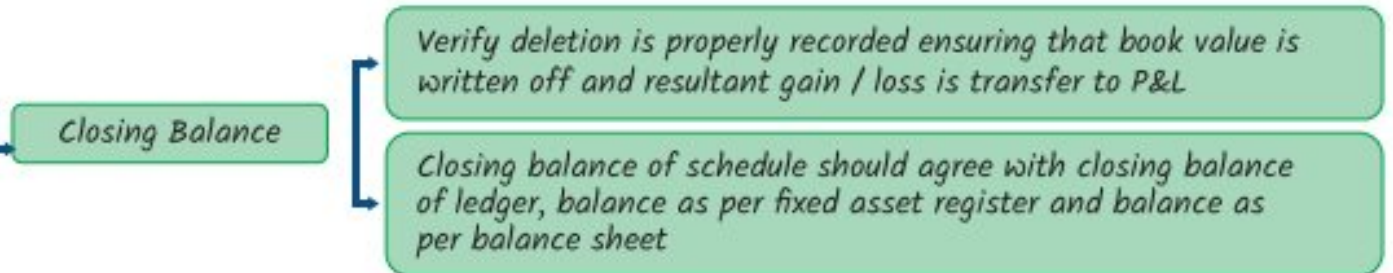
**INTANGIBLE ASSETS**



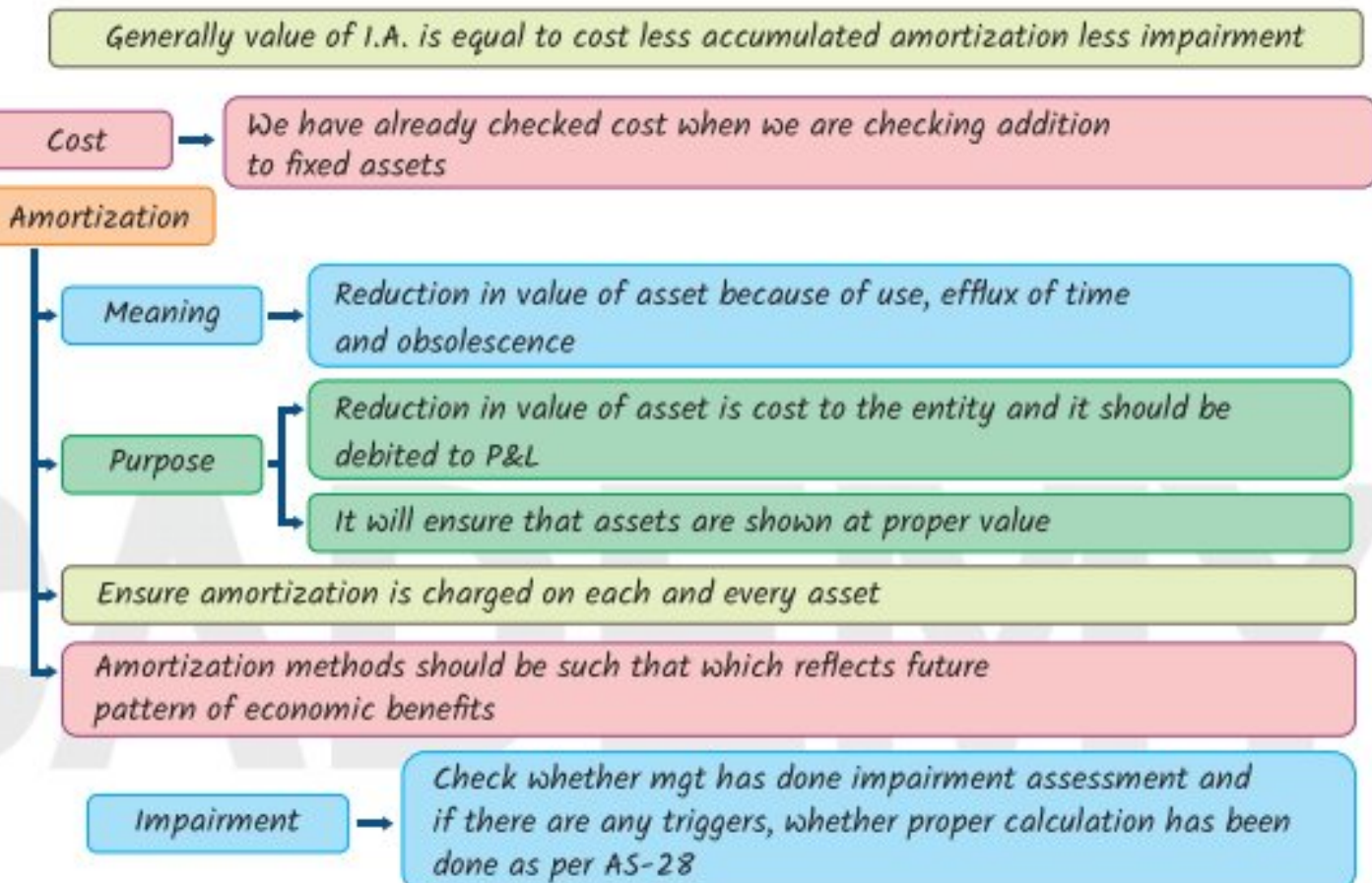
**AUDIT PROCEDURES FOR COMPLETENESS OF INTANGIBLE ASSETS**



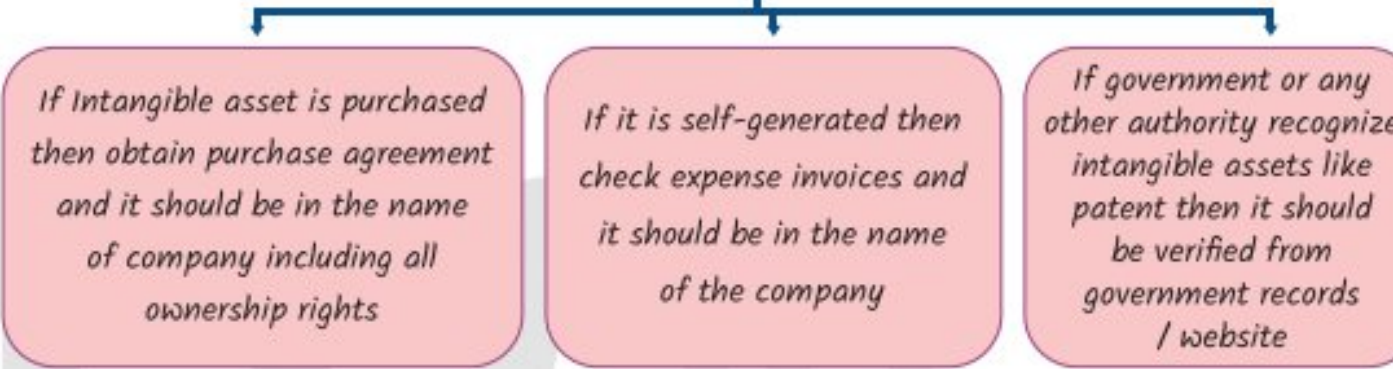
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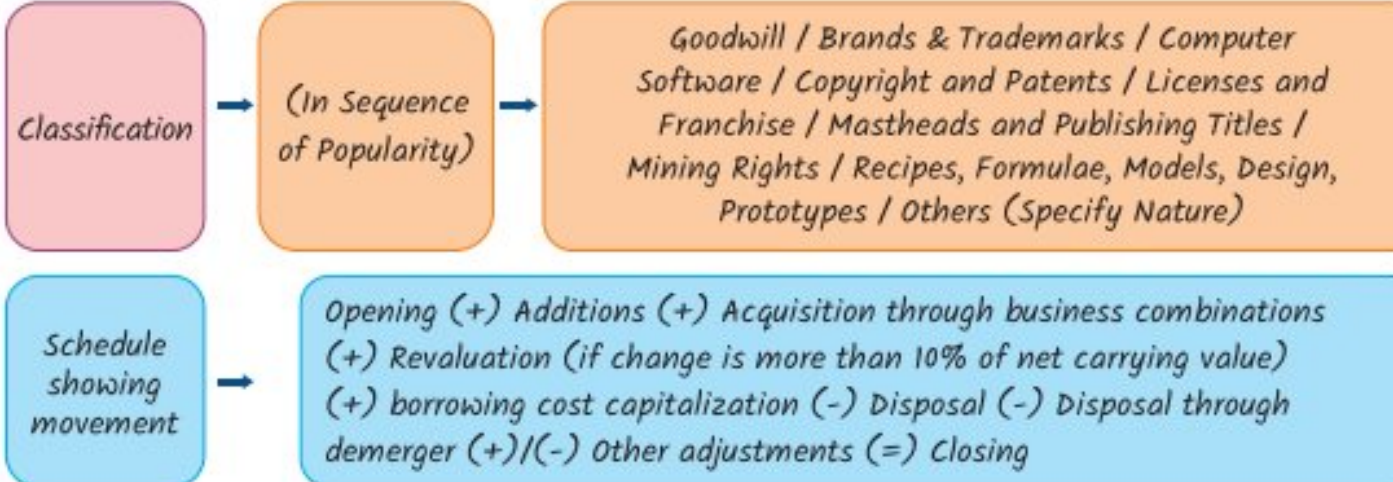
**AUDIT PROCEDURES FOR VALUATION OF INTANGIBLE ASSET**



**AUDIT PROCEDURES FOR RIGHTS AND OBLIGATIONS**



**AUDIT PROCEDURES FOR DISCLOSURES OF INTANGIBLE ASSETS**



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- Amortization Details → Opening accumulated amortization (+) amortization during the year (-) deduction of amortization (=) closing accumulated amortization
- Impairment → Opening Impairment (+) Impairment during the year (-) Impairment reversal (=) Closing Impairment

(CNO.AIFS-P2.060) (QNO-AIFS.45) (MCQ-AFS.10, AFS.14, Incs.03.2, Incs.05.5, Incs.11.2, Incs.42.1, Incs.42.2, Incs.56.1)

## INVENTORIES

### AUDIT PROCEDURES RELATED TO EXISTENCE

- Auditor's attendance / participation → Auditor should attend / participate inventory count with mgt
- Entity's Plan → Review entity's plan (mgt instructions) for performing inventory counting
- Observations while performing test counts and attending inventory counts
  - Observe whether employees adhering to mgt plan
  - Assuring that there is appropriate supervision
  - Assuring all the items are tagged
  - Observe proper amounts are shown on tags
  - Ensure that tags and summary sheets are controlled and reconciled with each other
- Test counts
  - Auditor should perform test count of inventory
  - Reconcile test count sheets with summary sheets which should be reconciled with tags and if any discrepancies it should be discussed with client and treated accordingly.
- Reconcile stock sheets
  - Collect all the stock sheets made during physical verification
  - Match it with the stock records as per books
  - If there is significant discrepancies, discuss with mgt and ensure that it is treated properly
- Periodic v/s Perpetual System
  - Periodic System → If entity is using periodic system ensure that verification is done at the end of the year
  - Perpetual System → If entity using perpetual system then physical verification may be done at interim dates (e.g. :- 30<sup>th</sup> Sept, 31<sup>st</sup> Dec)
- Others
  - Exclusion → Ensure exclusion of 3<sup>rd</sup> party stock (goods received as consignee), damaged, obsolete stock.
  - Inclusion → Confirm or investigate goods lying with 3<sup>rd</sup> party (specially jobwork goods)
  - Cut-off → Check last 5 or 10 receiving reports and shipping documents and ensure goods are recorded in proper period
  - Alertness → Stay alert all the time specially for empty boxes and obsolete items.

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### AUDIT PROCEDURES RELATED TO COMPLETENESS

#### Shortcut - TAP Completeness

- Third Party
  - Ensure that stock with 3<sup>rd</sup> party like part authorities, warehouses, transporters which belong to client is covered.
  - Ensure goods received on consignment as consignee are segregated not included in inventory.
- Analytical procedures
  - Compare financial and non-financial data with prior year, budget and industry average etc.
  - Financial
    - Compare actual inventory to budgets.
    - Compare Inventory Turnover ratio ( $COGS \div \text{Average Inventory}$ ) ('↑' indicates incompleteness)
    - Vertical analysis ( $\text{Inventory} \div \text{total assets}$ ) ('↓' indicates incompleteness)
  - Non-Financial
    - Compare non-financial information like weights, litres and other measurements with prior year to see its reasonableness.
- Physical Inventory
  - Obtain physical inventory listings and check its arithmetical accuracy
  - Reconcile physical inventory to perpetual records
  - Reconcile physical inventory with general ledger control totals / accounts
- Cut-offs and tags
  - Perform purchase and sales cut-off test
  - See last few documents of current year and next year, such as receiving reports, shipping documents, warehouse records, bill of lading and inventory records to check any transaction is missed.
  - Tags may have information relating to inventory movements and this may be used to check whether any inventory movement is omitted or any transaction in financial record is invalid.

### AUDIT PROCEDURES RELATED TO RIGHTS AND OBLIGATIONS

#### Shortcut - CS & CPT

- Documents & Agreements
  - Collateral agreements → Check if goods are given as collateral for obtaining finance, check whether client is still owner of the goods.
  - Sale related → Check correspondence with customer, sale agreement and shipping documents, if risk and reward are transferred then we are not the owners.
  - Consignment → Review consignment agreement to understand who is the owner of goods, nature of goods and ensure that such consigned goods are identified and treated properly
  - Purchase related
    - Purchase documents such as PRN, purchase order, receiving report, purchase invoice, payment file and cancelled cheque should be in the name of client.
    - Review material purchase commitment agreements, in such case if delivery is delayed by us then also we will become owners.

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- Third Party → Obtain confirmation of significant items as per SA 501
- Auditor should insist on declaration should be obtained on business letterhead signed by authorised personnel confirming inventories belonging to client.

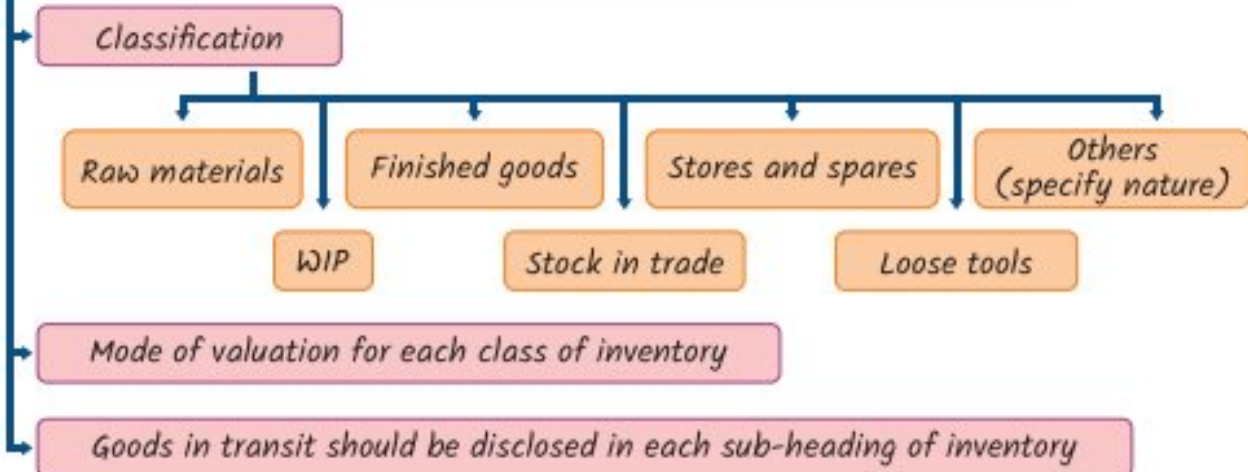
### AUDIT PROCEDURES RELATED TO VALUATION

- Cost method → Check which cost method is applied (e.g. FIFO, Weighted average) whether it is appropriate as per FRF.
- Raw materials and consumables
  - Elements of costs → Ensure along with purchase price, carriage inwards, non-refundable duties etc are included
  - Standard cost → AS allow to use standard cost but at end of the year client should compare standard cost and actual cost to ensure that both are almost close to each other.
  - Replacement cost → Check purchase invoices received in last month, this will give us idea of current replacement cost.
  - Valuation → Generally valued at cost, if FG NRV is below cost then apply Cost or NRV whichever is lower
  - Damaged & Obsolete Inventory → Ensure that such inventory is valued at realistic NRV.
- Work in Progress
  - Elements of cost → Check the basis of overhead includes (its rates and application)
  - Abnormal wastage → Ensure that such cost are not included
  - Valuation → Cost or NRV whichever is lower
- Finished goods
  - Elements of cost → Examine basis of overhead, ensure that overhead rates are completed keeping in mind normal loss and are reasonable.
  - Valuation → They should be valued at cost or NRV w.e. lower
  - Obsolete Stock
    - Identify
      - Obtain and carefully examine inventory ageing split between 30 days, 30-60, 60-90, 90-180, 180-360, 360 and above
      - Calculated inventory turnover ratio (obsolete inventory may be revealed if ratio is significantly lower)
    - Valuation
      - Valued at cost or NRV w.e. lower (generally NRV will be lower).
      - NRV of FG = Net selling price = SP - Selling cost

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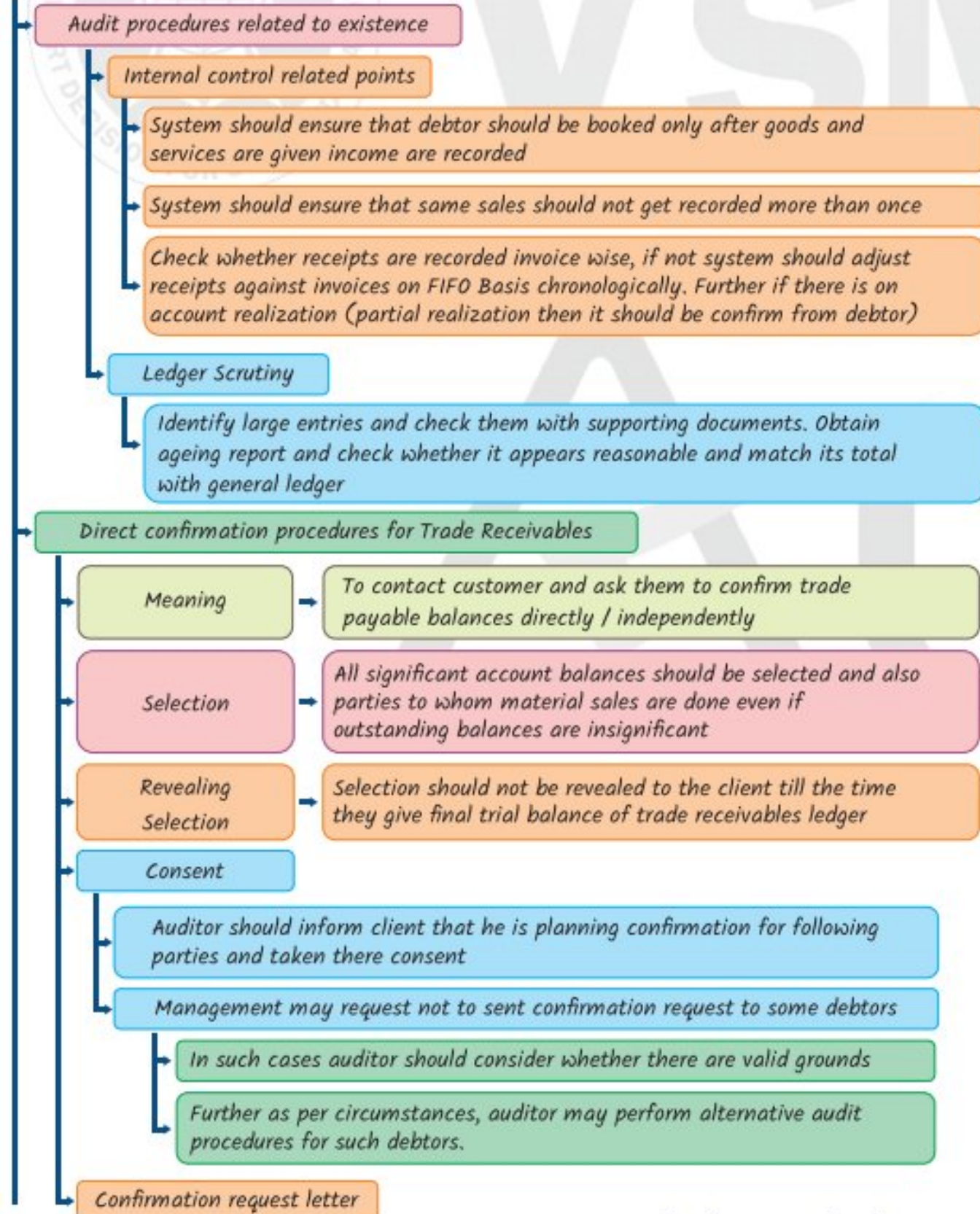
**AUDIT PROCEDURES RELATED TO DISCLOSURES**



(CNO-AIFS-P2.080) (QNO-AIFS.38, AIFS.38.50) (MCQ-AIFS.5, AIFS.11, AIFS.24, Incs.03.3, Incs.03.5, Incs.27.5, Incs.42.3, Incs.47.2, Incs.56.2, Incs.62.2, Incs.62.3)

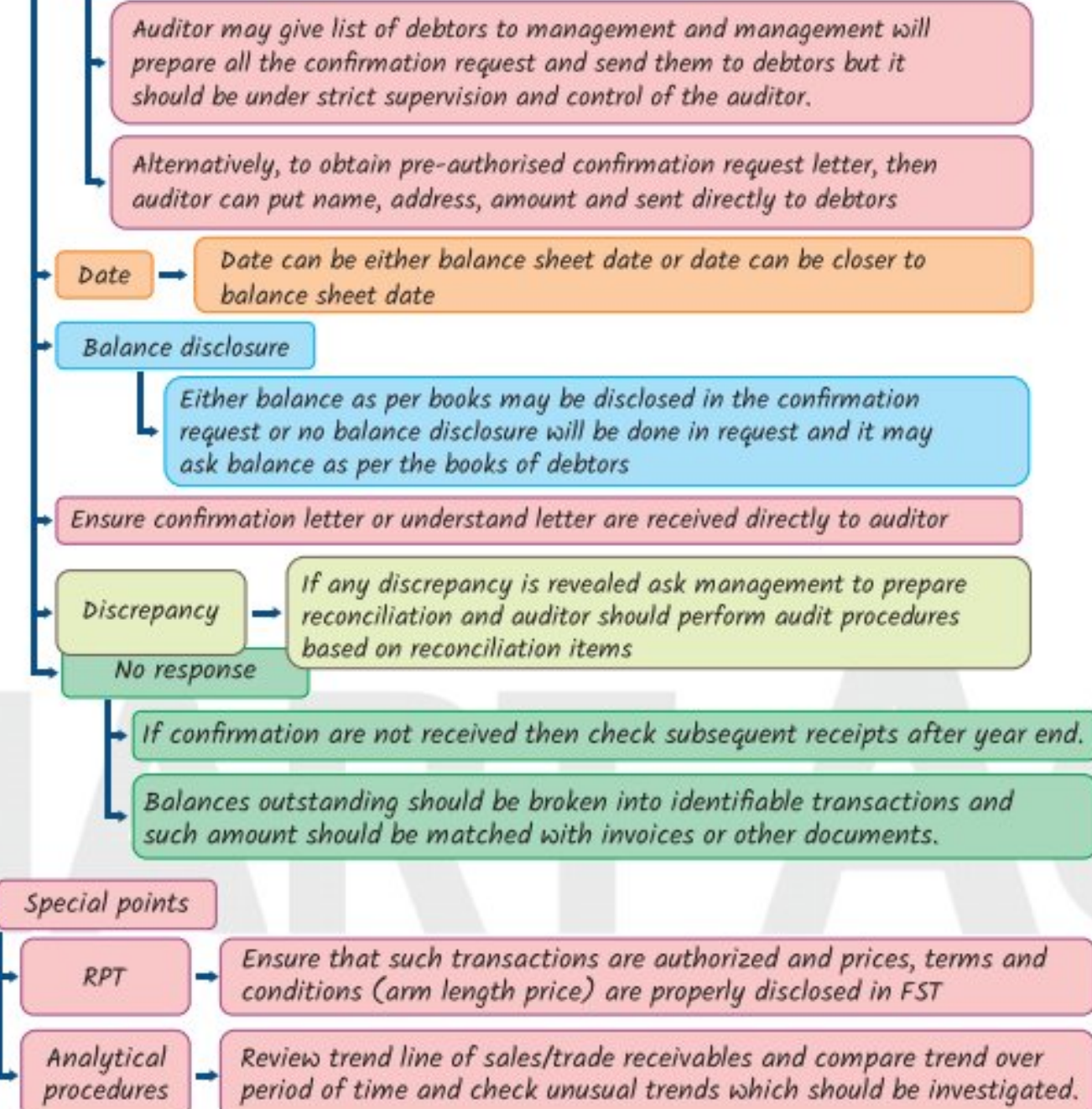
**TRADE RECEIVABLE**

**EXISTENCE**

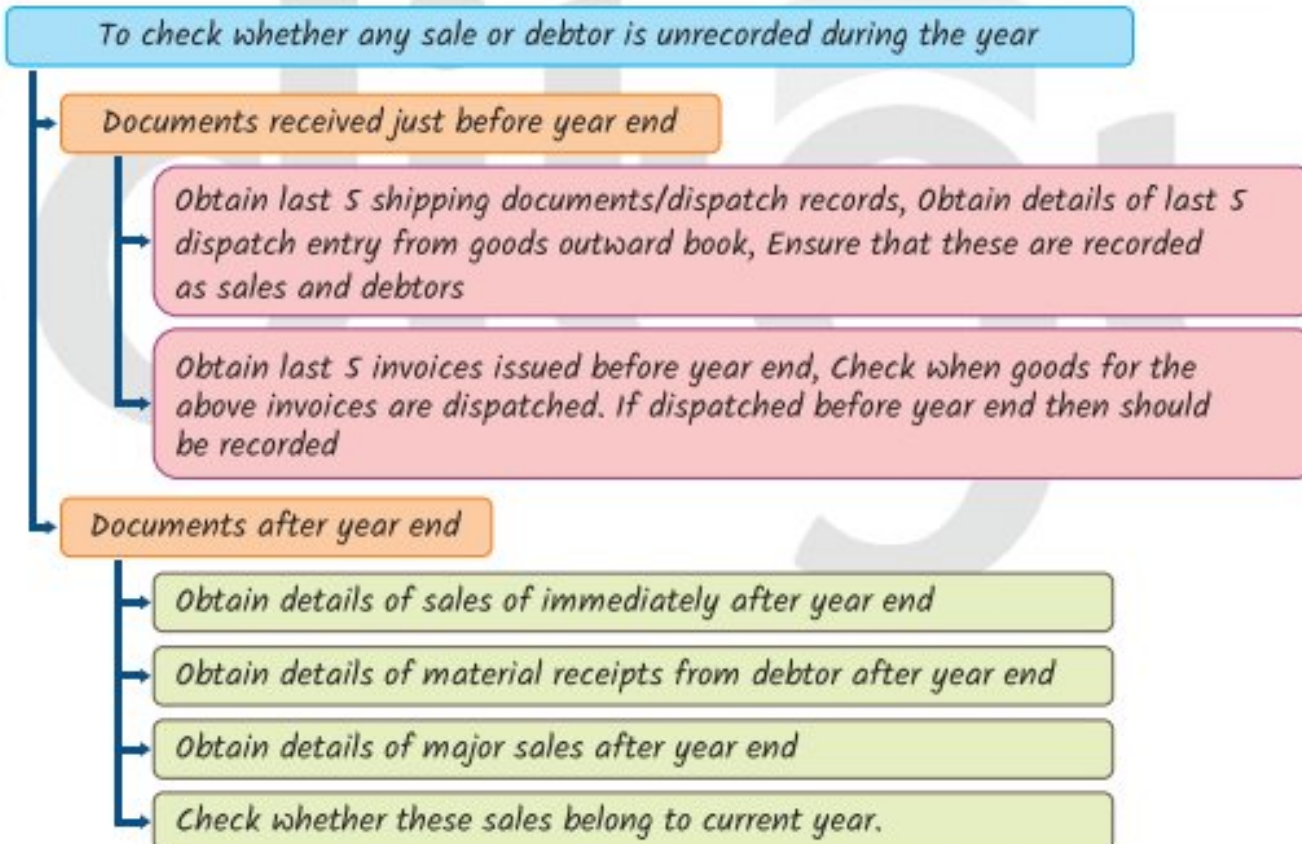


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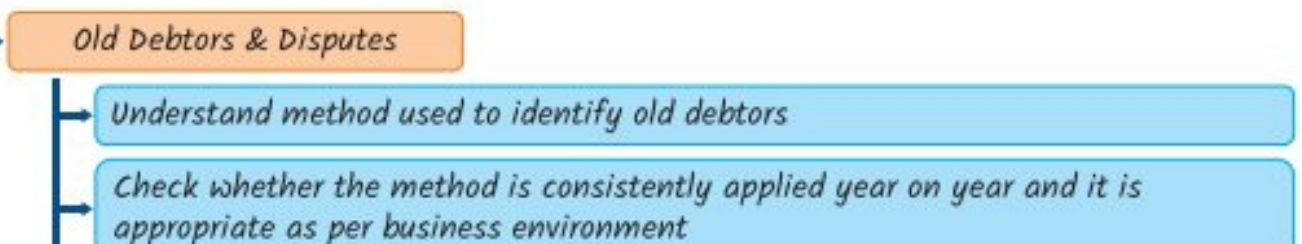
**Preparation** → In two ways it can be prepared



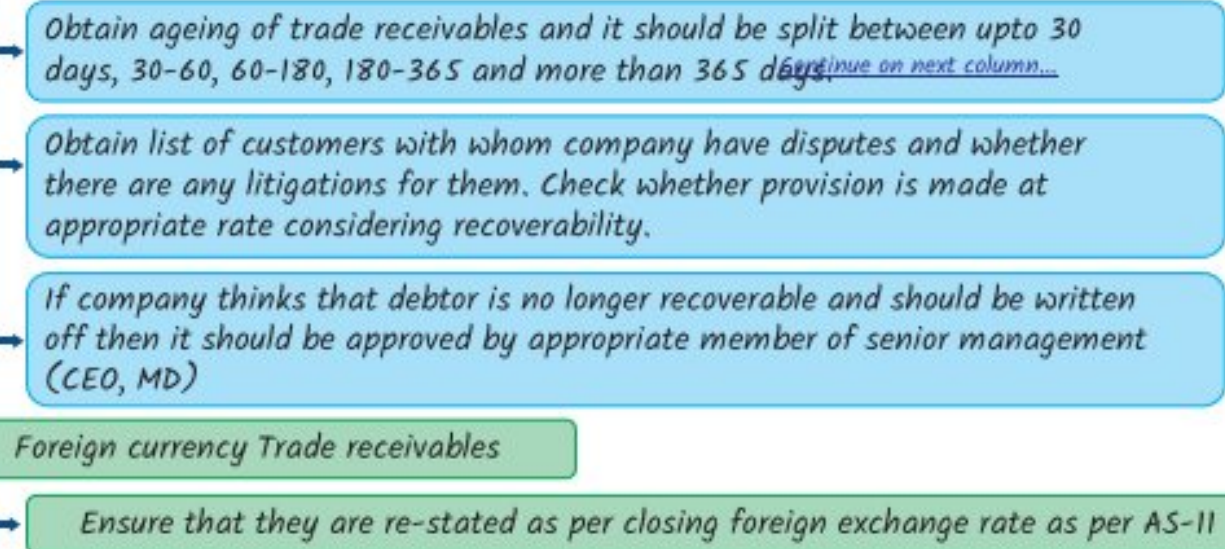
**TRADE RECEIVABLES AUDIT PROCEDURES RELATED TO COMPLETENESS**



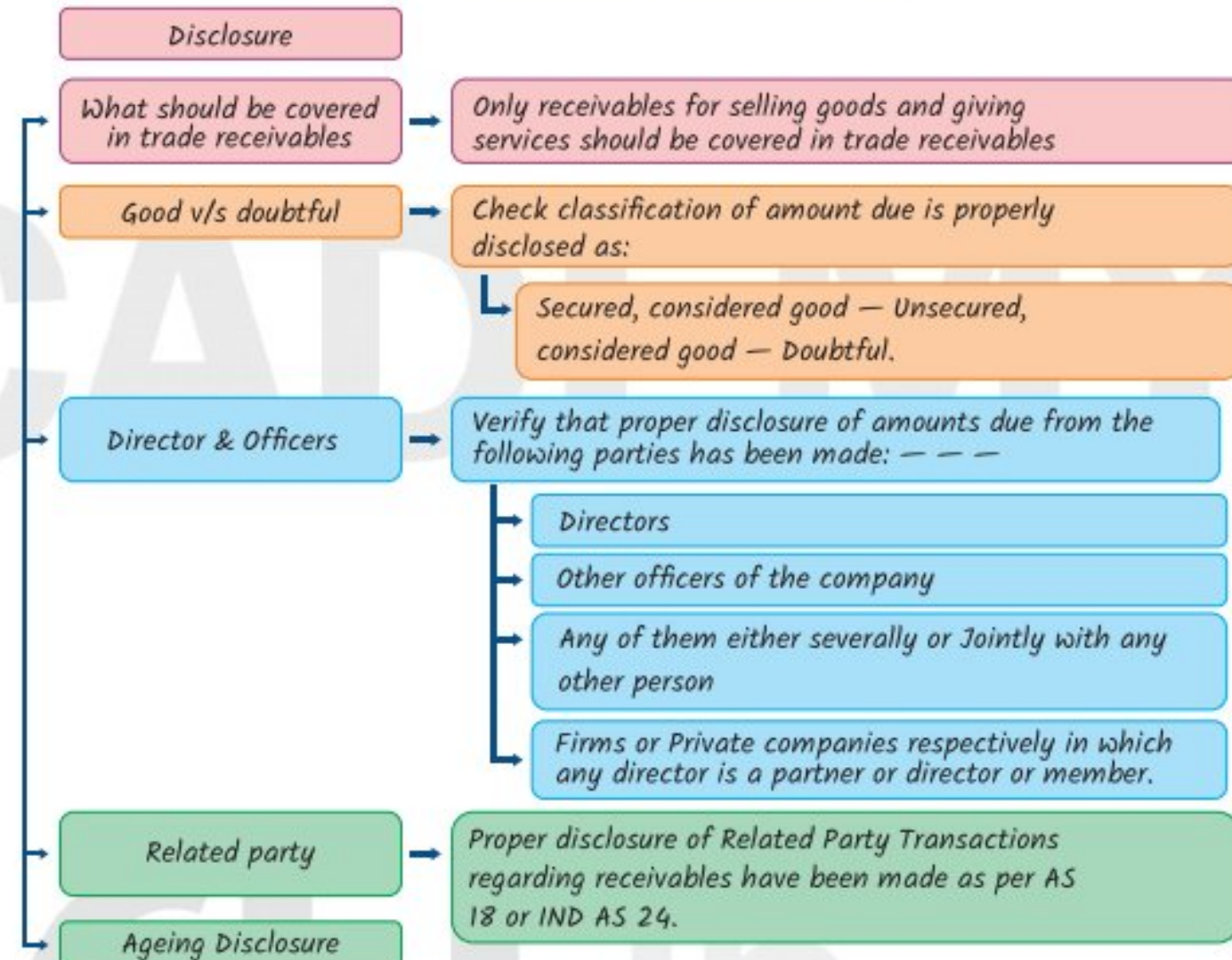
**TRADE RECEIVABLES AUDIT PROCEDURES RELATED TO VALUATION**



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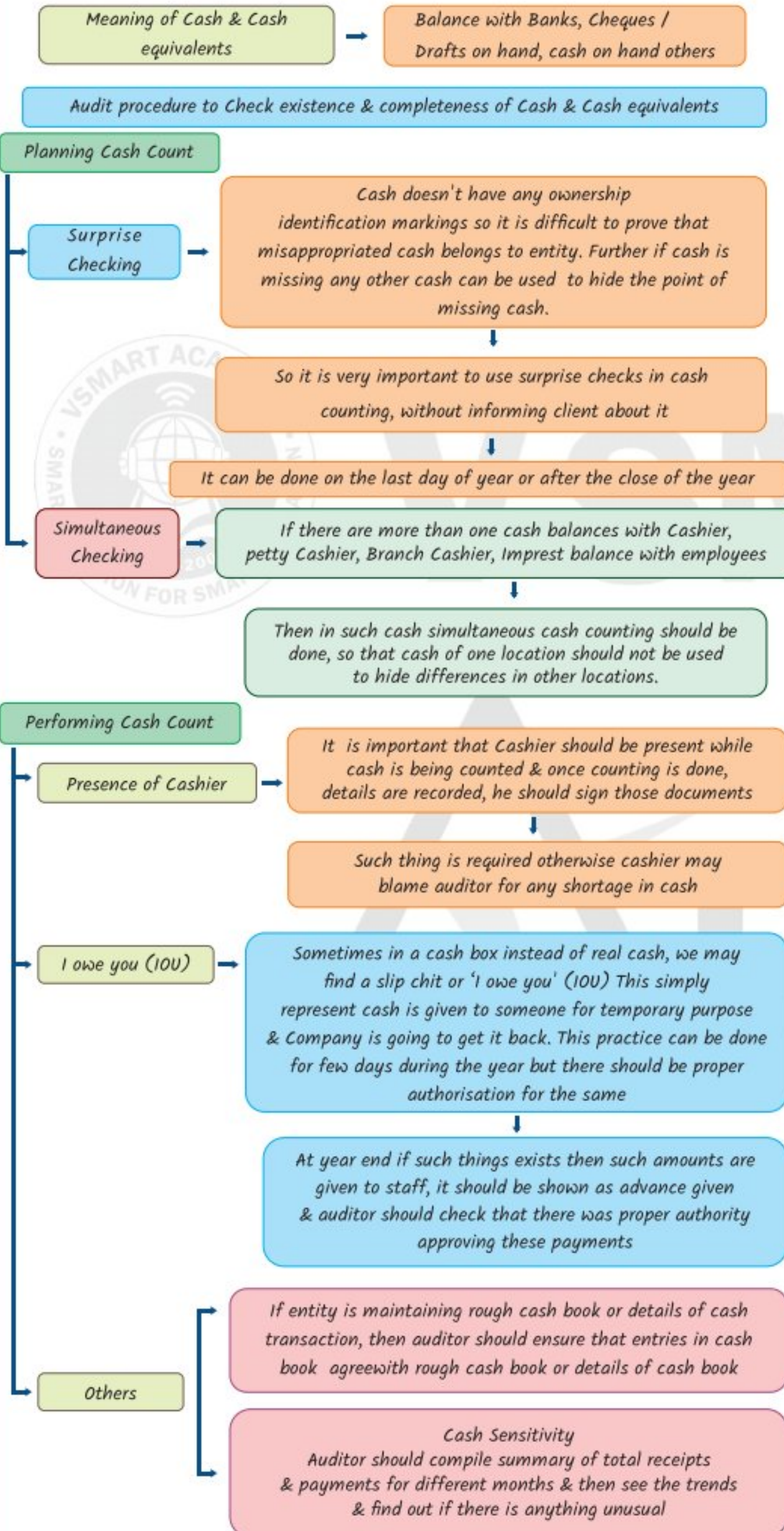
**TRADE RECEIVABLES DISCLOSURE**



	less than 6 M	6 M to 1 yr	1 yr to 2 yr	2 yr to 3 yr	More than 3 yr	Total
(i) Undisputed Trade receivables considered good						
(ii) Undisputed Trade Receivable considered doubtful						
(iii) Disputed Trade Receivable considered good						
(iv) Disputed Trade Receivable considered doubtful						

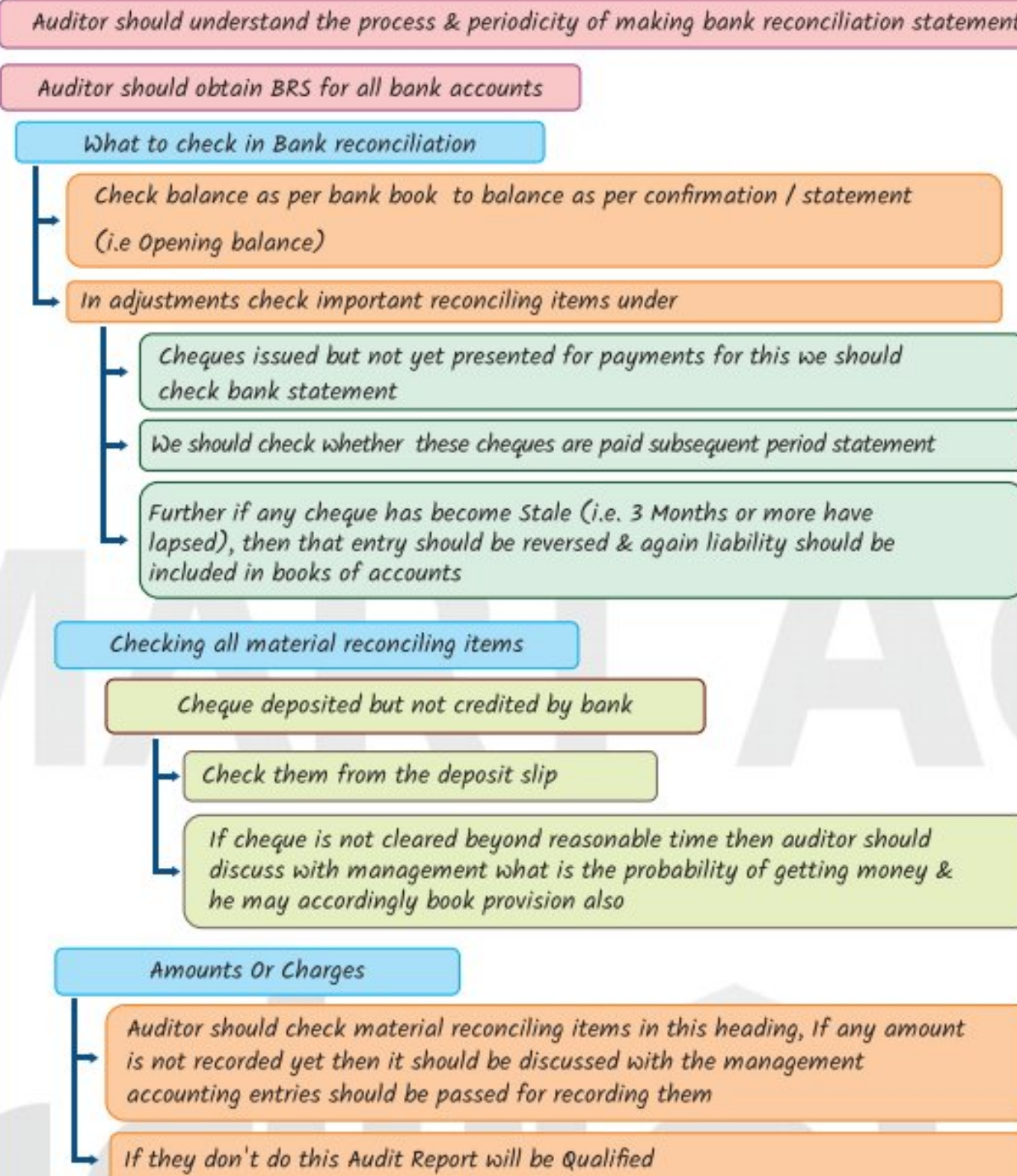
CA Ravi Taori  
 VSMART ACADEMY  
 Auditguru.in  
 Doubts Telegram

**CASH & CASH EQUIVALENTS**



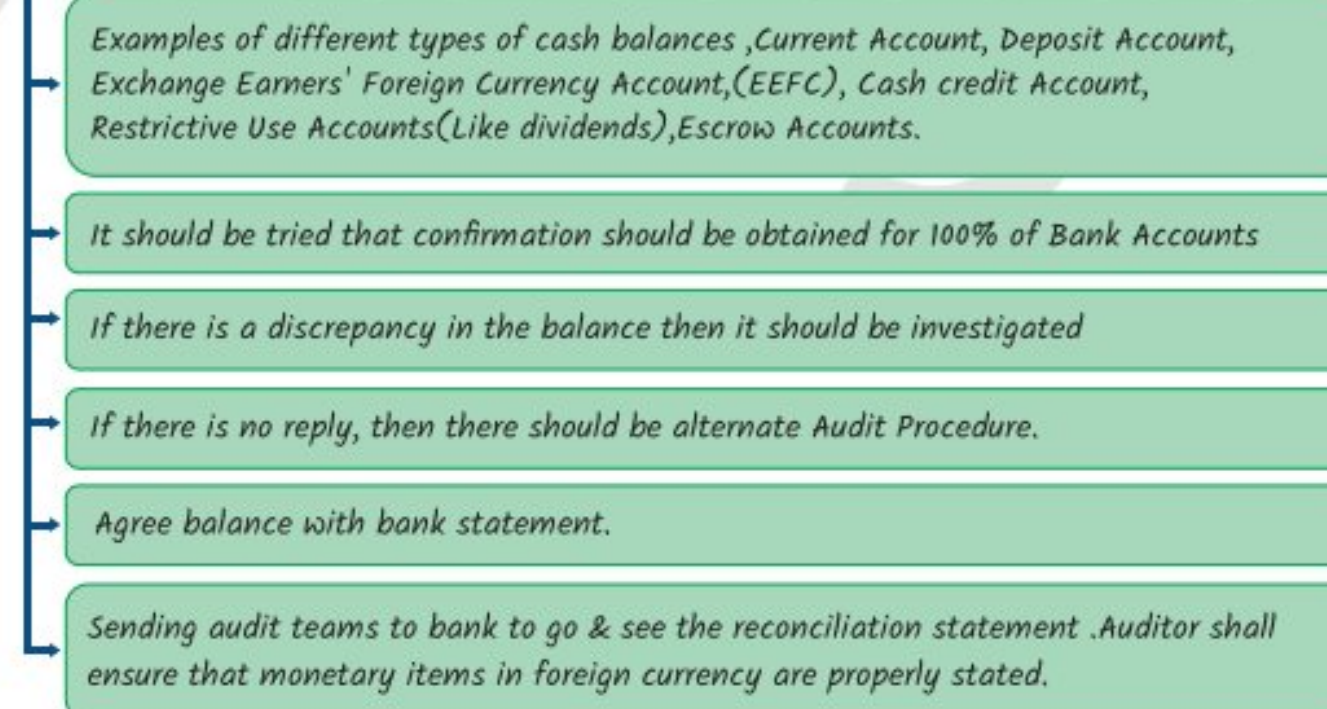
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**CHECKING BANK RECONCILIATION STATEMENT [BRS]**

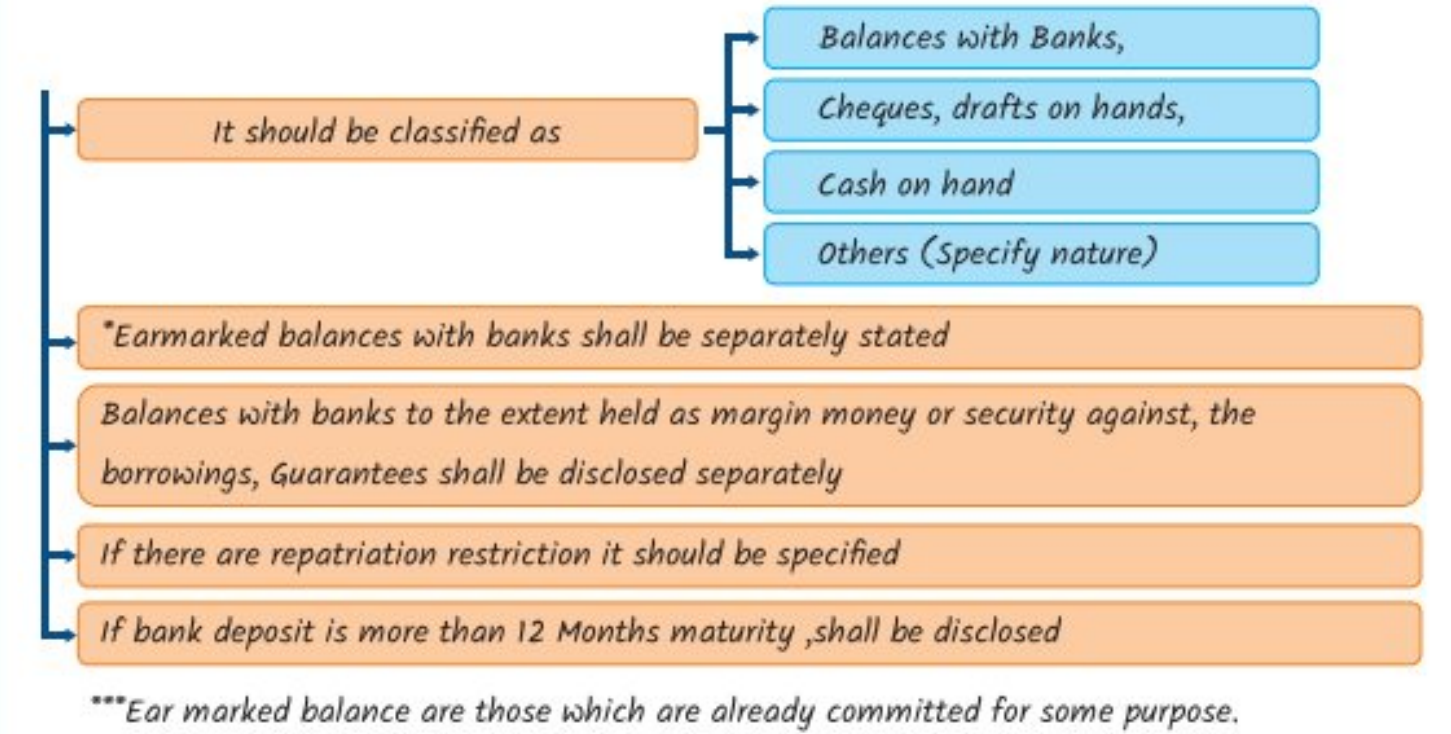


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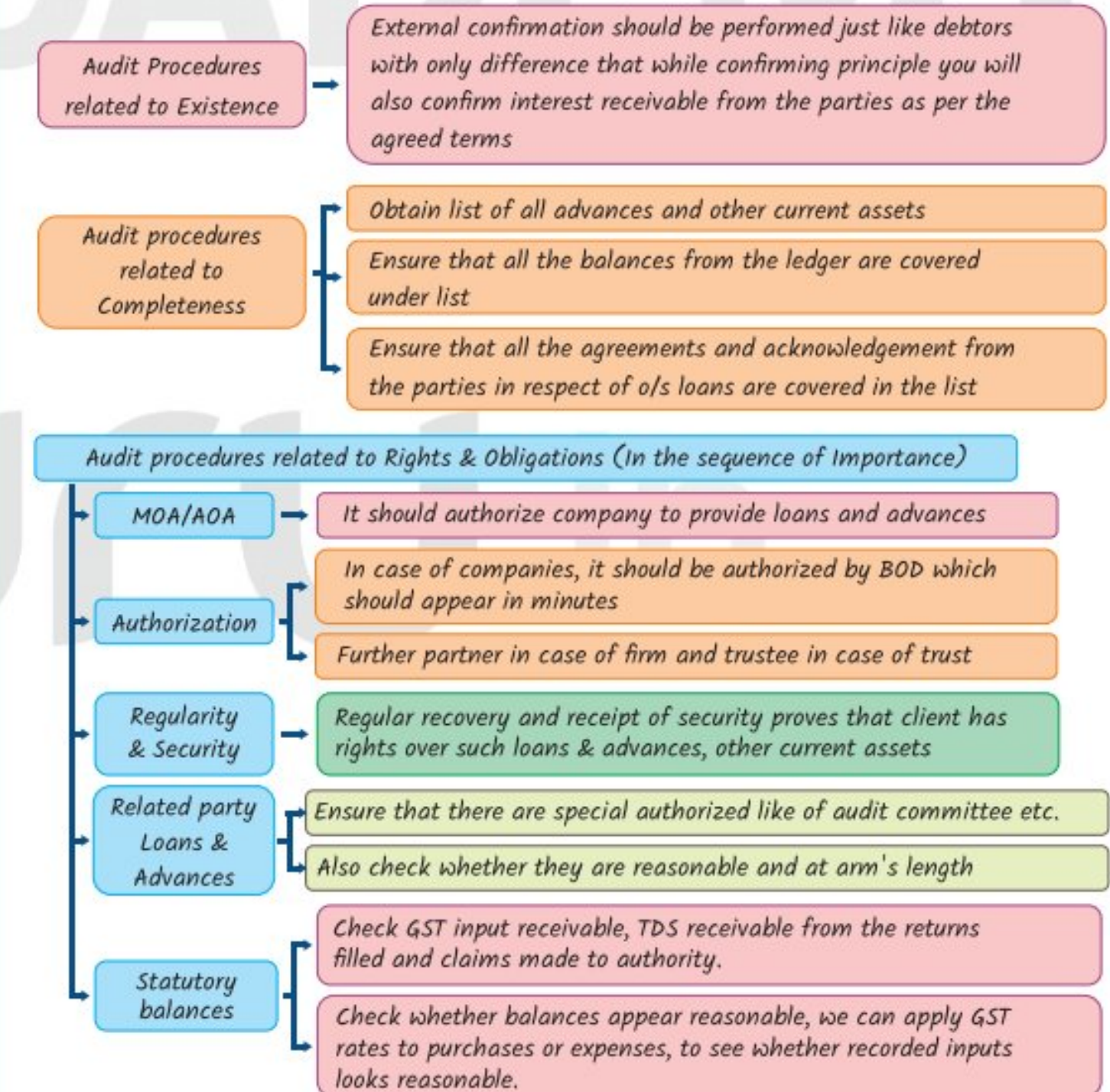
**DIRECT CONFIRMATION FOR CASH & CASH EQUIVALENTS**



**CASH & CASH EQUIVALENT DISCLOSURE**



**LOAN & ADVANCES AND OTHER CURRENT ASSETS**



Continue On Next page...

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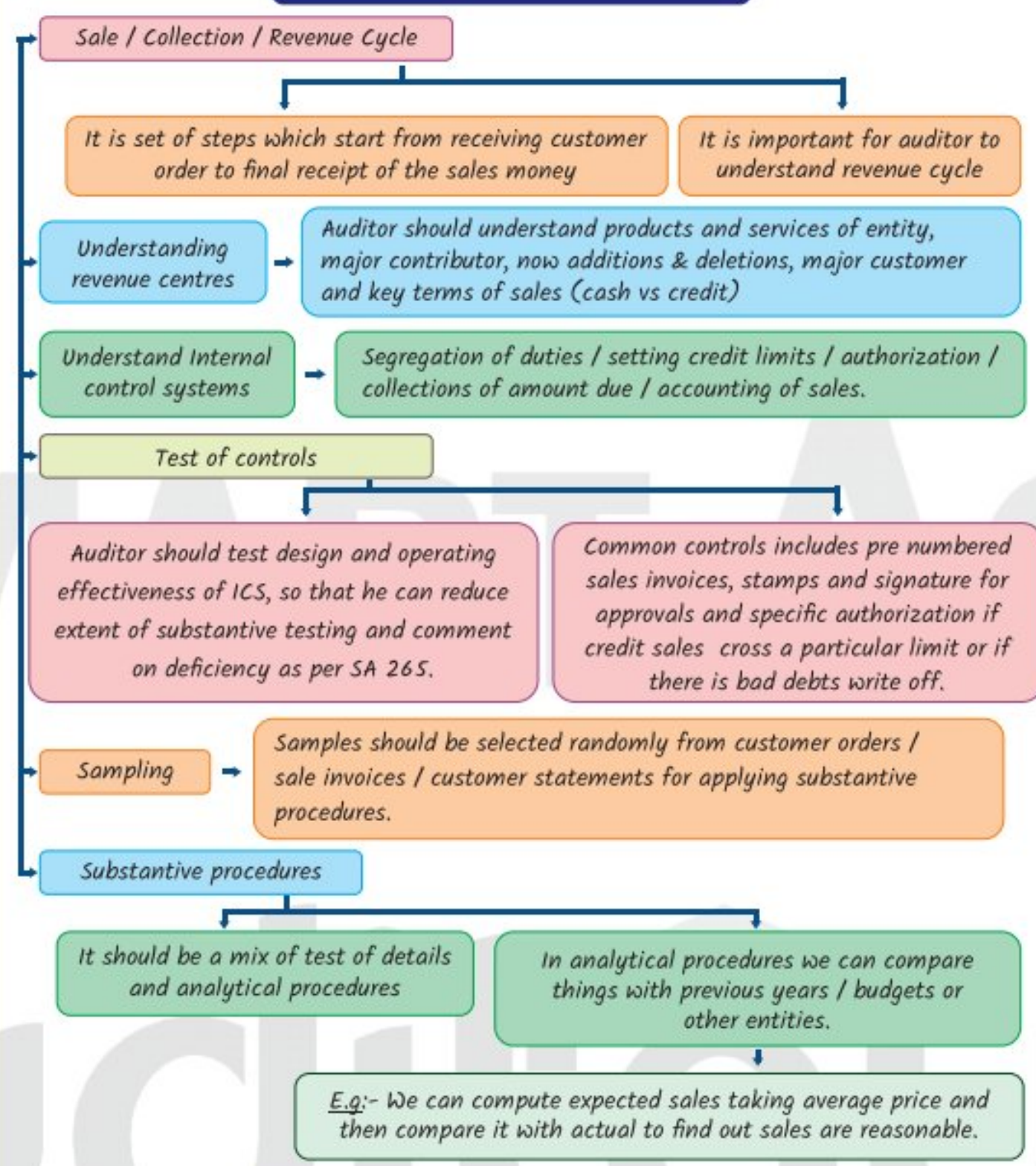
CA Vishal Bharti's

QR codes for Doubts and Telegram

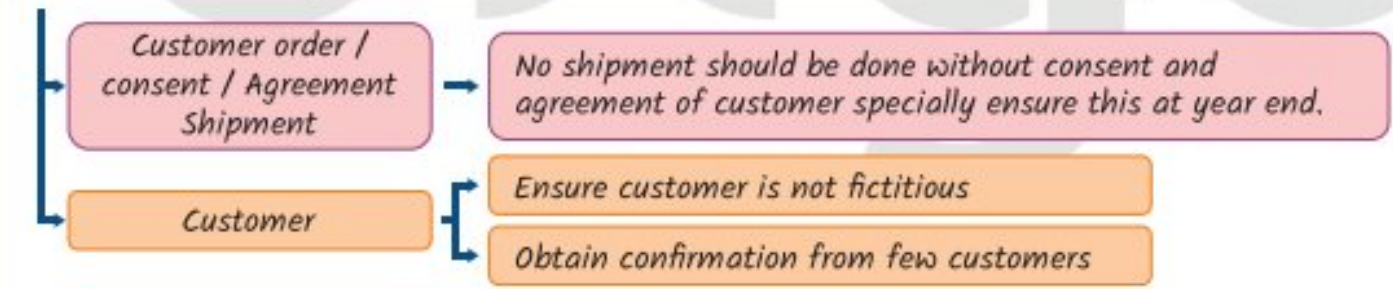
**Part 3 ' AIFS INCOME & EXPENSE**

(CNO-AIFS-P3.020) (QNO-AIFS.45.50, AIFS.45.55) (MCQ-AFS.12)

**AUDIT OF SALES (OVERVIEW)**



**AUDIT PROCEDURE RELATED TO OCCURRENCE**



**Accounting of sales**

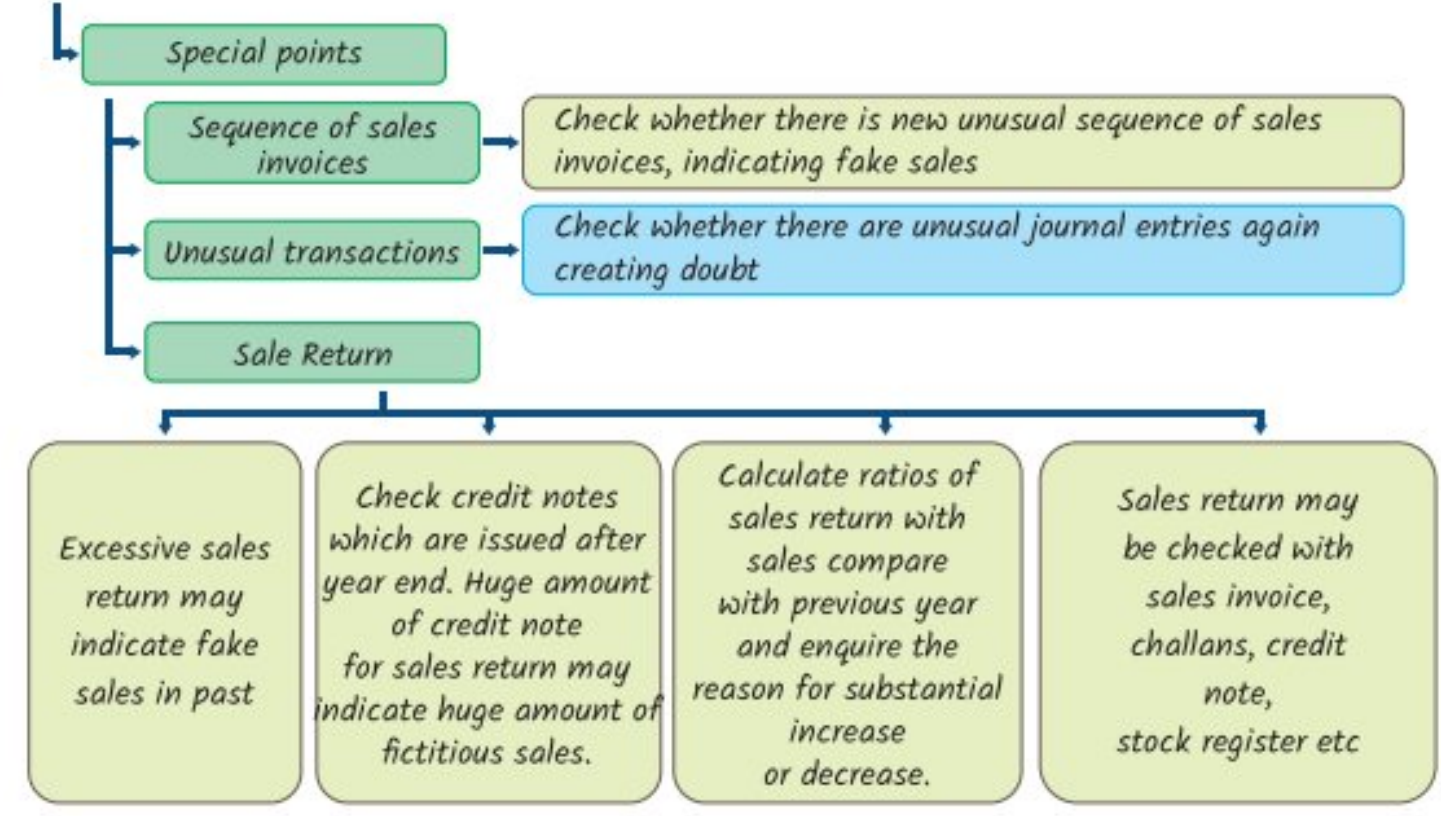
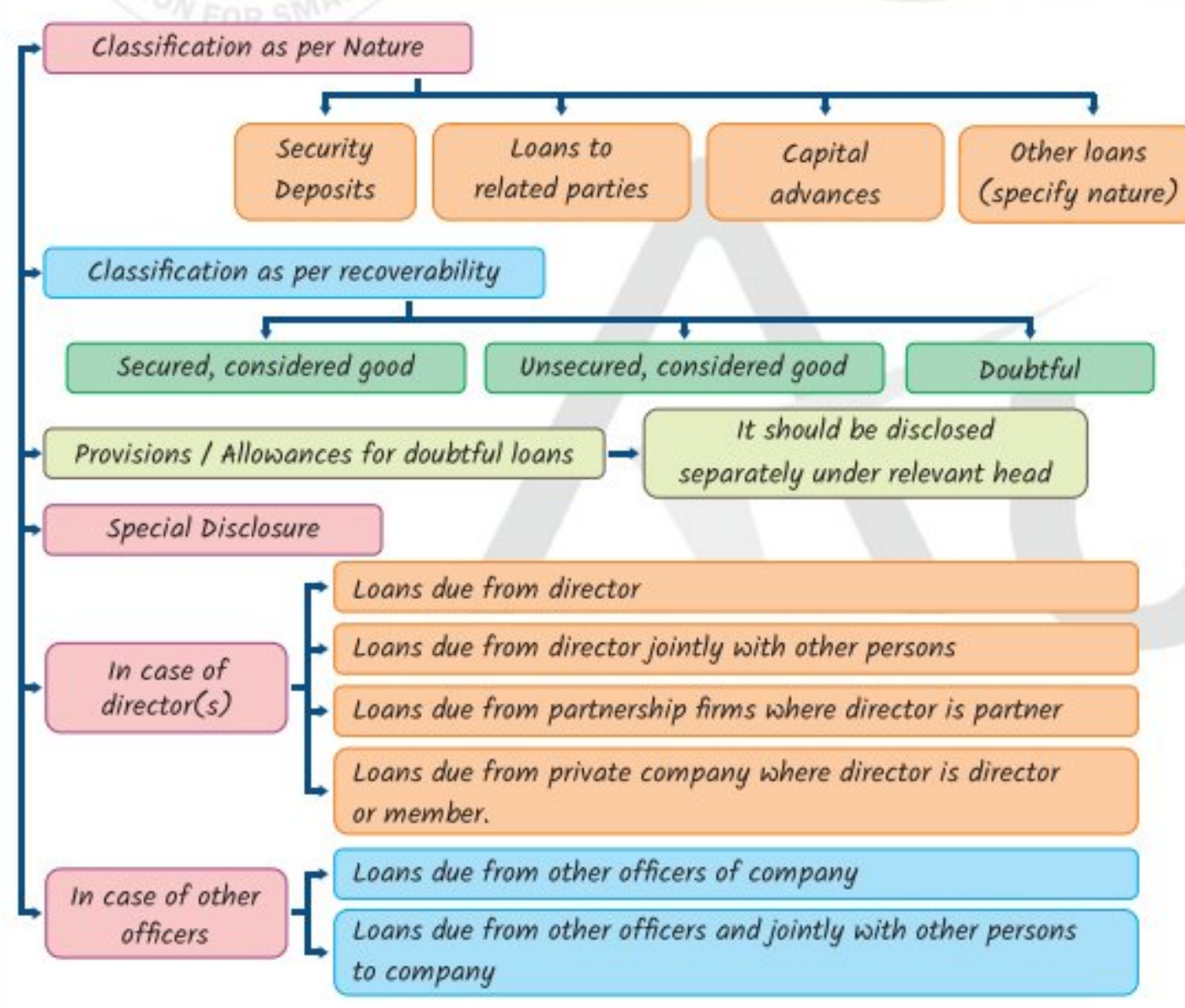
- Randomly select some journal entries and match them with invoices
- Unearned revenue should not be recognized as earned. eg. maintenance income of future years
- Whether customer obligation are contingent (installation)
- If there is substantial uncertainty in measurability and collectability we have to delay revenue recognition.
- Invoice should not be booked twice and canceled sale should be reversed

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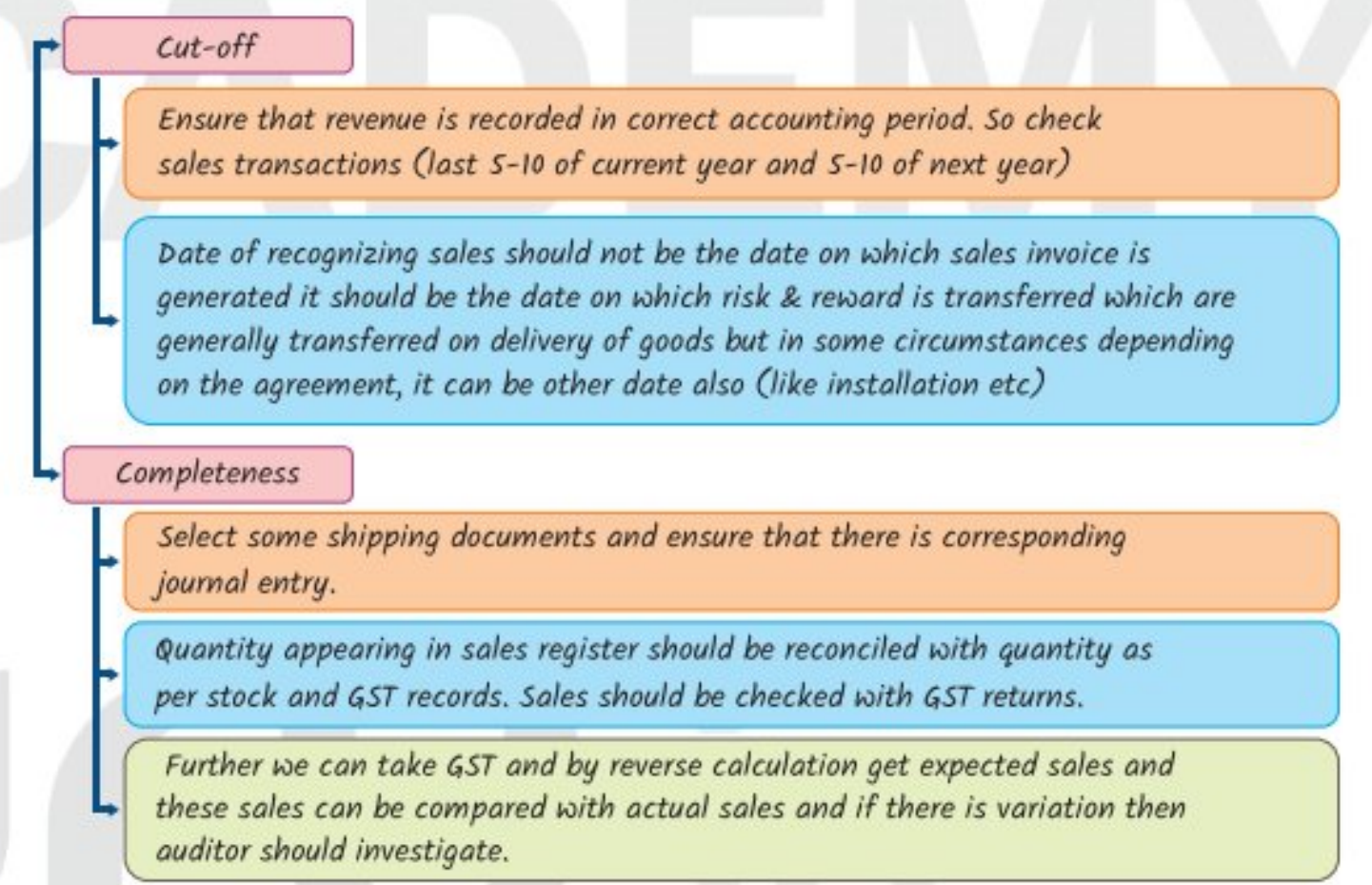
**AUDIT PROCEDURES RELATED TO VALUATION**

- Process** → Understand process followed by the company to identify and assess doubtful accounts, check whether such method is appropriate and consistent with previous year.
- Ageing** → Obtain ageing of loans & advances between due, 30 days, 30-60 days old, 60-180 days old, 180-365, 365 days and above.
- Litigation** → Identify loans and advances where litigation are going on
- Identify doubtful accounts** → From above identify doubtful accounts and discuss with mgt if account is not included in the list of doubtful accounts and discuss reasons with mgt.
- Write-off** → Check whether write-off and other reductions have been authorized by senior authorities.
- Schedule** → Prepare a schedule for bad loans and advances (opening (+) addition during the year (-) written off during the year (=) closing balance)  
Also prepare schedule for provision opening + addition during the year (-) utilised during the year = closing balance
- Foreign Currency** → Ensure that foreign currency loans & advances are restated during the year.

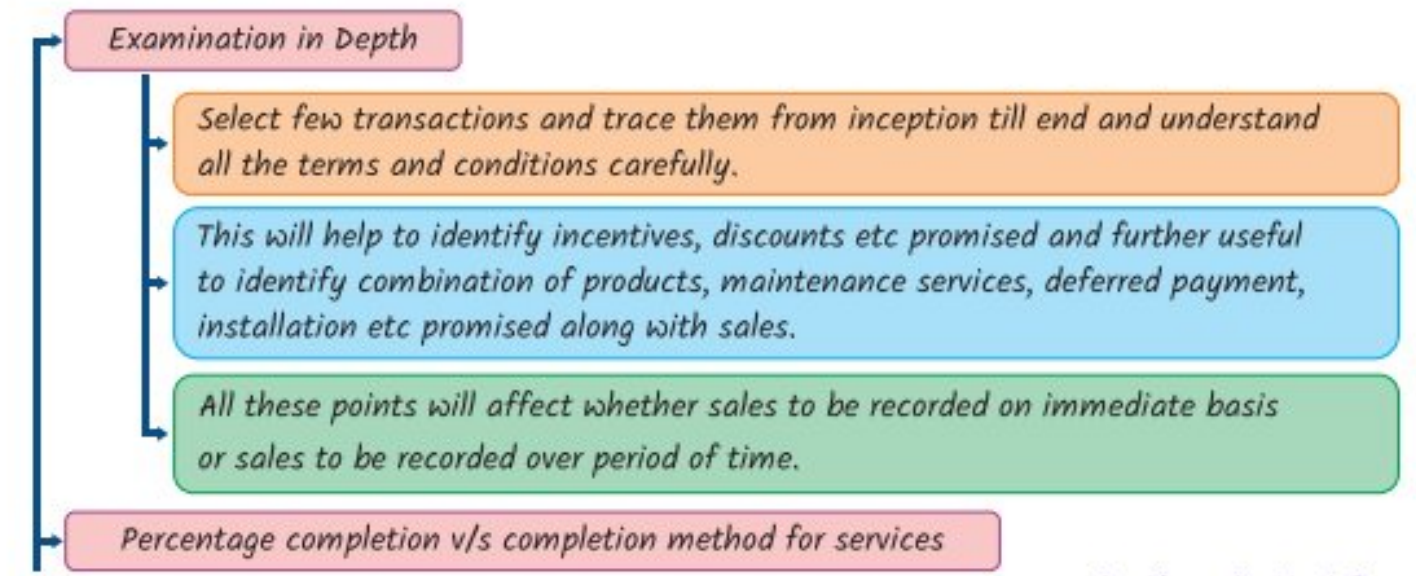
**AUDIT PROCEDURES RELATED TO DISCLOSURE**



**AUDIT PROCEDURES RELATED TO CUT-OFF AND COMPLETENESS**



**AUDIT PROCEDURES RELATED TO MEASUREMENT / ACCURACY**



Continue On Next Page...

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- Depending on nature of services which are provided as per AS-9, revenue can be booked either step by step on percentage basis or it can be booked at the end when all services are given as per completion method.
- Related party sales**
  - Check reasonability, rates and conditions are at arm's length when goods sold to related parties.
- Export**
  - Export sales in foreign currency should be converted at average exchange rate as per AS-11.
- Collectability**
  - Sales should be booked on the amount which entity expects to collect

**AUDIT PROCEDURES RELATED TO DISCLOSURES**

- Requirement of Schedule III**
  - Revenue from operations should be disclosed separately in following headings
 

Sale of Products	xxx
Sale of Services	xxx
Other operating revenue	xxx
Excise Duty / GST	(xxx)
  - Other points**
    - Ensure that sales are properly shown in segment reporting as per different types of products
    - Ensure that related party sales are properly shown in notes to accounts.

(CNO.AIFS-P3.040) (QNO -AIFS.45.60/ AIFS.69/ AIFS.71/ AIFS.73) (MCQ-AFS.4)

**AUDIT OF OTHER INCOME**

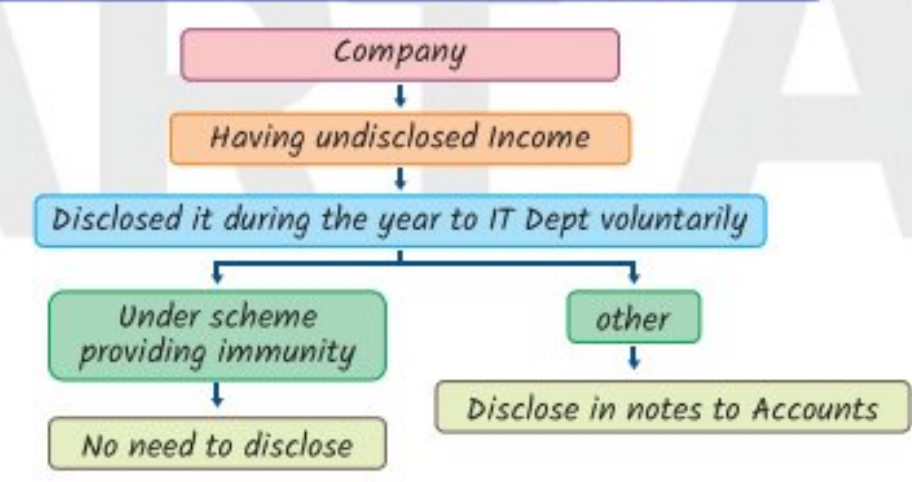
- Audit of Interest Income on fixed deposits**
  - Fixed deposit schedule**
    - Auditor should ensure that fixed deposit schedule is accurate, with the help of which we can check the interest income.
    - Opening F.D. can be matched with last year balance, current year F.D. can be match with fixed deposits receipts, redemption of F.D. can be checked with bank statements and for closing F.D. we can see receipts and confirmation from banks.
  - Interest on F.D.**
    - Check arithmetical accuracy of interest income by recomputing, ensure that proper amount, rate and days are taken into consideration
  - Confirmation**
    - While taking confirmation for F.D., auditor can also ask about interest income during the year to ensure that interest income as per books and confirmation match with each other.
    - Auditor should obtain copy of form 26AS (this form shows TDS deducted by 3<sup>rd</sup> party which belong to the entity). So that auditor can do reversed calculation on the basis of TDS deducted by bank, to check interest income received.

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- Audit of Dividend**
  - Ensure that dividend is recognized
  - When primary condition of right to receive dividend is established
  - Secondary condition that dividend should be measurable and collectable (probable that economic benefit will flow)
- Audit of Gain/Loss on Mutual funds**
  - Ensure that this gain/loss should be booked only when title of mutual fund is transferred from entity.
  - It will be difference between redemption price and carrying value of investments.
  - Auditor can obtain mutual fund statements and check that gain/loss of books and statements agree with each other.

(CNO.AIFS-P3.050)

**DISCLOSURE OF UNDISCLOSED INCOME**



(CNO.AIFS-P3.060) (QNO-AIFS.47)

**AUDIT OF PURCHASES (OVERVIEW)**

- Purchase Cycle**
  - It is a set of process which starts with placing purchase order with the vendor and ends with making payments to the vendor.
- Production Centre**
  - Auditor should understand nature of goods and services which are produced and type of raw materials and other items which are required for production
  - Auditor should understand pattern of procurement which goods form major part of purchases, who are the vendors and what are the terms and conditions like cash or credit.
- Identify Controls**
  - Auditor should understand whether there is segregation of duties, whether purchases above certain limit are authorized by purchase committee or senior personnel, whether quotations are called before placing purchase order, whether purchase order are numbered, when goods are received whether quality / quantity check are done properly and proper GRN is made, whether 2 or 3 way checks (match purchase invoice with GRN and purchase order, then only payment should be done)
- Test of controls**
  - Ensure that important controls in previous steps are tested through inquiry, inspection of documents, observation etc.

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- Sampling**
  - Auditor can randomly select purchases to be checked, auditor can match each purchase transaction with purchase order which has all the approvals then inward entry in gate register, GRN, purchase invoices, vendor statements and reconciliation.
- Substantive Procedures**
  - It will be a mix of test of details and analytical procedures.
  - In analytical procedures, compare with latest year's trend analysis, budgets.
  - Auditor predicts purchases depending on Turnover occurred during the year and then match it with actual (predictive analysis)
    - E.g. of simple analytical procedure take average purchase price during the year then take quantity purchased during the year then multiply them, we can get expected purchase cost which should match with books of accounts. If there is variation it should be justified.

**AUDIT PROCEDURES RELATED TO OCCURRENCE**

- Points in flow of practical life sequence**
  - Ensure that entity's vendor selection process operates effectively and also check whether register of vendor exist
  - Ensure that there is entry in goods inward register at factory gate for selected purchases.
  - There should be quality inspection report.
  - GRN should be prepared and signed by appropriate personnel.
  - Whether stock record has been updated
  - Purchase invoice should be approved only after 2 or 3 way match.
  - Special consideration related to purchases

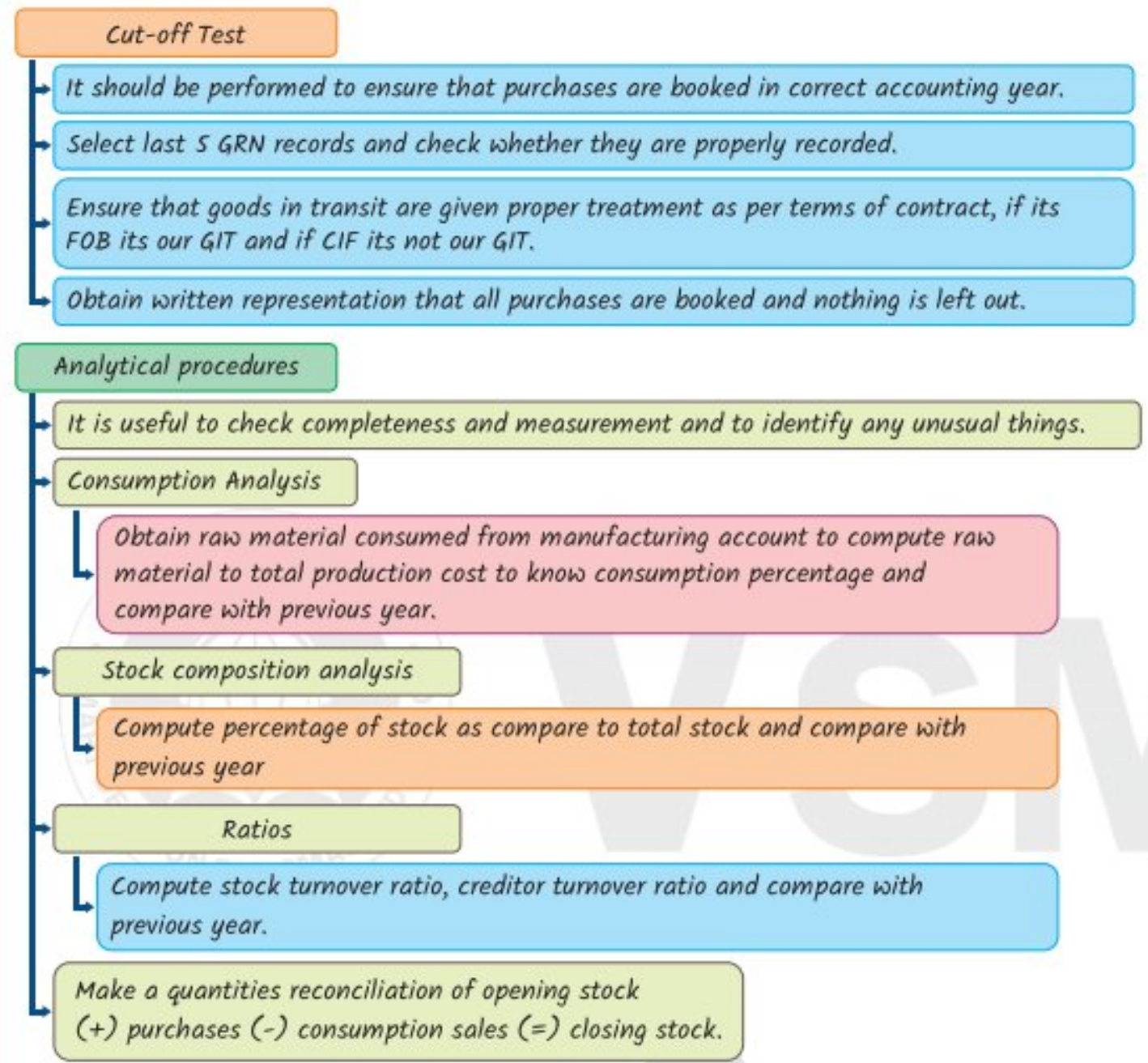
**Shortcut - BIT COIN**

- B** → Booking of purchase invoice should be done only when risk and reward are transferred to the entity. In case of FOB, it should be booked when goods are received by our transporter. In case of CIF, it should be booked when goods are received at our godown.
- I** → Ensure that Input tax is segregated and booked in appropriate account and input tax of entity should be match with tax returns and official records of the departments.
- T** → Transactions which are unusual in nature should be reviewed.
- C** → Capitalization or expending of a purchase should be reviewed carefully, by applying professional judgements.
- O** → Original invoice copy should be received and only on that basis purchase should be booked (photo copy or carbon copy) should not be basis of booking purchases.
- I** → If related party purchases, ensure that they are approved by audit committee or BOD as the case may be and also perform analytical procedures to ensure prices are reasonable and are at arm's length price.
- N** → Name of the entity should appear on purchase invoice and other documents, sometimes it can be in the name of branch.

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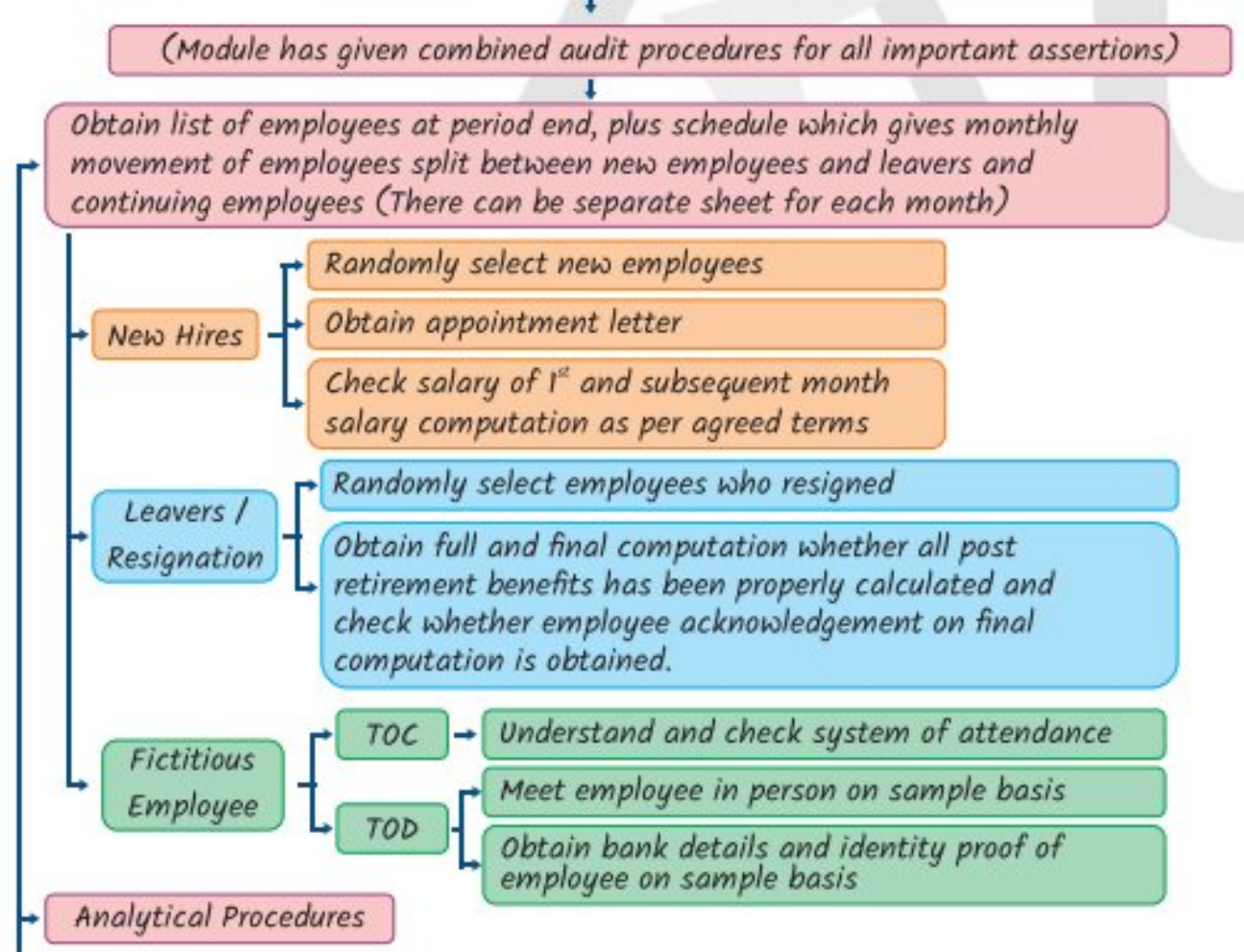


**AUDIT PROCEDURES RELATED TO COMPLETENESS, MEASUREMENT (ACCURACY)**

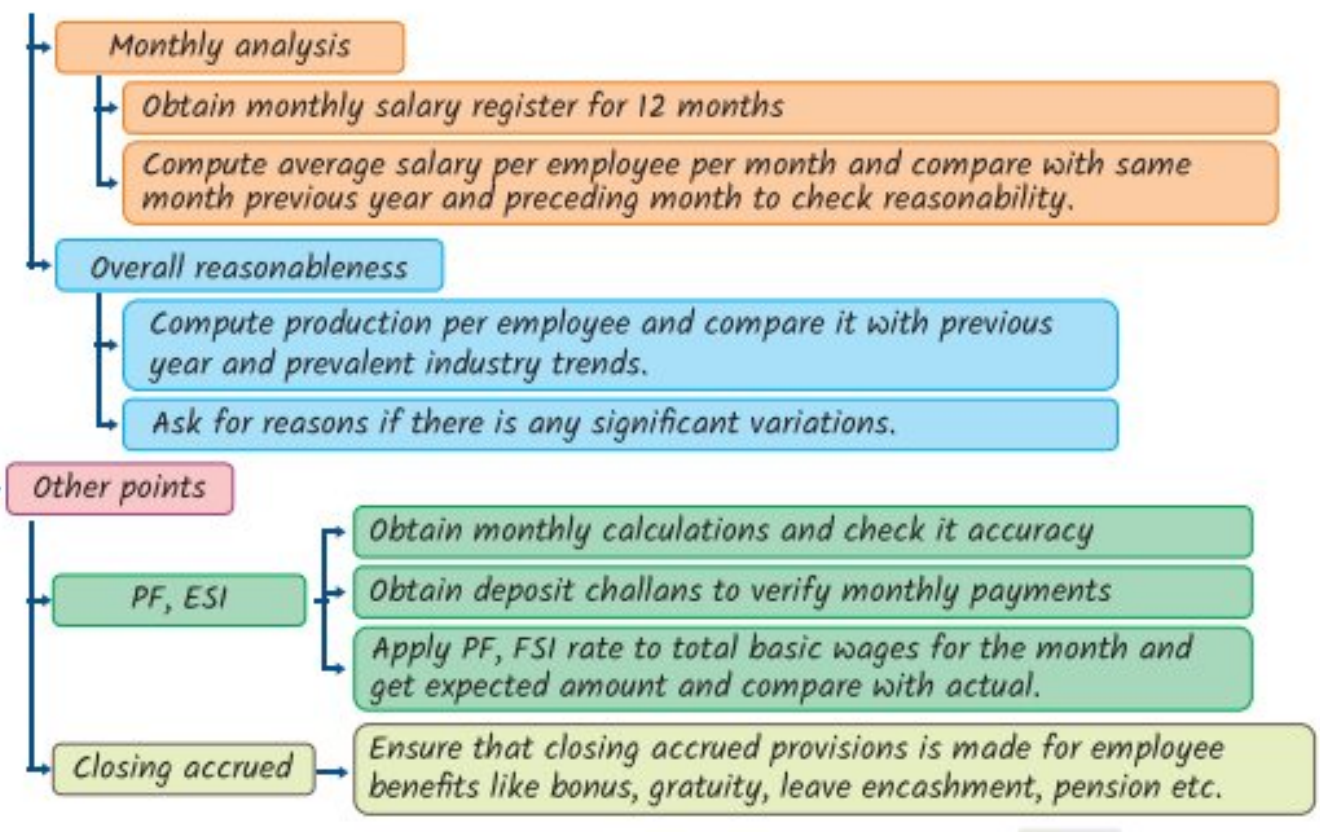


(CNO.AIFS-P3.080) (QNO-AIFS.48, AIFS.48.50) (MCQ-AFS.7)

**AUDIT OF EMPLOYEE BENEFIT EXPENSE**

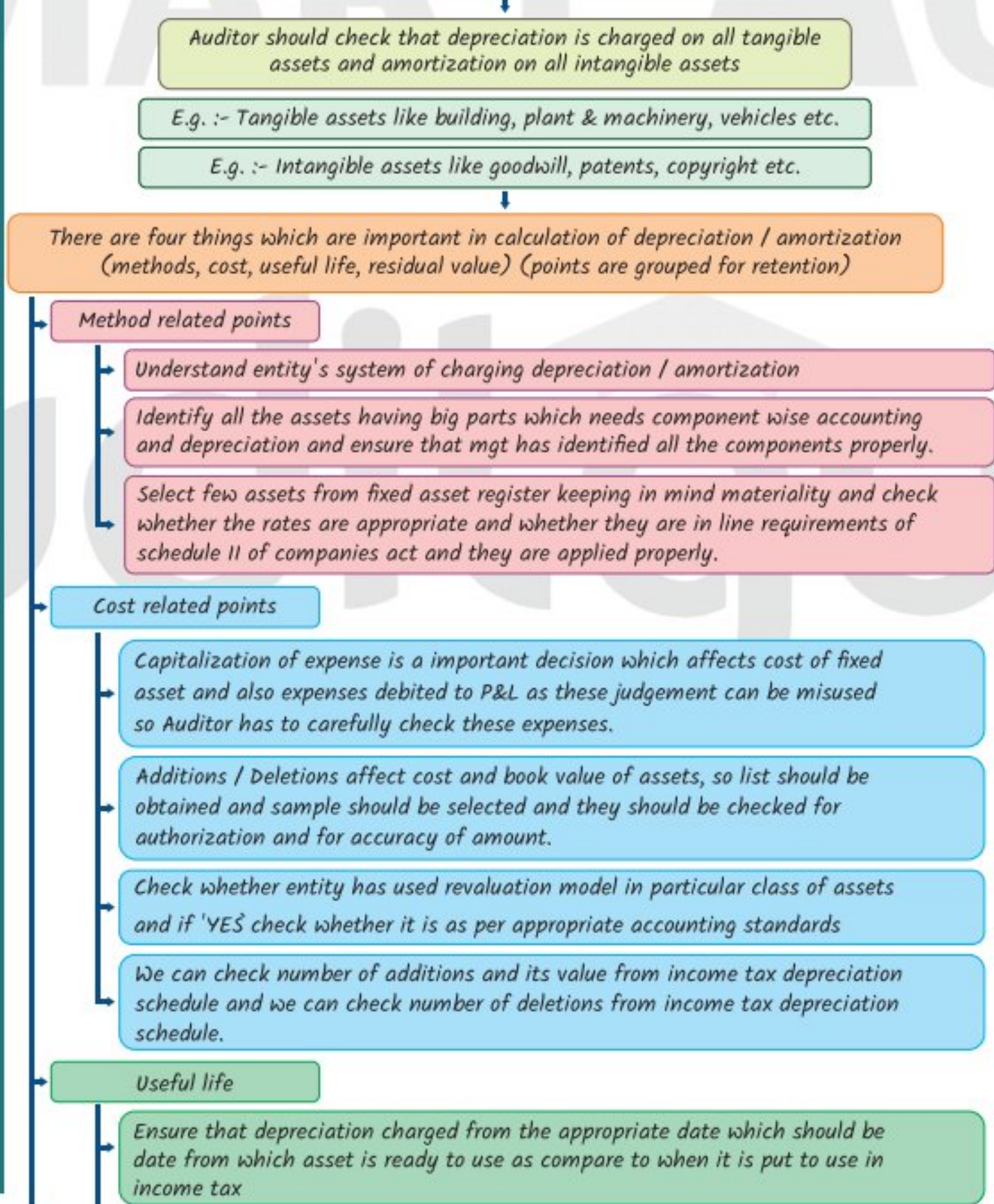


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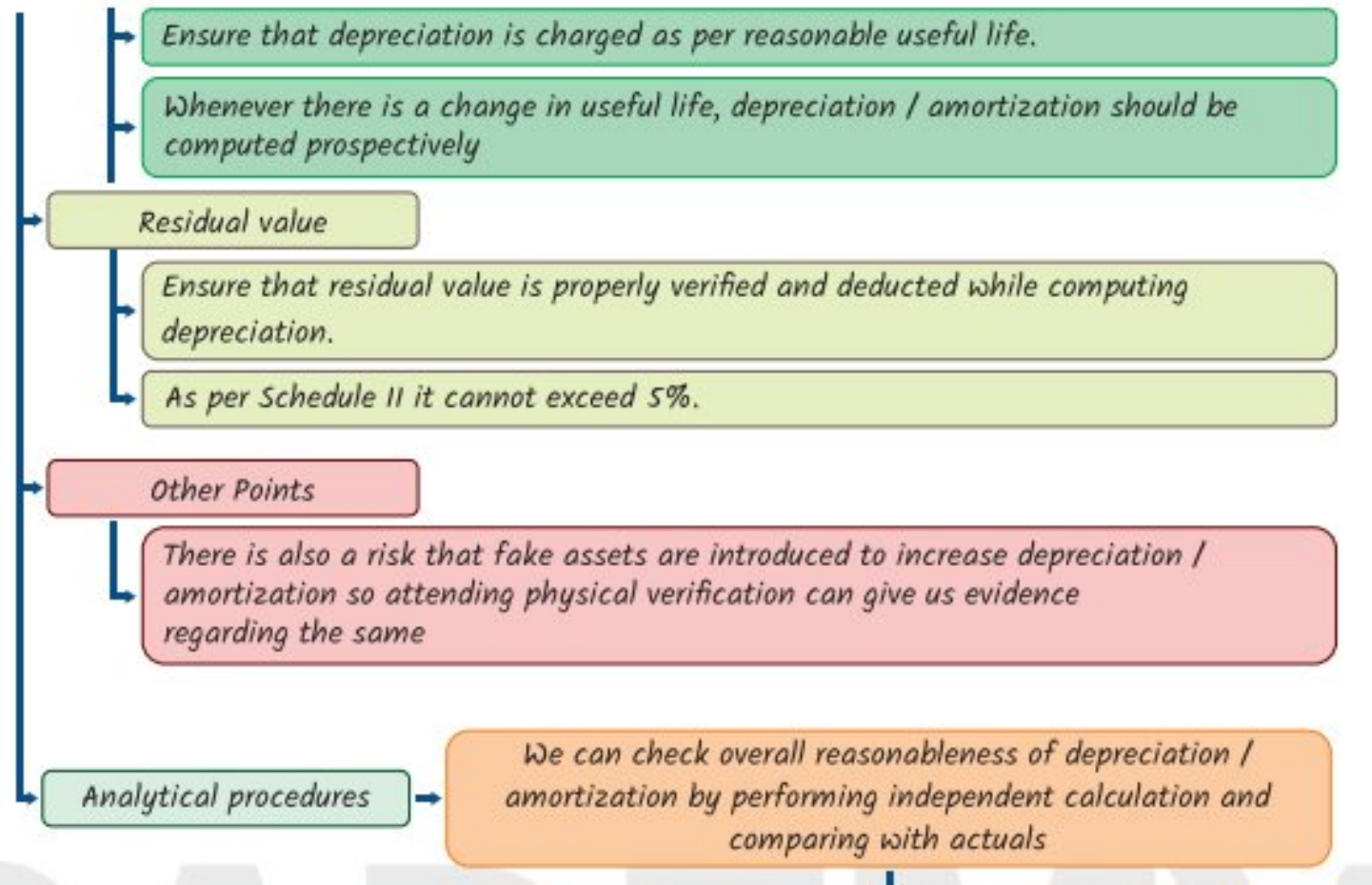


(CNO.AIFS-P3.100) (QNO-AIFS.49) (MCQ-Incs.42.5, Incs.13.3, Incs.43.5)

**AUDIT OF DEPRECIATION & AMORTIZATION**

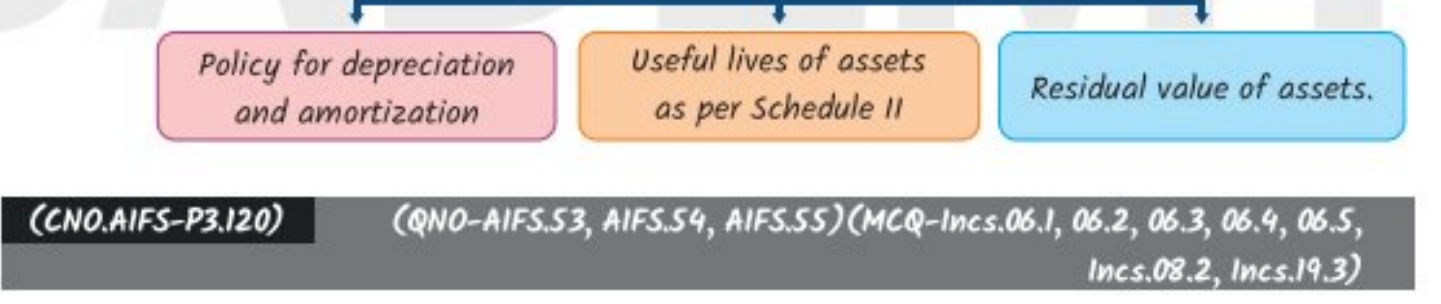


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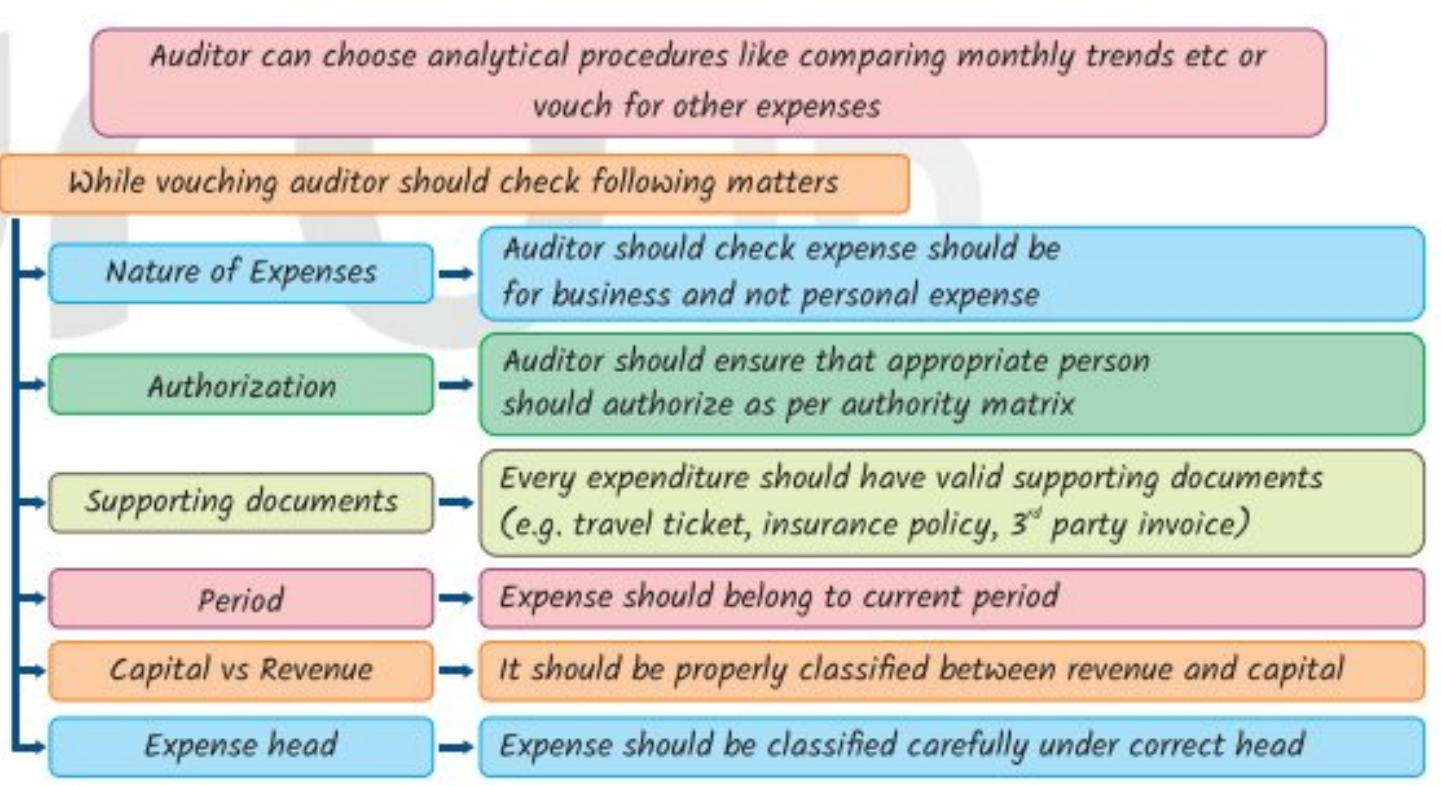


$$\text{Average depreciation} = \frac{(\text{Opening plus closing balance})}{2}, \text{ multiply by rate of depreciation.}$$

**AUDIT PROCEDURES RELATED TO DISCLOSURES**



**AUDIT OF OTHER EXPENSES (GENERAL)**



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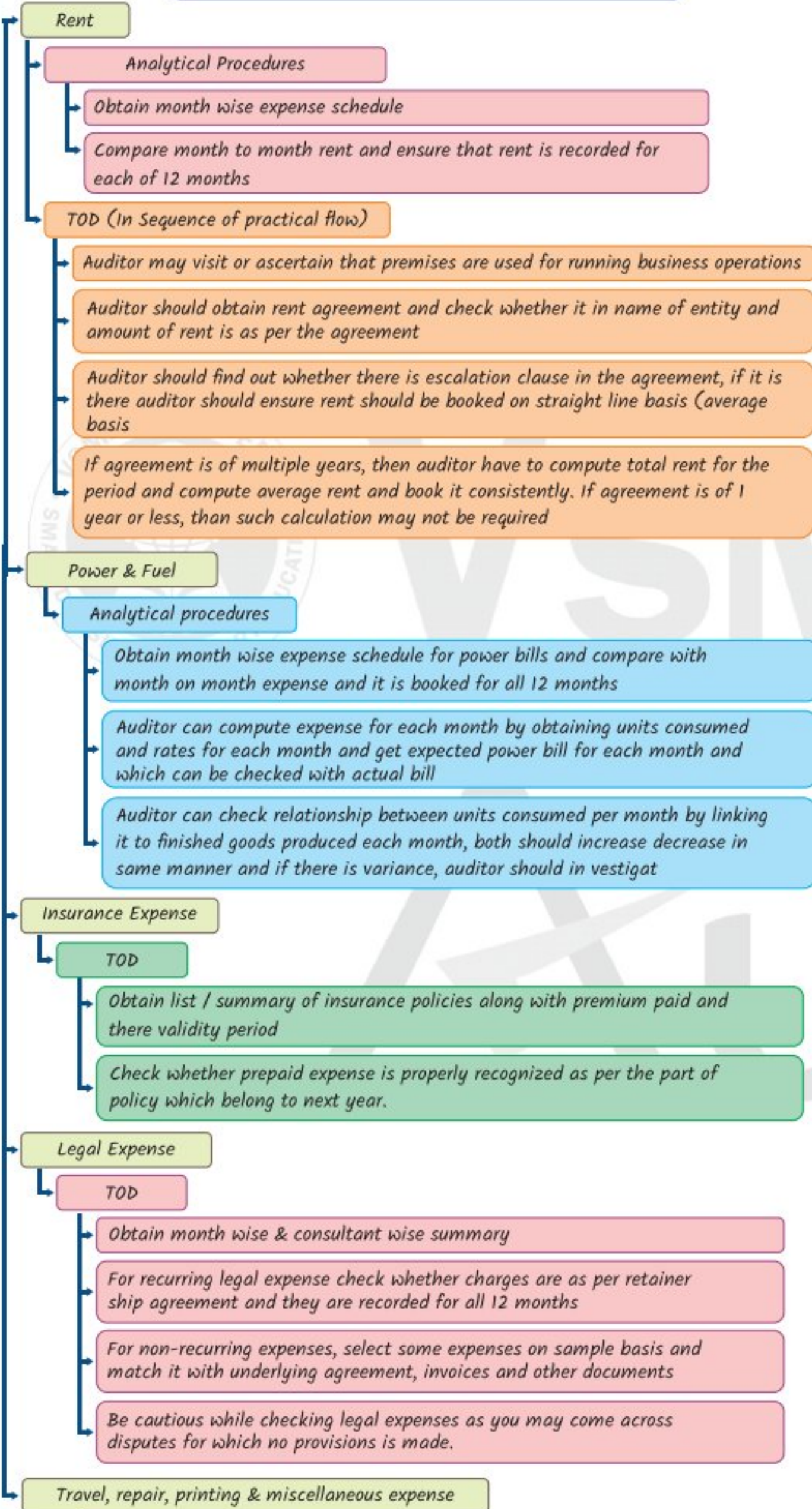
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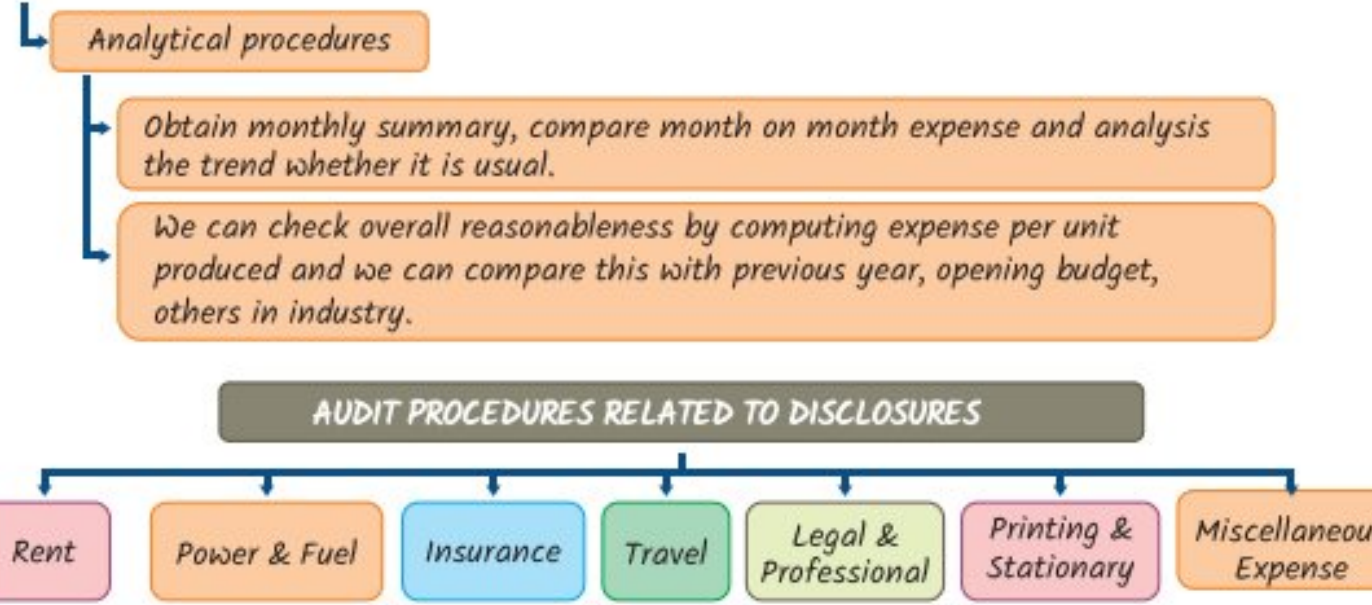
Doubts

Telegram

## AUDIT OF OTHER EXPENSES (SPECIFIC)

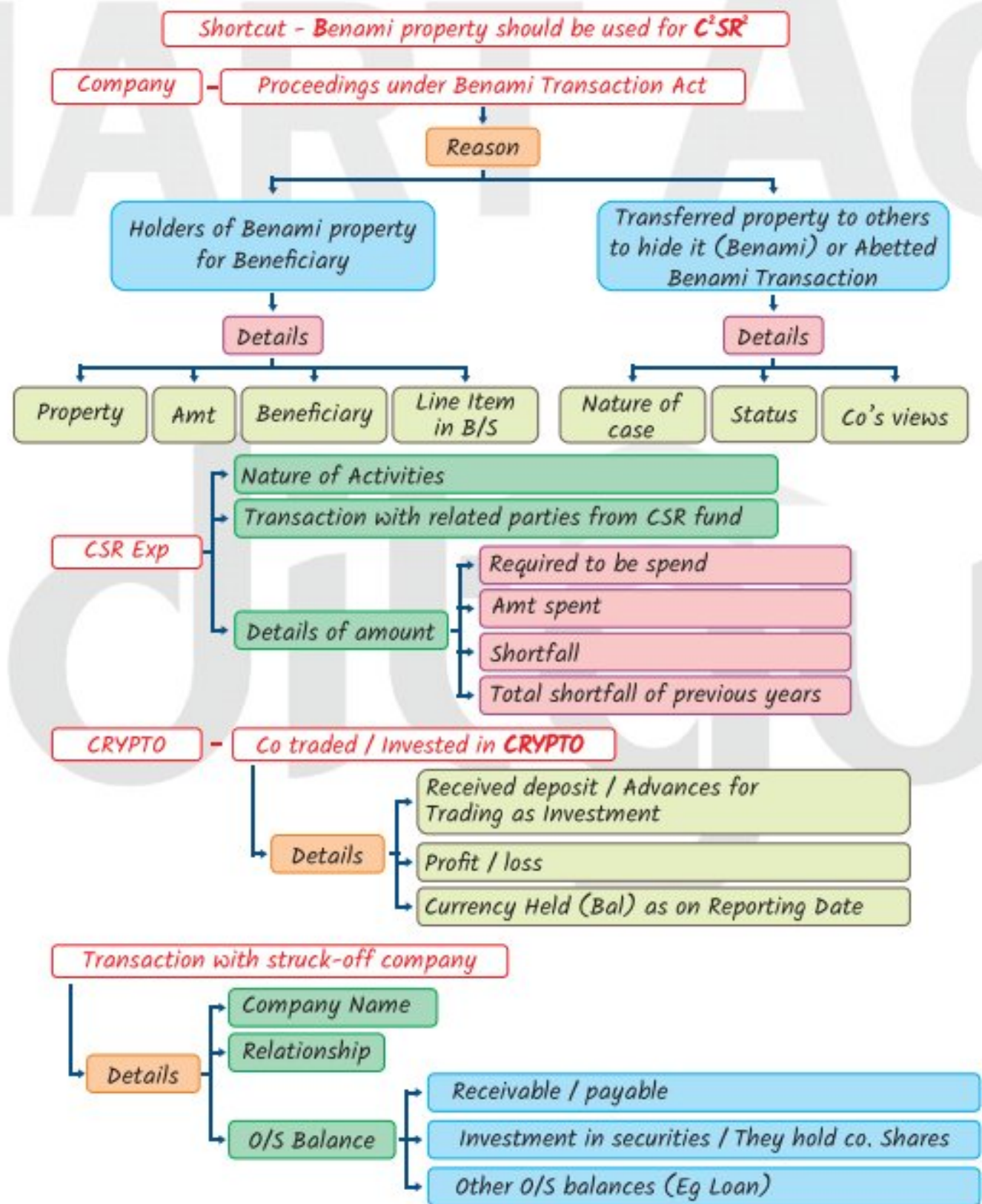


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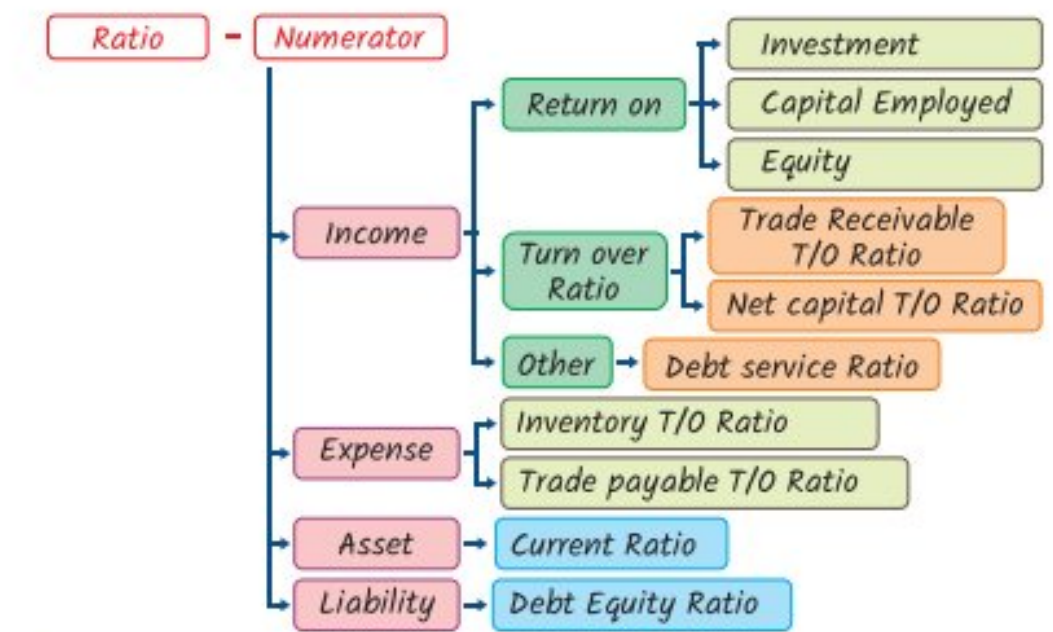


(CNO.AIFS-P3.130) (QNO-AIFS.78, AIFS.80)

## OTHER IMPORTANT DISCLOSURES

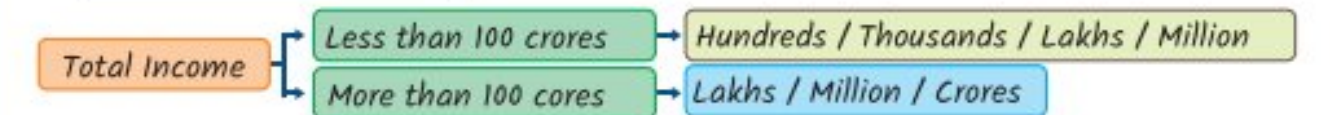


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\*Explain Numerator / Denominator

\*Explain 25% change



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CA Vishal Wadhwa's

CA Ravi Taori

QR Code: Doubts

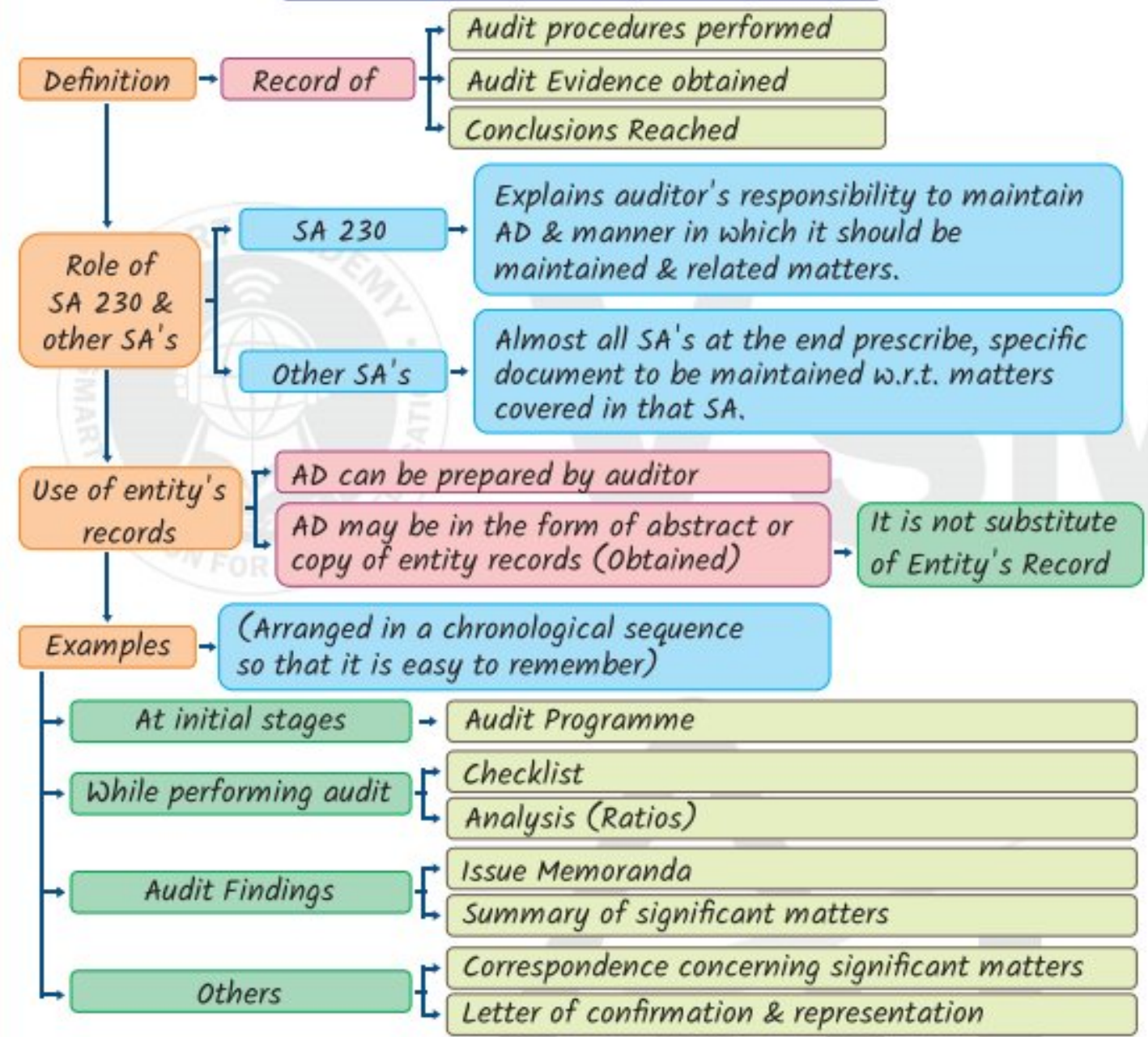
QR Code: Telegram

# CHAPTER 6 AUDIT DOCUMENTATION

## Part 1 SA 230

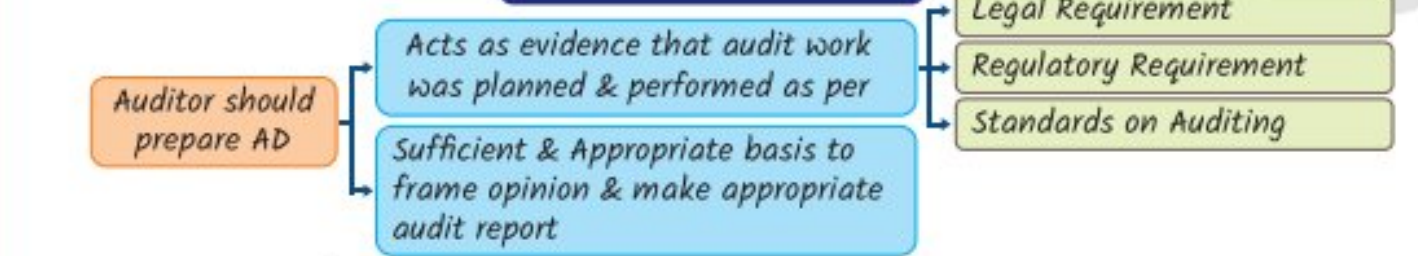
**(CNO-SA230.020)** (QNO-230.01) (MCQ-230.1, 230.2, 230.4, 230.5, 230.11, 230.13)  
(MCQ-Incs-64.5, Incs.39.4)

### WHAT IS AUDIT DOCUMENTATION ?



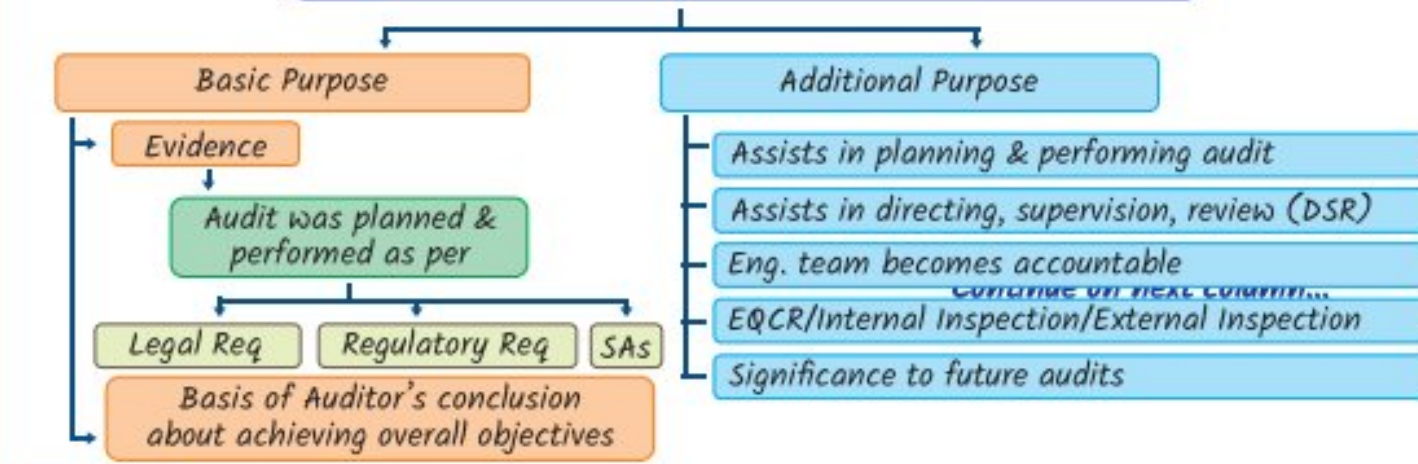
**(CNO-SA230.030)** (MCQ-230.4)

### OBJECTIVE OF SA 230



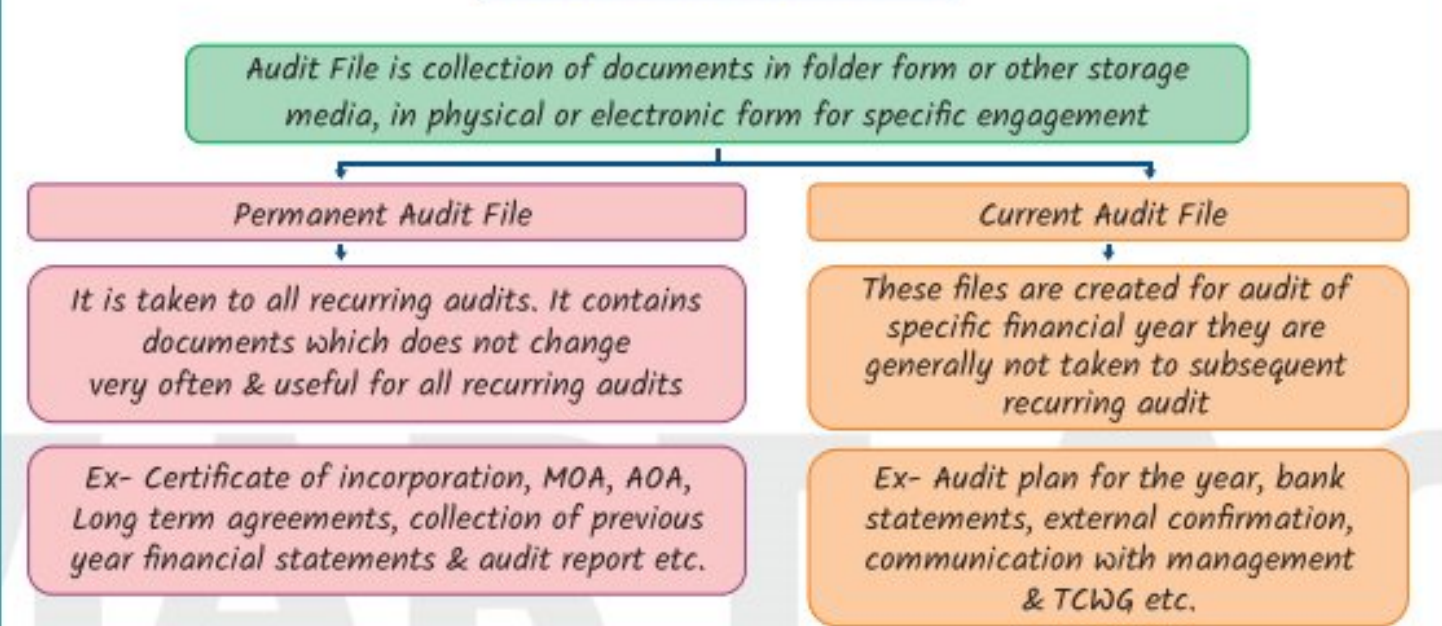
**(CNO-SA230.040)** (MCQ-Incs-52.1)

### PURPOSE/ADVANTAGE/IMPORTANCE/NEED OF AUDIT DOCUMENTATION (AD)



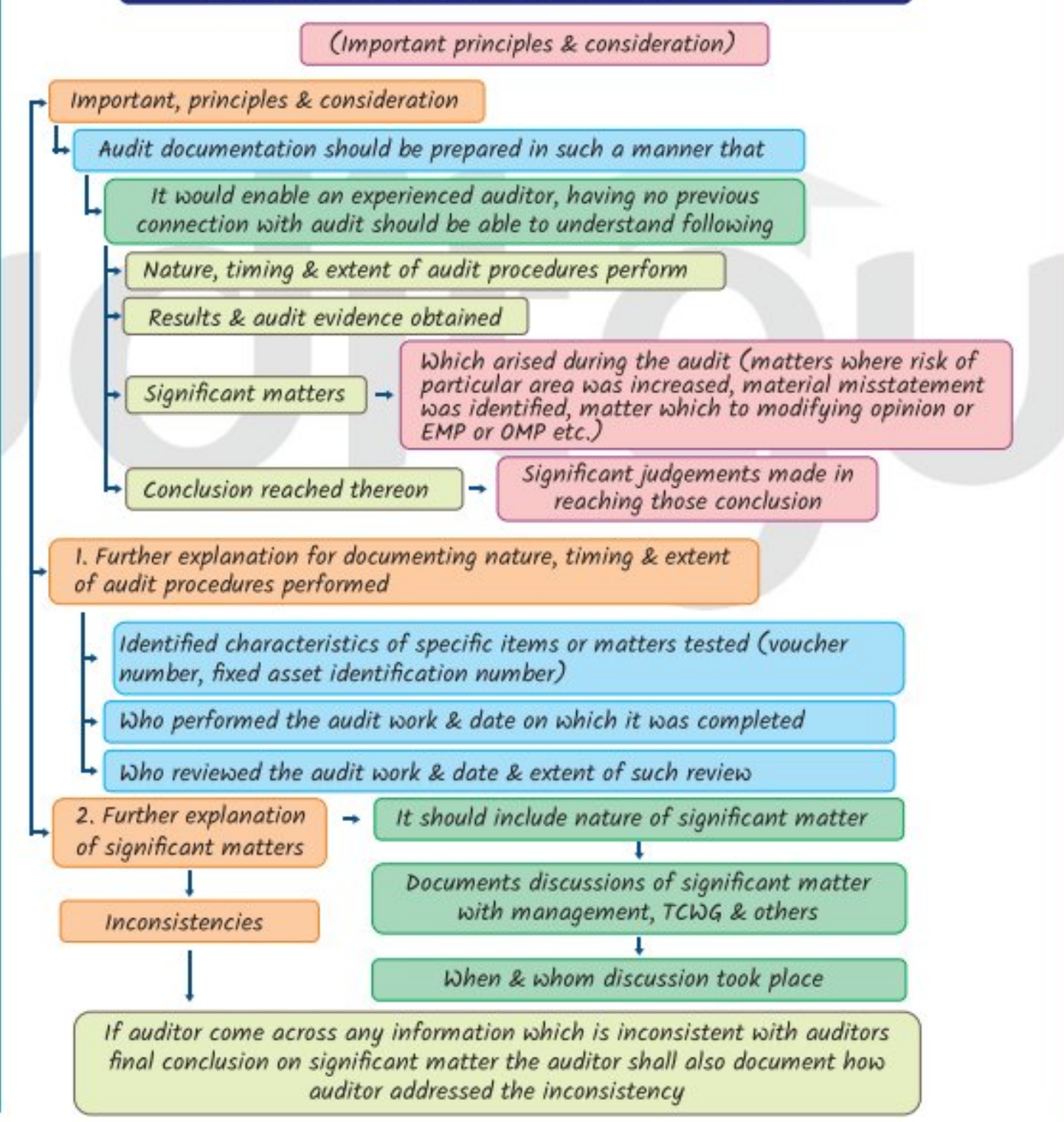
**(CNO-SA230.060)** (MCQ-230.20, Incs.39.1)

### TYPES OF AUDIT FILE



**(CNO-SA230.080)**

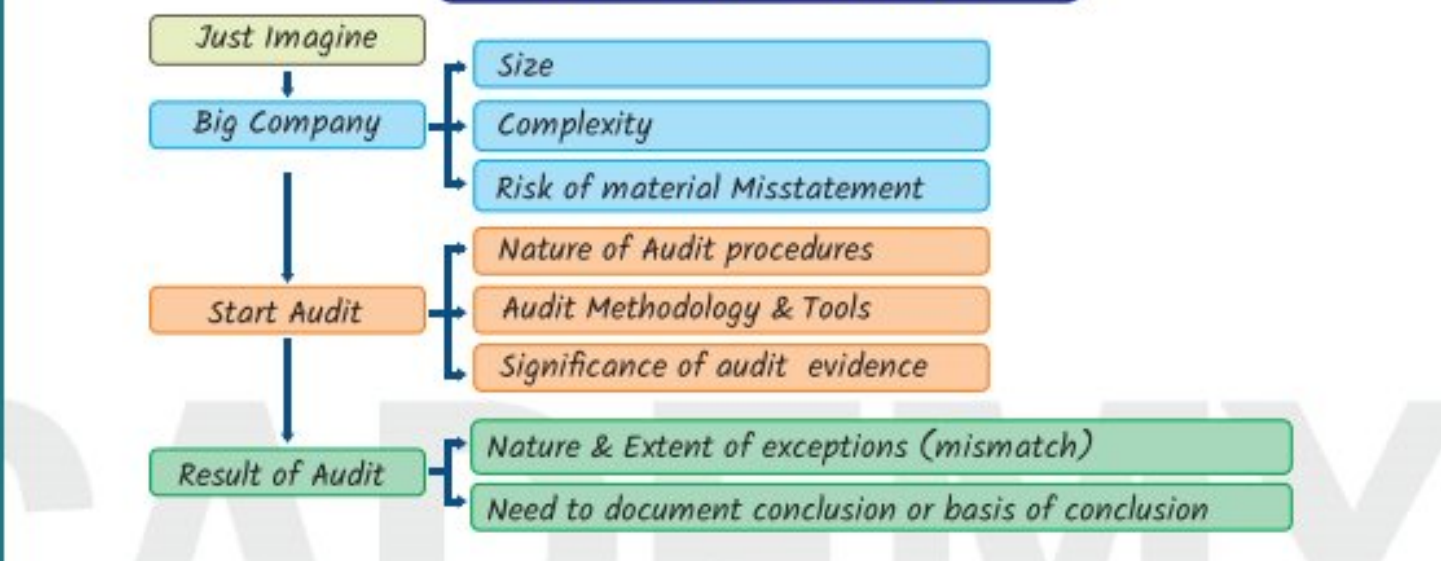
### FORM, CONTENT & EXTENT OF AUDIT DOCUMENTATION



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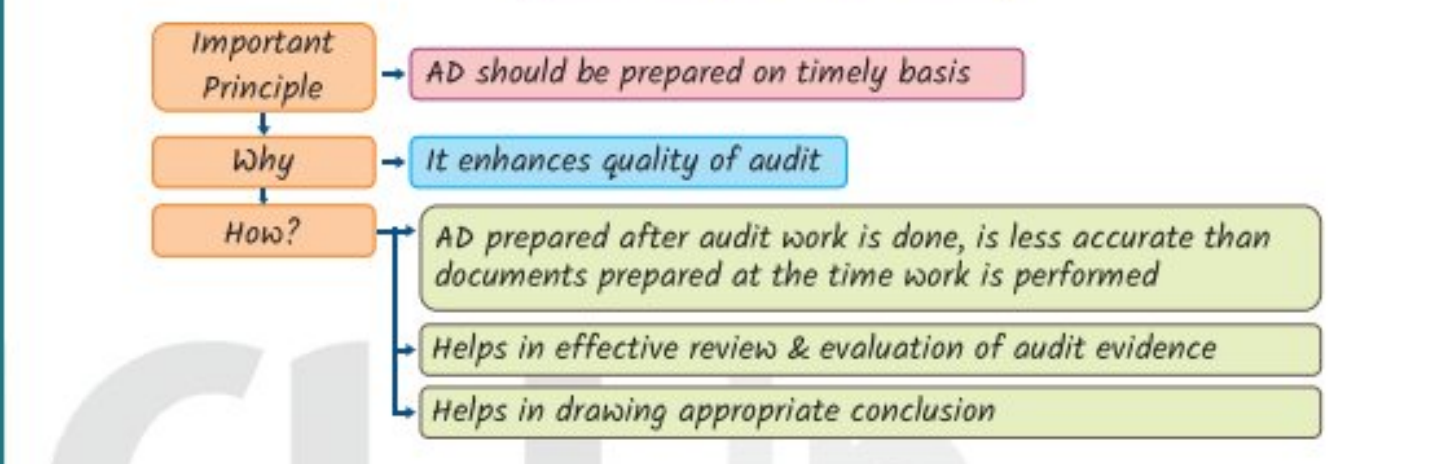
**(CNO-SA230.100)** (QNO-230.13) (MCQ 230.12, Incs.39.2)

### FACTORS AFFECTING FORM, CONTENT & EXTENT OF AUDIT



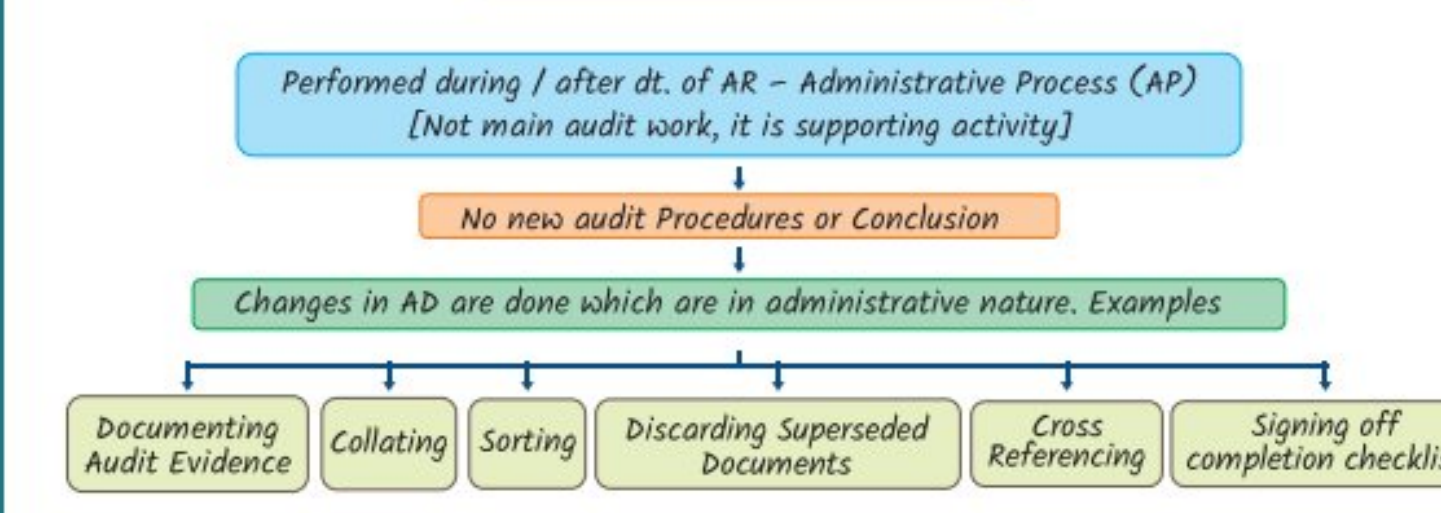
**CNO-SA230.110**

### TIMELY PREPARATION



**(CNO-SA230.120)** (QNO-230.15, 230.03) (MCQ- 230.3, 230.7, 230.8, 230.9, 230.14, 230.16, 230.17, 230.18, 230.21, 230.22, 230.23, -Incs-52.2, Incs-62.5, Incs.40.1)

### ASSEMBLY OF AUDIT FILE



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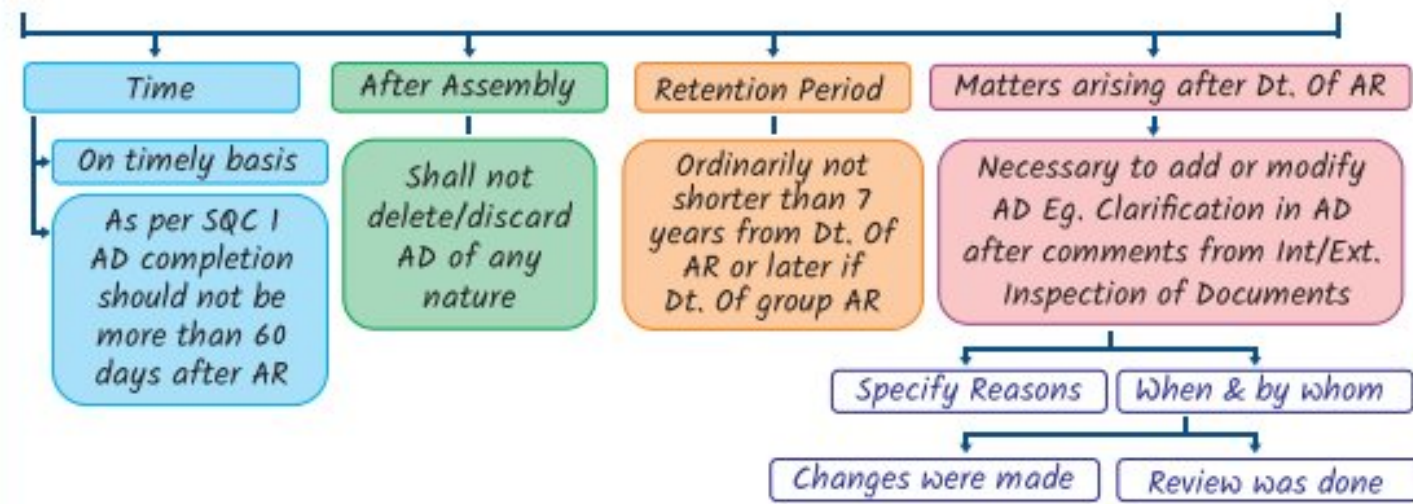
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CA Vishal Bharti's  
**VSMART ACADEMY**

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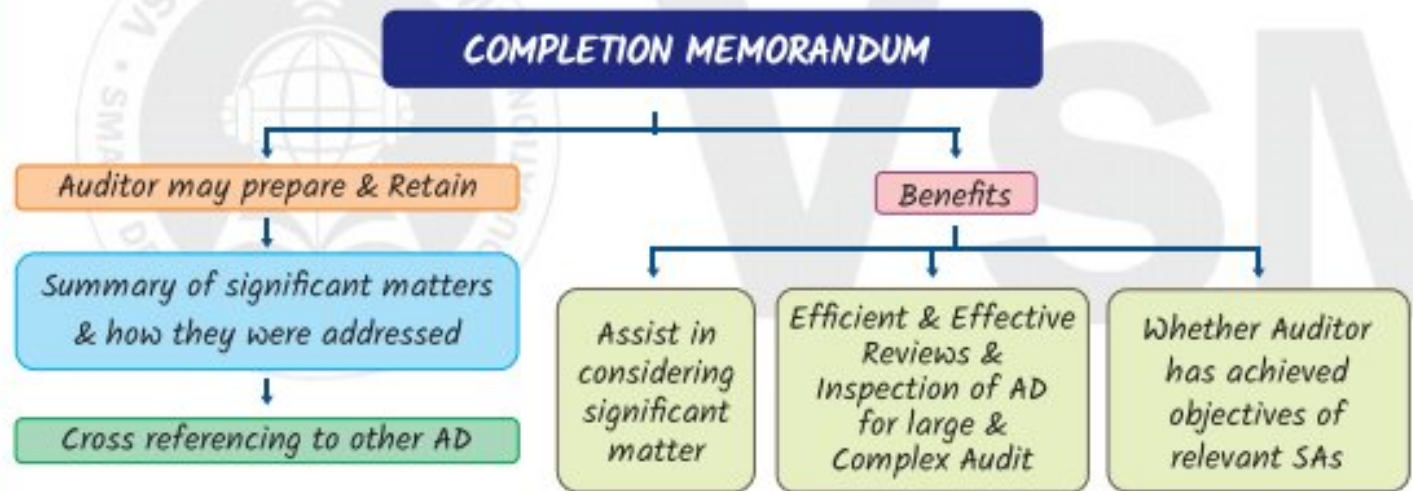
Doubts

Telegram



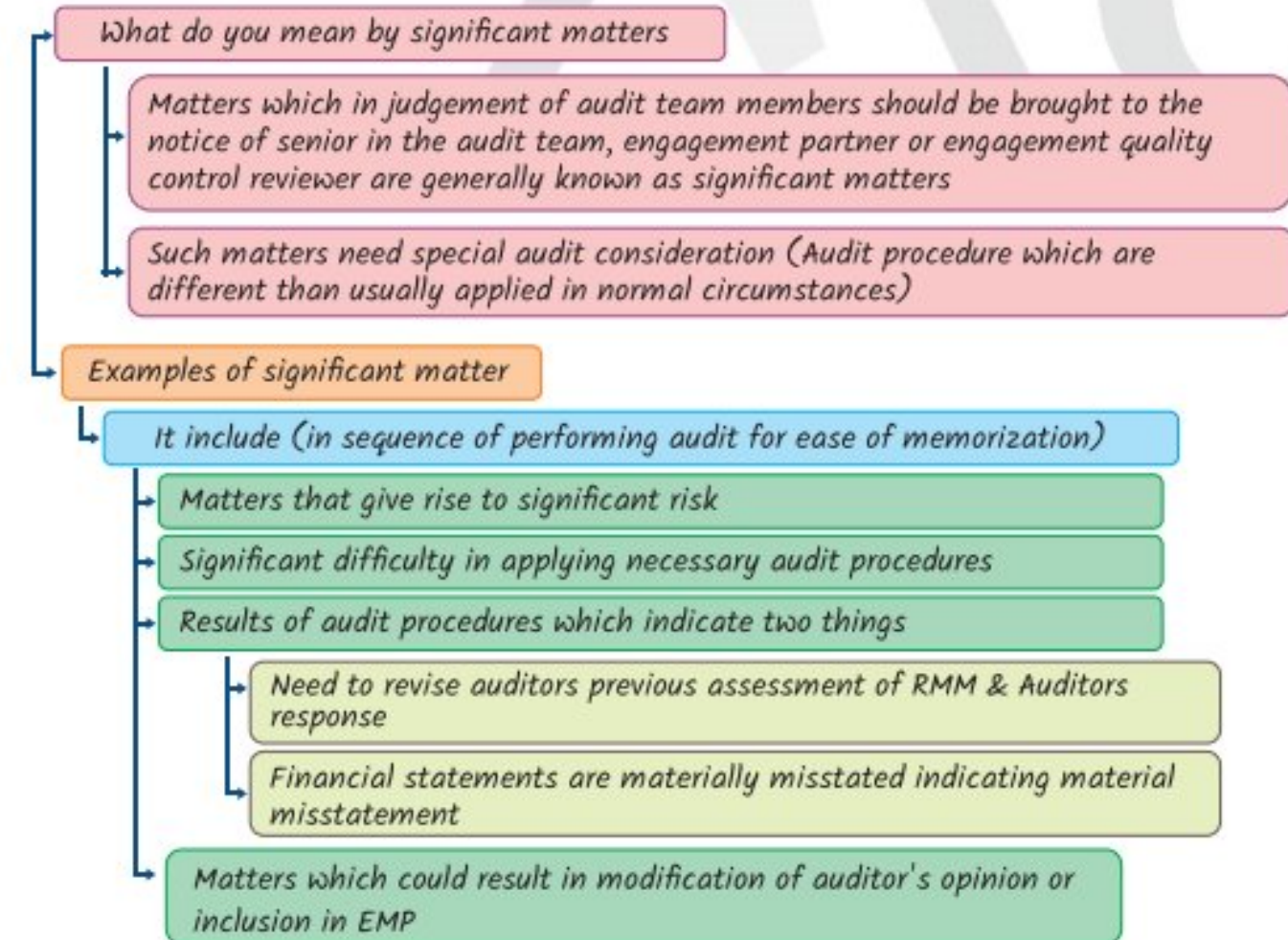
\*\*\*Note- Superseded documents means notes that reflect preliminary or incomplete thinking, previous year document with typographical or other errors, duplicate documents or draft working papers or financial statements which are no longer required because we have a final version of those documents.

(CNO-SA230.140) (QNO-230.17) (MCQ-Incs.23.1, Incs.40.2)

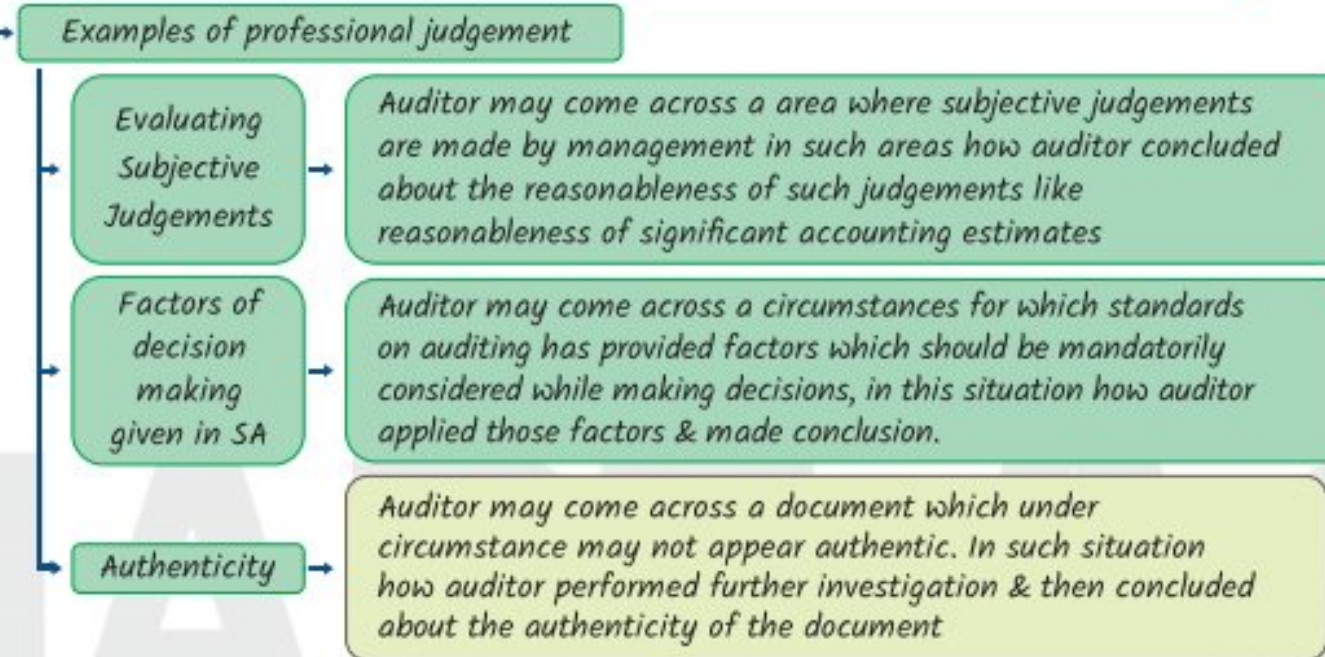
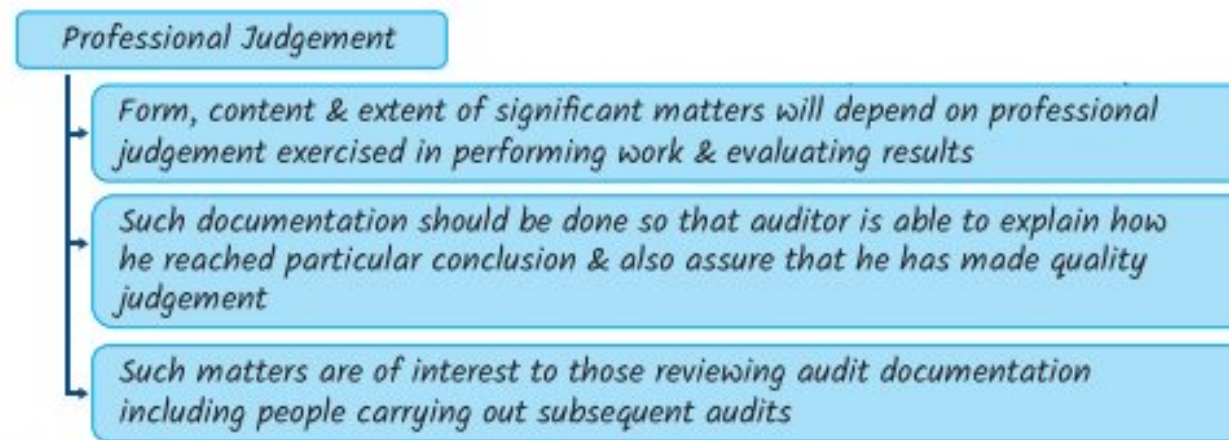


(CNO-SA230.160) (QNO-230.19) (MCQ-230.6, 230.24)

**DOCUMENTATION OF SIGNIFICANT MATTERS & RELATED SIGNIFICANT PROFESSIONAL JUDGEMENT**

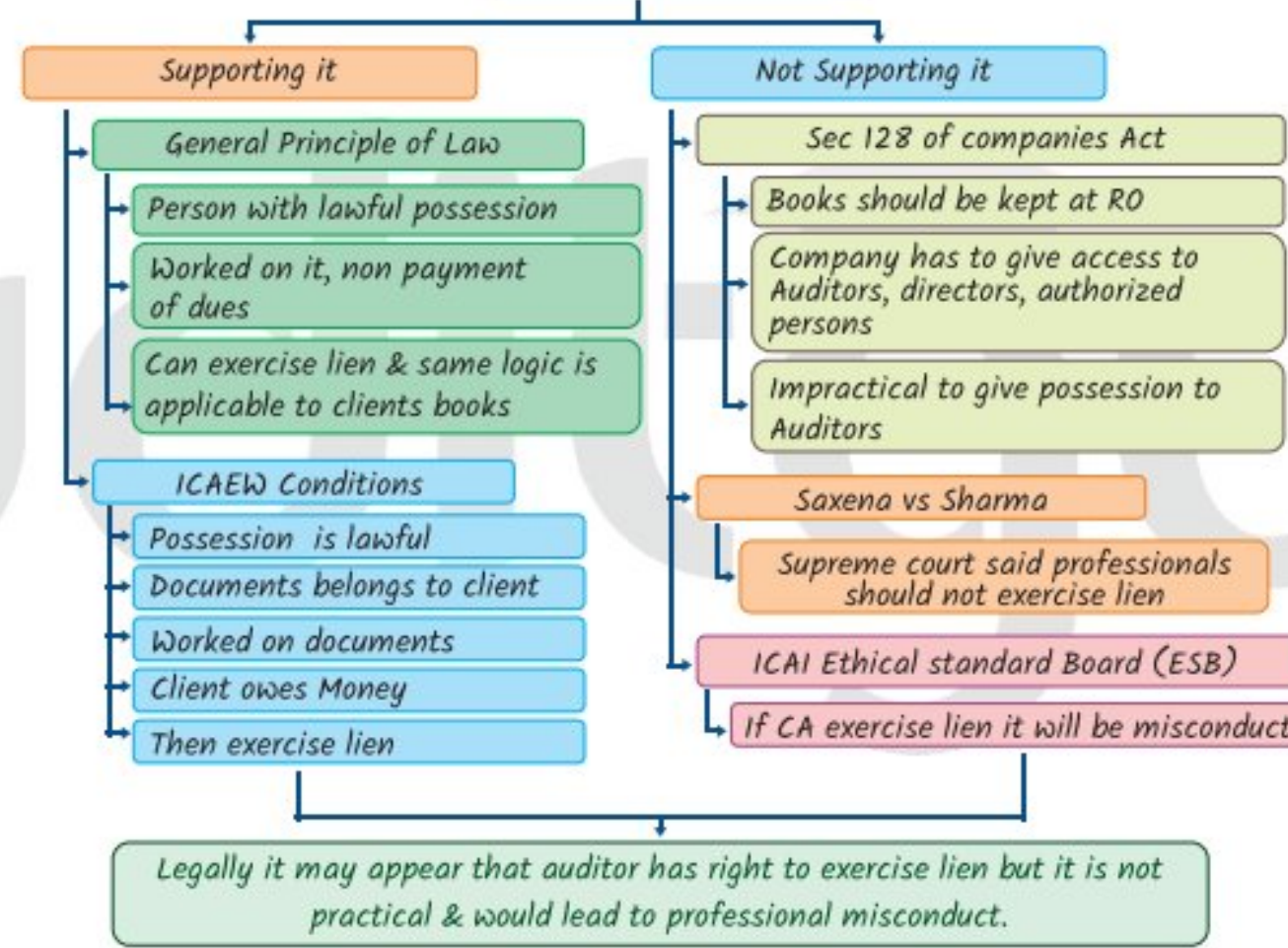


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(CNO-SA230.180) (QNO-230.21) (MCQ-Incs.15.3)

**RIGHT TO LIEN**



(CNO-SA230.200) (QNO-230.05, 230.07)

**OWNERSHIP OF AUDIT DOCUMENTATION**

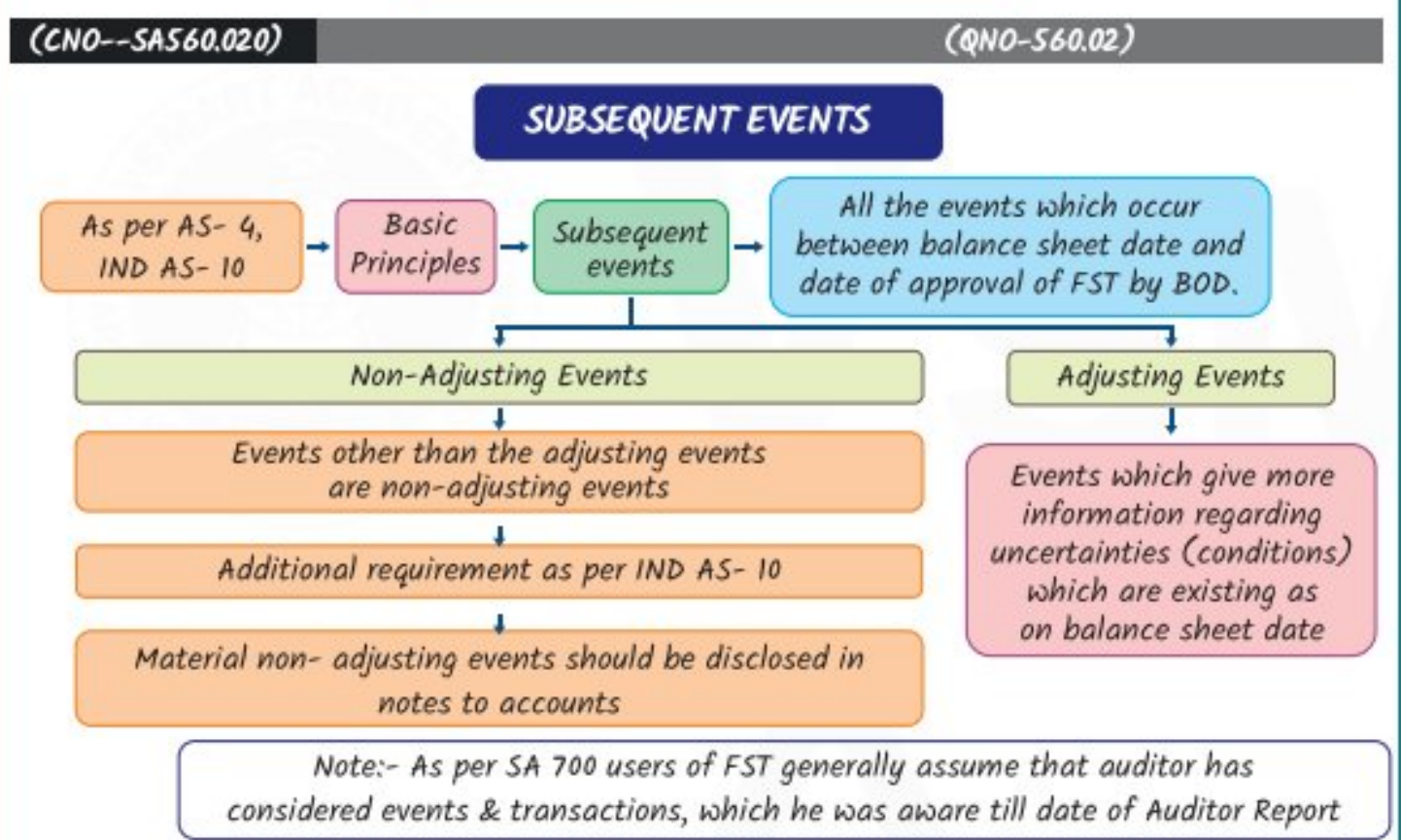


\*\*\* Branch Auditor is Owner of its audit documents, he may make it available to HO auditor as per audit requirements but ownership remains with him.



- Part 1 -- SA 260
  - Part 2 -- SA 265
  - Part 3 -- SA 450
- For this part refer PDF

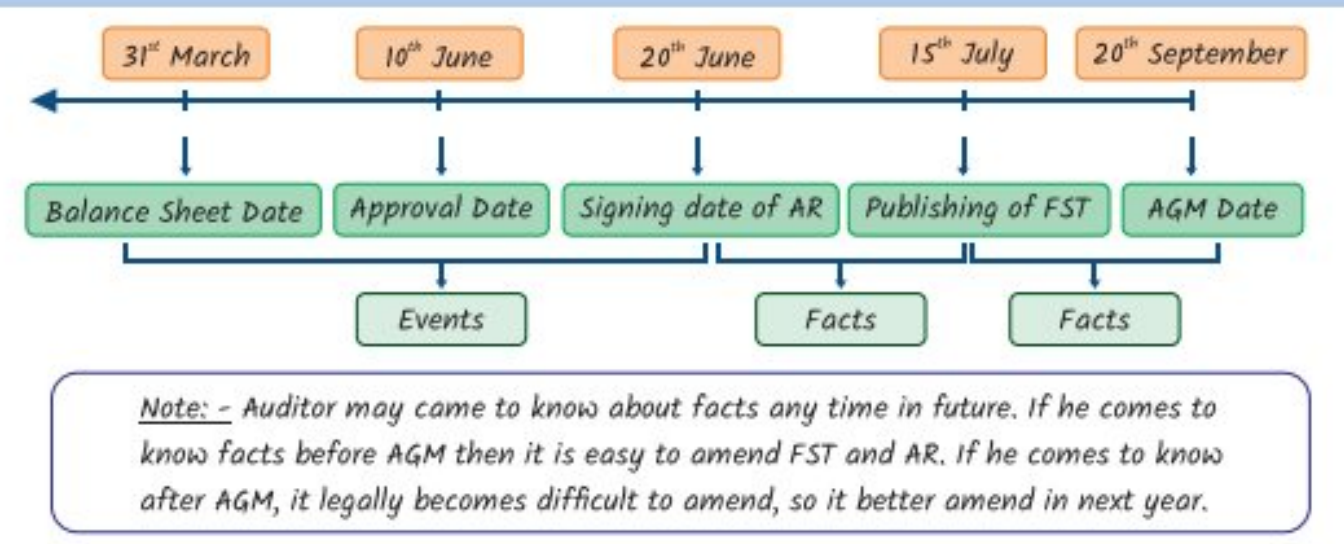
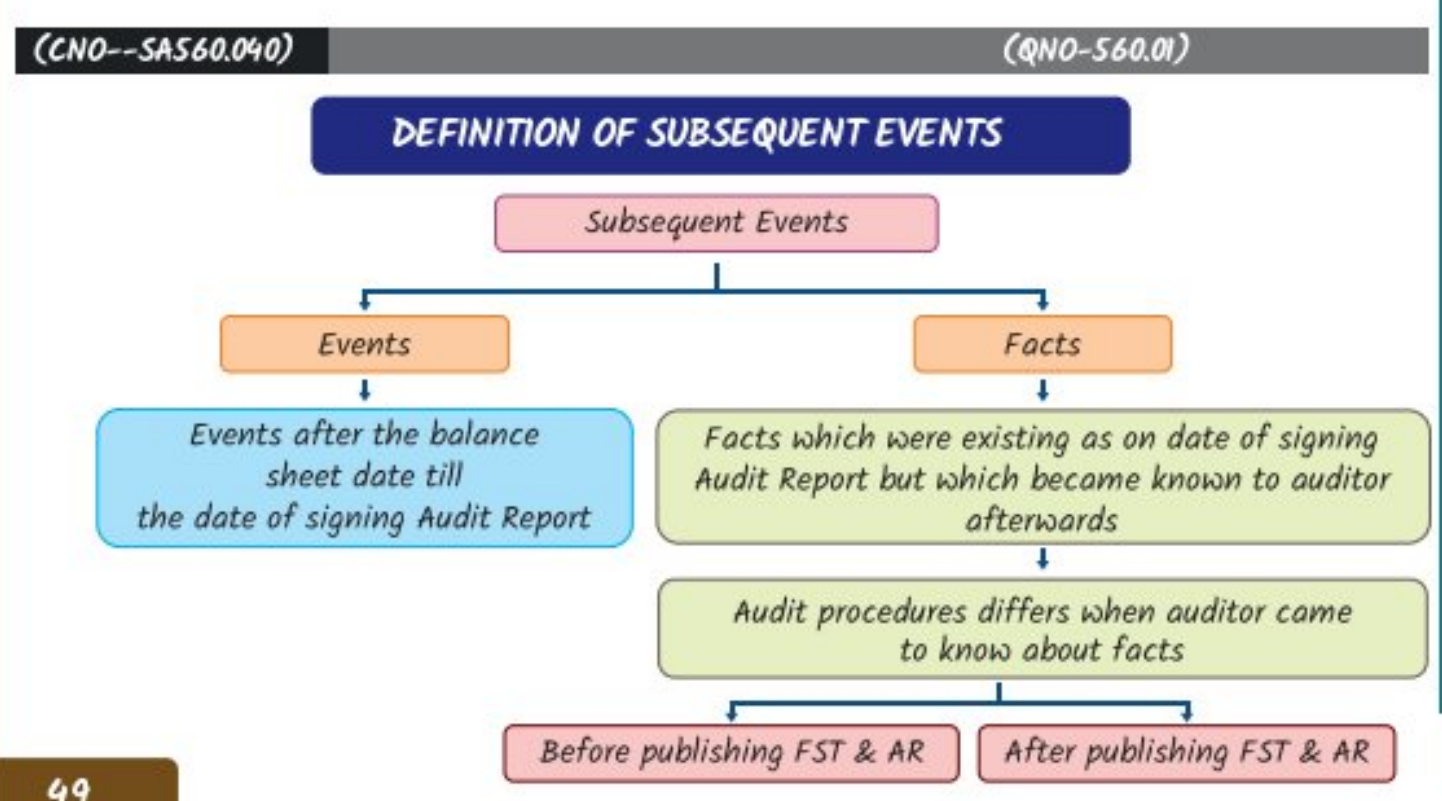
Part 4 - SA 560



(CNO--SAS60.025)

**EXAMPLES**

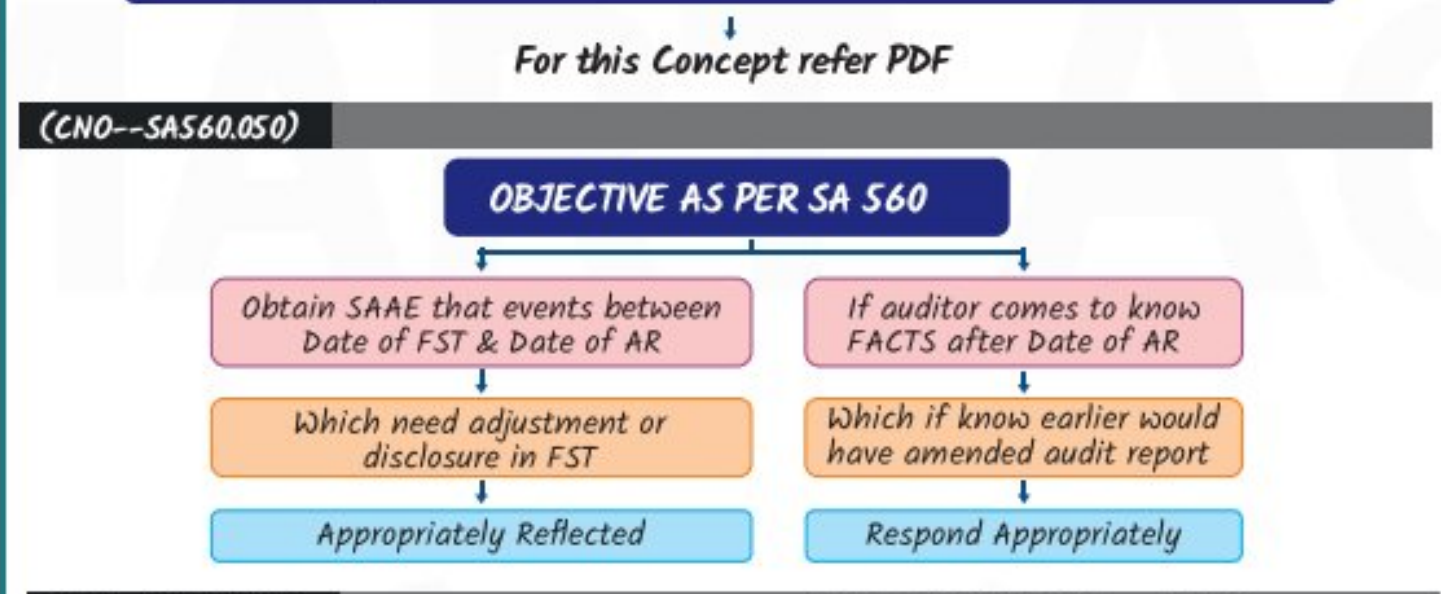
For this part refer PDF



(CNO--SAS60.045)

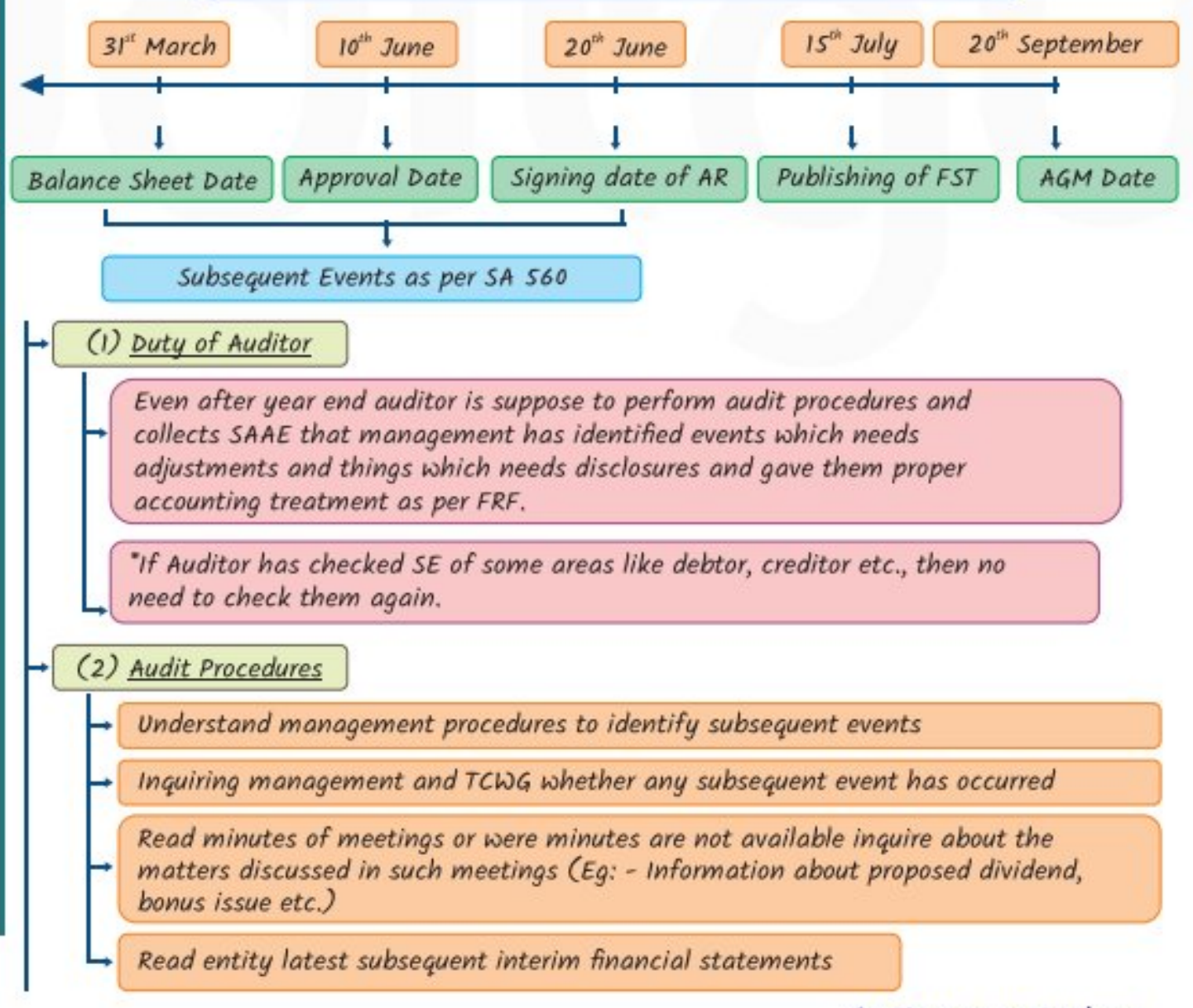
**MEANING OF DATE THE FINANCIAL STATEMENTS ARE ISSUED**

For this Concept refer PDF



(CNO--SAS60.060) (QNO-S60.03) (MCQ-Incs.52.5)

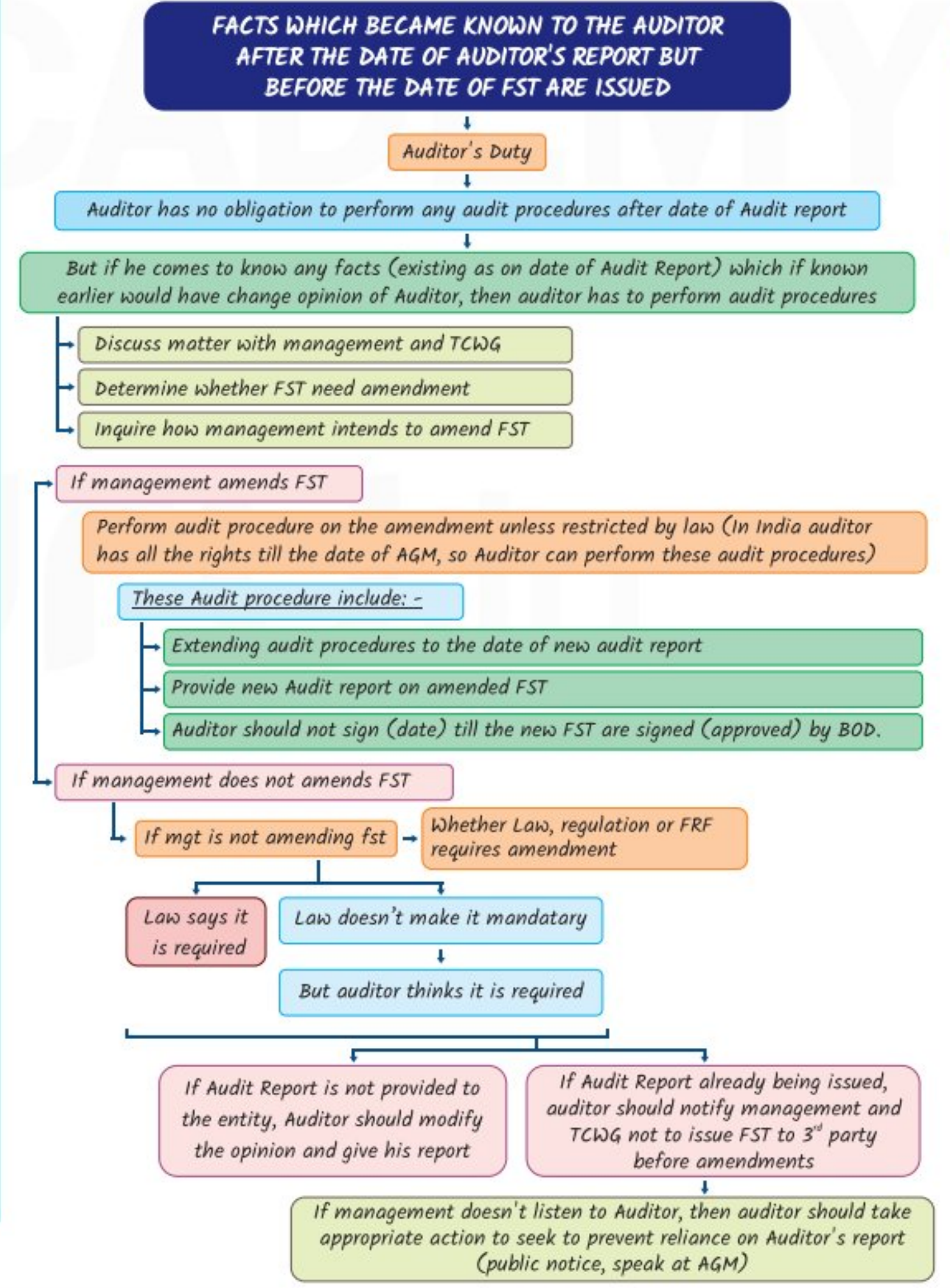
**EVENTS OCCURRING BETWEEN THE DATE OF FST AND THE DATE OF AUDITOR'S REPORT**

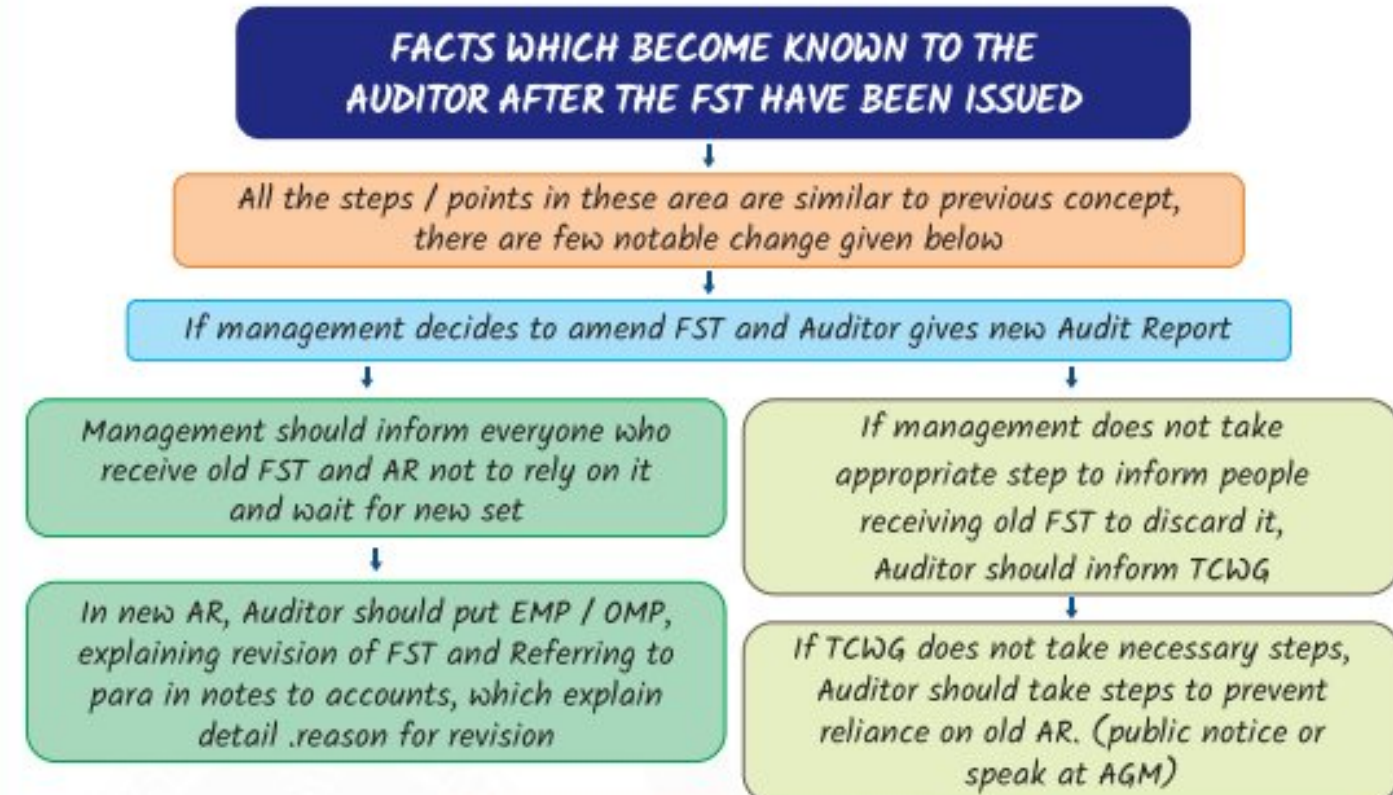


- (3) **Treatment of Adjusting Events**
- If Auditor identifies events require adjustment or disclosure
  - Auditor should ensure that such events are properly reflected in FST as per AFRF
- (4) **Written Representation**
- Written representation from management or TCWG, assuring that all the events occurring after the date of FST are properly analysed and accounted for as per AFRF.

(CNO--SAS60.080) (QNO-S60.06) (MCQ-S60.1)

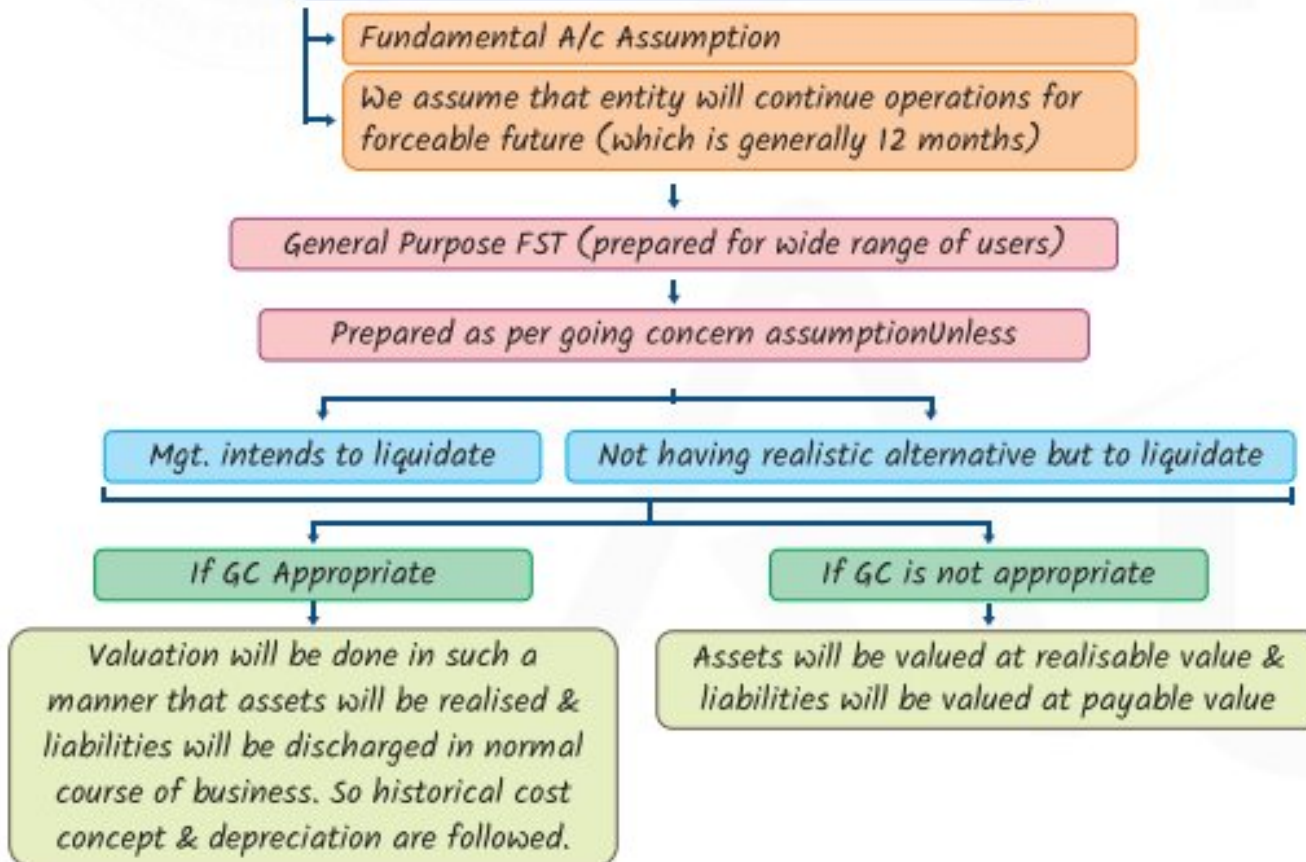
**FACTS WHICH BECAME KNOWN TO THE AUDITOR AFTER THE DATE OF AUDITOR'S REPORT BUT BEFORE THE DATE OF FST ARE ISSUED**



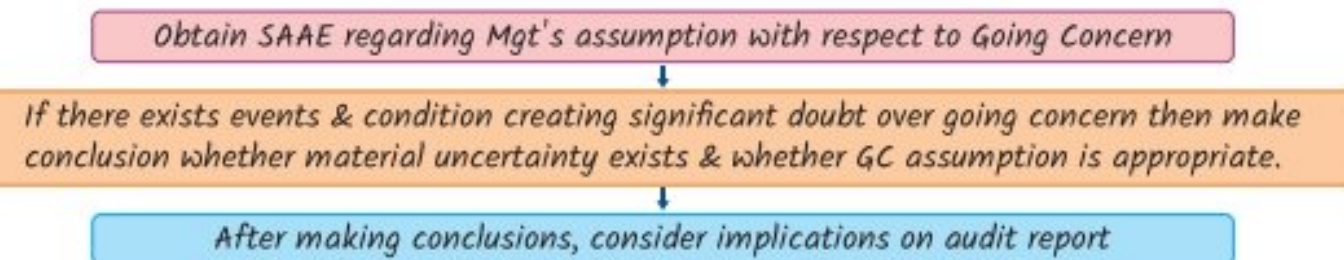


Part 5 --SA 570

**GOING CONCERN BASIS OF ACCOUNTING**



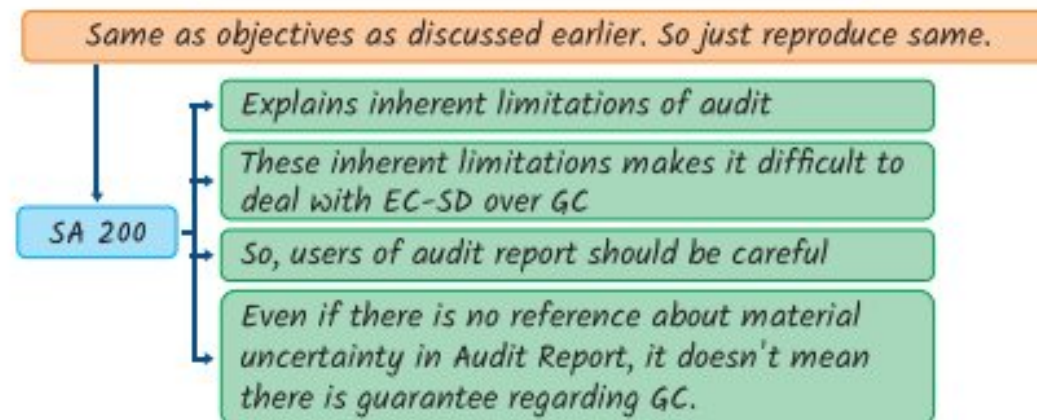
**OBJECTIVES AS PER SA 570**



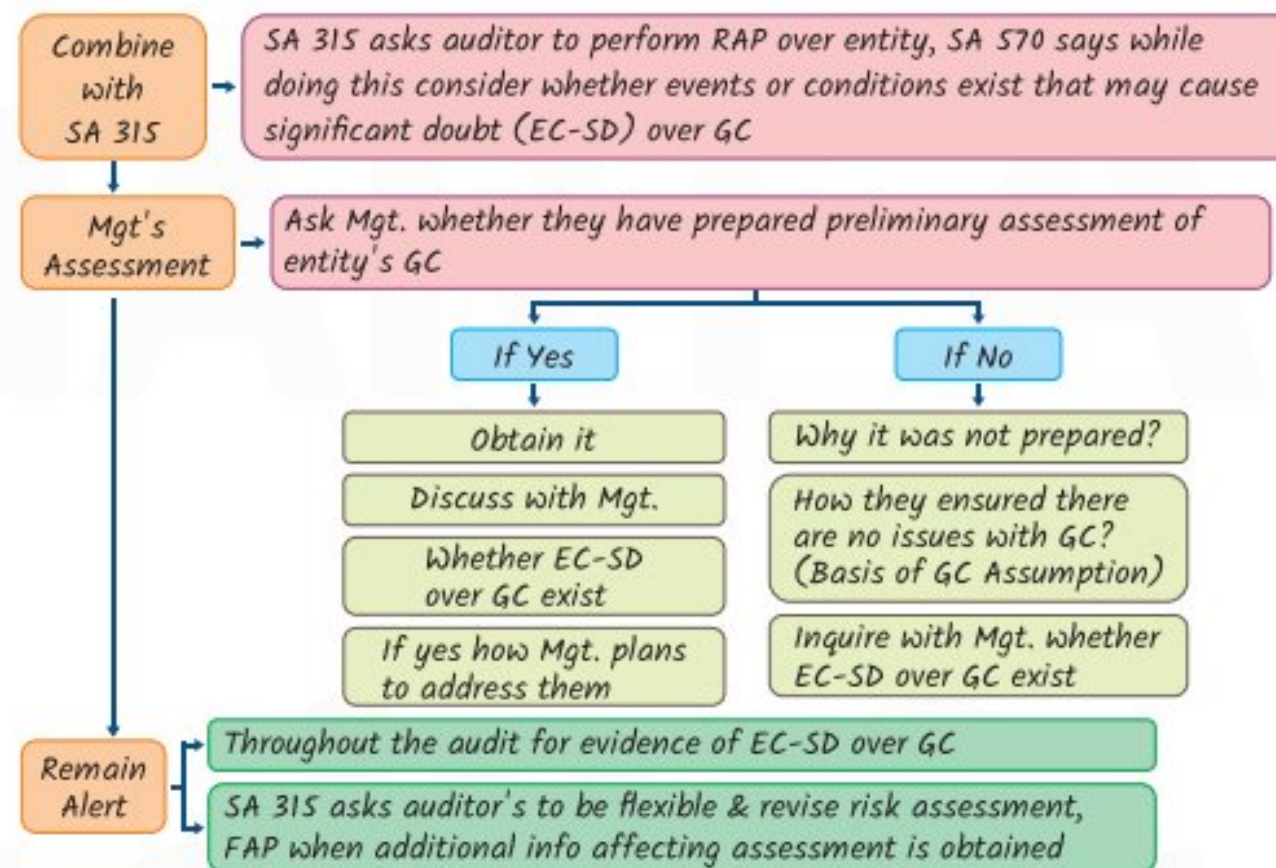
**RESPONSIBILITY FOR ASSESSMENT OF THE ENTITIES ABILITY TO CONTINUE AS A GOING CONCERN**

For this Concept refer PDF

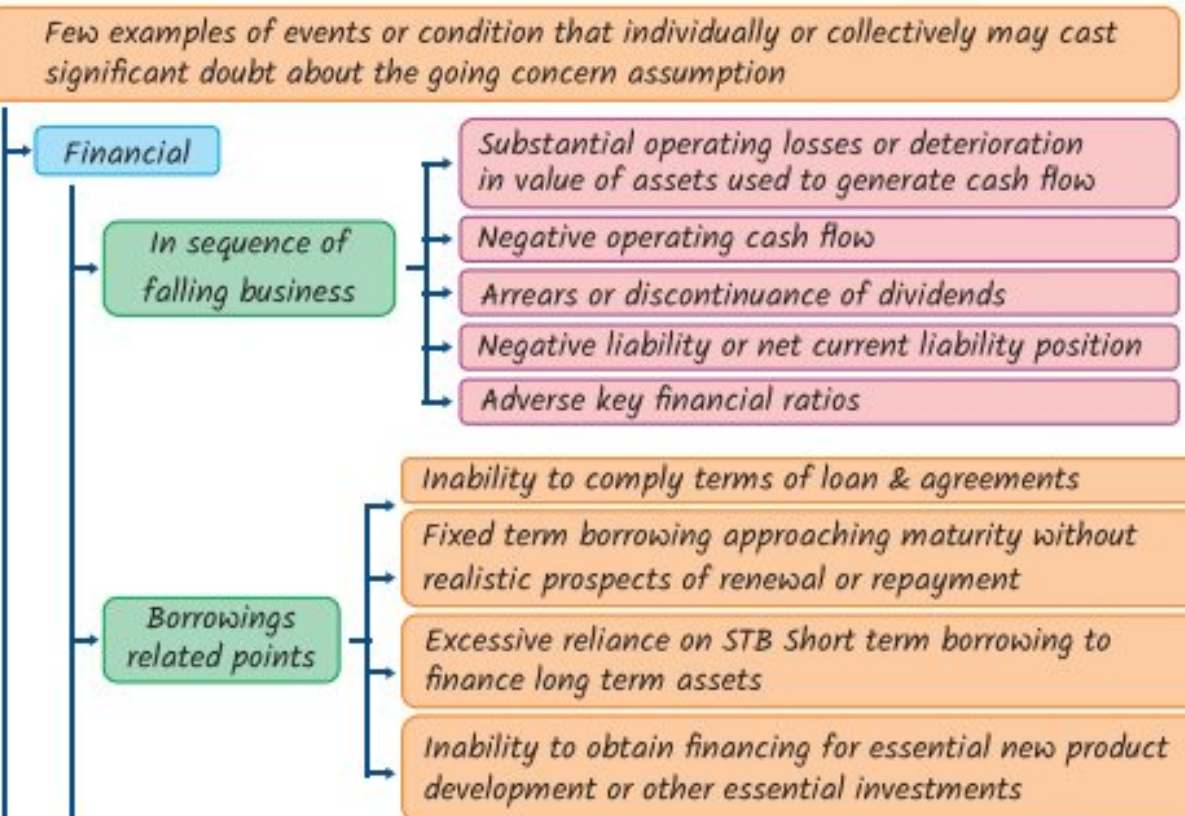
**RESPONSIBILITIES OF AUDITOR**



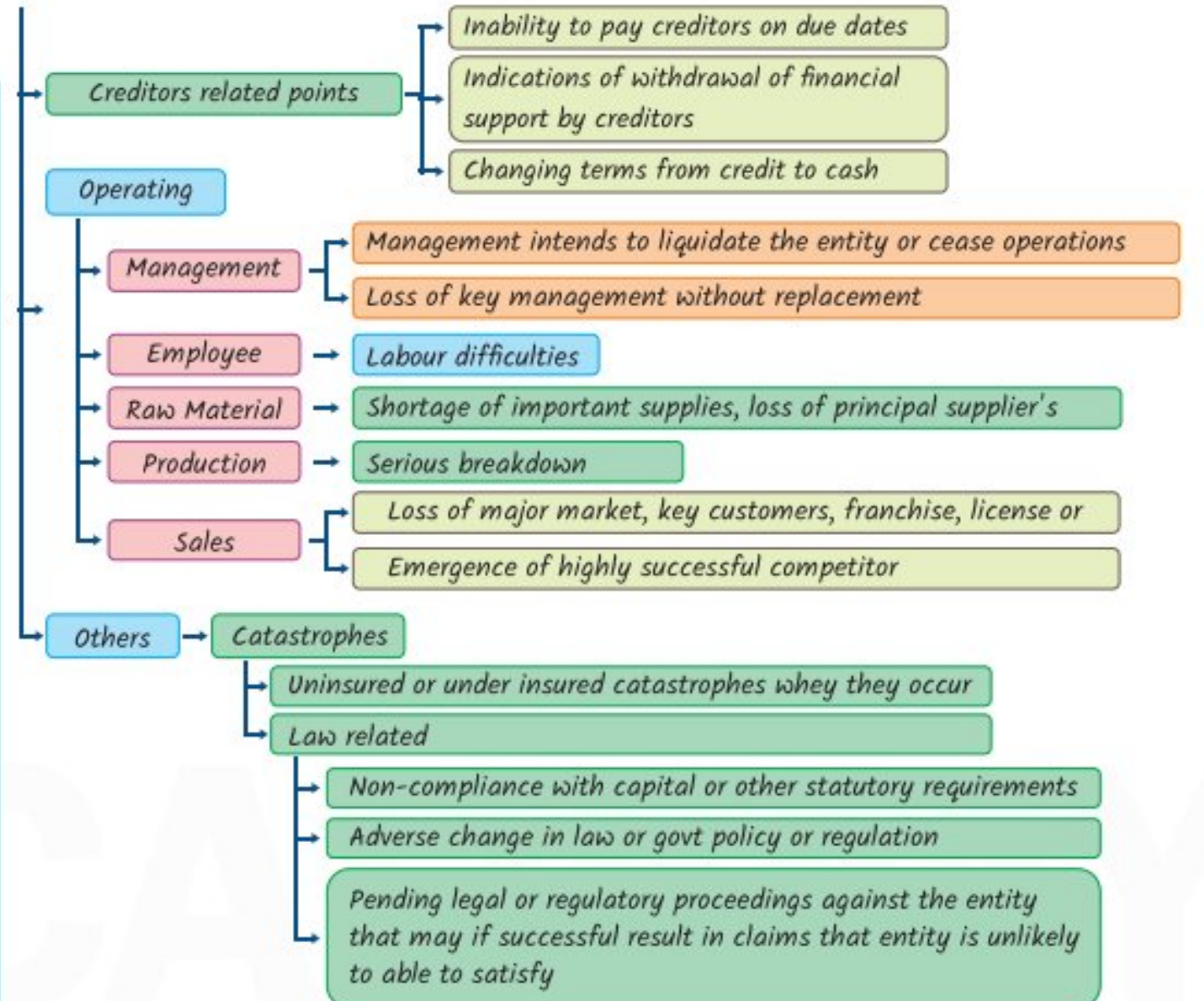
**STEP 1 RAP FOR GOING CONCERN**



**STEP 1A EVENTS OR CONDITION MAY CAST SIGNIFICANT DOUBT OVER GOING CONCERN**

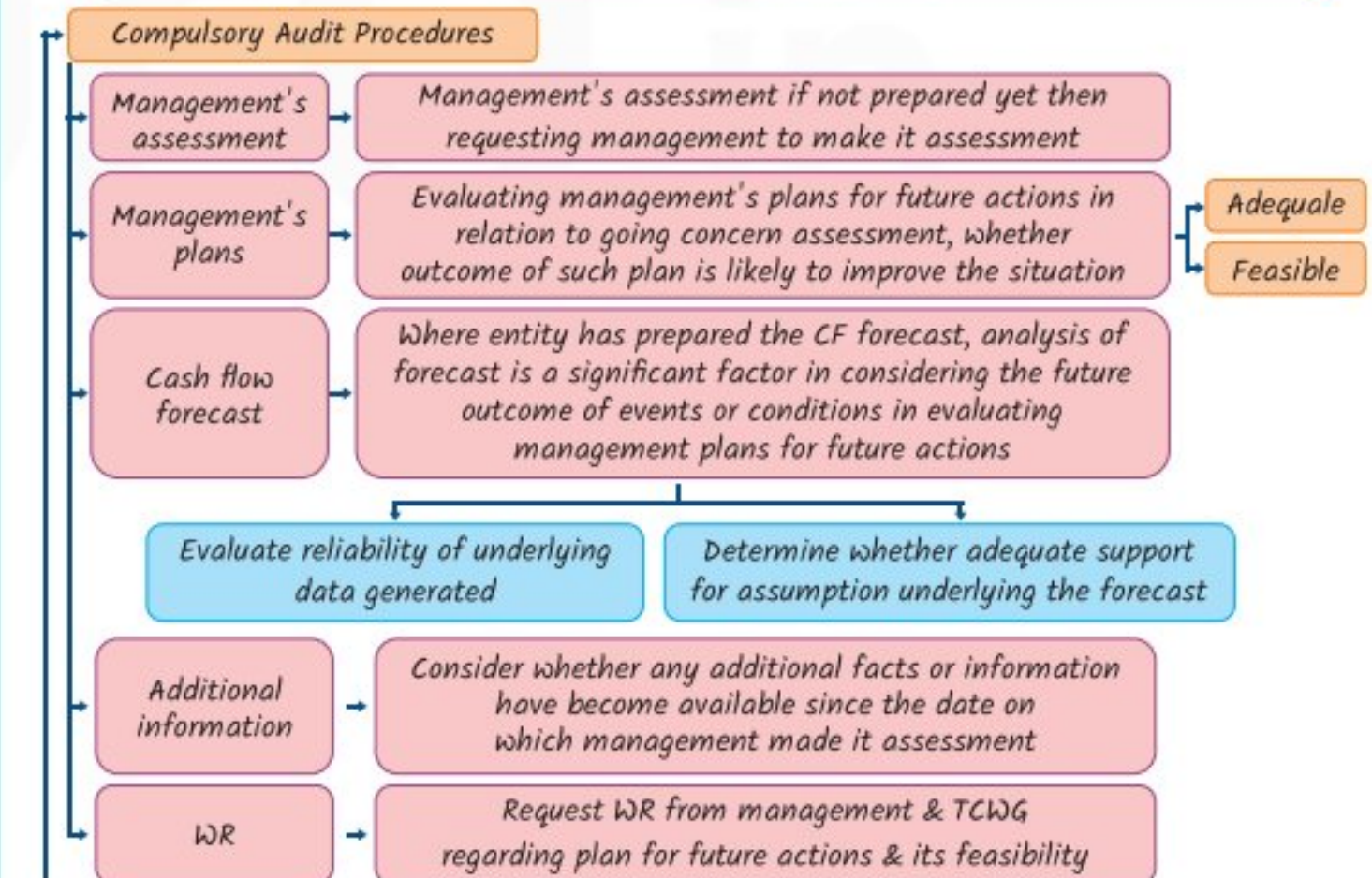


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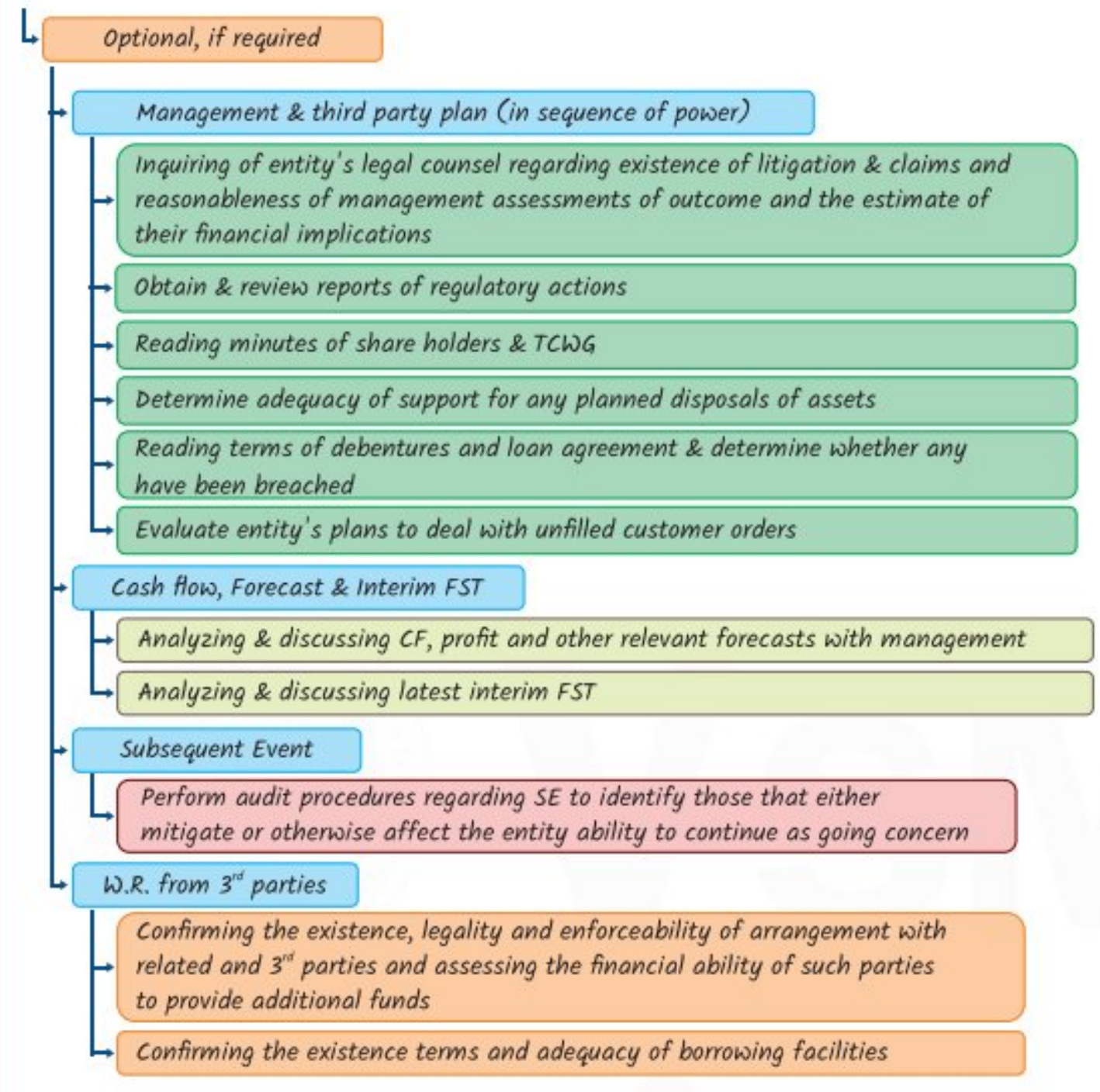


**STEP- 2 ADDITIONAL AUDIT PROCEDURES WHEN EVENTS OR CONDITIONS ARE IDENTIFIED**

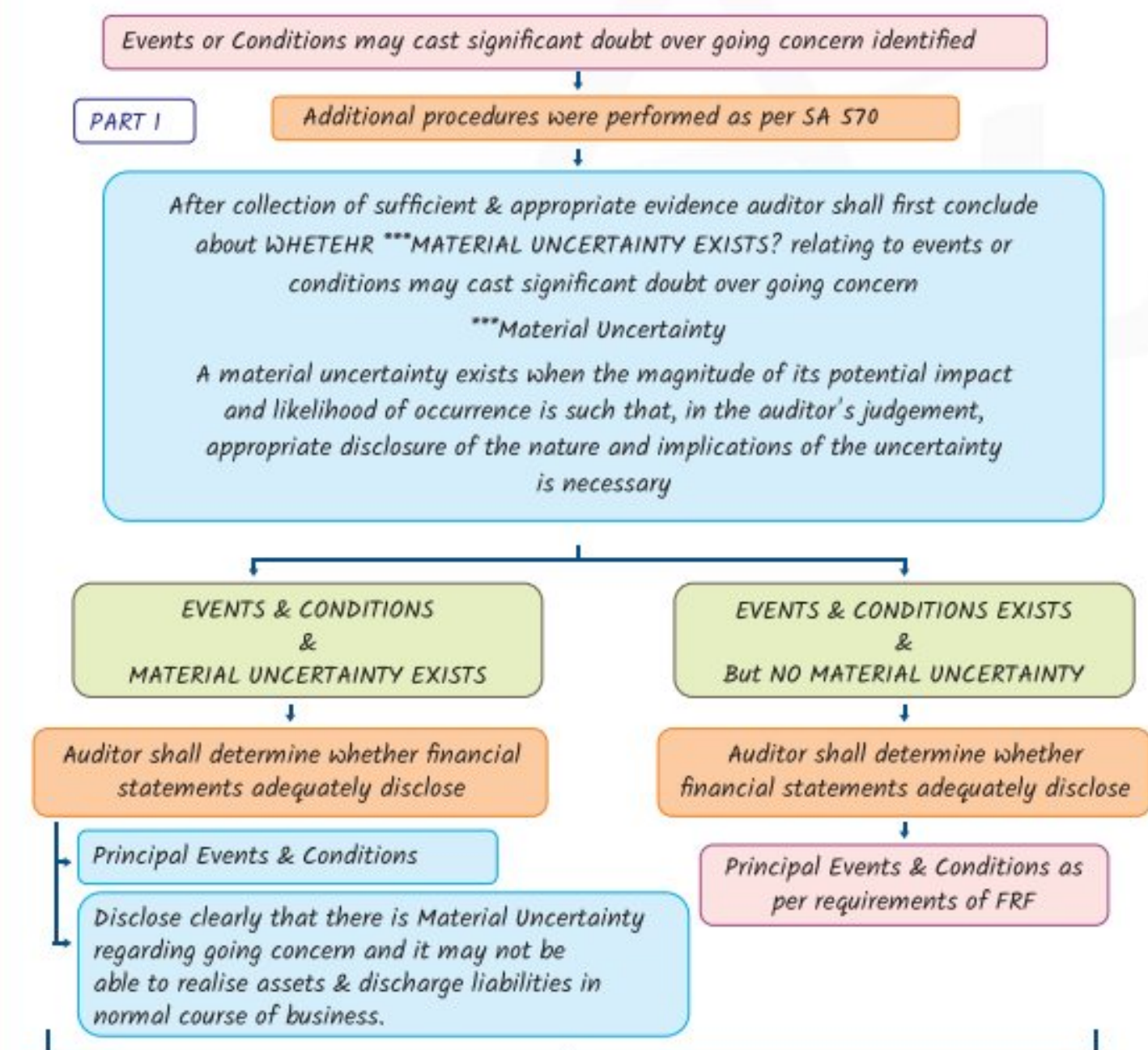
If events or conditions identified that may cast significant doubt on entity's ability to continue as going concern, Auditor shall obtain SAAE to determine whether or not a material uncertainty exists through performing additional audit procedures including consideration of mitigating factors



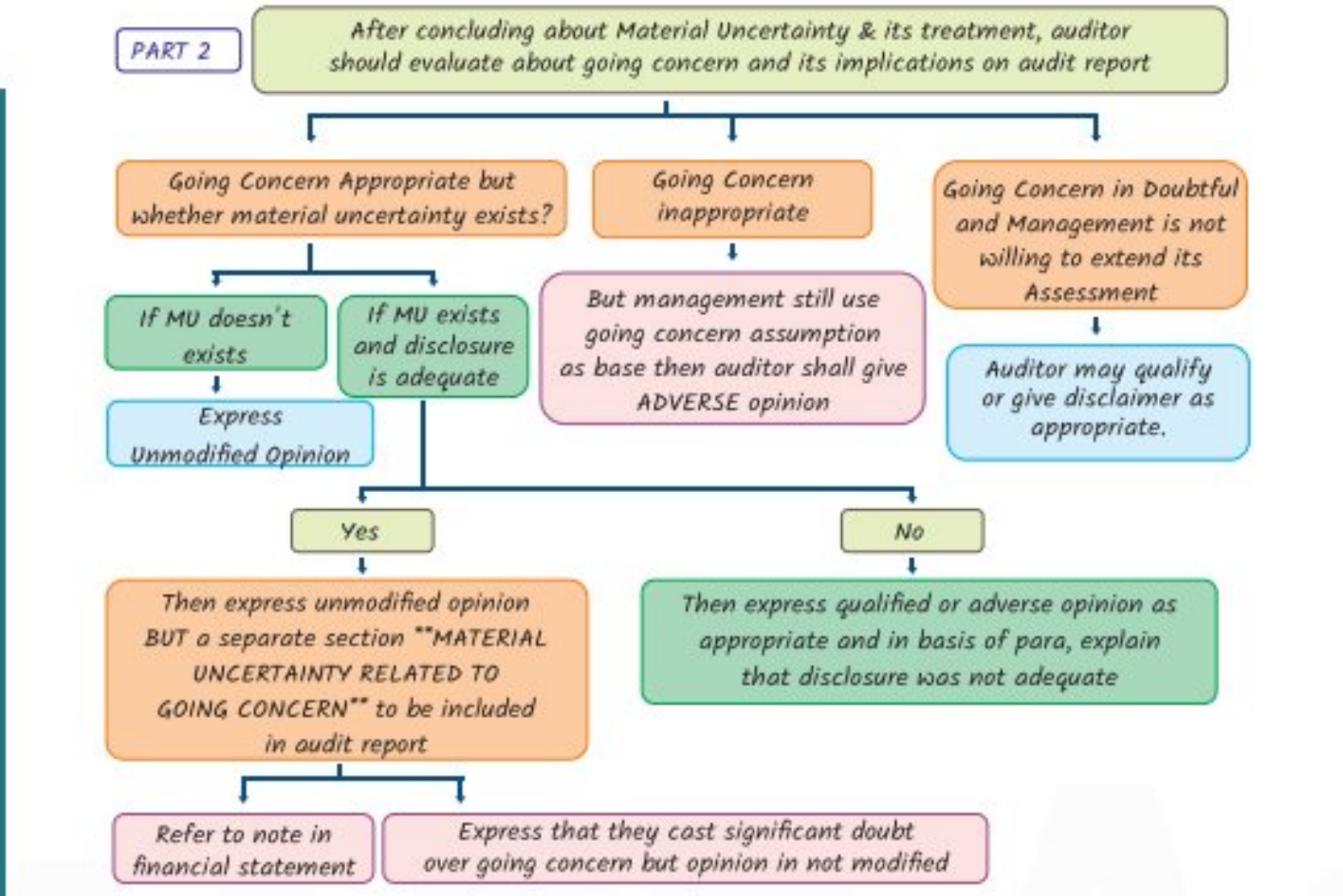
Continue on next Page...



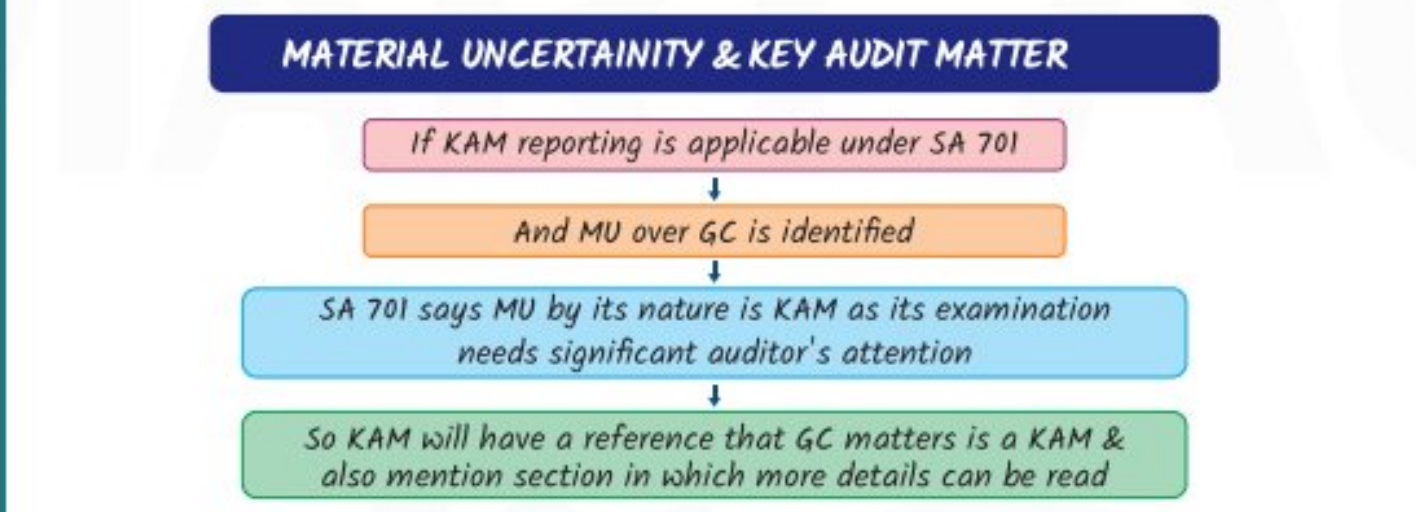
(CNO--SAS70.090) QNO-570.10



Continue on next Page...

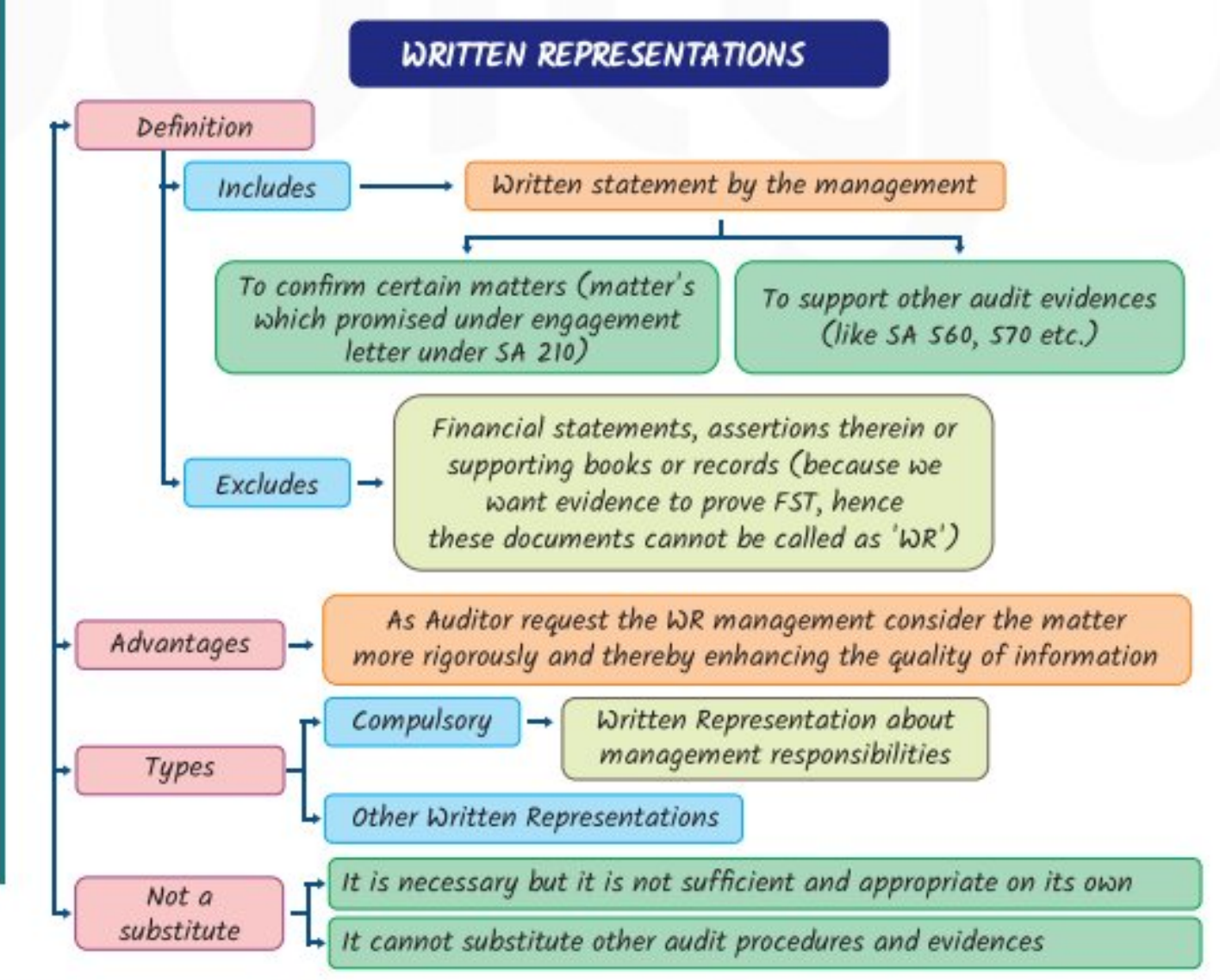


(CNO--SAS70.100)

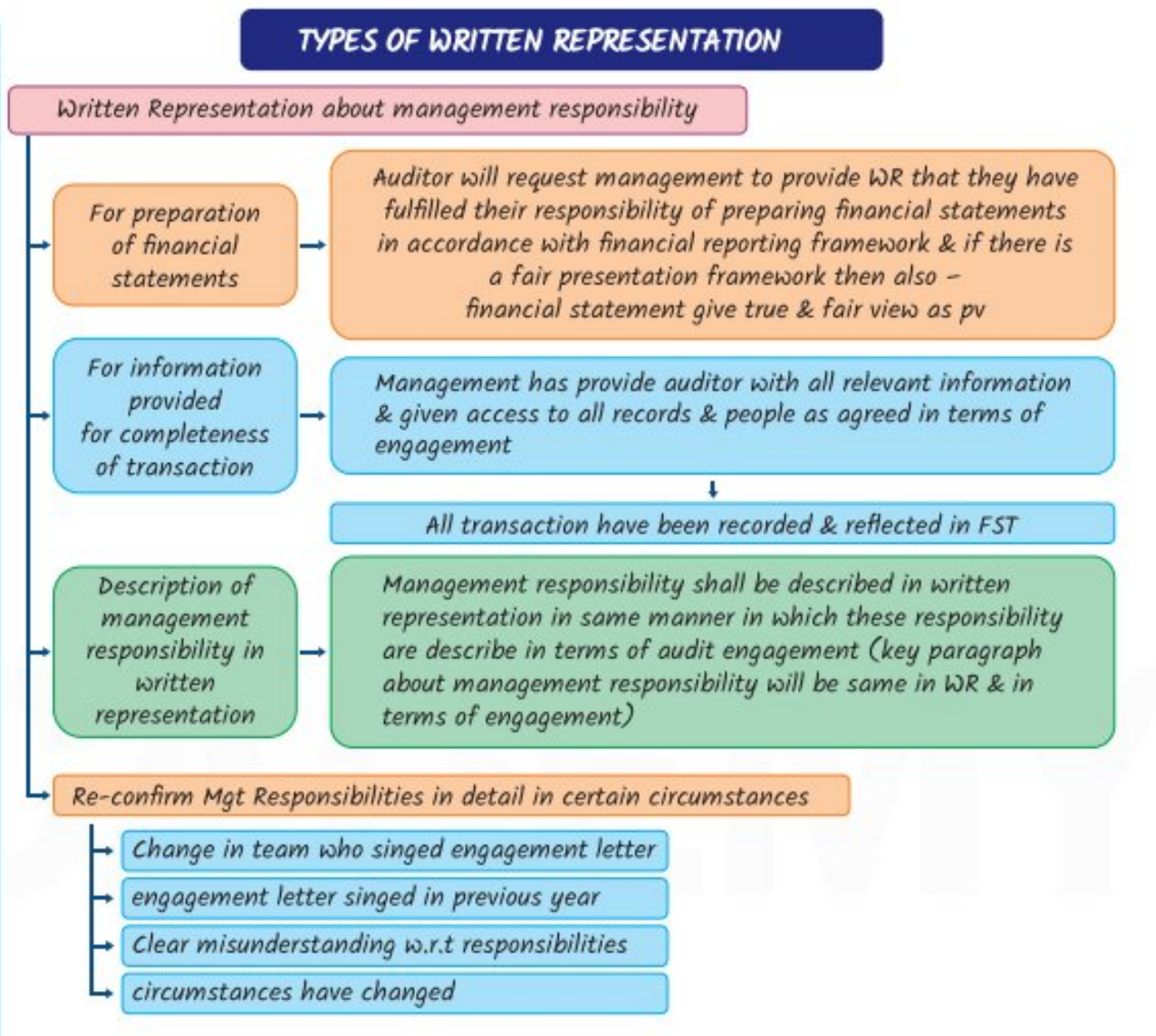


Part 6 -- A 580

(CNO--SAS80.020) (QNO-580.01/580.09,580.05,580.07)(MCQ-580.1,580.2 Incs.63.4,Incs.46.1,Incs.24.1)



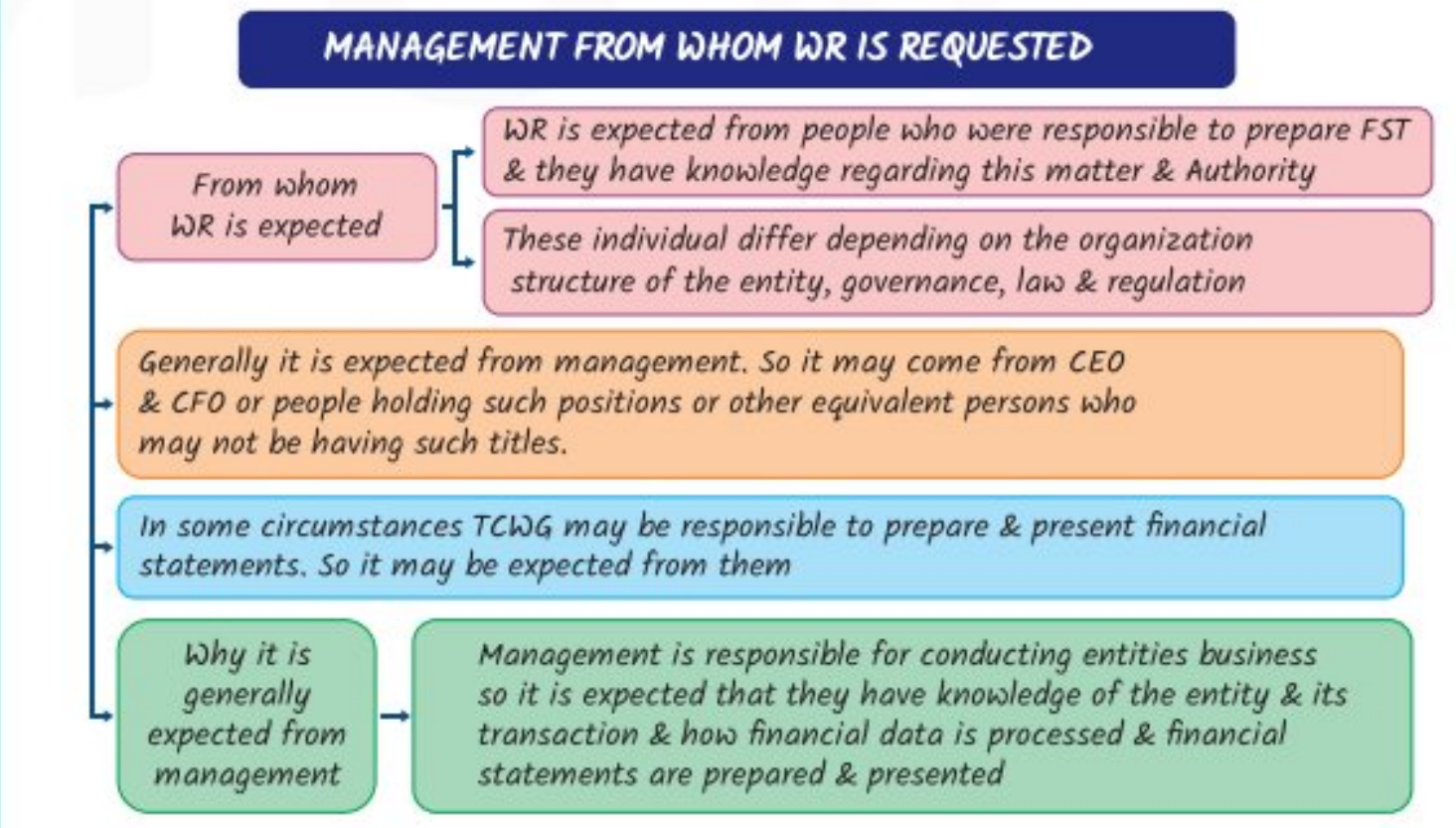
(CNO--SAS80.040)



(CNO--SAS80.050)

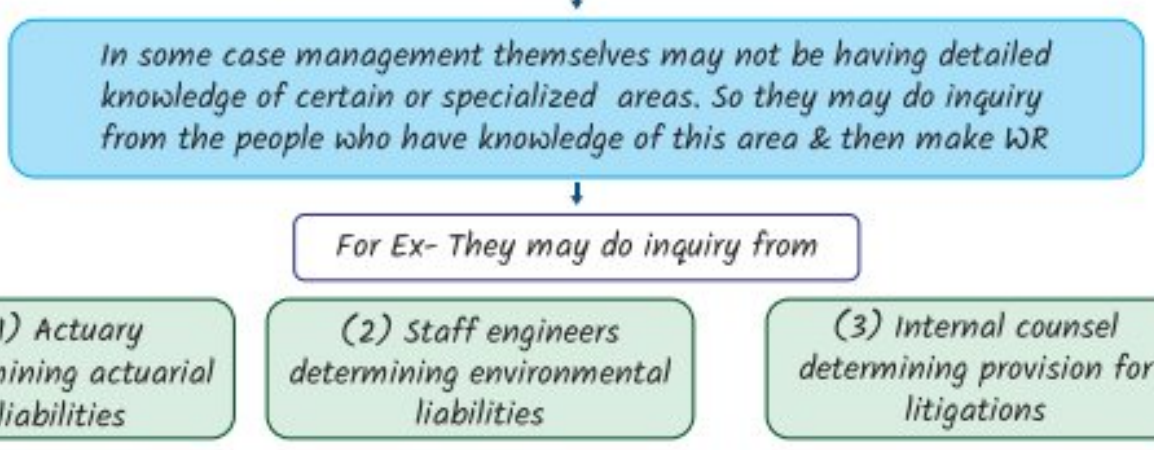


(CNO--SAS80.060)

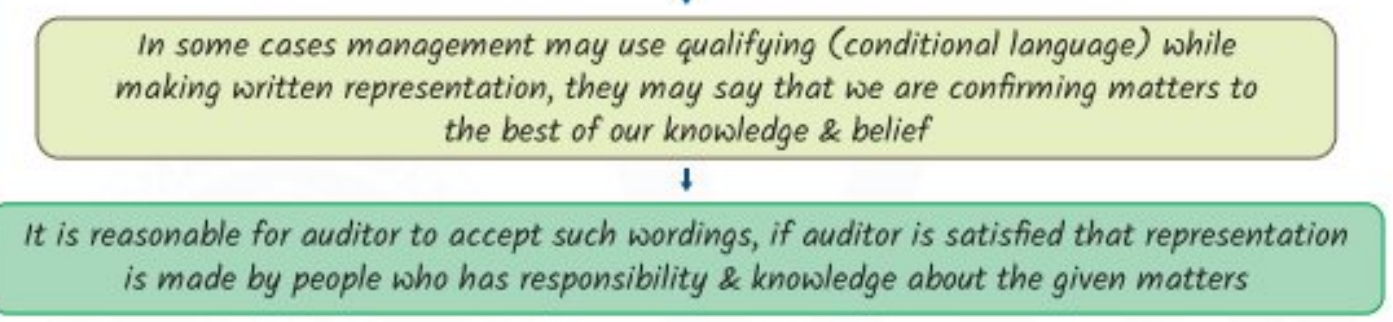


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**INQUIRY BY MANAGEMENT**

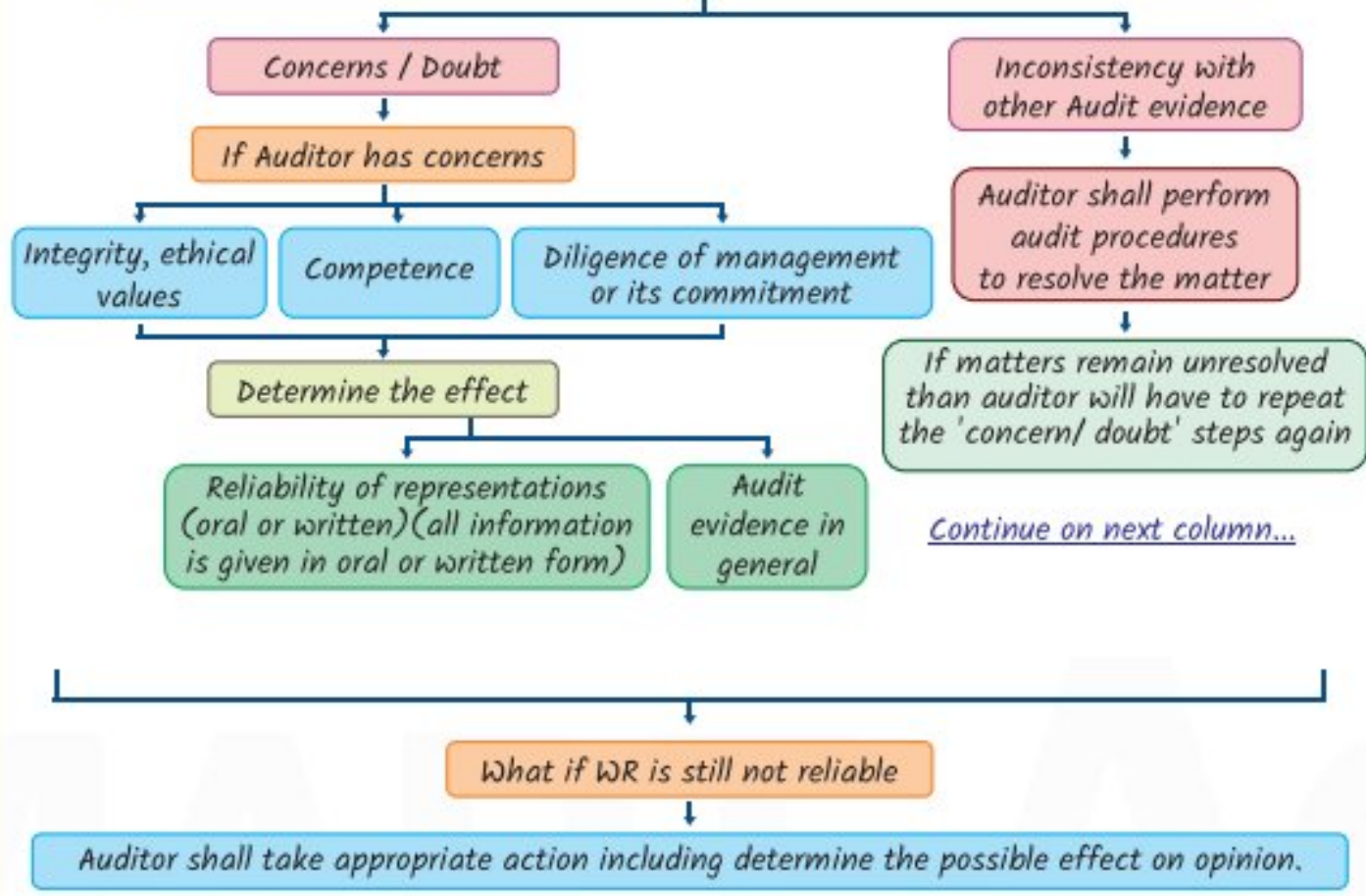


**QUALIFYING LANGUAGE BY MANGEMENT**



**(CNO--SAS80.140)**

**DOUBT AS TO RELIABILITY OF WRITTEN REPRESENTATION**



**(CNO--SAS80.145)**

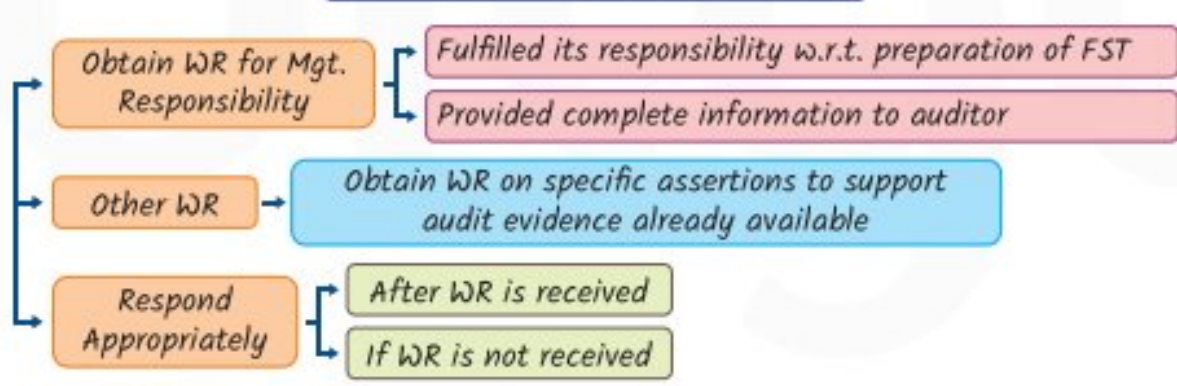
**DISCLAIMER OF OPINION IN CASE OF NON-RELEABILITY OF WRITTEN REPRESENTATION S ABOUT MANAGEMENT RESPONSIBILITY OR FAILURE TO PROVIDE SUCH WRITTEN REPRESENTATION**

For this Concept refer PDF

**(CNO--SAS80.160)**

**(QNO-580.05)**

**OBJECTIVES OF AUDITOR**



**(CNO--SAS80.080)**

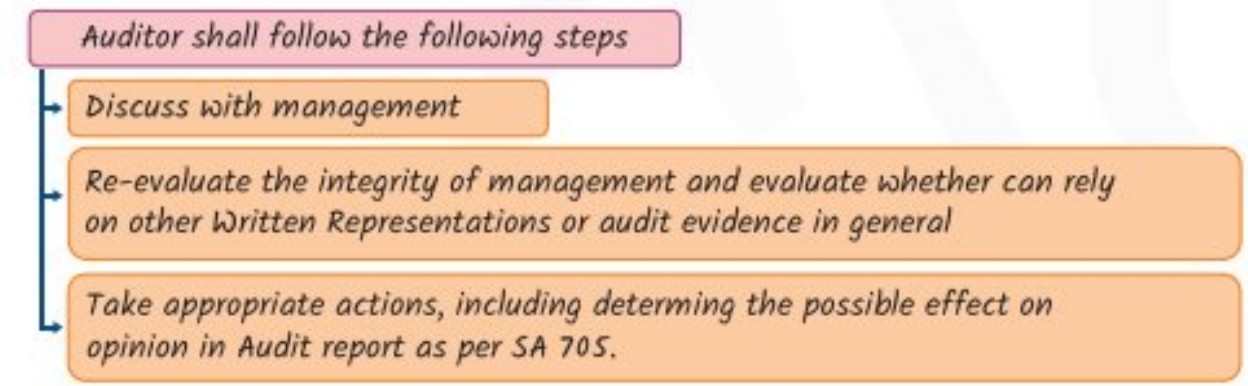
**DATE AND PERIOD(S) COVERED BY WRITTEN REPRESENTATION**

For this Concept refer PDF

**(CNO--SAS80.100)**

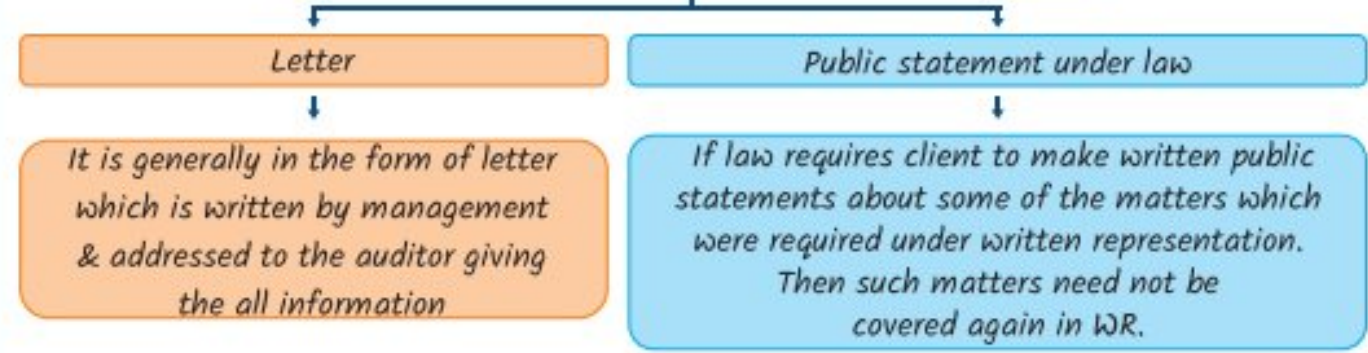
**(QNO-580.09)**

**REQUESTED WRITTEN REPRESENTATION NOT PROVIDED**



**(CNO--SAS80.120)**

**FORM OF WRITTEN REPRESENTATION**

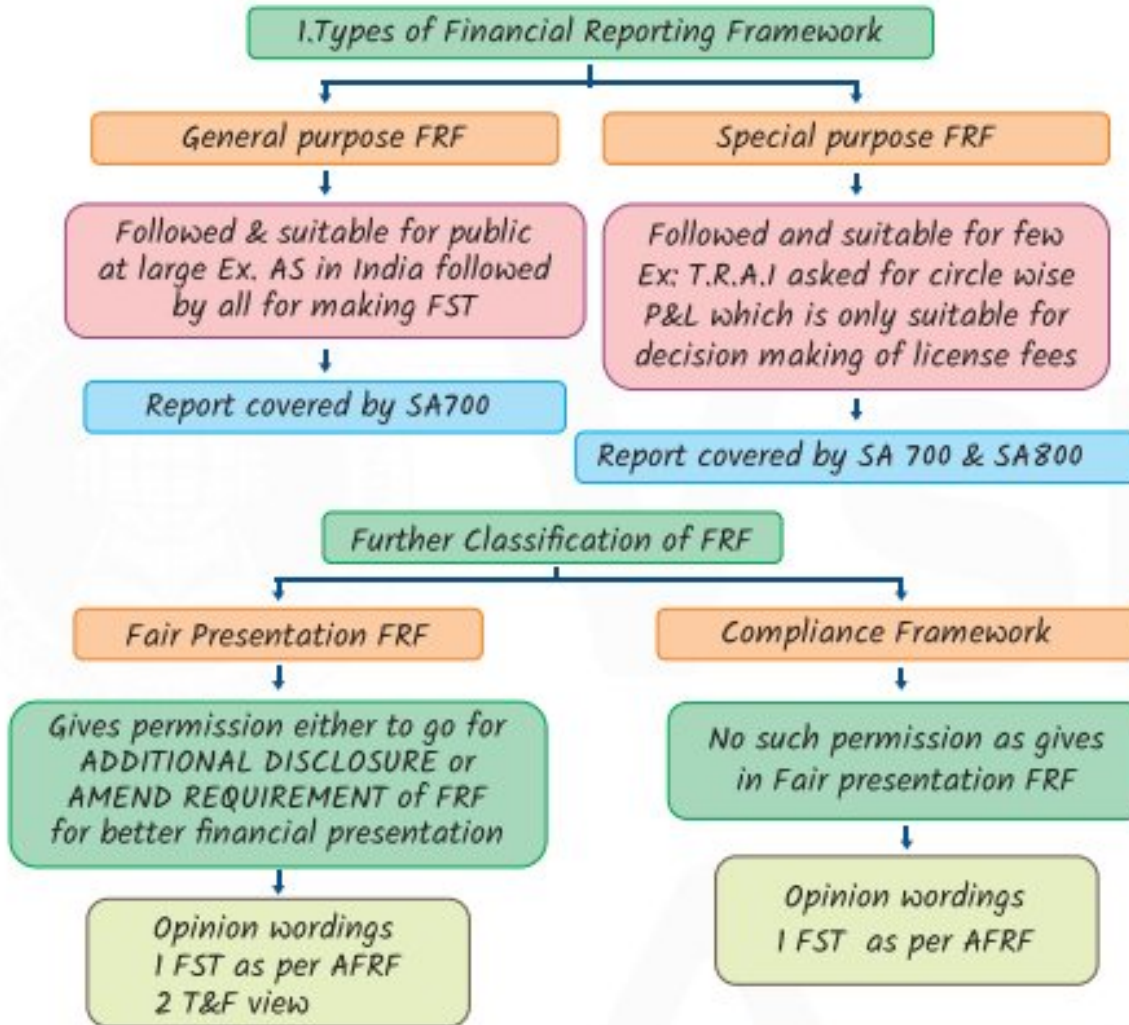




Part I - SA 700

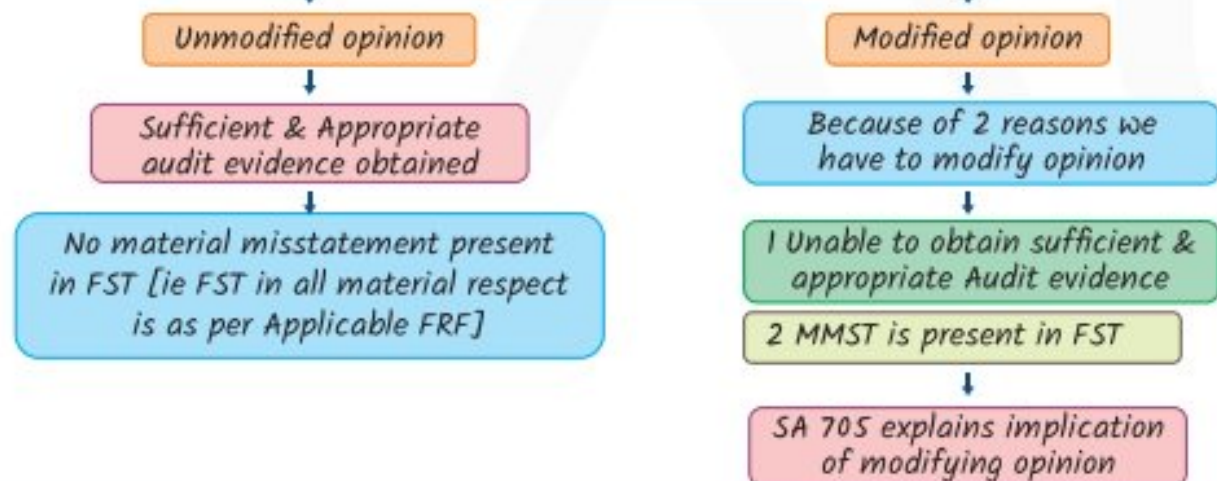
(CNO' SA700.020)

TYPES OF FRF & ITS IMPACT ON AUDIT REPORT



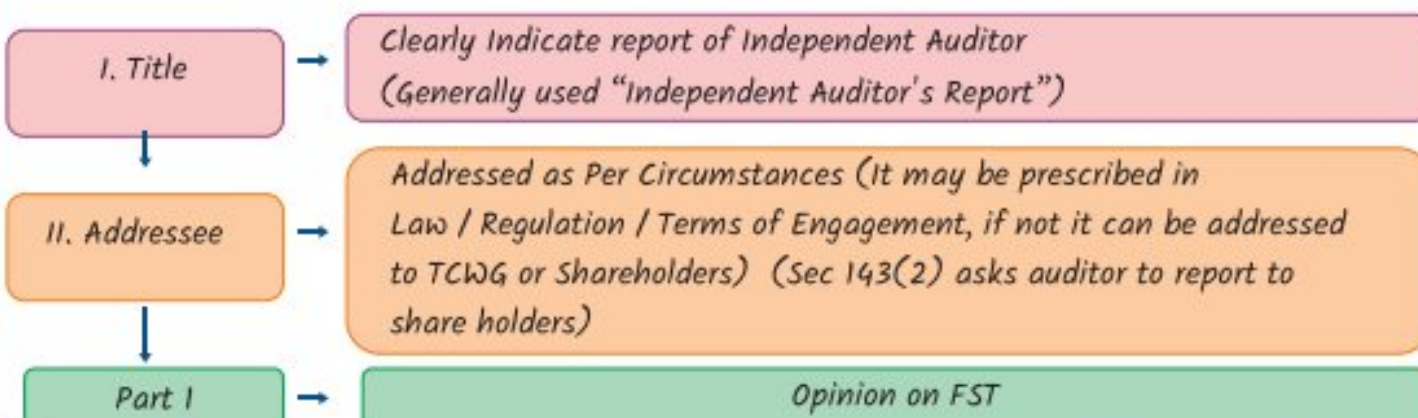
(CNO' SA700.030)

DIFFERENT FORM OF OPINION

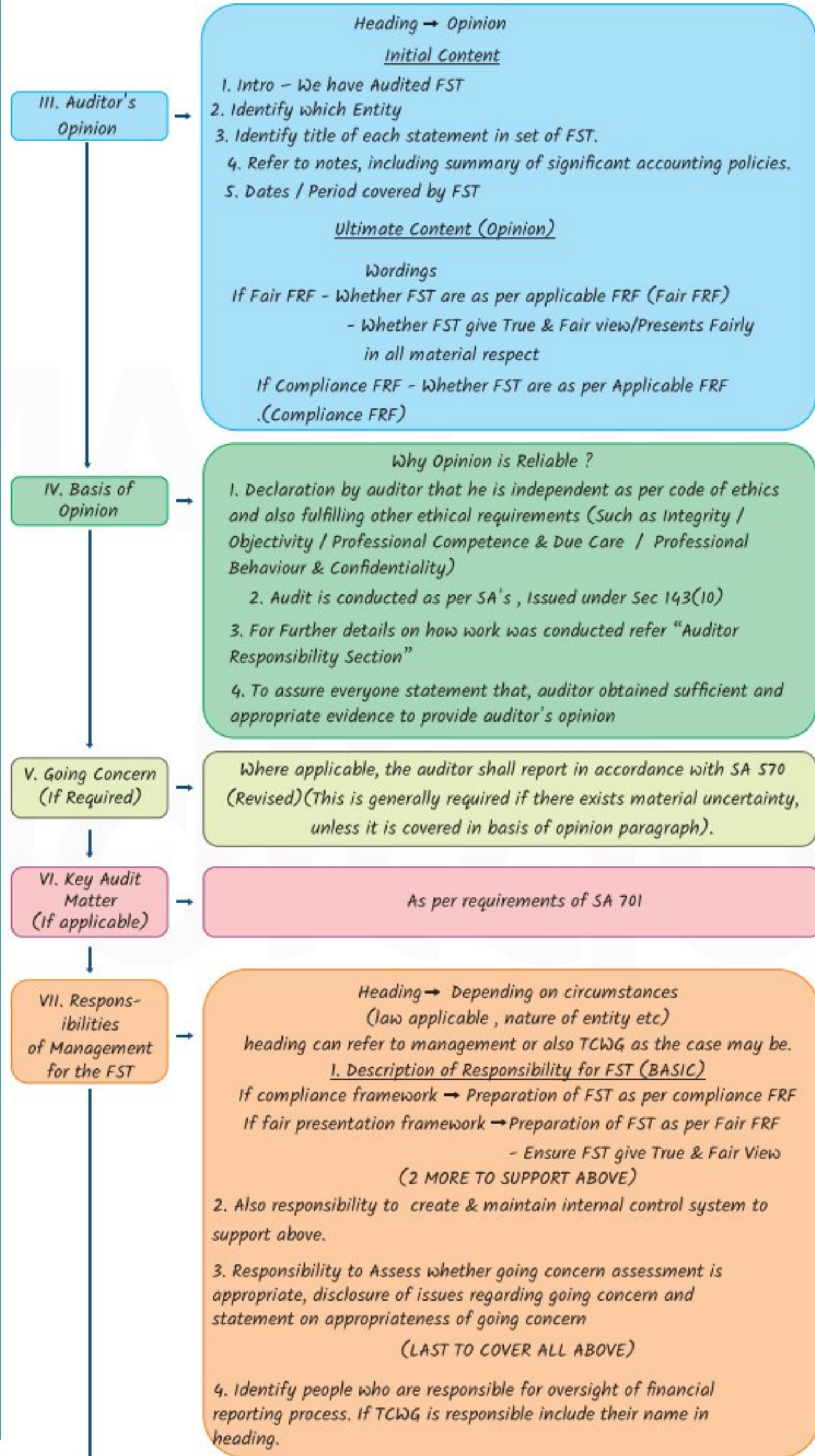


(CNO' SA700.040)

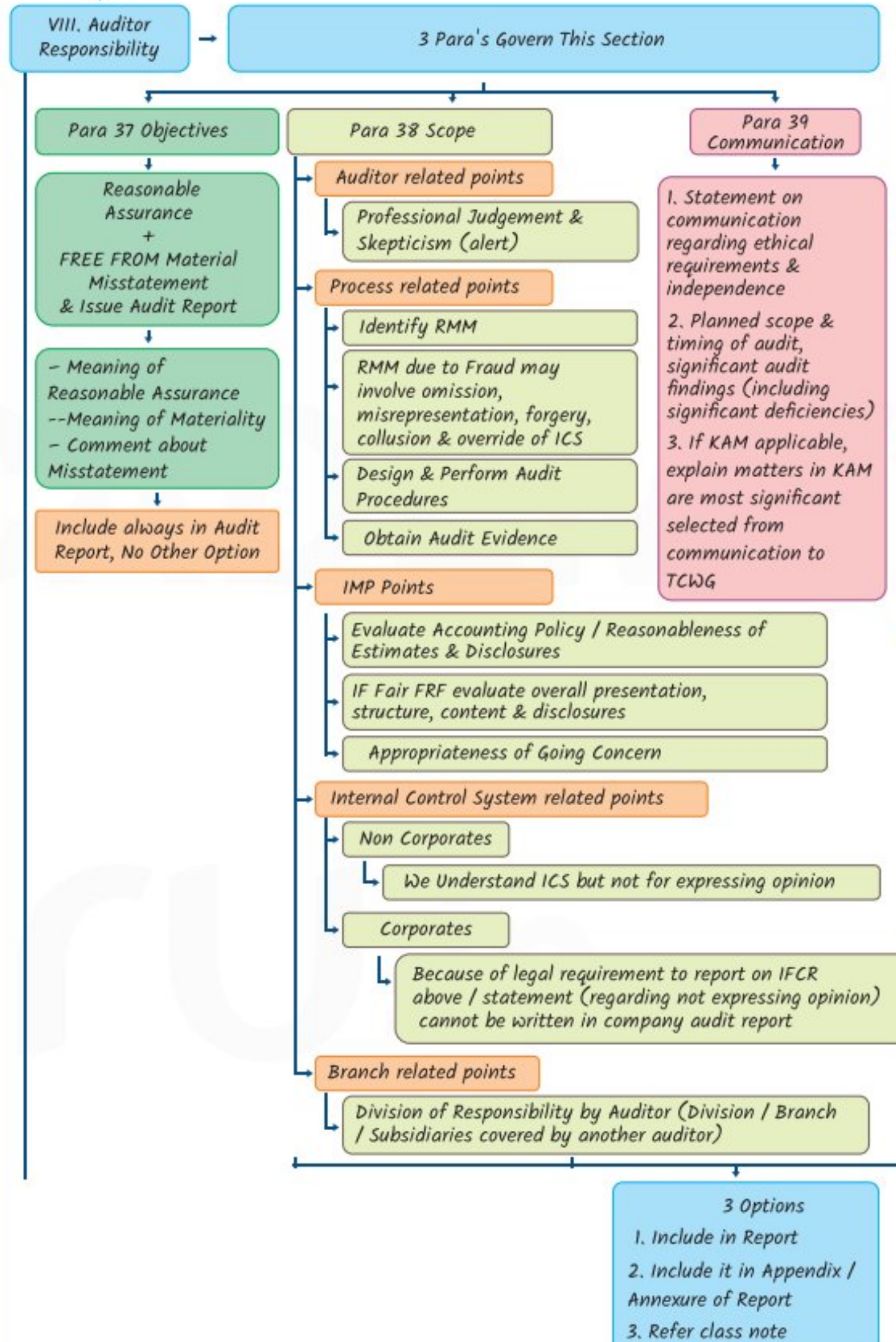
(QNO-700.07/ 700.09/ 700.09.50/ 700.10/ 700.11 / 700.13)  
(MCQ-700.1, 700.3, 700.4, 700.7, Incs.58.2, Incs.58.3)



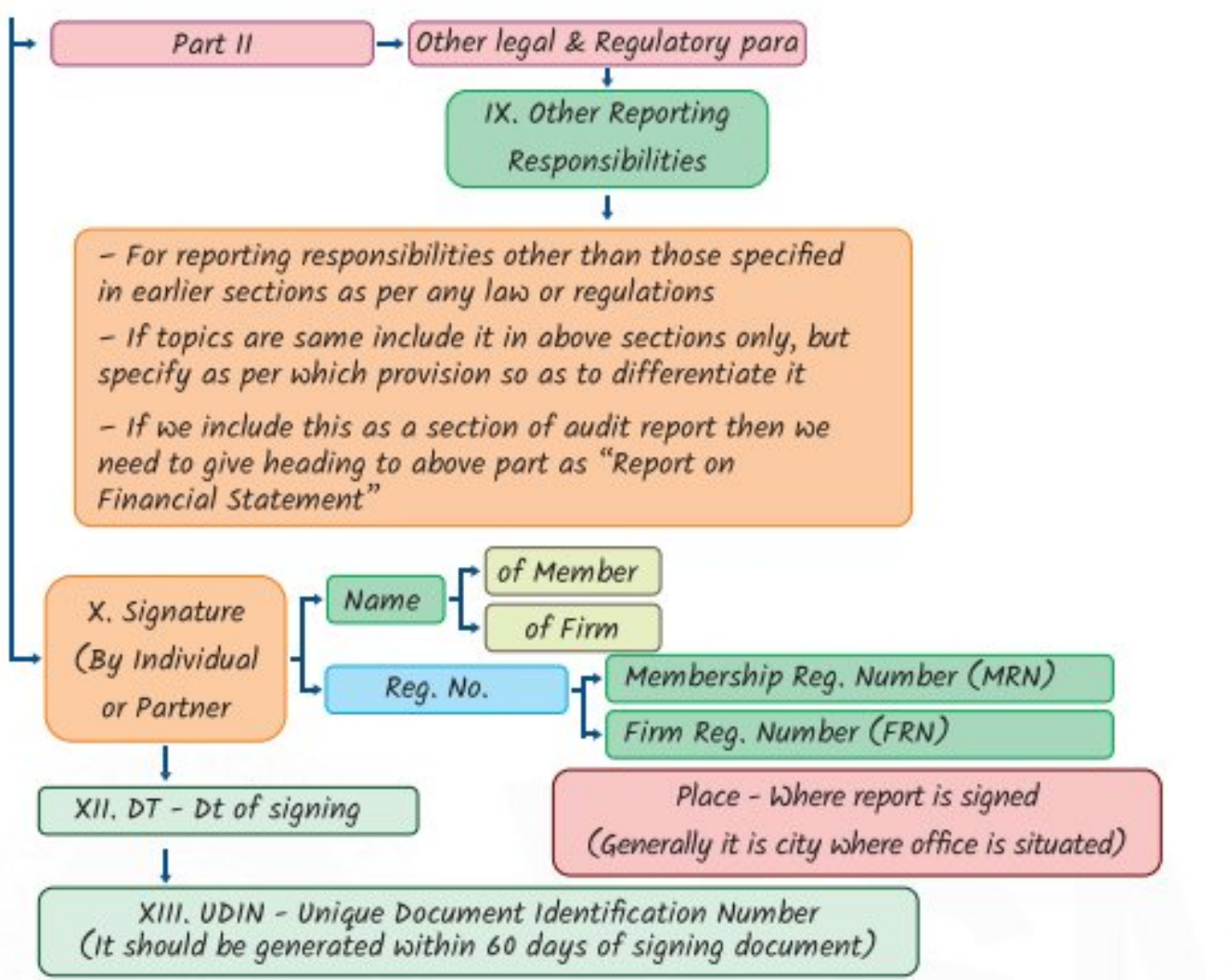
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Continue on next Coloum...

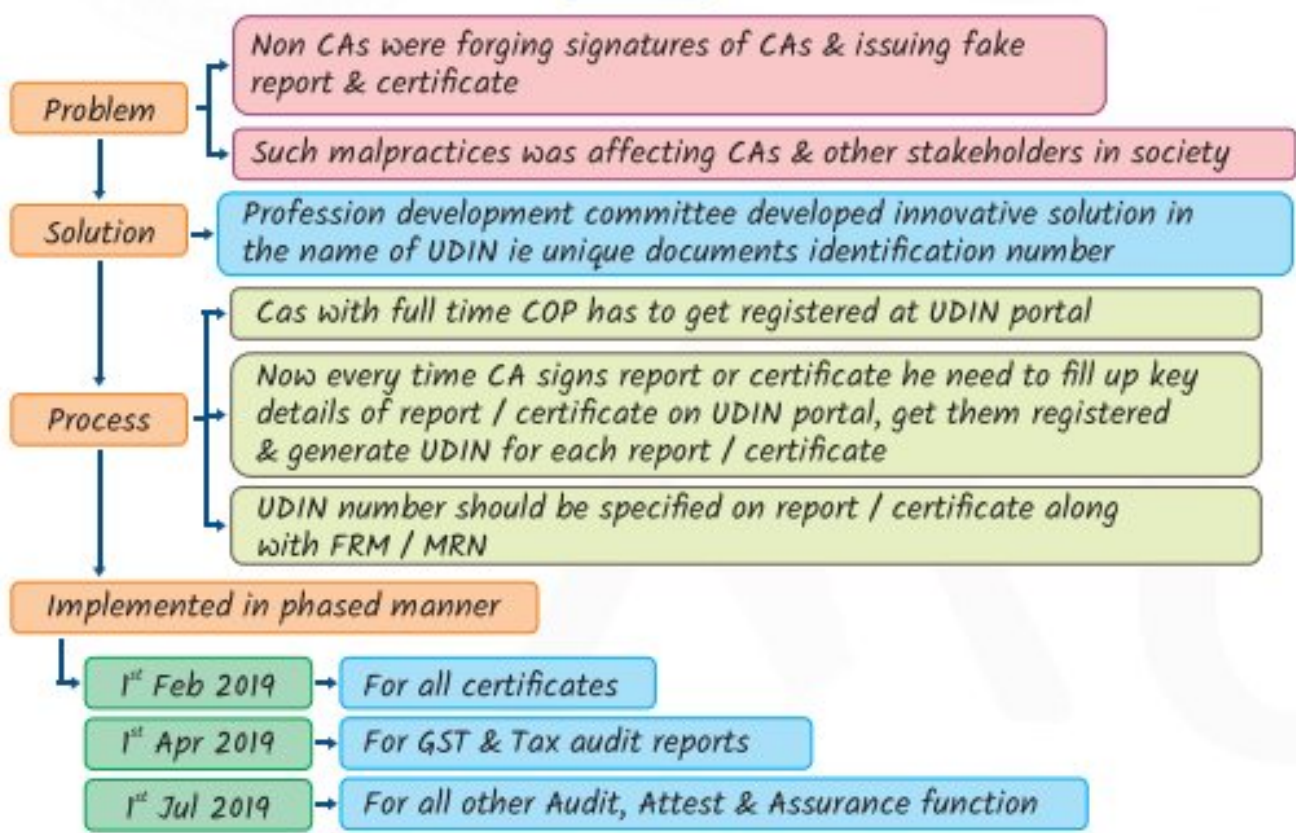


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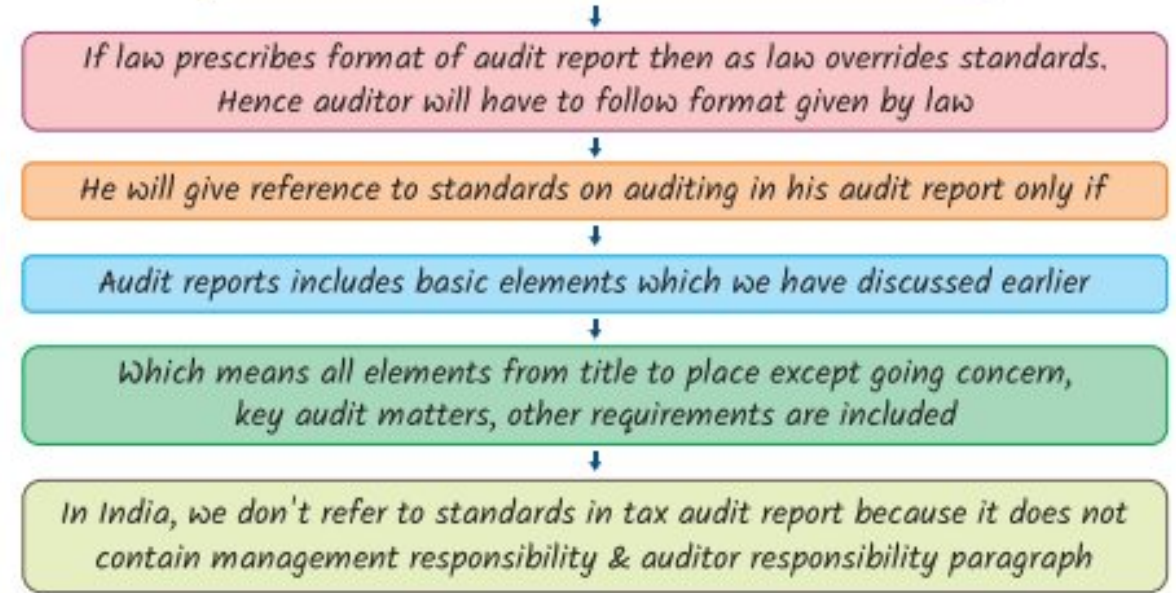
(CNO-SA700.050) (MCQ-700.9)

**UDIN**



(CNO-SA700.060)

**AUDIT REPORT PRESCRIBED BY LAW**



(CNO SA700.080) (QNO-700.15)

**AUDIT REPORT VIS AUDIT CERTIFICATE**

	Audit Report	Audit Certificate
Coverage	Generally whole FST	Limited info
Procedures	Similar	Similar
Use of Judgement	Yes	No
Final Result	Opinion with reasonable Assurance	Vouch Accuracy with absolute assurance
Facts	Opinion is based on facts	Here we comment on accuracy of facts itself
Examples	Examples : the report under section 143 of the Companies Act, 2013 is an opinion based report and not a certificate	Examples: As per Section 66 of the Companies Act, 2013, an auditor is required to file a certificate in the tribunal where company is proposing for the reduction of capital

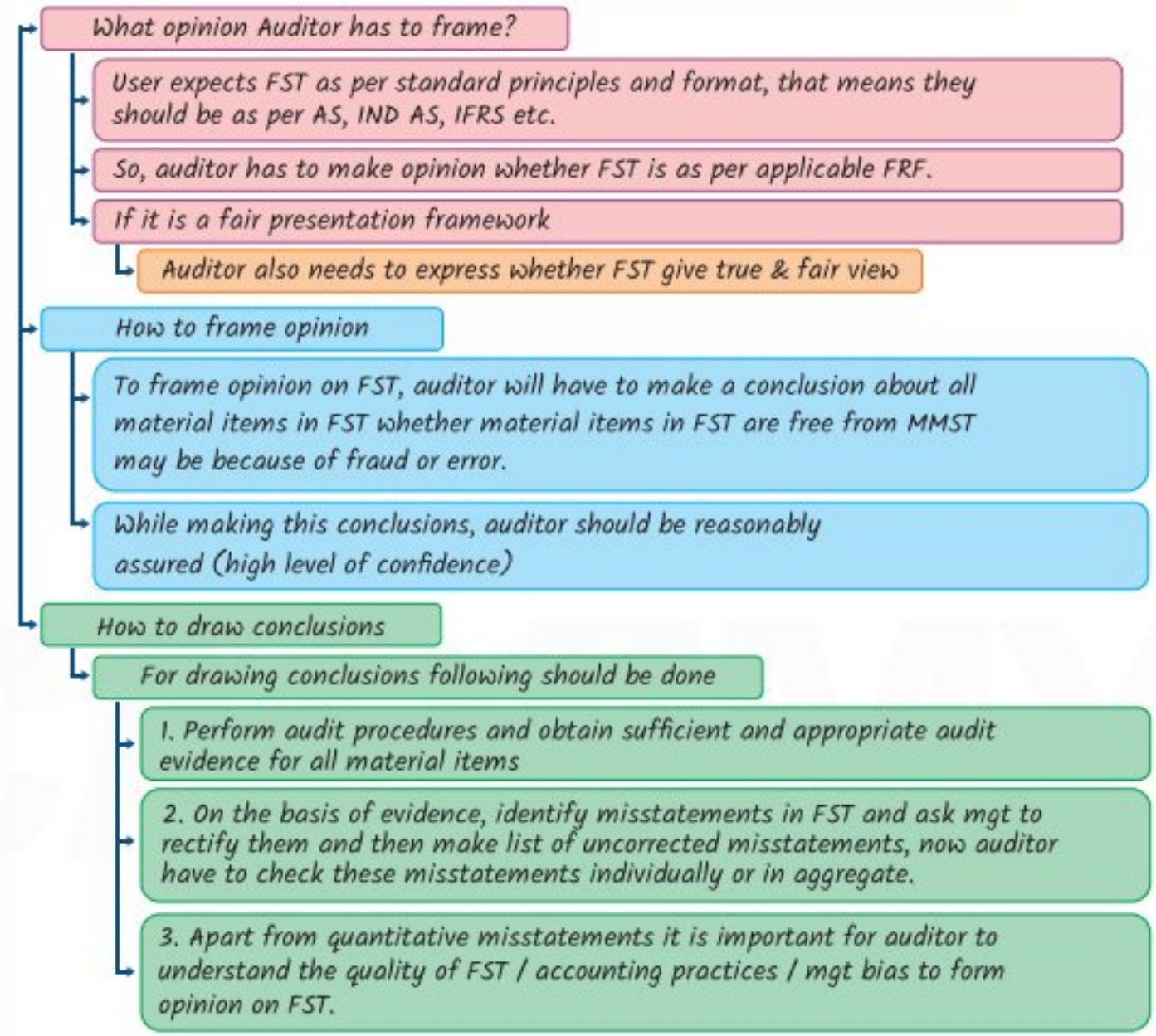
(CNO SA700.100)

**REPORTING TO SHAREHOLDER VIS REPORTING TO TCWG**

	Reporting to shareholders	Reporting to Those Charged with Governance
Requirement	Section 143 of the companies Act, 2013 deals with the provisions relating to reporting to shareholder. Thus, it is a Statutory Audit Report which is addressed to the members.	SA 260 deals with the provisions relating to reporting to those charged with Governance.
Content	Statutory Audit Report is on true and fair view and as per prescribed Format.	it is a reporting on matters hose charged with governance like scope of audit, audit procedures, audit modifications, etc.
Availability	Statutory Audit Reports are in public domain.	Reporting to those charged with Governance is an internal document i.e. private report.

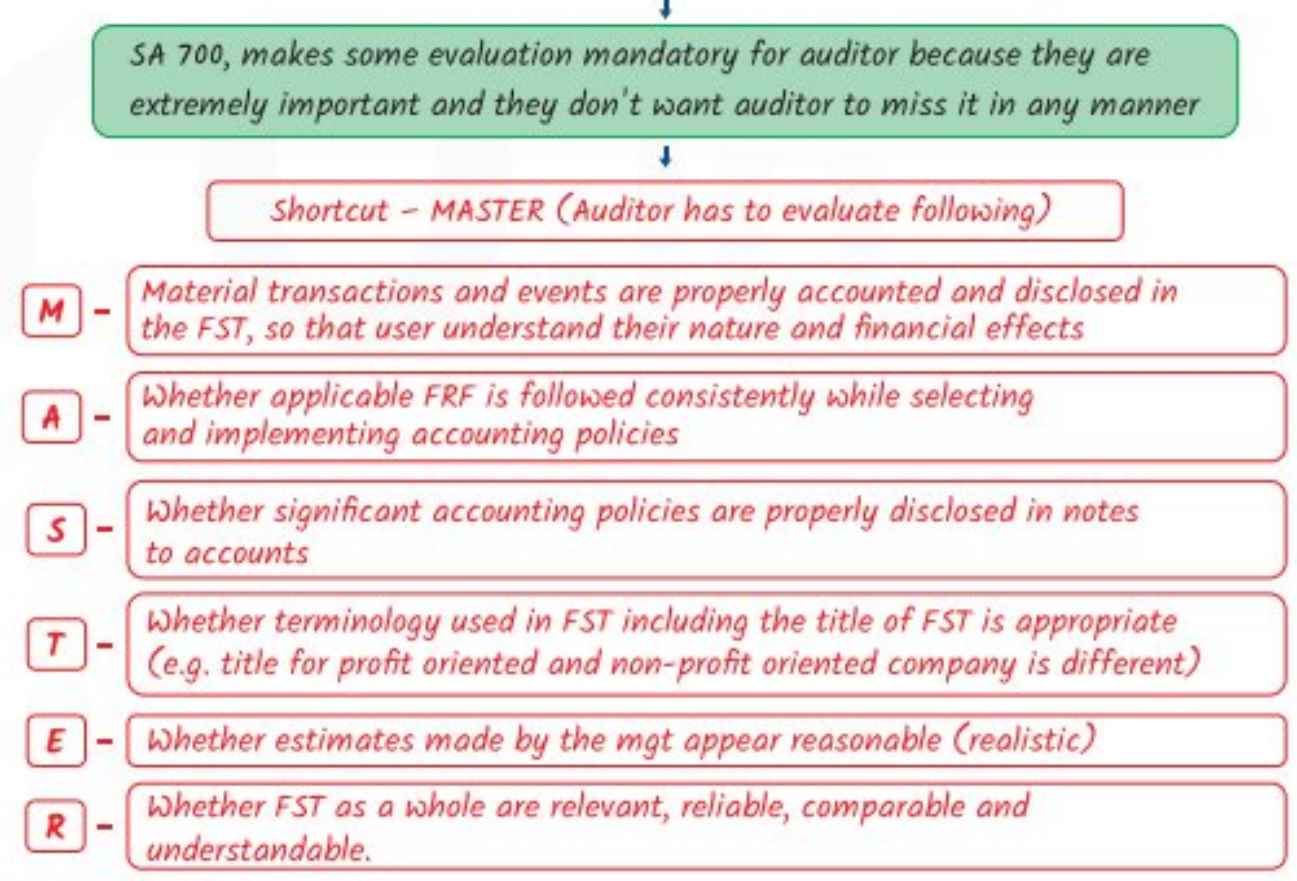
(CNO-SA700.120) (QNO-700.03)

**FORMING OPINION ON FINANCIAL STATEMENTS**



(CNO-SA700.140) (QNO-700.19) (MCQ-700.8)

**SPECIFIC EVALUATION BY AUDITOR'S**



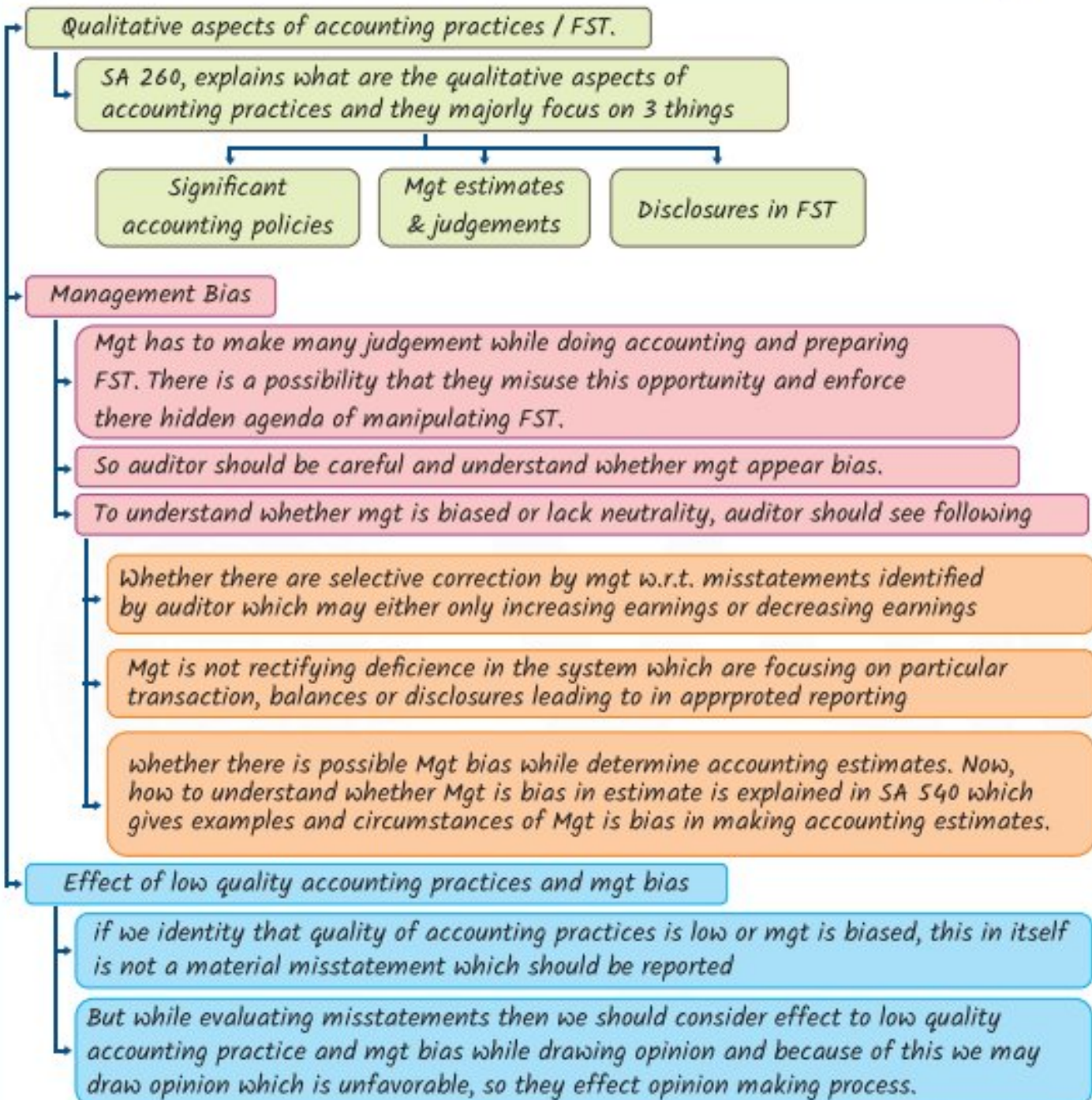
**CA Ravi Taori**

CA Vishal Bharti's **VSMART ACADEMY**

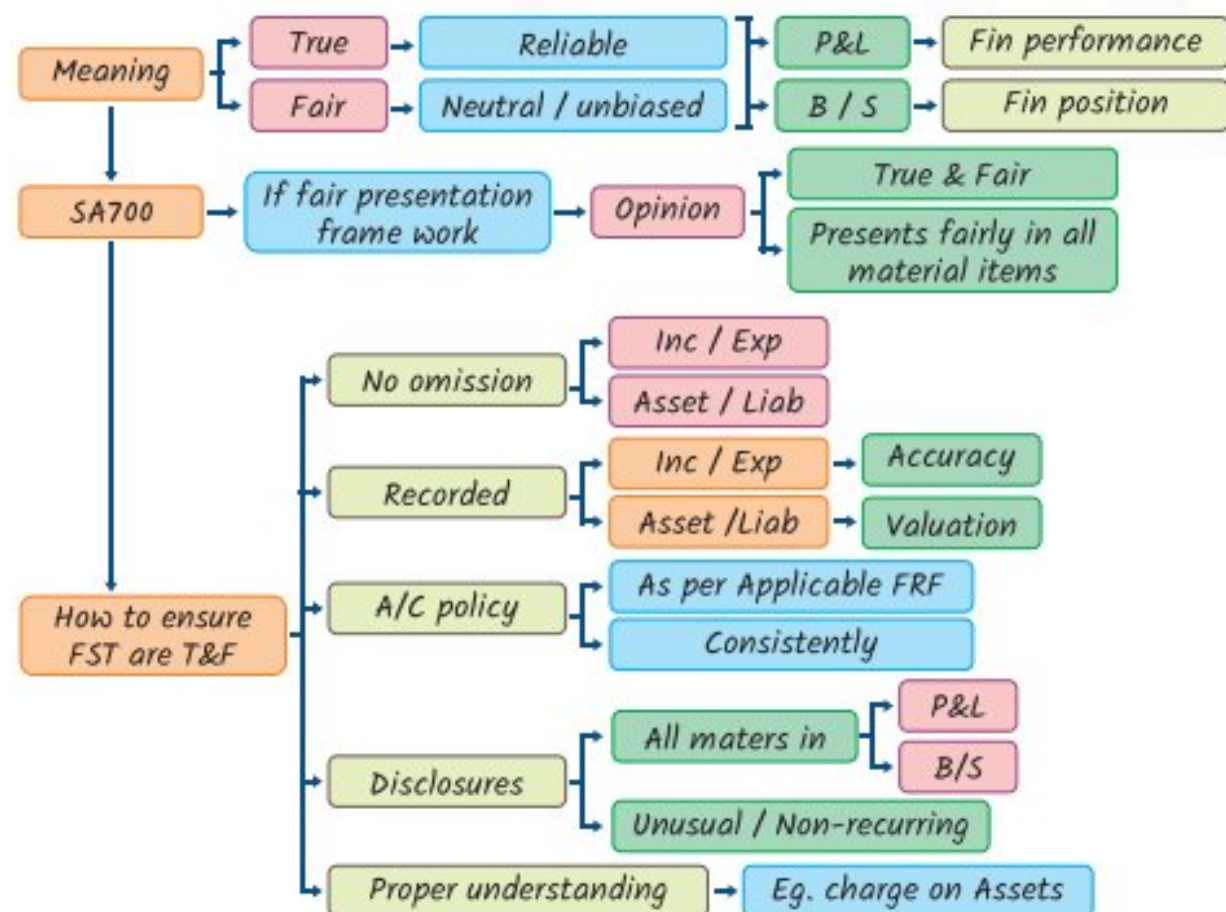
**Auditguru.in**

QR codes for Doubts and Telegram

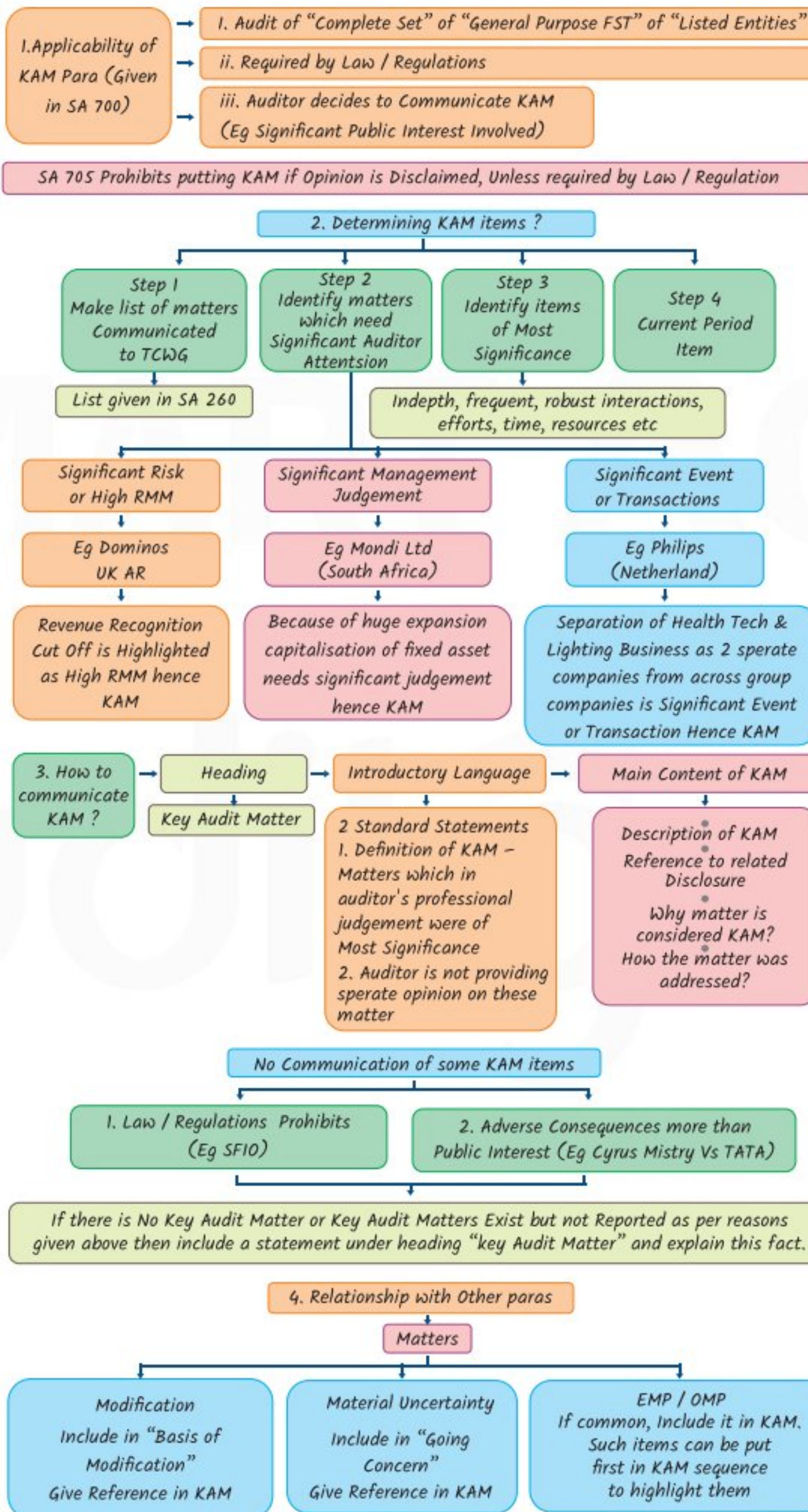
### EVALUATION OF QUALITATIVE ASPECTS INCLUDING MGT BIAS



### TRUE & FAIR VIEW



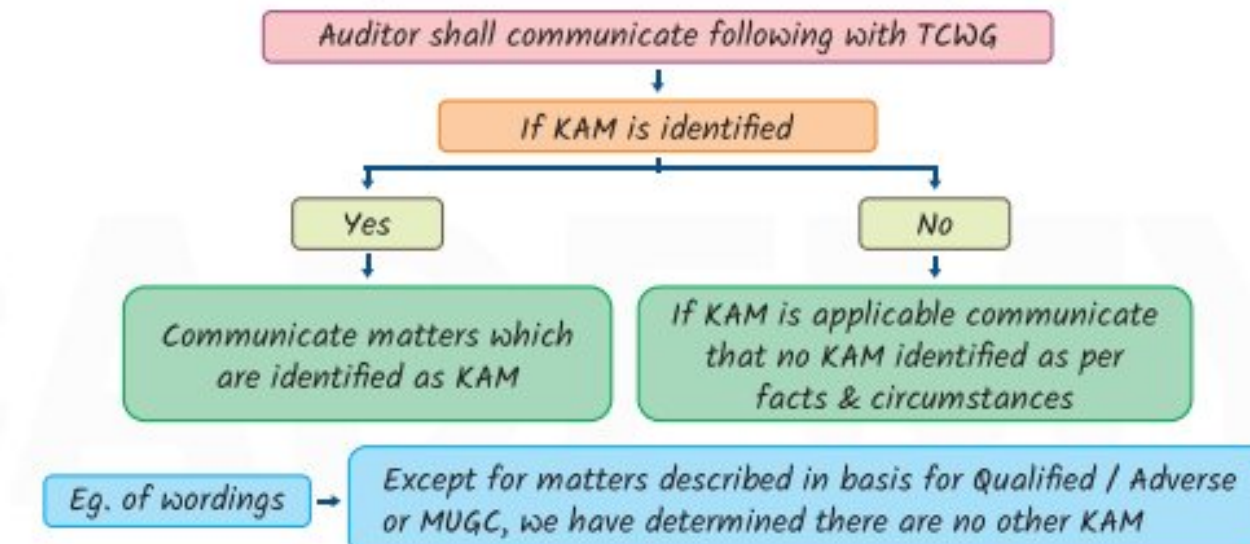
### SA 701



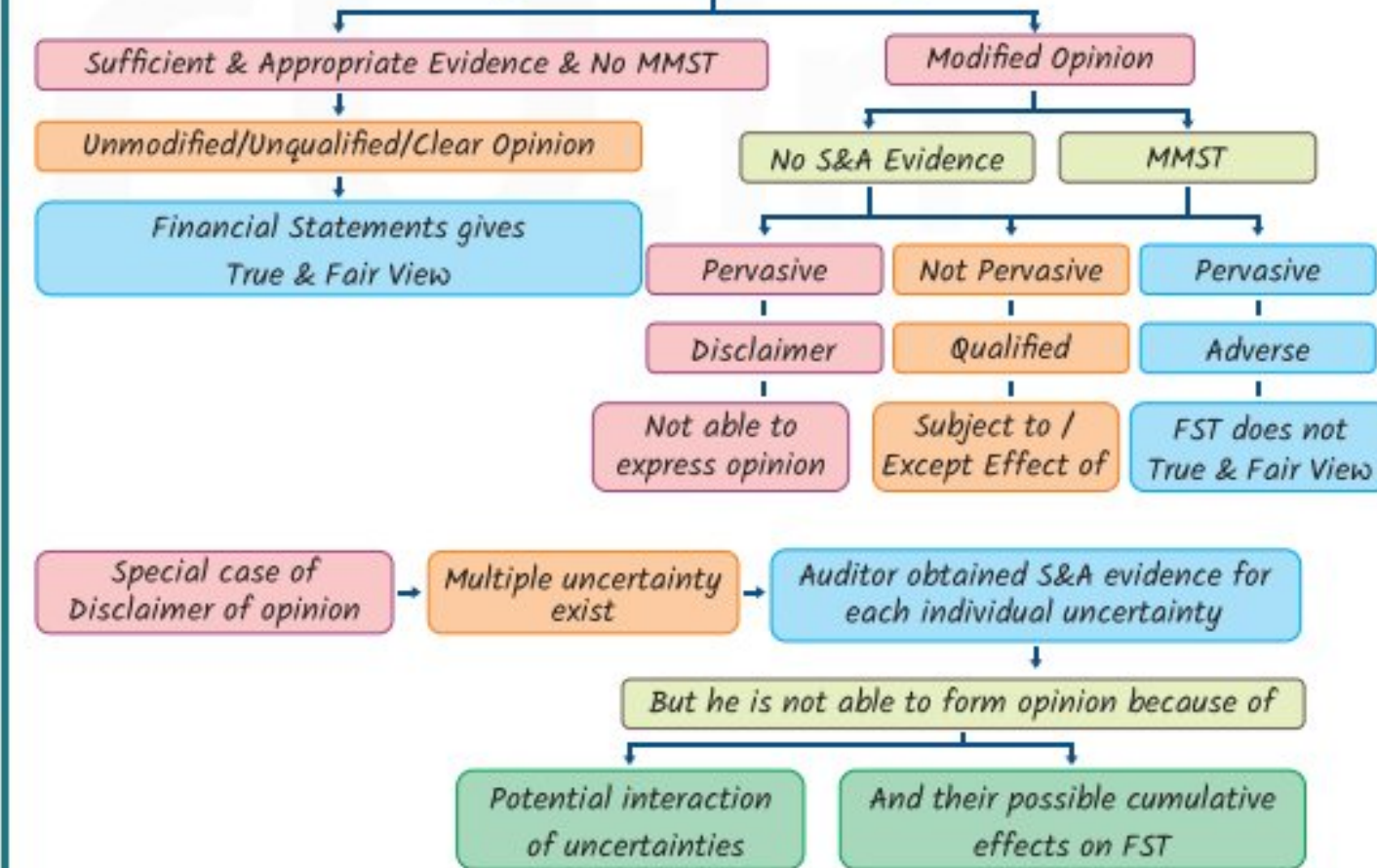
### KAM NOT A SUBSTITUTE FOR DISCLOSURES IN FST



### COMMUNICATON WITH TCWG



### TYPES OF OPINION



CA Ravi Taori

VSMART ACADEMY

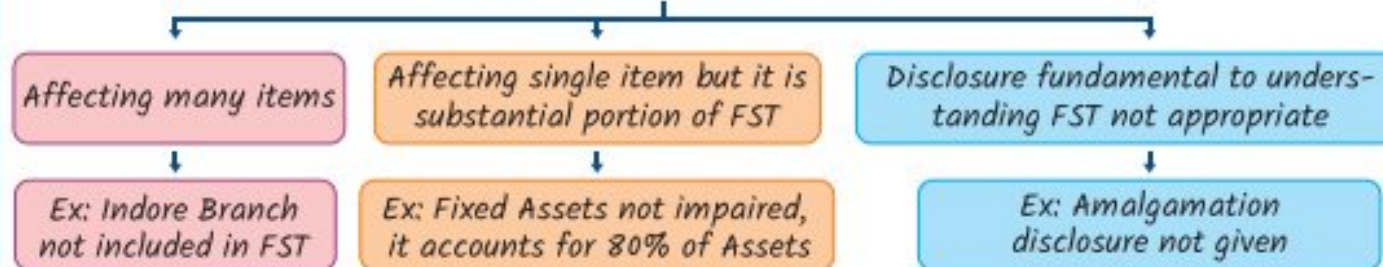
Auditguru.in

QR codes for Doubts and Telegram

### WHICH TYPE OF OPINION IS APPROPRIATE

It is mere repetition of types of opinion explained earlier

### PERSUASIVE MATTER

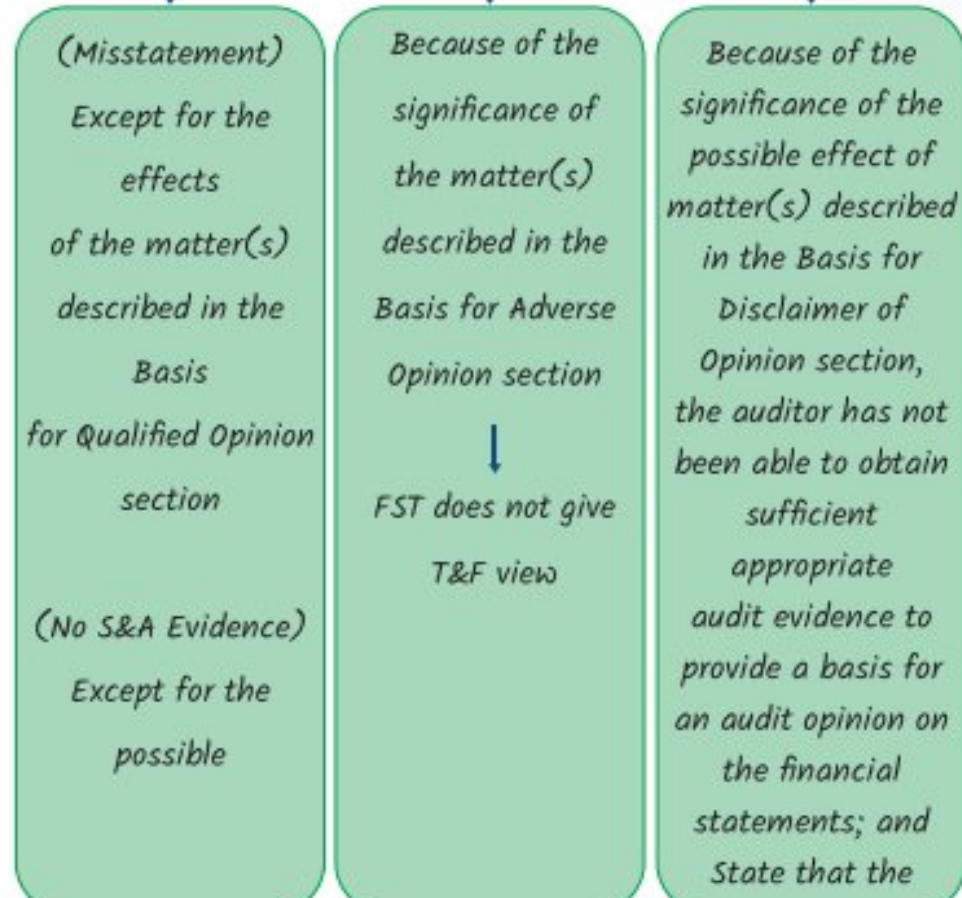
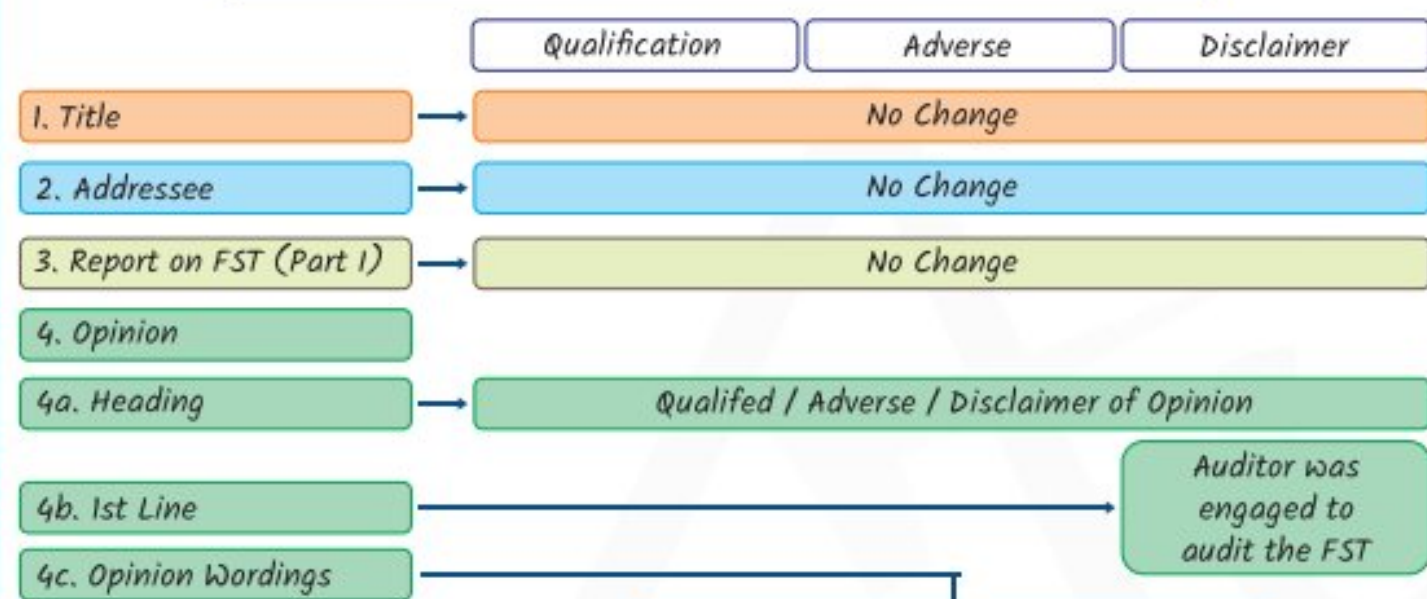


### OBJECTIVE OF AUDITOR AS PER SA705

Objective of Audit is to express clearly appropriately modified opinion when

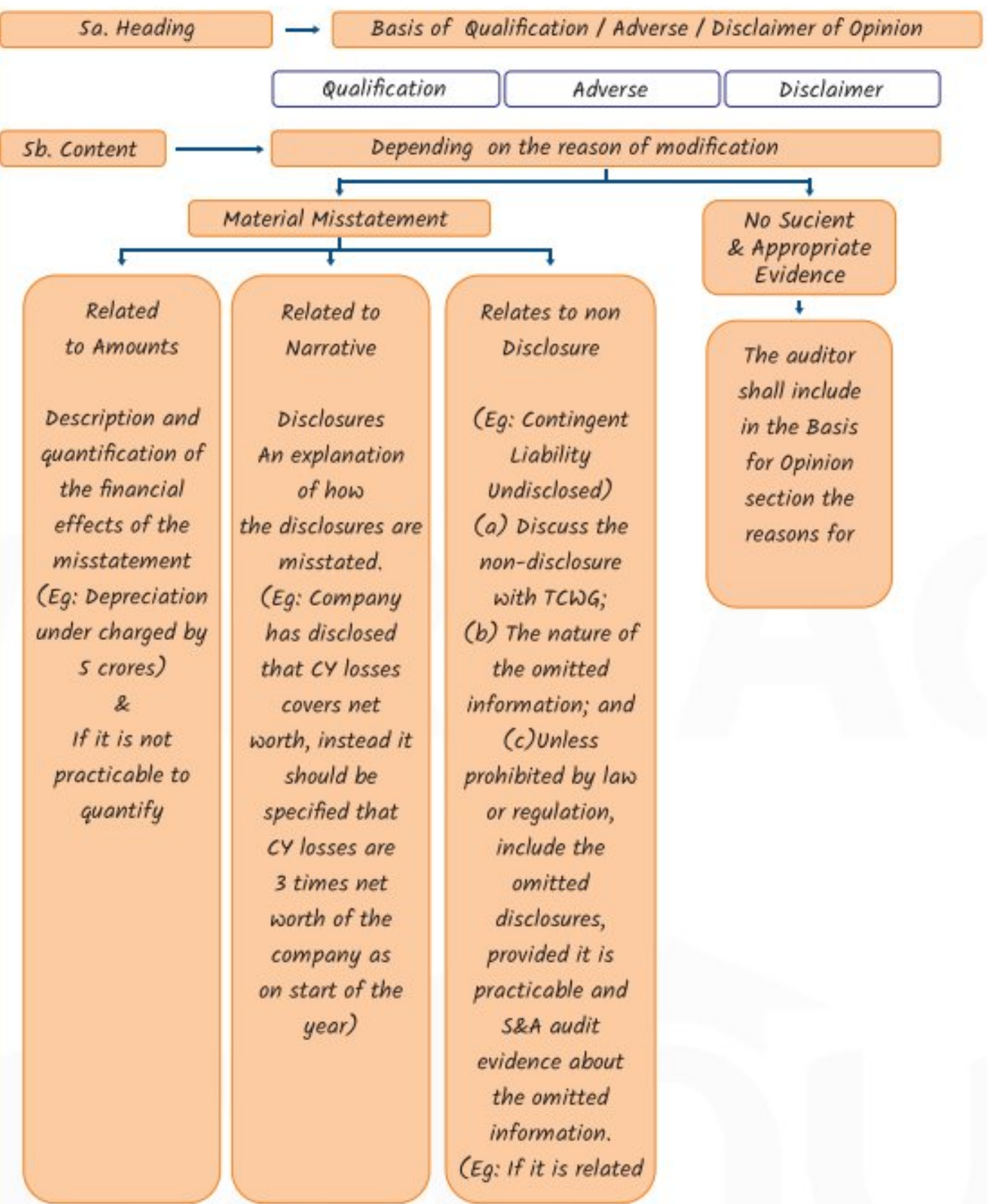
- Unable to obtain sufficient & appropriate audit evidence
- Financial statements are having material misstatement

### EFFECT OF MODIFICATIONS ON AUDIT REPORT



Continue on next Coloum...

### 5. Basis for Opinion



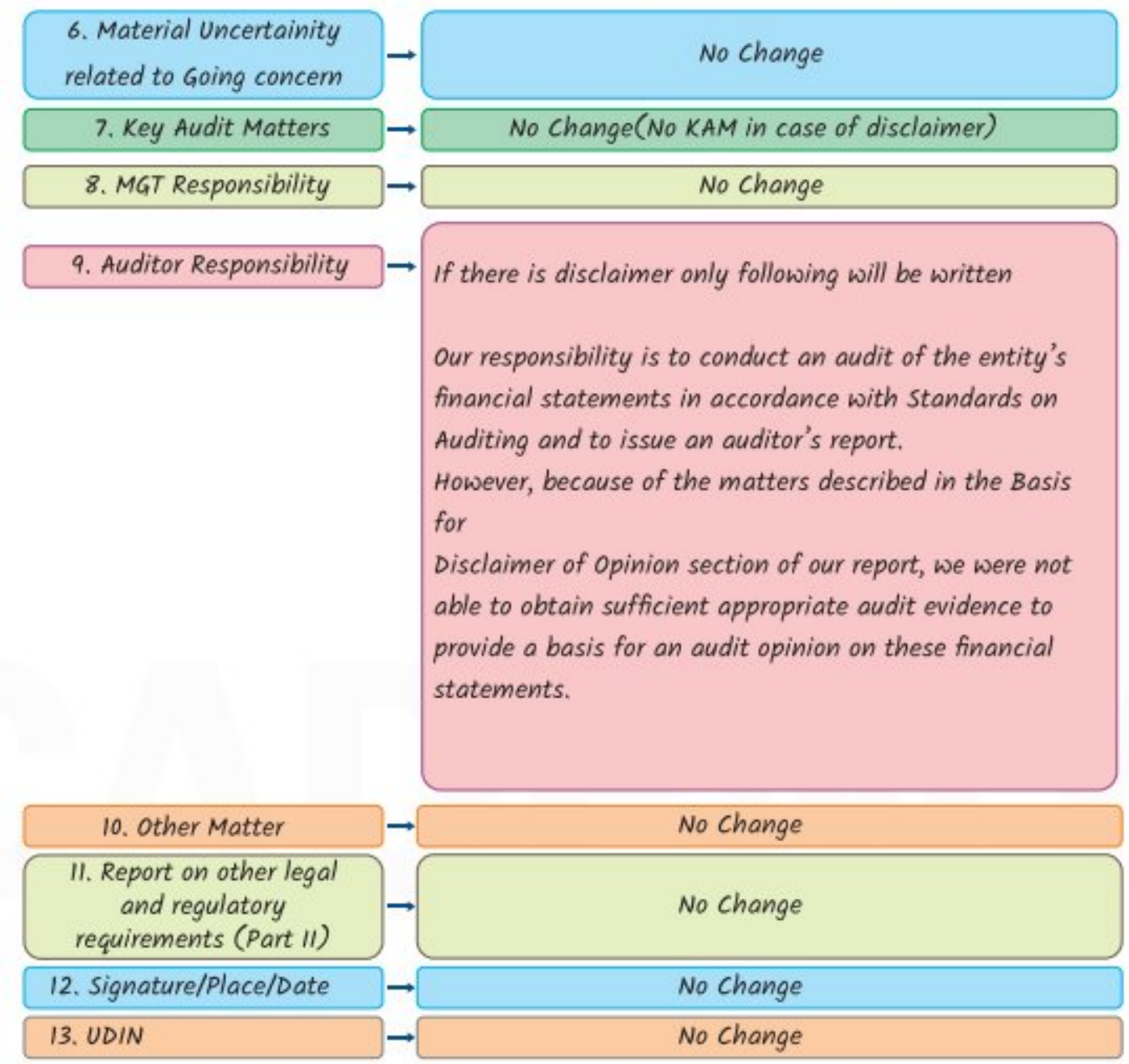
Sc. Last Line → When the auditor expresses a qualified or adverse opinion, the auditor shall amend the statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion to include the word "qualified" or "adverse", as appropriate.

When the auditor disclaims an opinion on the financial statements, the auditor's report shall not include the following Those elements are:

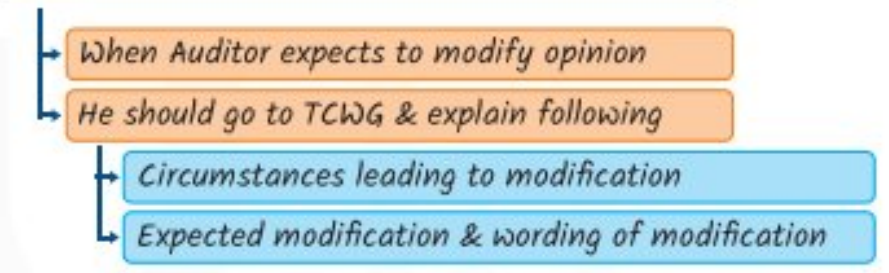
- (a) A reference to the section of the auditor's report where the auditor's responsibilities are described; and
- (b) A statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

Continue on next Coloum...

Qualification Adverse Disclaimer



### COMMUNICATION WITH TCWG



CA Ravi Taori

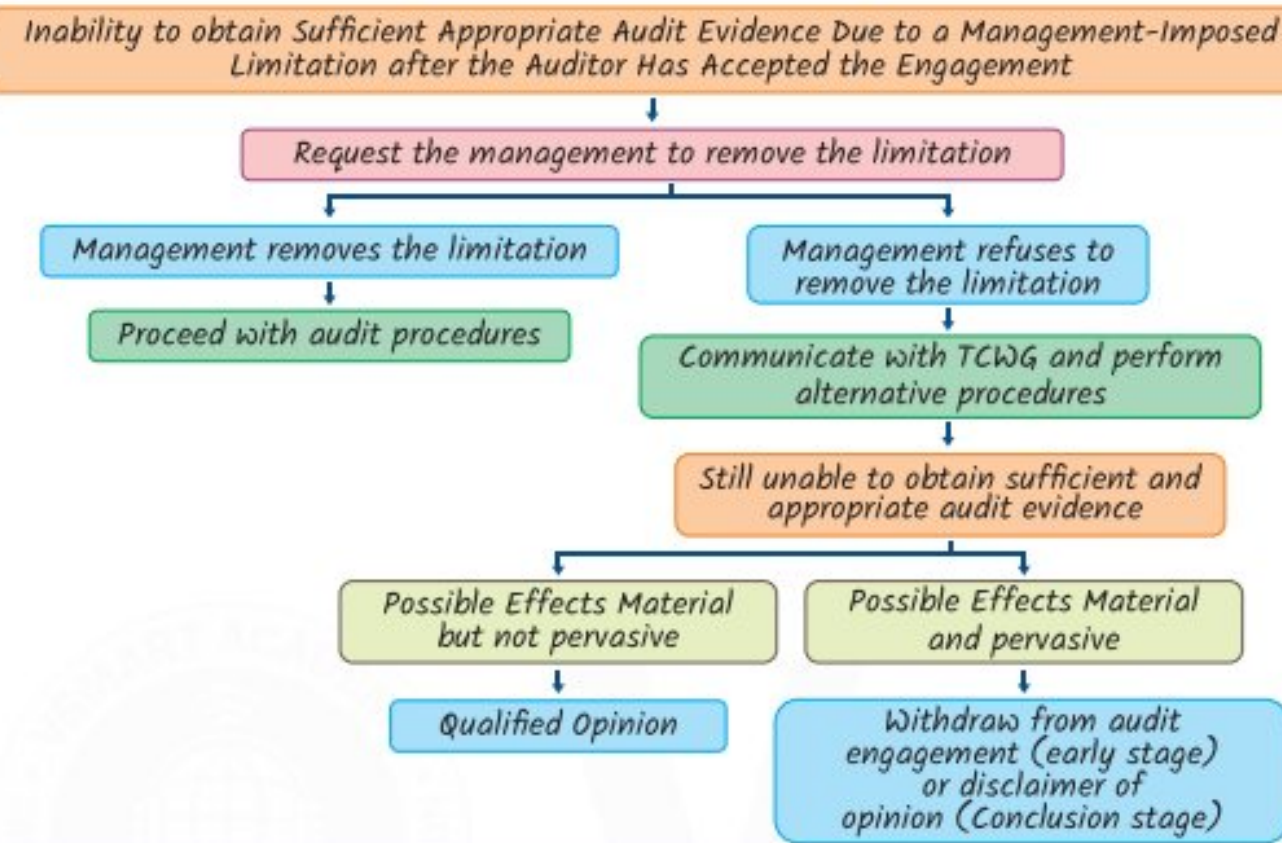
VSMART ACADEMY

Auditguru.in

CA Vishal Bhatnagar's

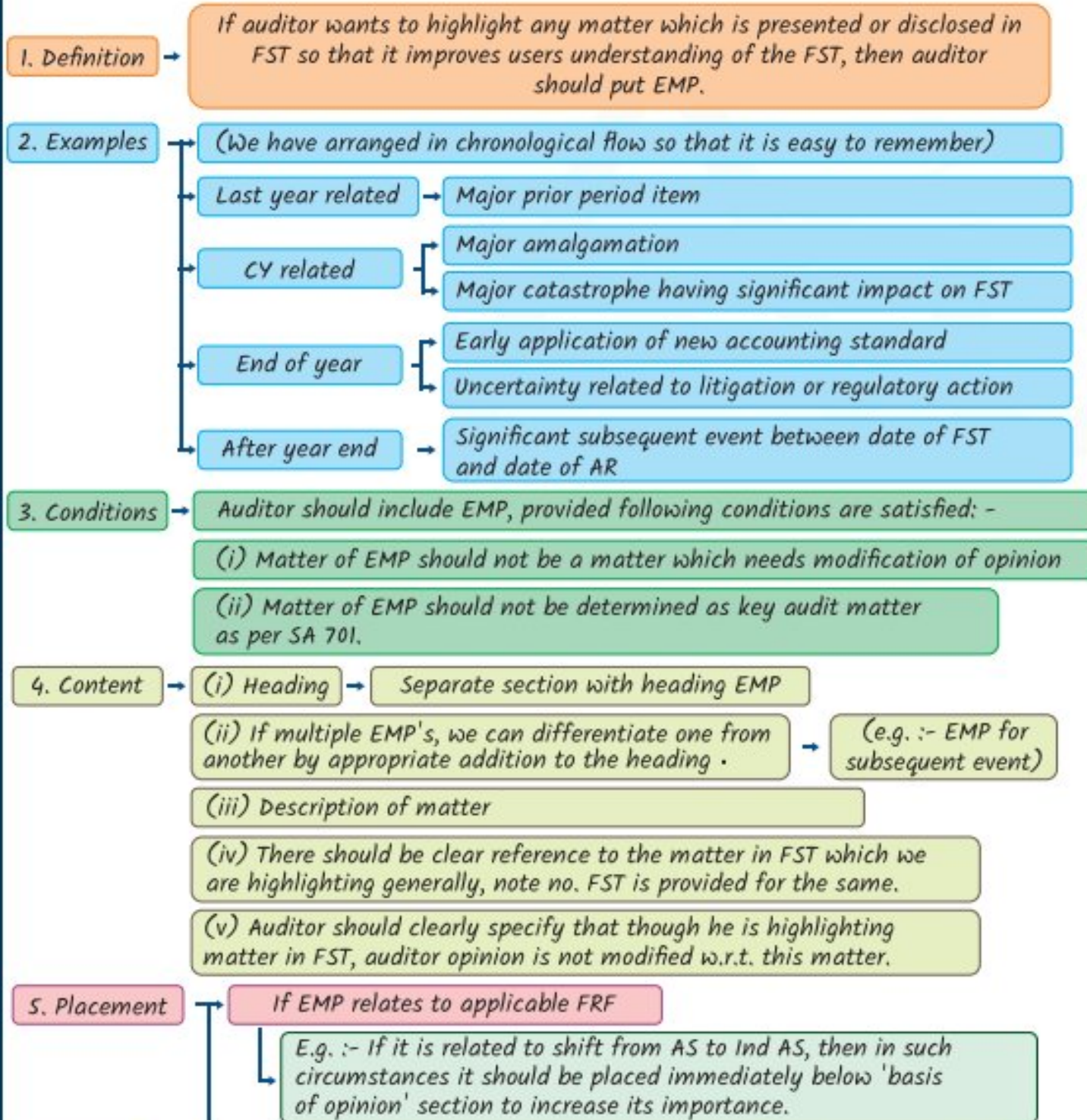
QR Codes: Doubts, Telegram

**LIMITATION OF SCOPE**



**Part 4- SA 706**

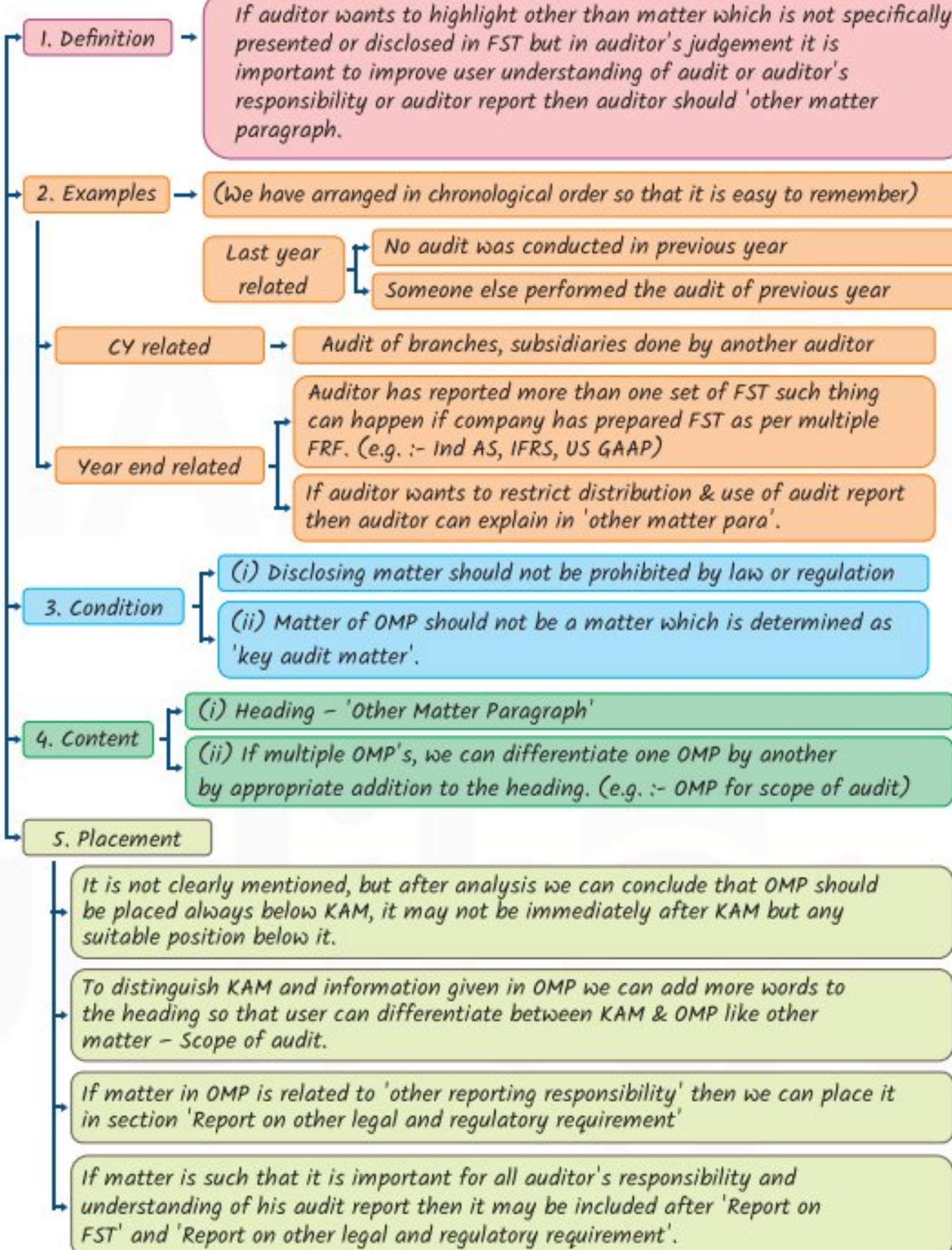
**EMPHASIS OF MATTER PARAGRAPH**



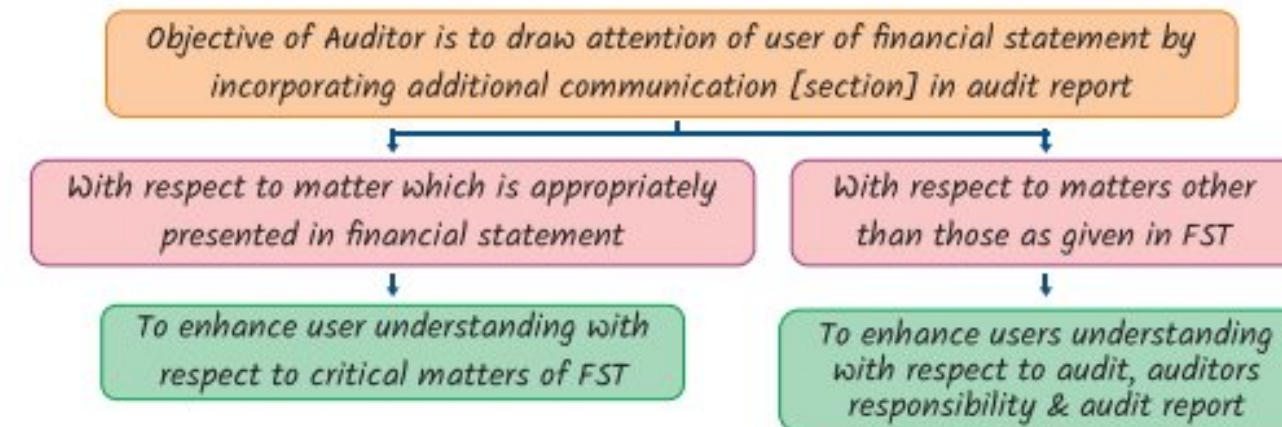
In other cases, EMP can be presented either before or after 'key audit matter' based on auditor's judgement as to relative significance given in EMP.

E.g. :- If prior period item is very significant, changing profits drastically than EMP may be placed before 'key audit matter'.

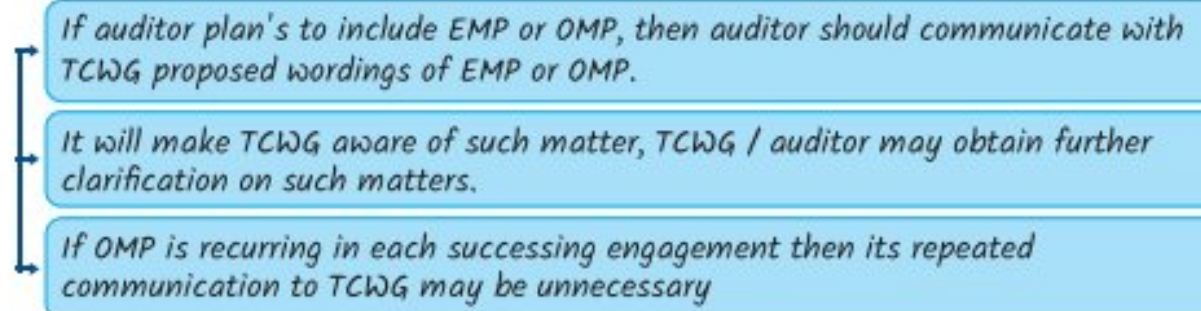
**OTHER MATTER PARAGRAPH**



**OBJECTIVE OF THE AUDITOR AS PER SA 706**

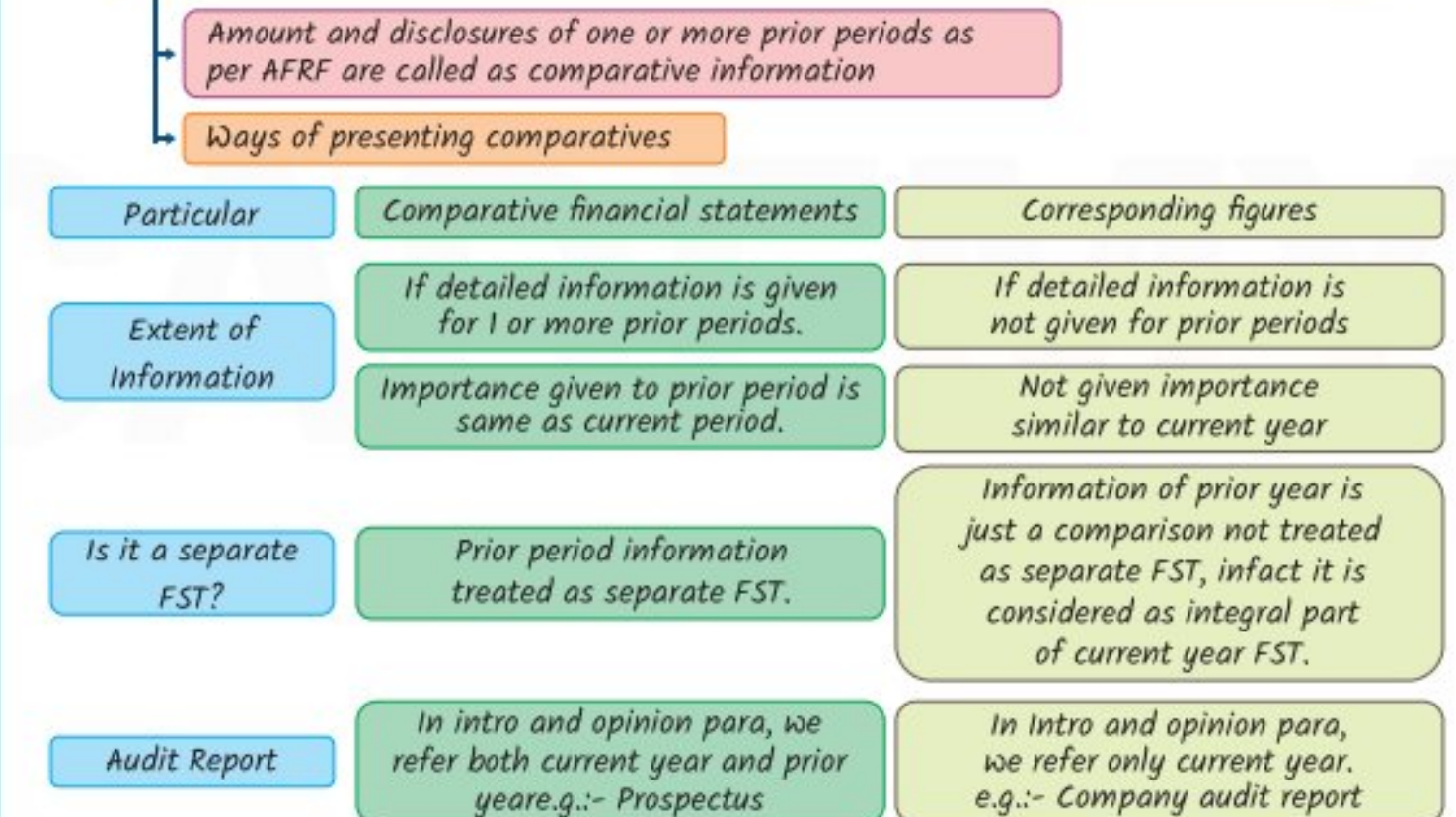


**COMMUNICATION WITH TCWG**



**Part 5 - SA 710**

**COMPARATIVES AND WAYS OF PRESENTING COMPARATIVES**



Note 1 :- Corresponding figure approach is popular across the world, generally FRF specify that where ever current year amounts are given we should provide previous year amounts also which shows that importance is given to current year and previous year amounts is just for comparison nothing more. Same thing is given in Schedule III

Note 2 :- This standard gives reporting approach. It doesn't say that we are suppose to do audit of 2 years in comparative financial statement approach. That means if we have done audit of 2 years, then only we will able to refer current year and previous year in opinion and intro para. If we have not done audit of previous year, we will have to put OMP explaining either previous year audit was not done or it was done by predecessor auditor, also provide the type of opinion with reason if it is modified and date of audit report.

**OBJECTIVES AS PER 710**



CA Ravi Taori

VSMART ACADEMY

Auditguru.in

CA Vishal Bhartiya

QR Codes for Doubts and Telegram

### AUDIT PROCEDURES FOR COMPARATIVES / COMPARATIVES FINANCIAL STATEMENTS / CORRESPONDING FIGURES

#### Basic Evaluation of Comparative Information

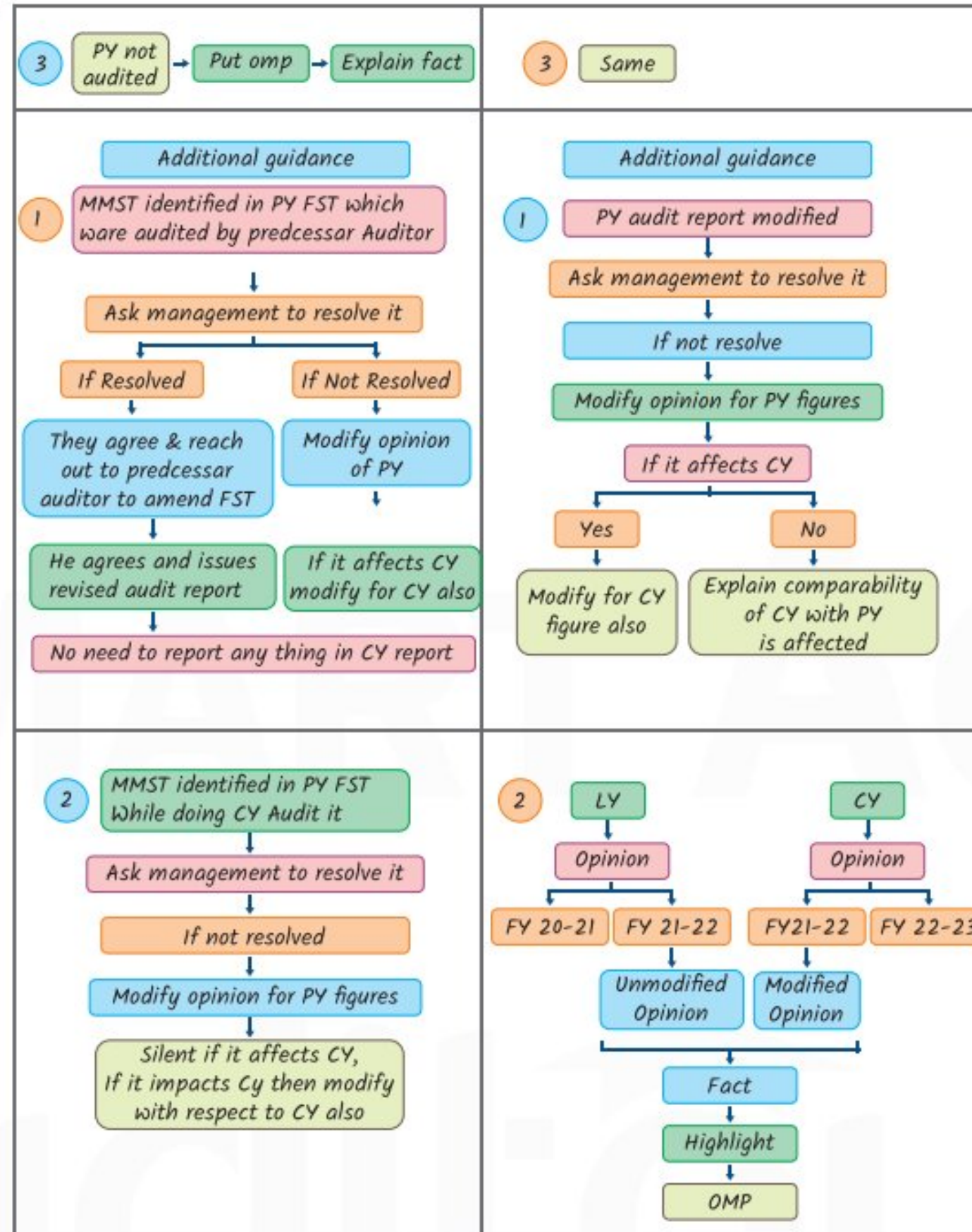
- Auditor should understand requirements of AFRF w.r.t. to comparative information and check whether this information is appropriately presented in FST
- Agree comparative information with amount and disclosures presented in prior period FST.
- Ensure that accounting policies reflected in comparative information are consistently followed and if there is a change it is properly accounted, disclosed and presented in current period

#### Additional procedures in case of possible material misstatements

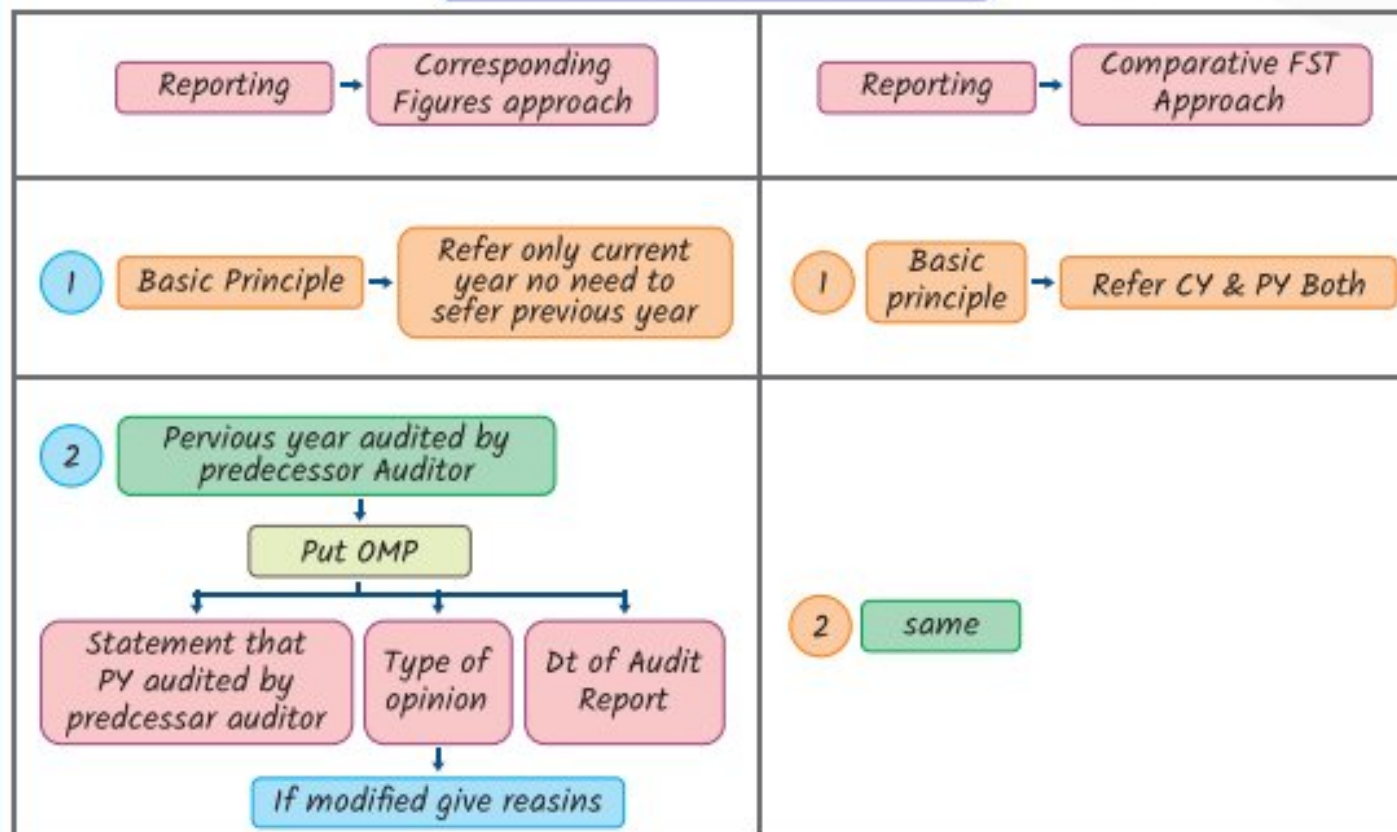
- If auditor become aware of possible material misstatement in comparative information while doing audit than auditor can perform additional audit procedures as suitable to draw conclusion whether material misstatement exists
- If material misstatement exist then either previous year FST should be revised and such revision should be done as per requirements of SA 560 which deals with subsequent events. It will be auditor's responsibility if he was auditor of previous year. Generally this is possible before AGM easily in other cases rectification are done in current period as prior period items.

#### Written Representations

- The Auditor shall request WR for all the periods which are refer in opinion para.
- CFS** → In case of comparative financial statements we will request WR for current period or as well as prior periods which are referred in audit report. Even if we have taken WR in previous year we will take it again to ensure that information is appropriate as on current year (today)
- Corresponding figures** → WR will be requested only for current period
- Specific WR may be obtained if there is any prior period financial items if disclosed in current year's P&L.

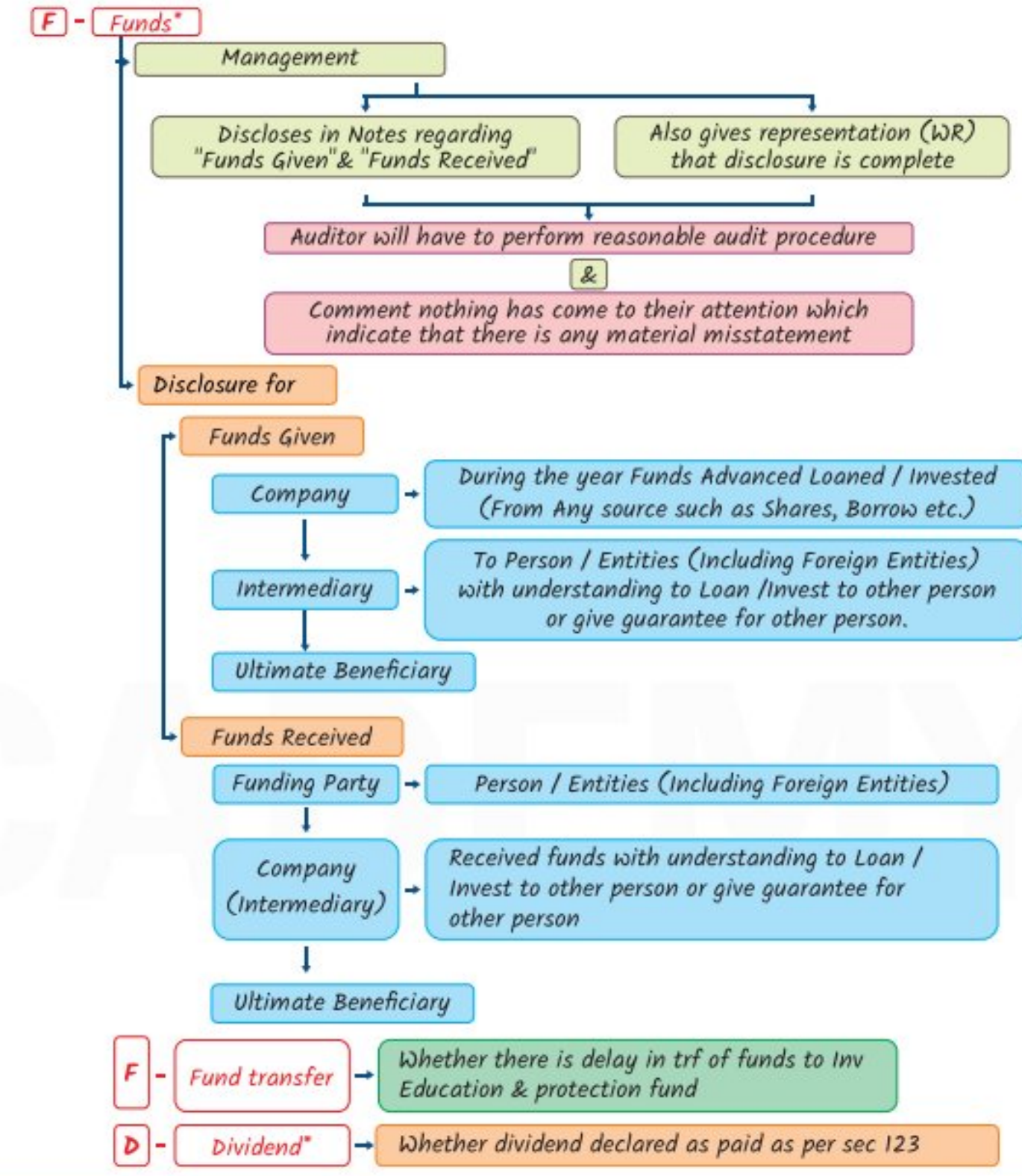
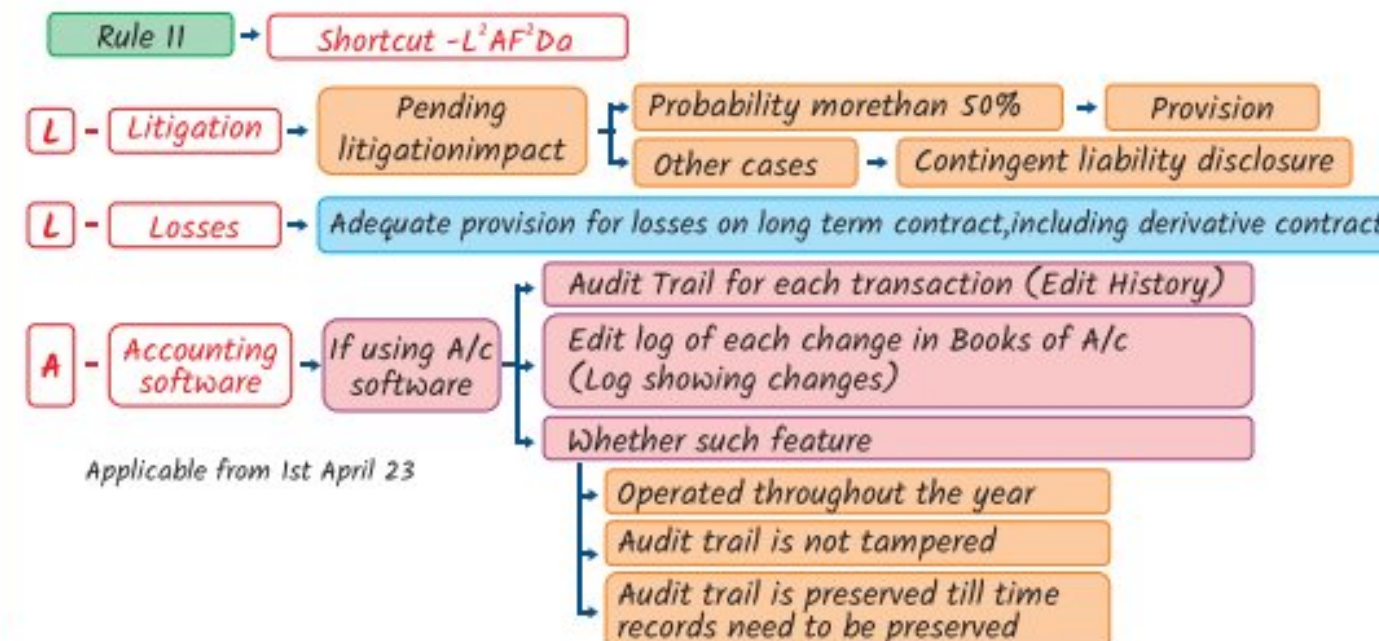


### AUDIT REPORTING

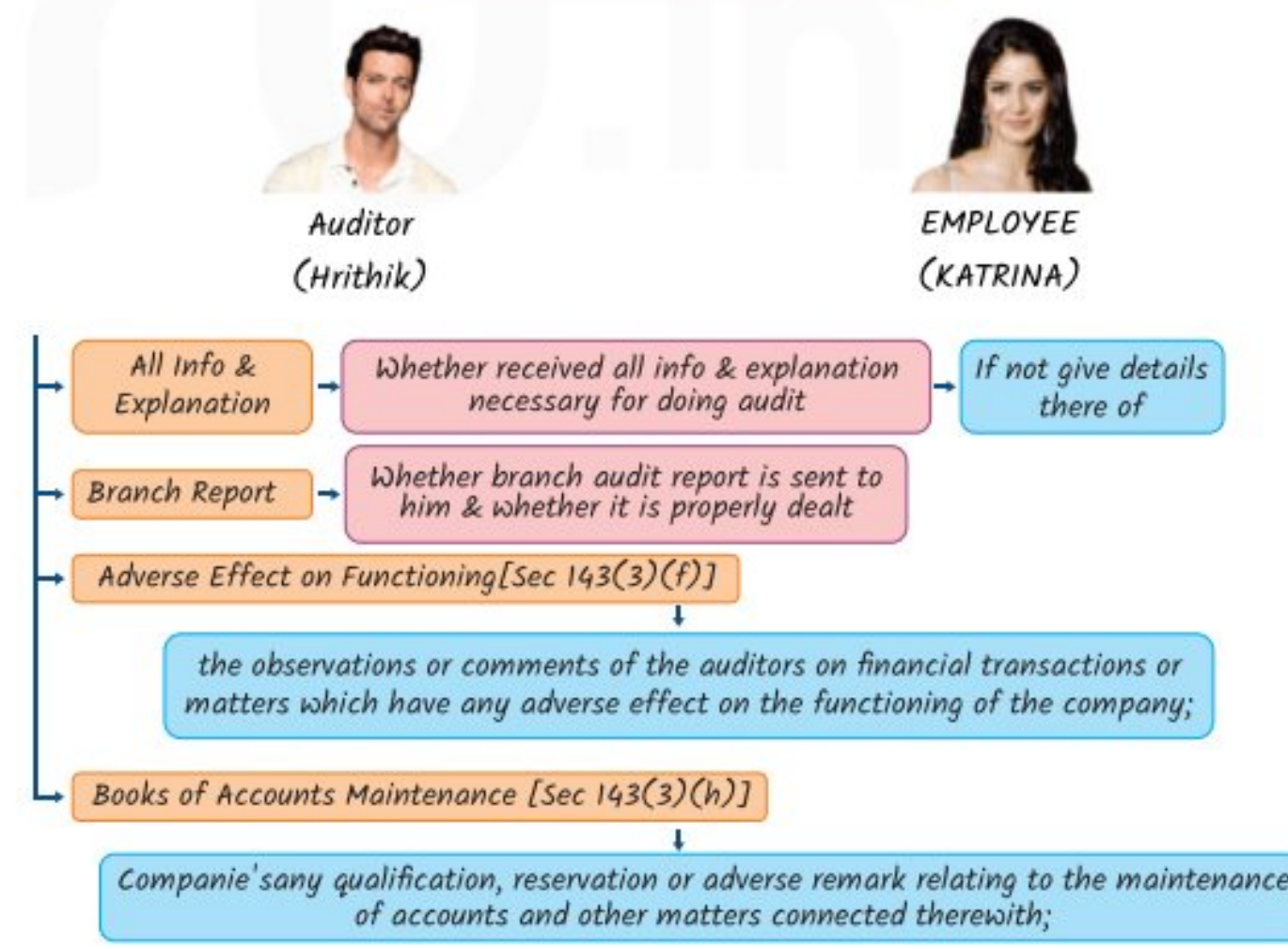


### Part 6 - Company Audit

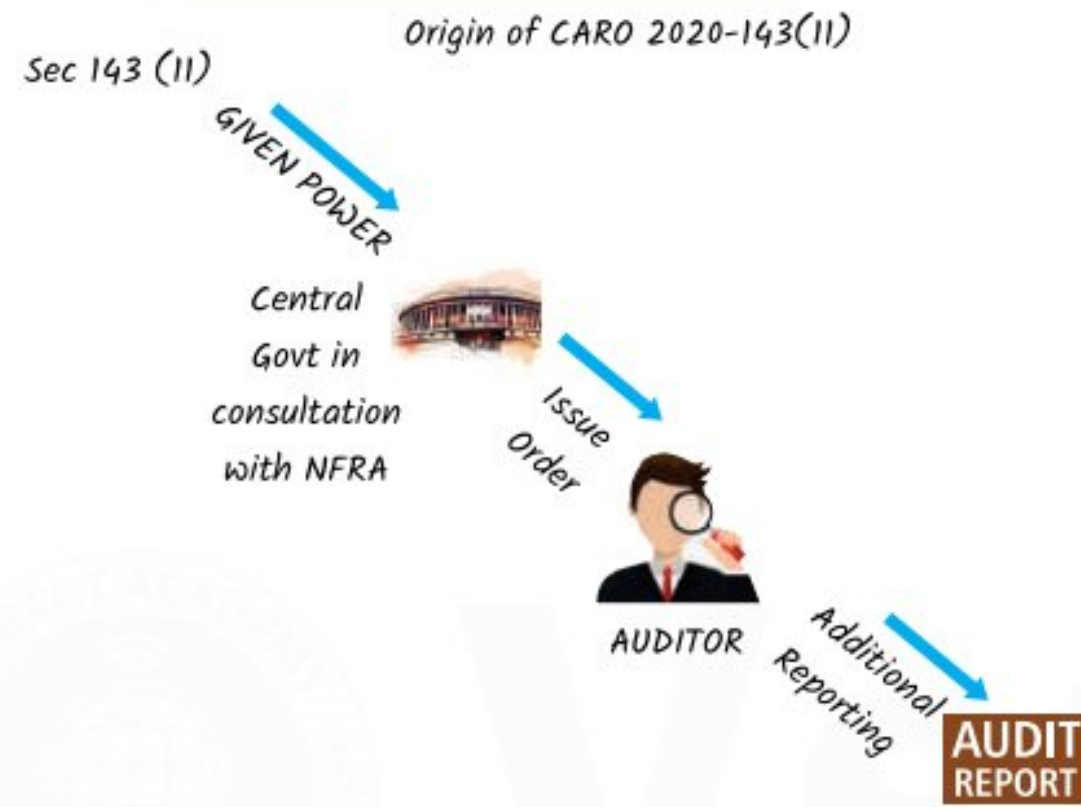
#### Meeting with Manager



#### Meeting with Employee

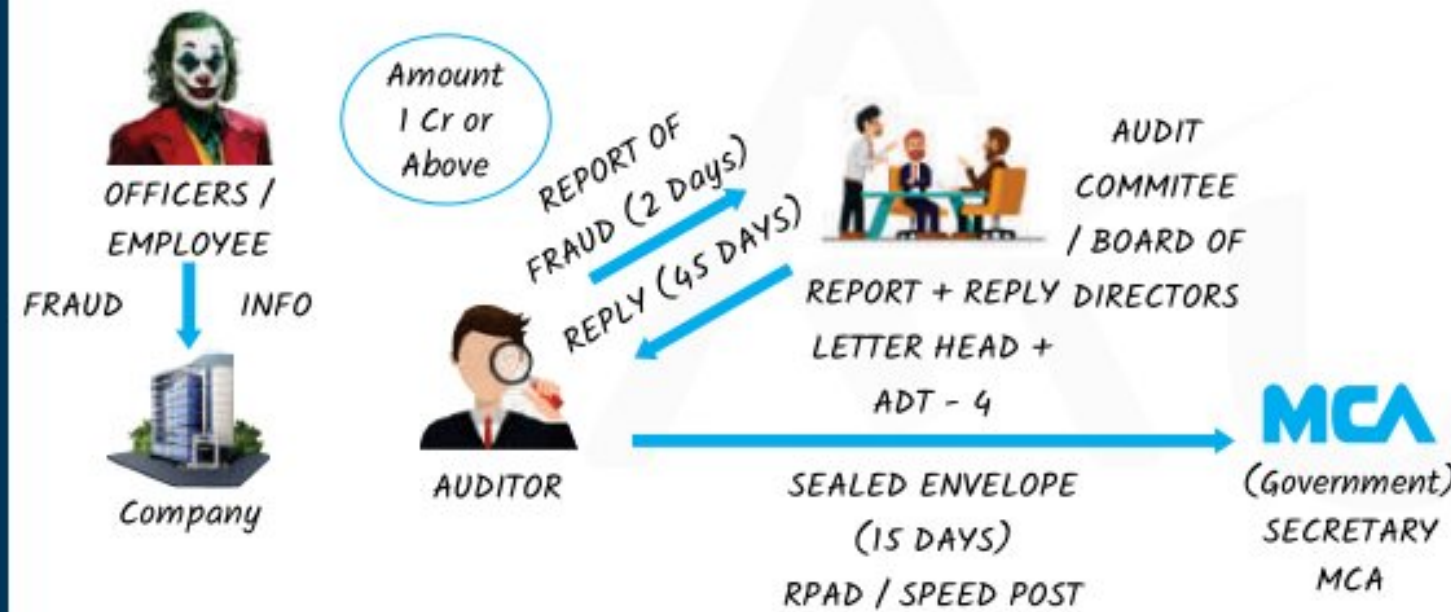


**ORIGIN OF CARO**



CNO--CA.420 (QNO-CoAud.76) (MCQ-CAI.9, CAI.27, CAI.28, CAI.36, Incs.04.3, Incs.07.3, Incs.12.3, Incs.46.3, Incs.54.3, Incs.57.3, Incs.57.4)

**DUTY TO REPORT ON FRAUDS U/S 143(12)**



\*\*\*Reason to believe that fraud is being committed / already committed

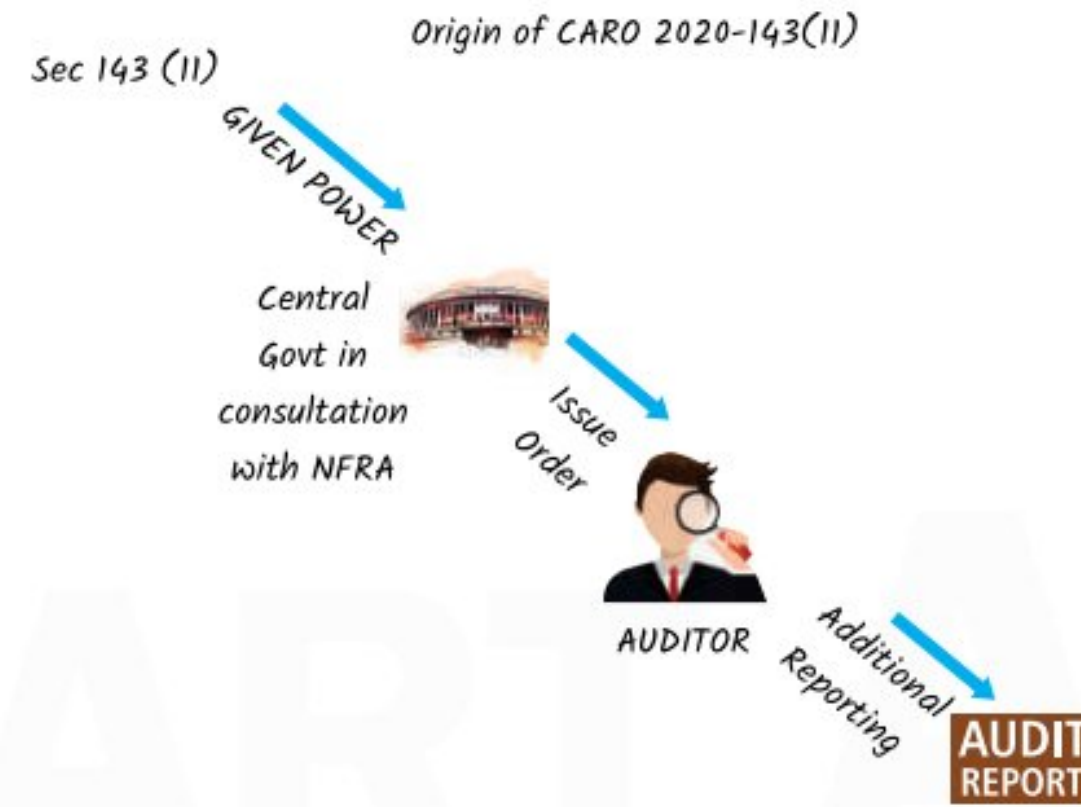
\*\*\*also applicable to Cost Auditor (CMA) & Company Secretary (CS)

\*\*\*Will not be considered as breach of principle of confidentiality

**Part 7 - CARO**

(CNO--CARO.020)

**ORIGIN OF PARAGRAPH OF CARO REPORTING**



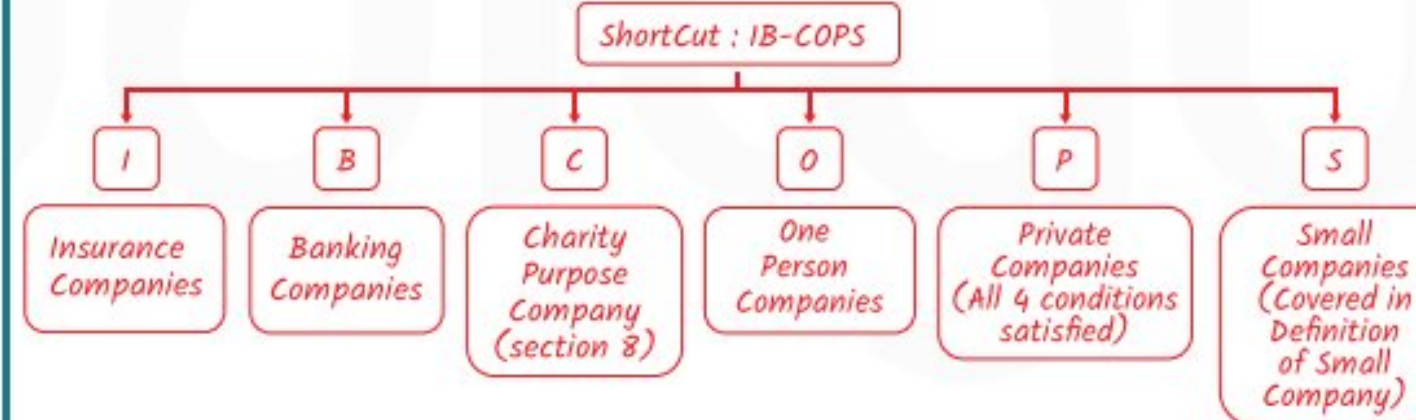
(CNO--CARO.040) (QNO-CARO.01, CARO.03, CARO.03.S0, CARO.04) (MCQ-CARO.1)

**APPLICABILITY OF CARO**

All Companies (From FY 2021-22)

Including Foreign companies

**EXEMPTION FROM CARO**



**SHORT CUT TO REMEMBER CLAUSES OF CARO 2020**

SLIDE 1 (After Passing CA)

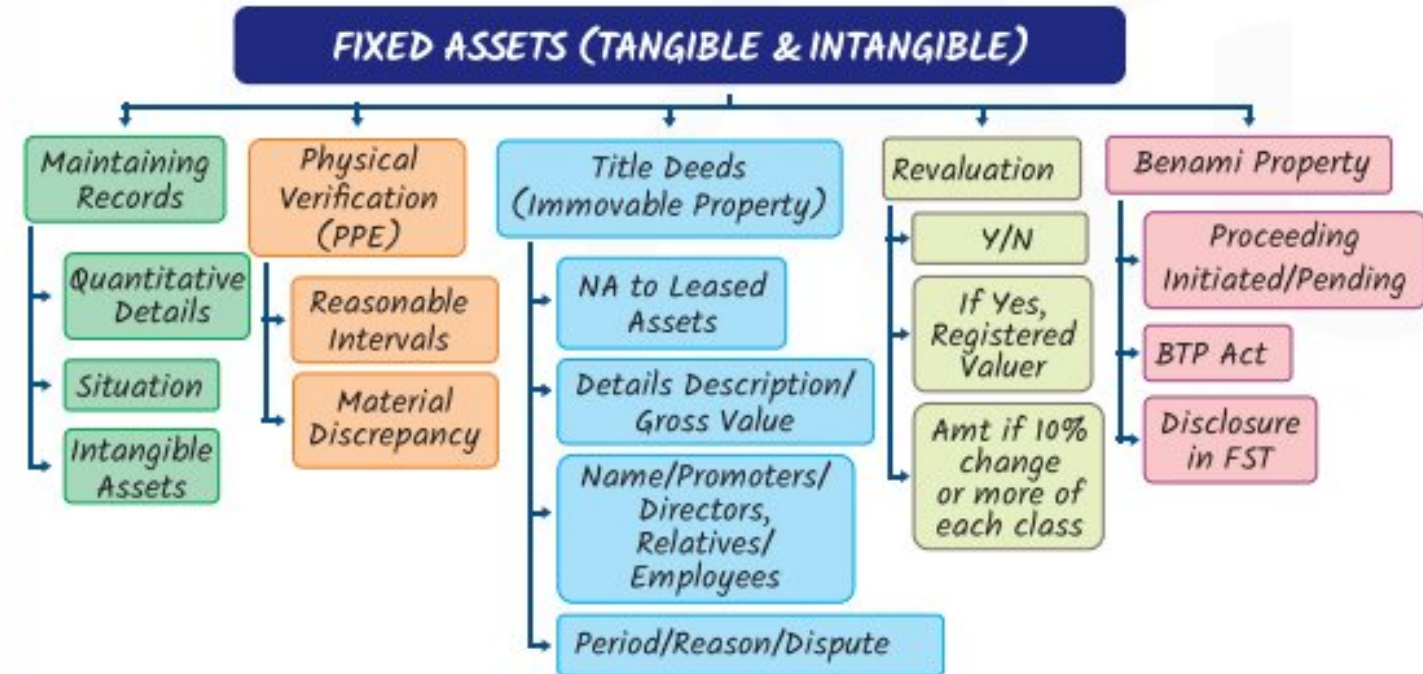


Slide 3 (Good Food V/s Bad Food)



(CNO--CARO.070) (QNO--CARO.05/CARO.07/ CARO.07.50/CARO.09/CARO.11)

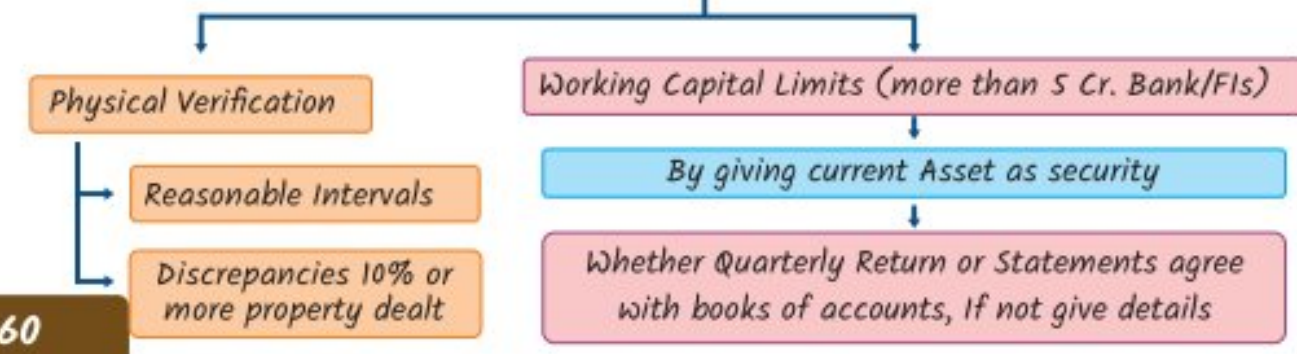
**CLAUSE 1**



(CNO--CARO.080) (QNO--CARO.09/CARO.13)

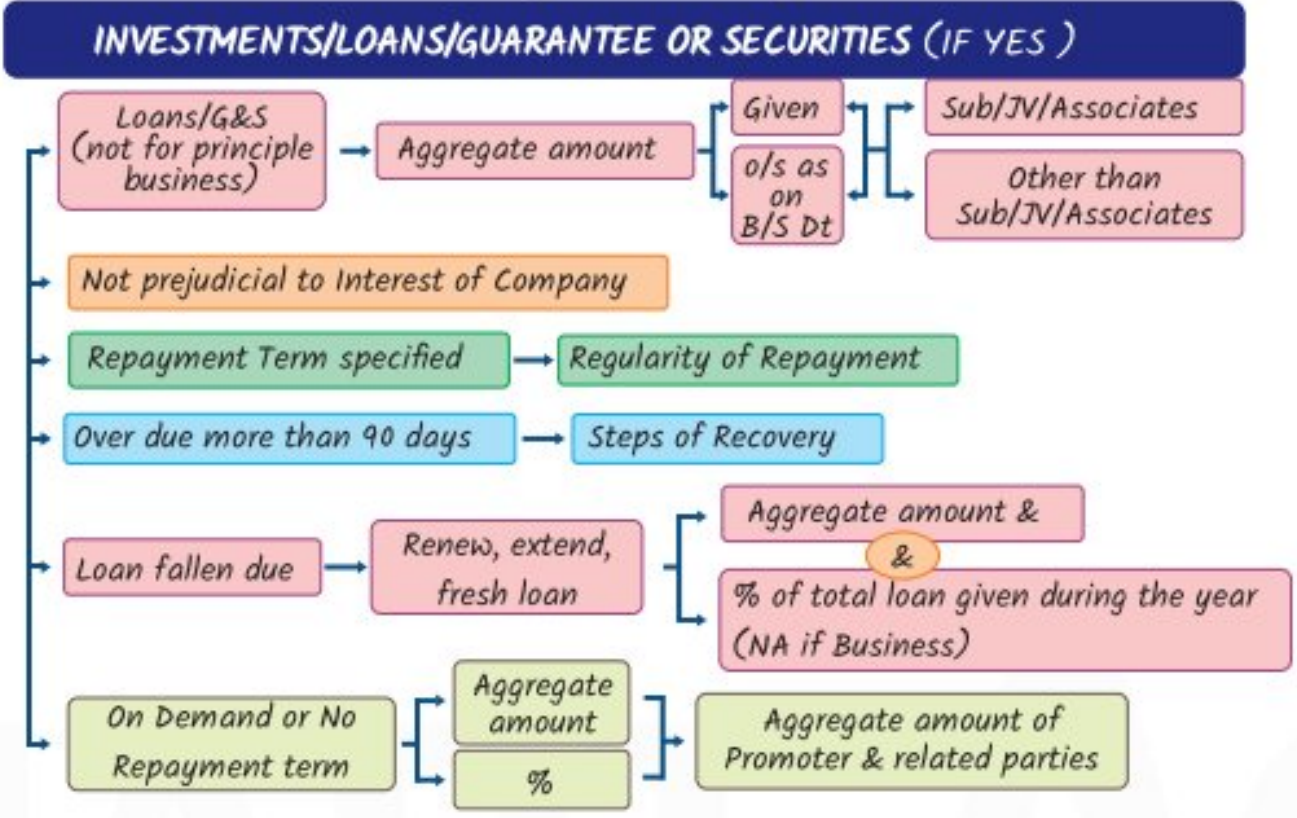
**CLAUSE 2**

**INVENTORY**



(CNO--CARO.090) (QNO--CARO.15)

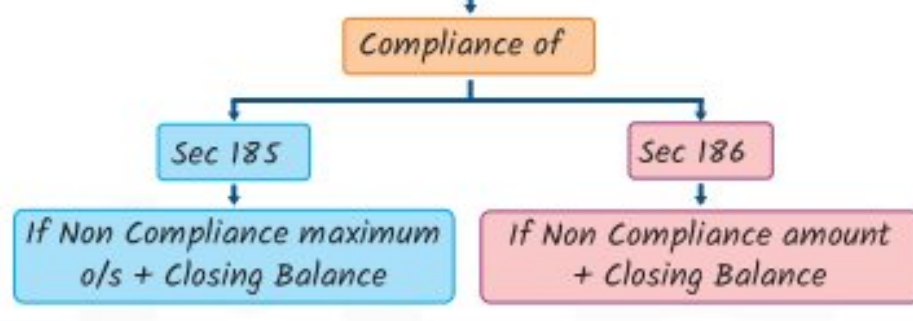
**CLAUSE 3**



(CNO--CARO.100)

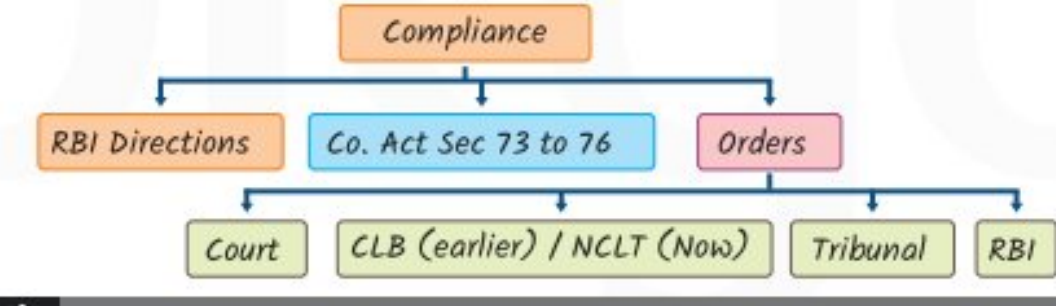
**CLAUSE 4**

**LOAN/INVESTMENT/GUARANTEE & SECURITIES**



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**CLAUSE 5**



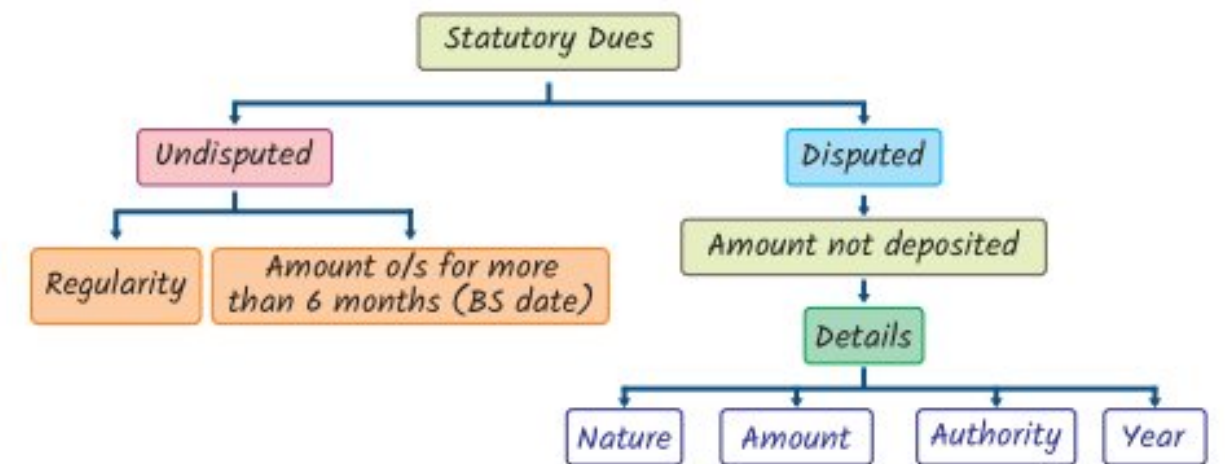
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**CLAUSE 6**



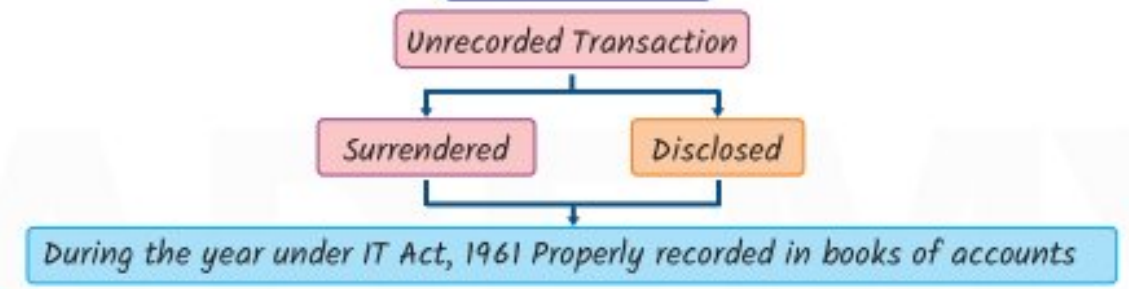
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**CLAUSE 7**



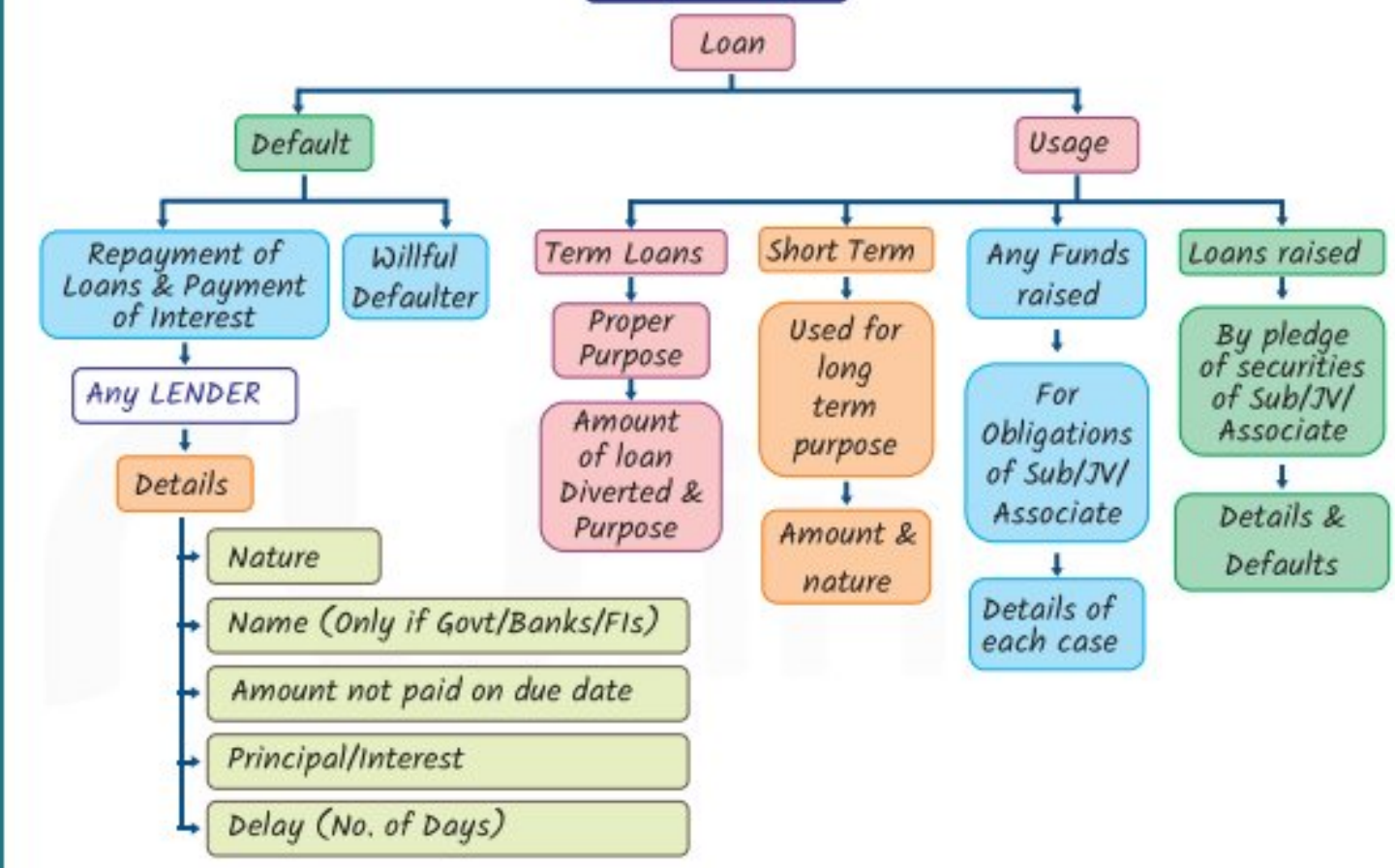
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**CLAUSE 8**



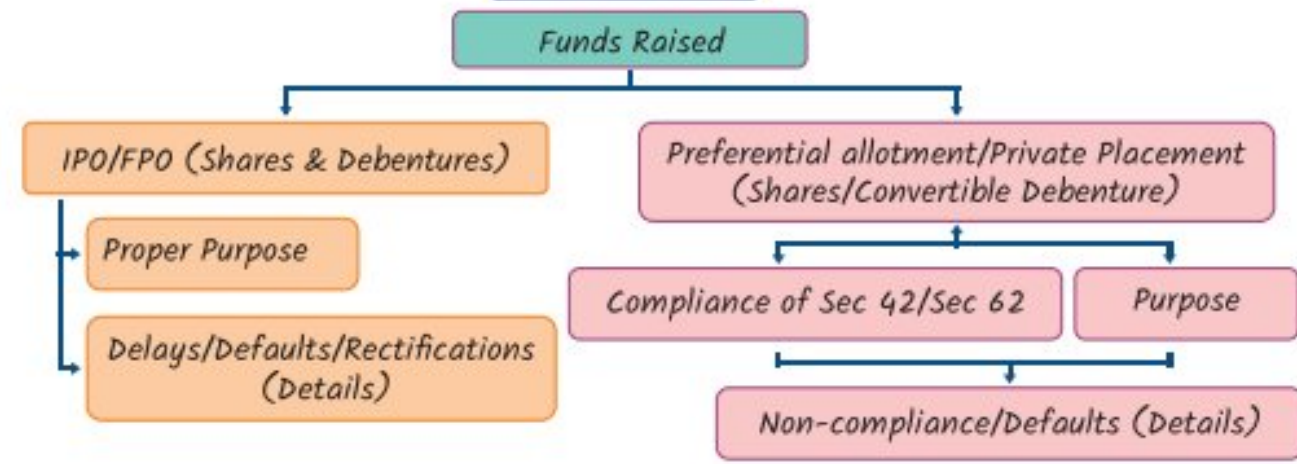
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**CLAUSE 9**

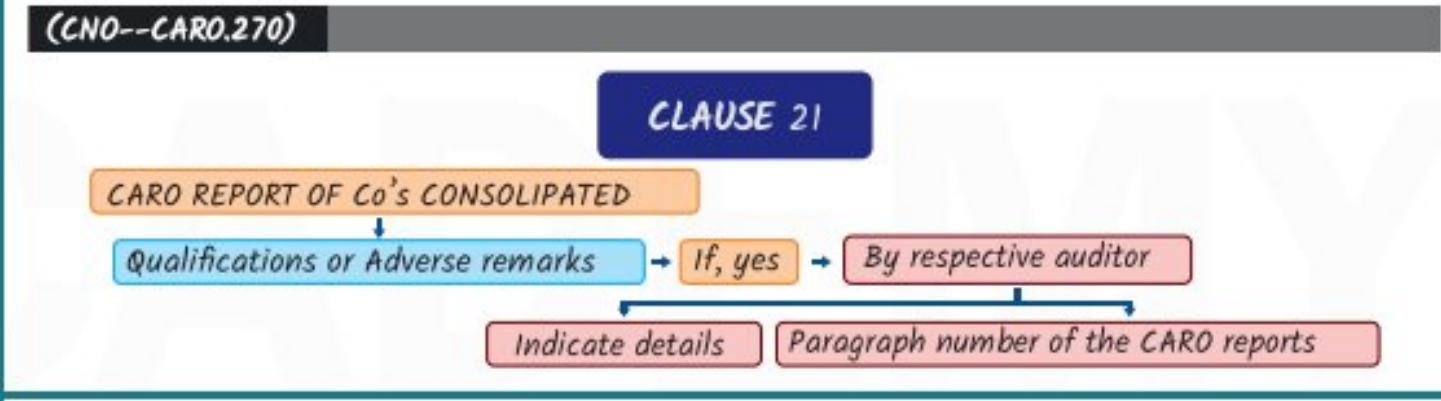
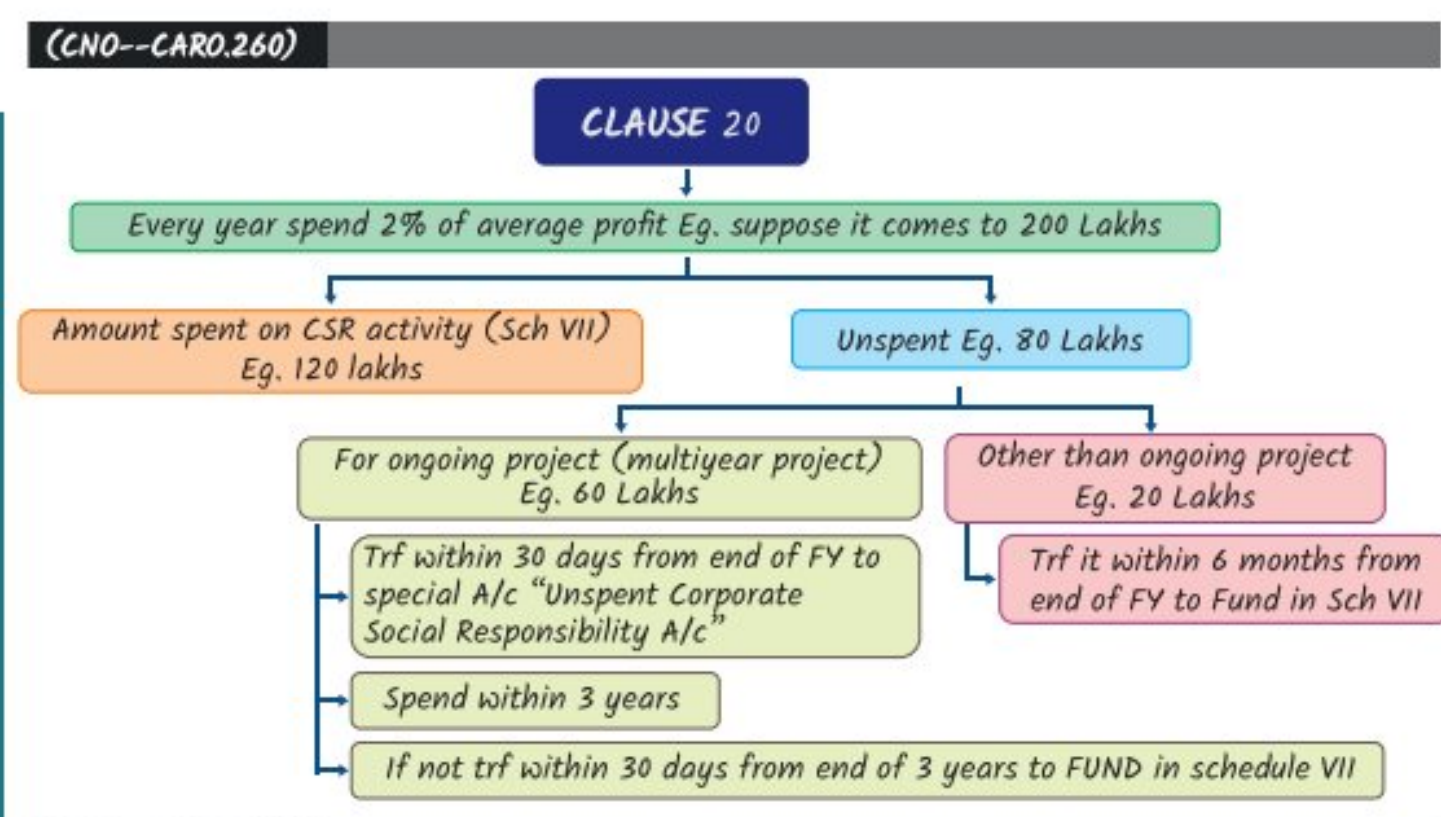
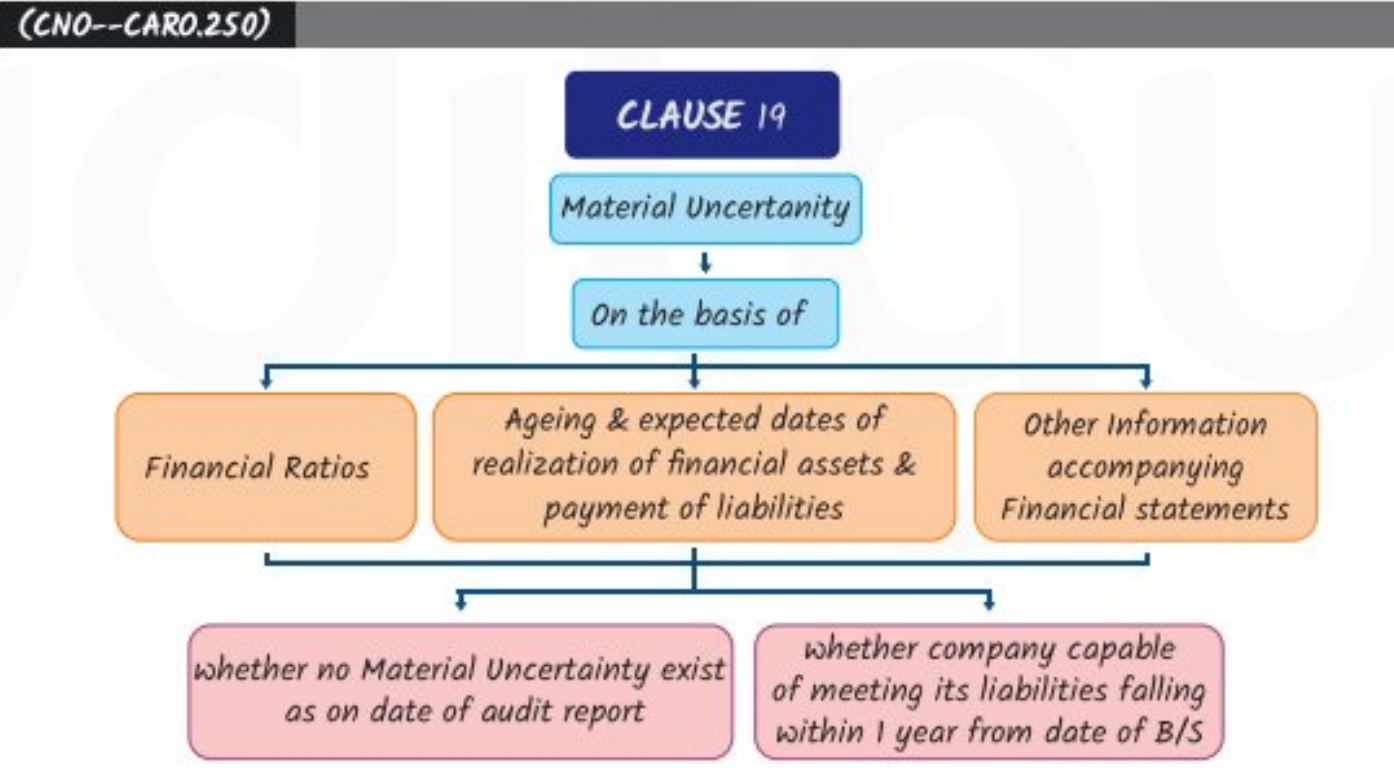
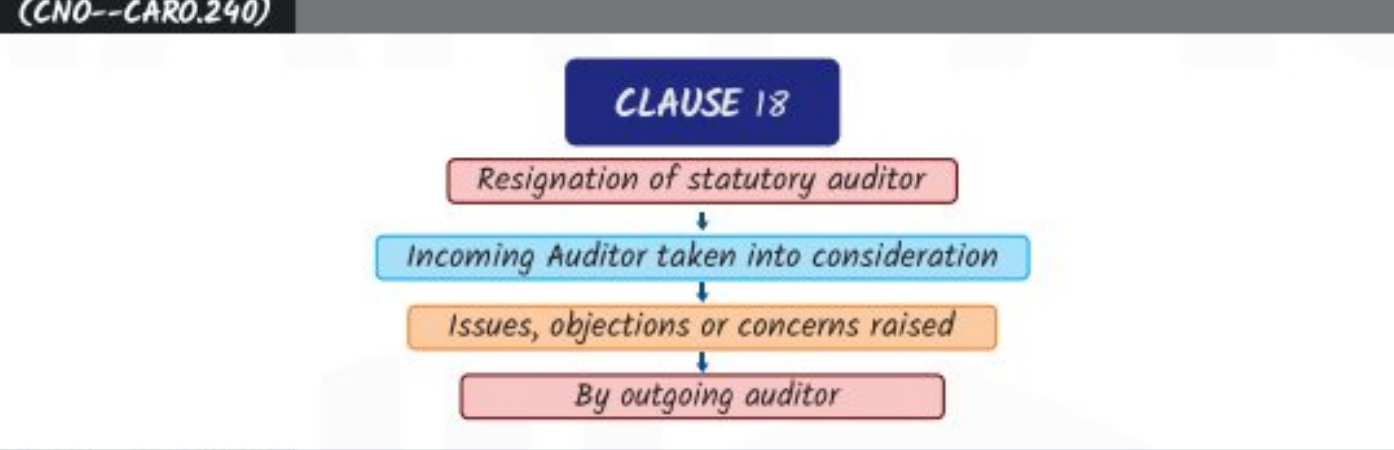
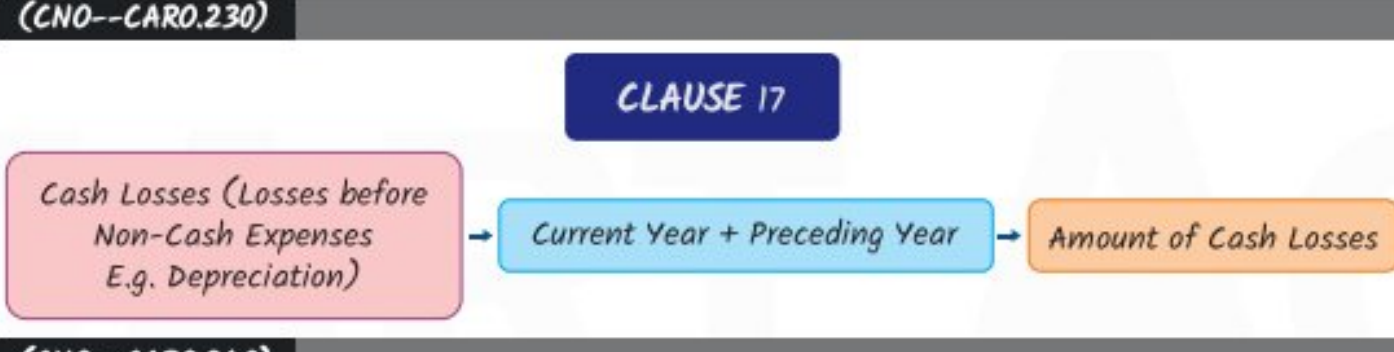
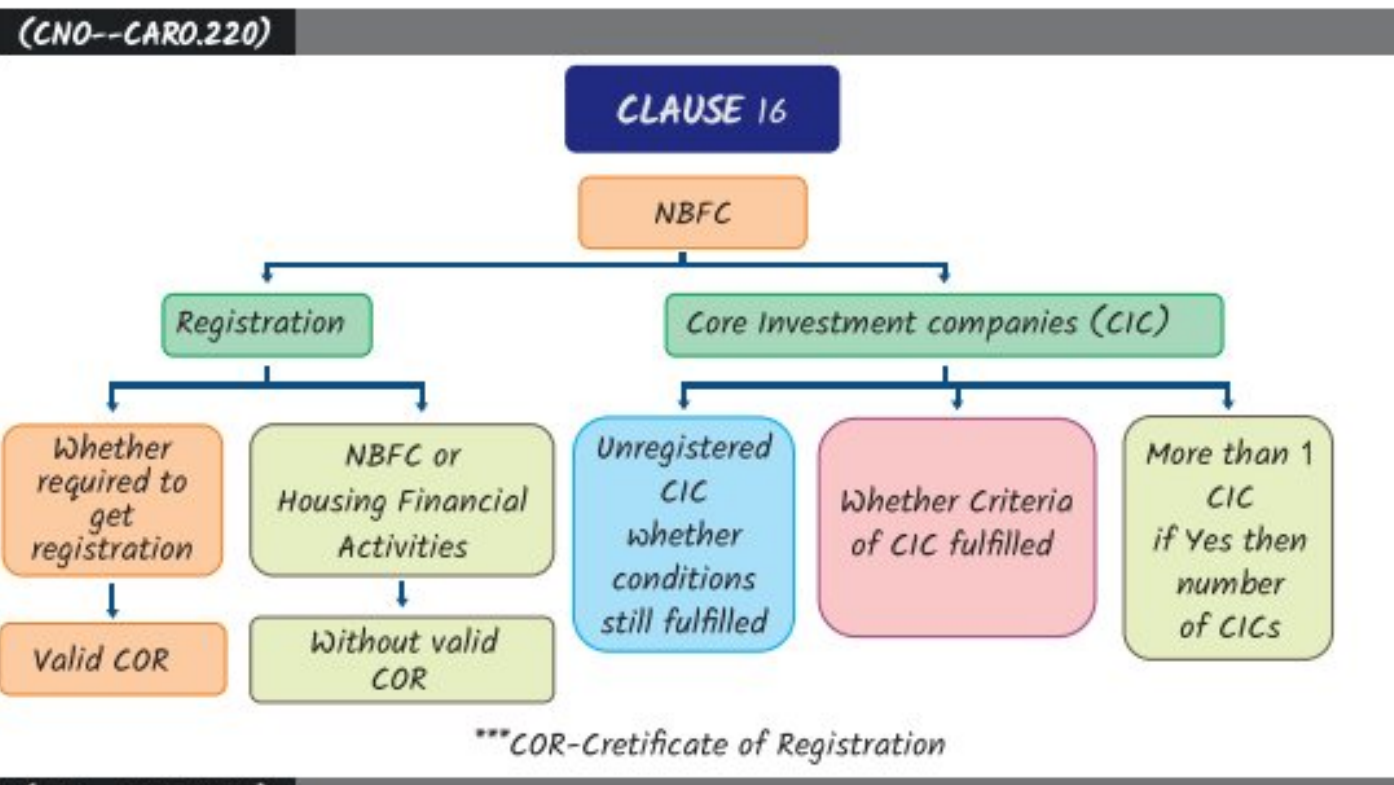
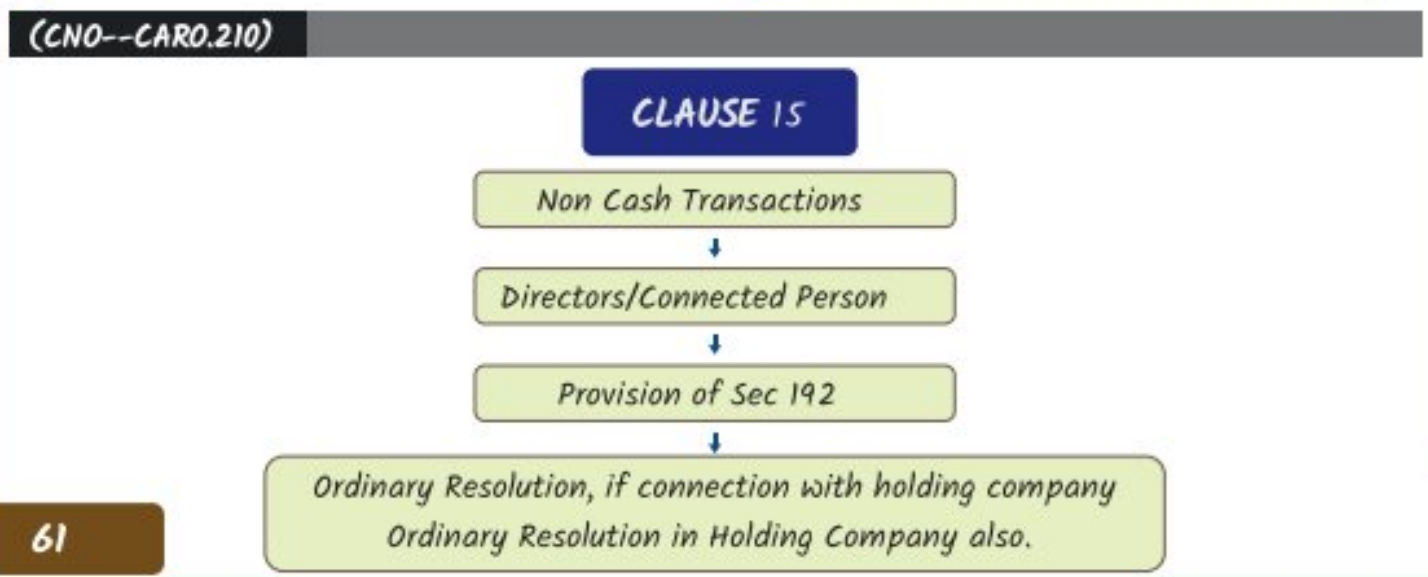
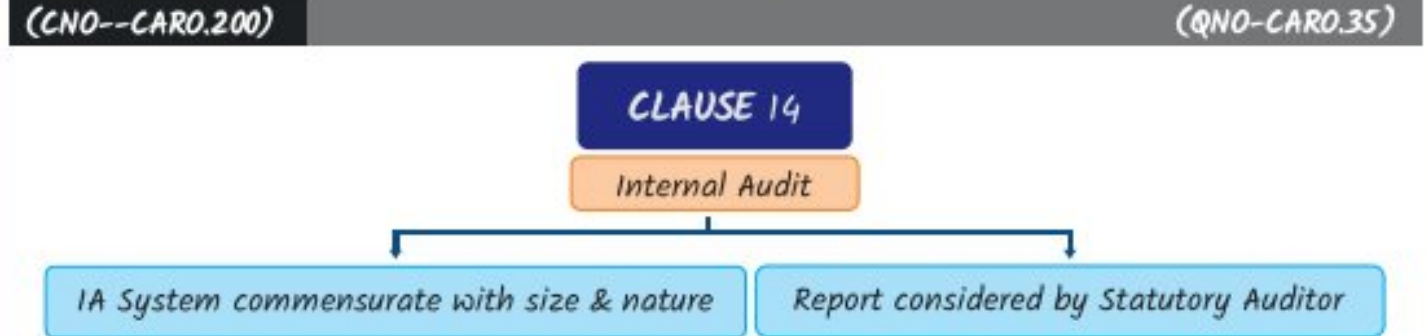
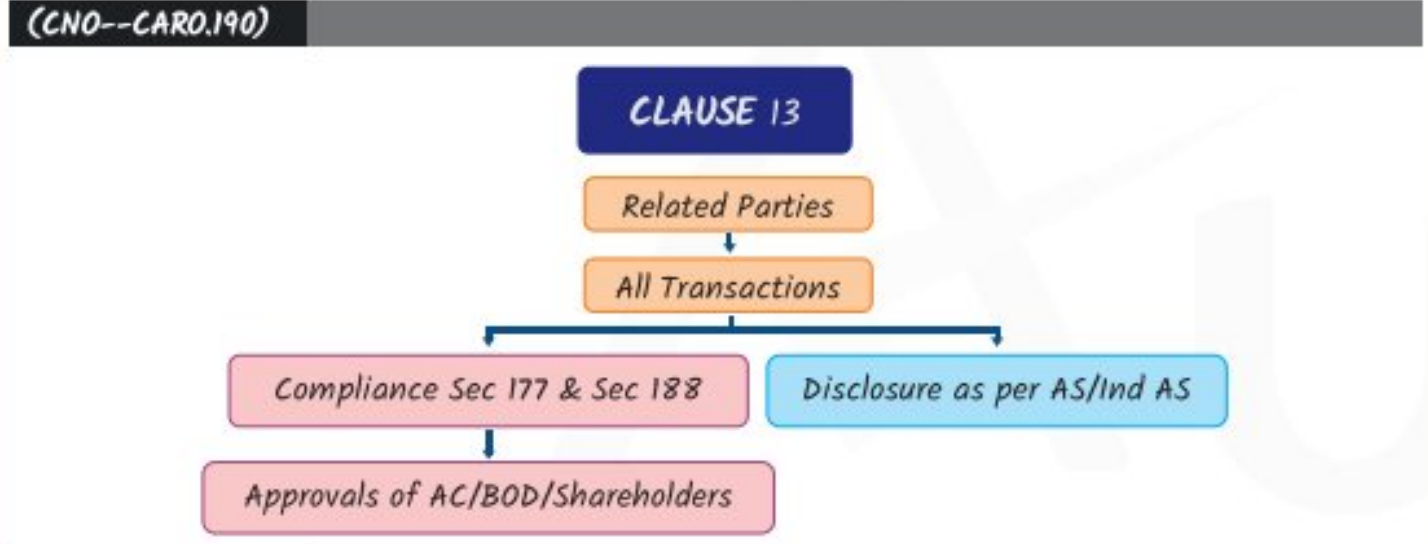
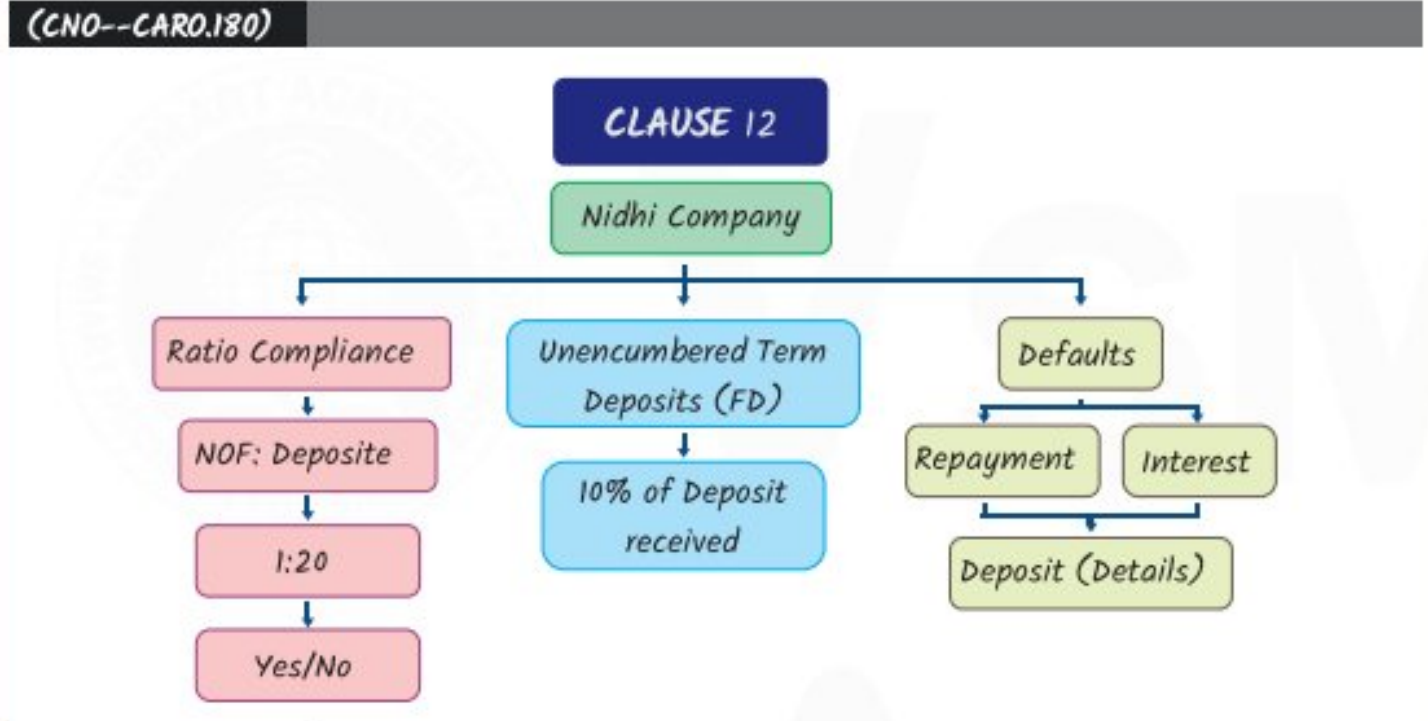
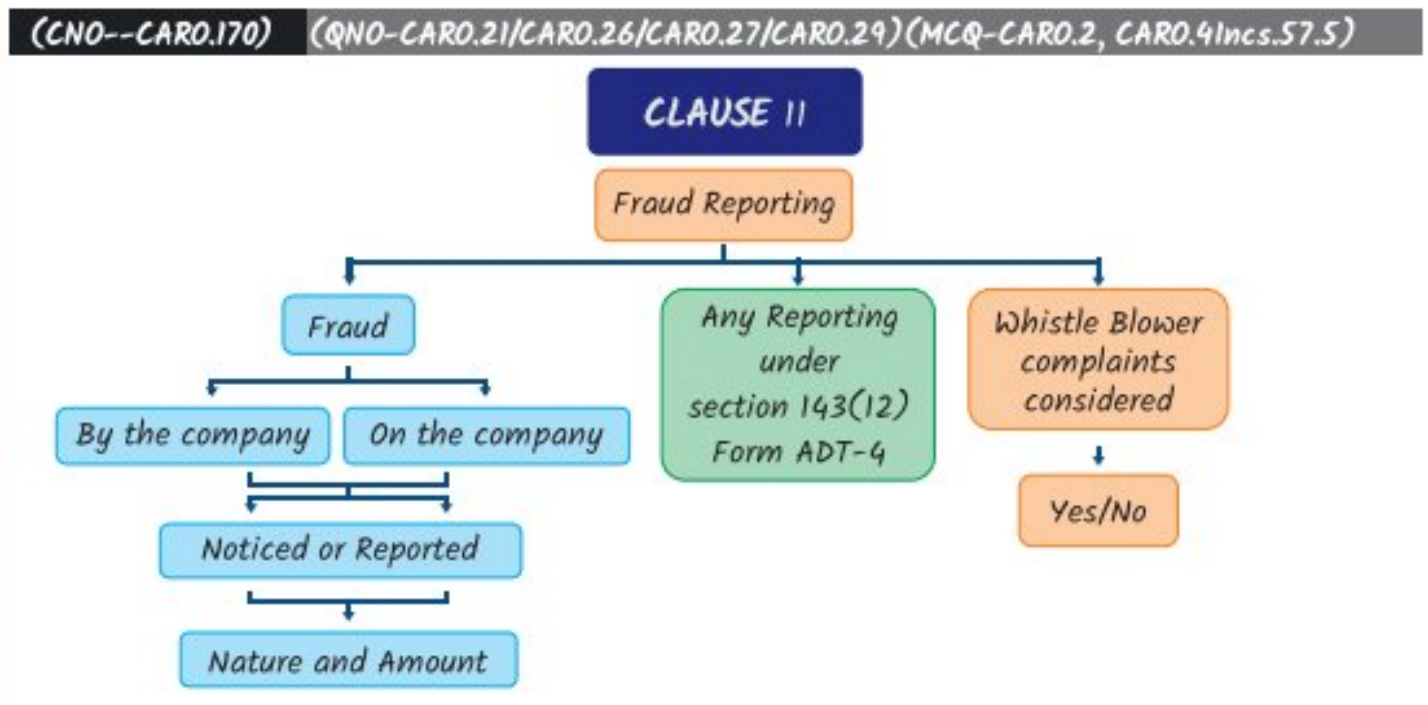


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**CLAUSE 10**





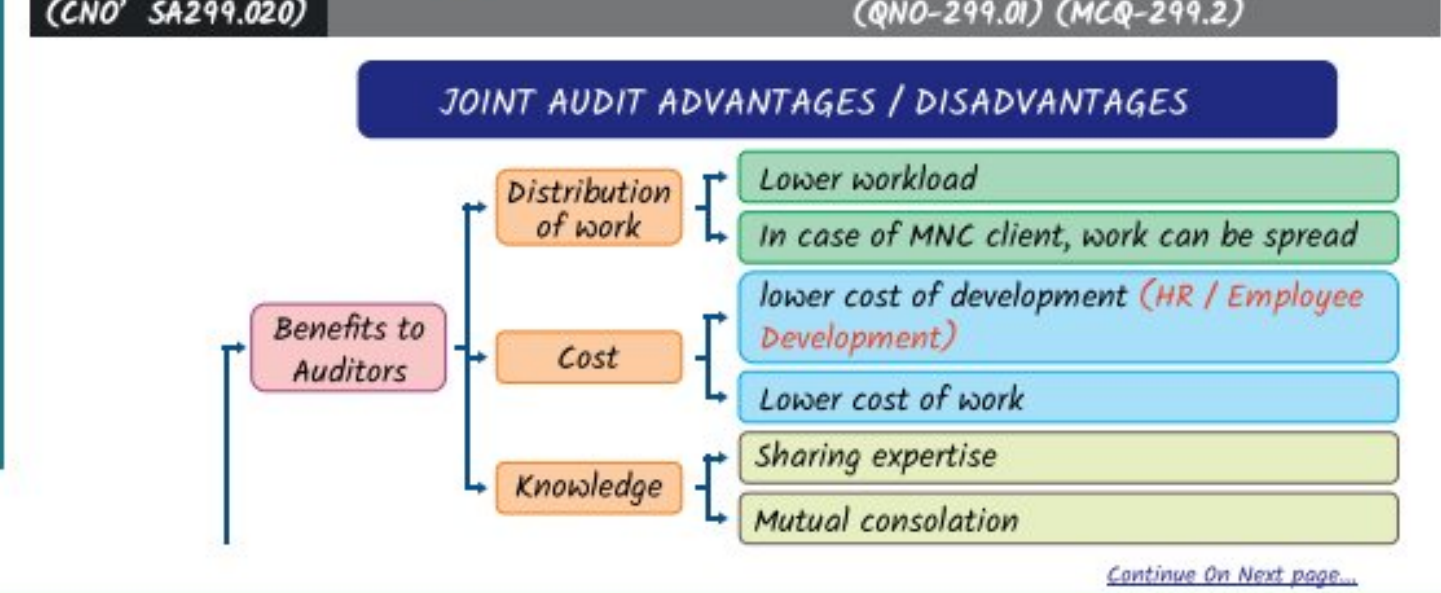
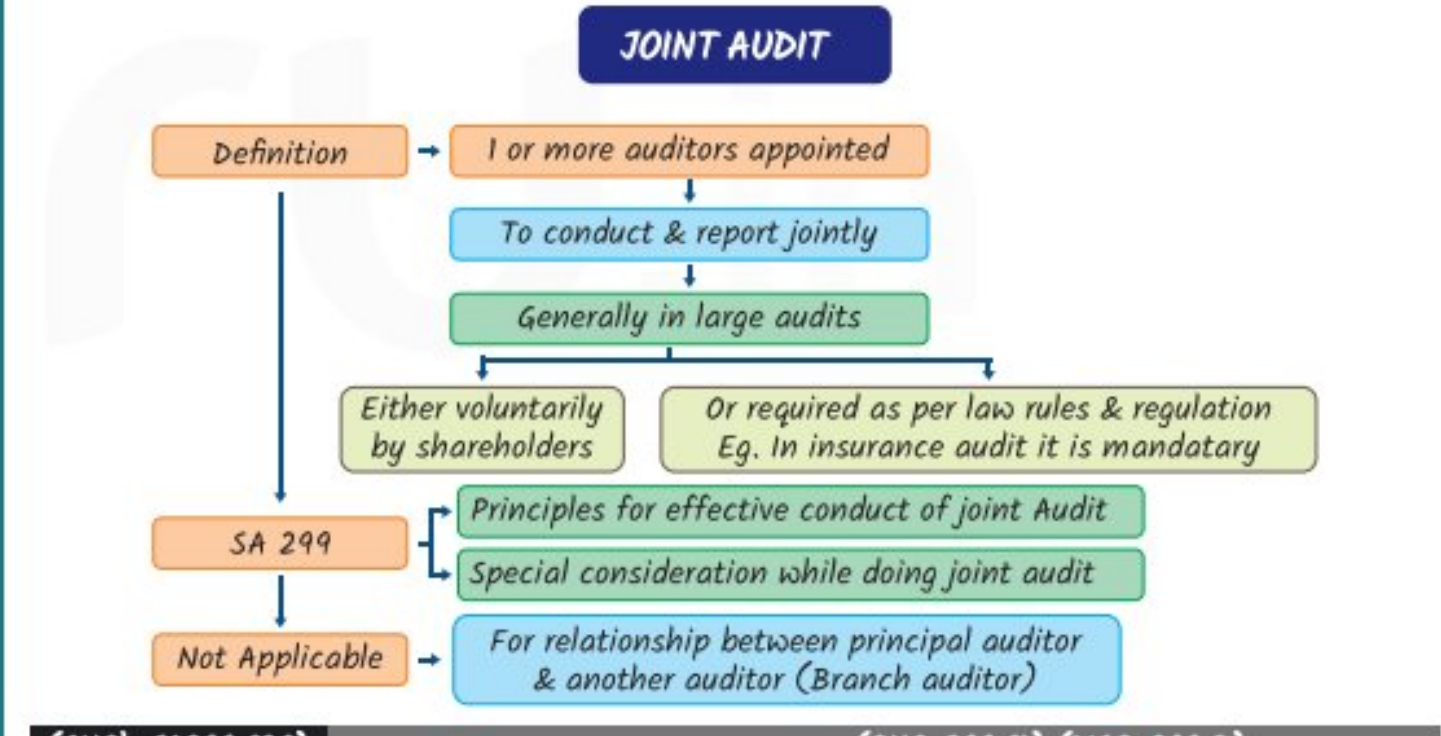


**Part 8 - Branch Accounts & SA 600**

For this part refer PDF

**Part 9 - SA 299**

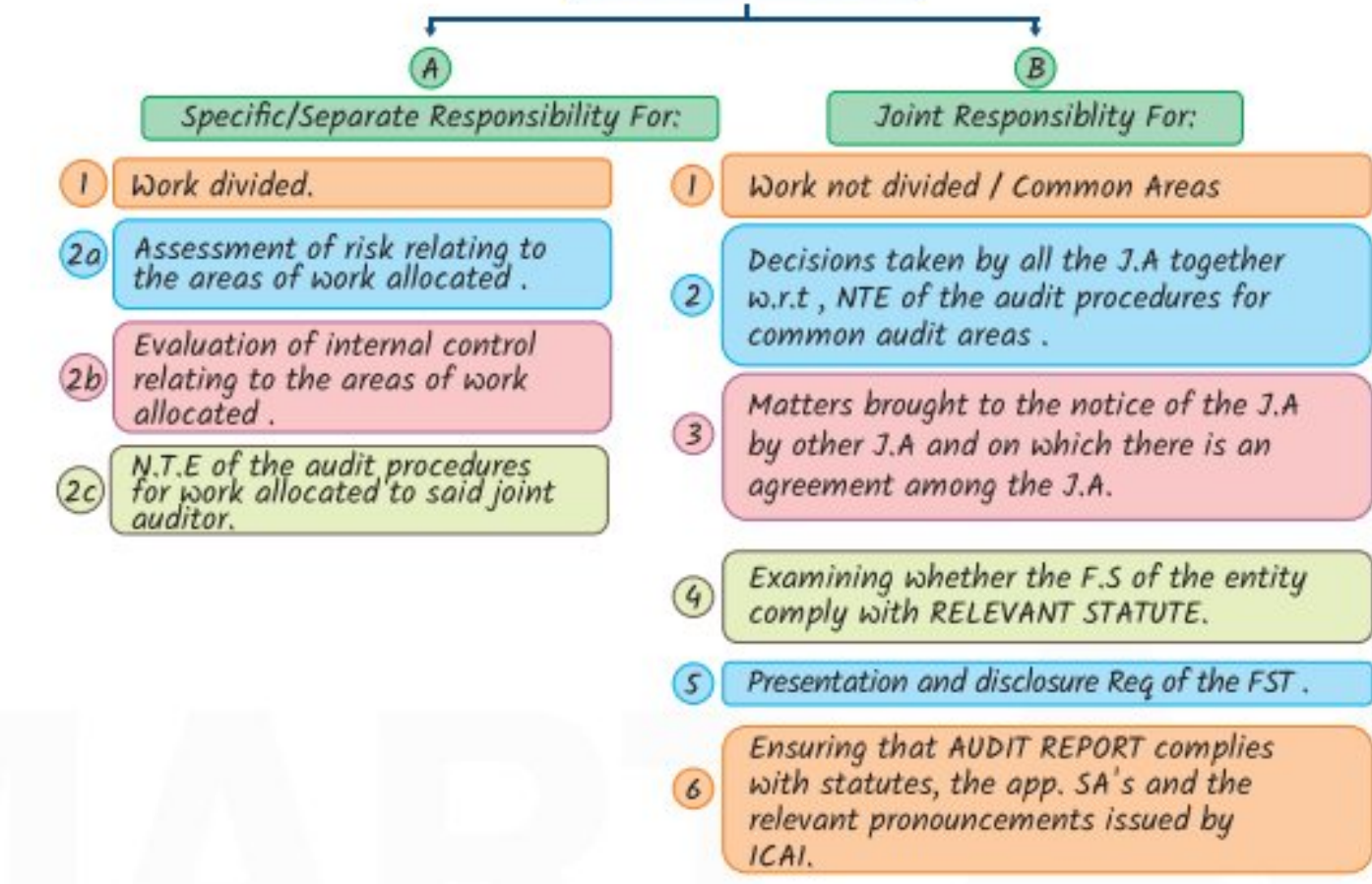
**(CNO' SA299.020) (QNO-299.01) (MCQ-299.2)**





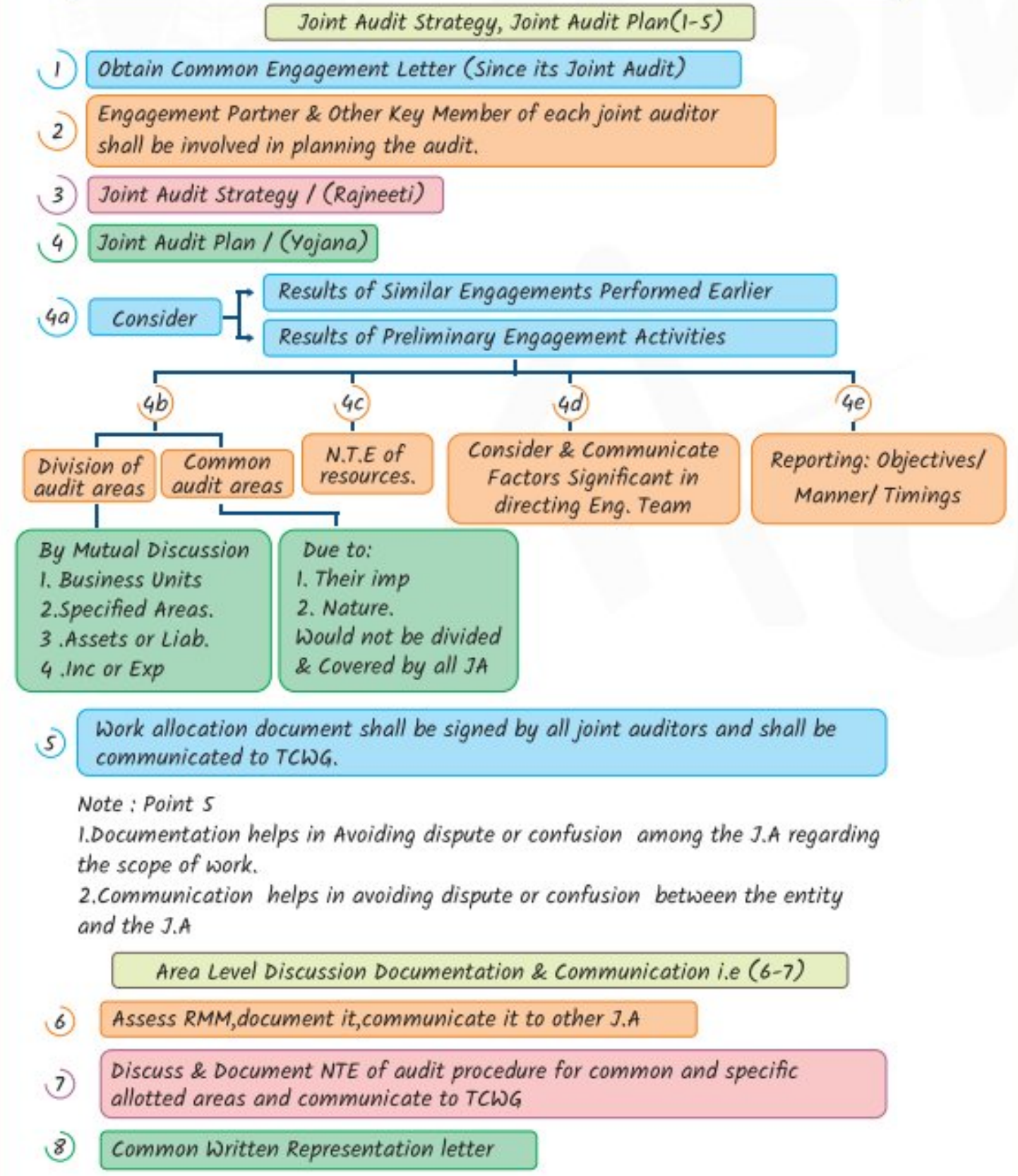
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**RESPONSIBILITY**

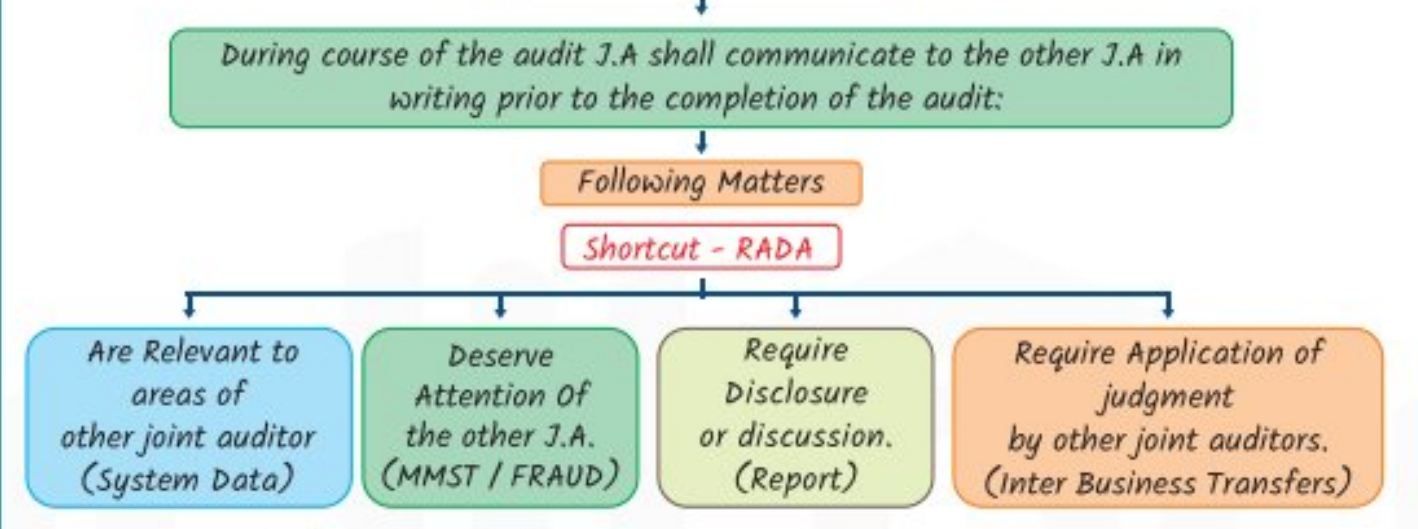


(CNO SA299.040) (QNO-299.03)

**AUDIT PLANNING, RISK ASSESSMENT AND ALLOCATION OF WORK**

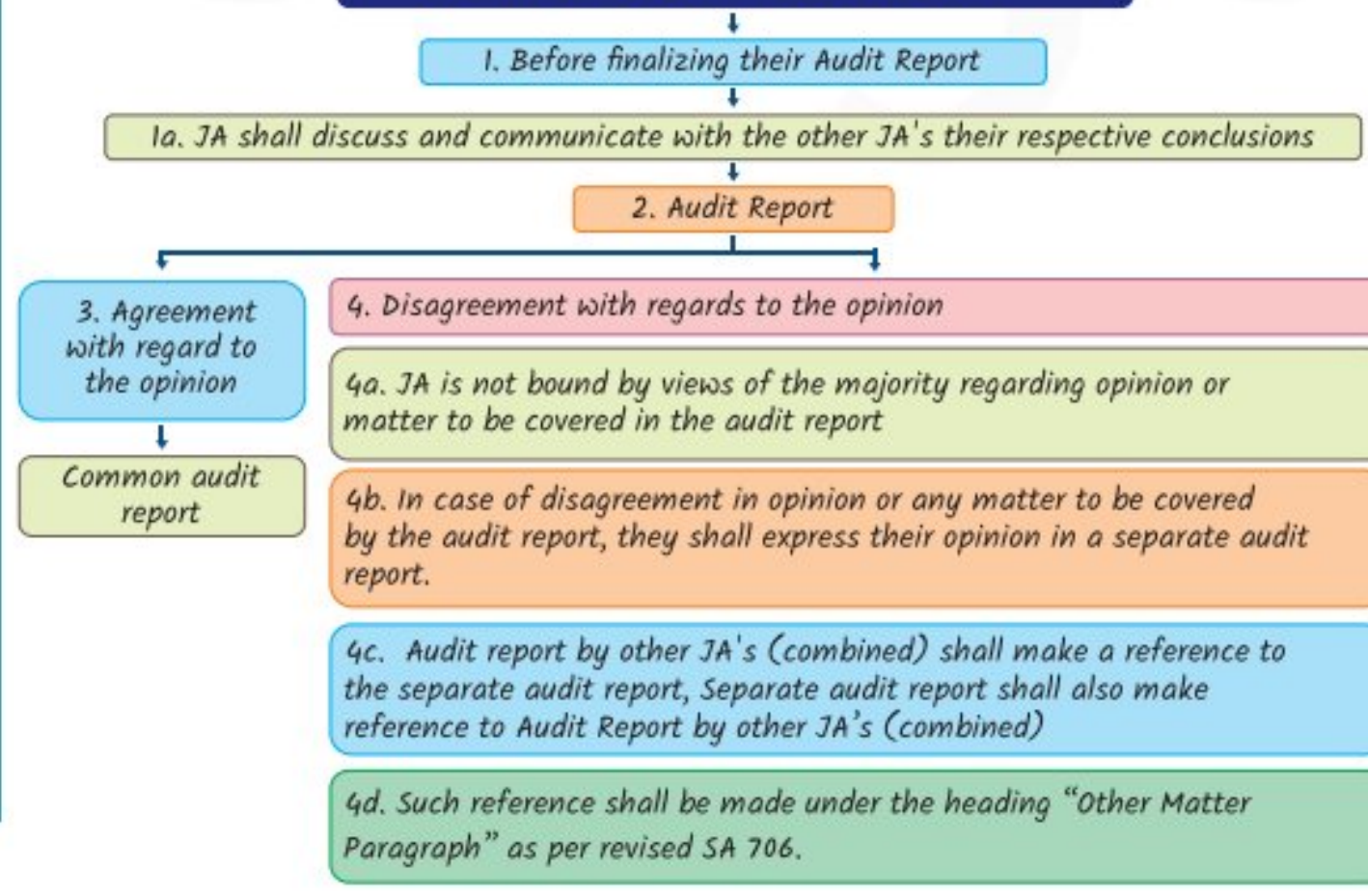


**CO-ORDINATION**



(CNO-SA299.080) (QNO-299.05) (MCQ-299.03, Incs.31.4)

**AUDIT CONCLUSION AND REPORTING**



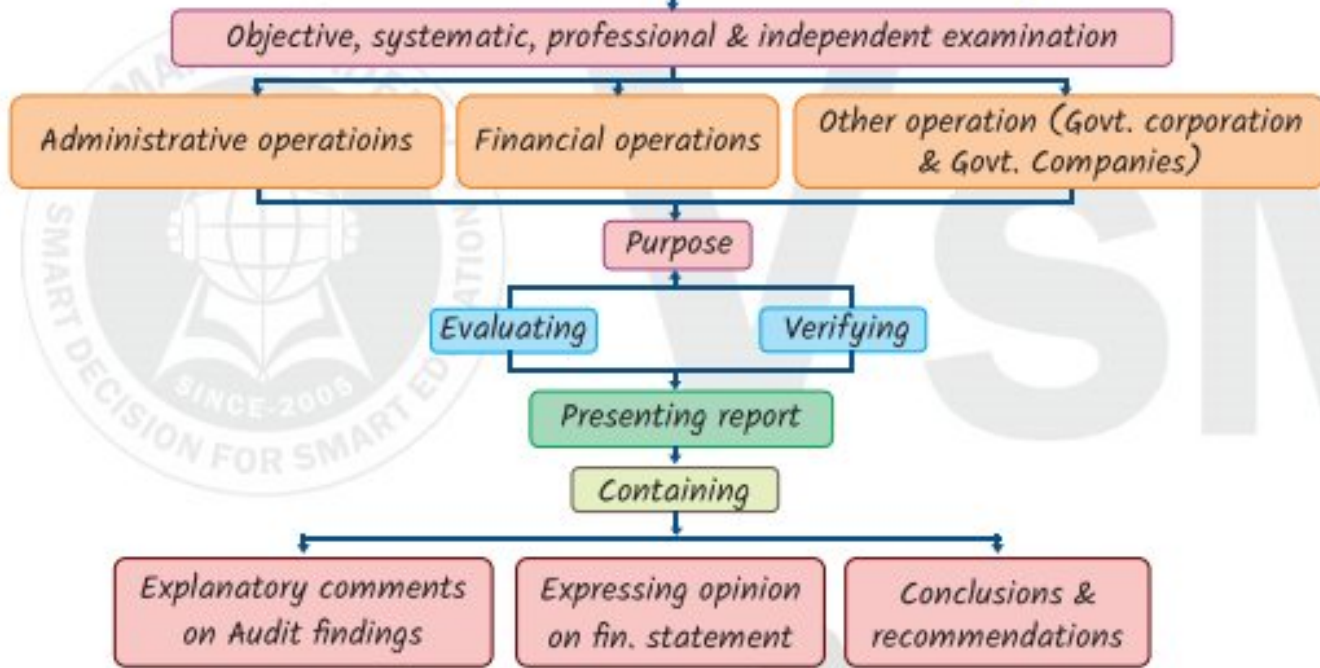
Part 1 ' Co-operative society

\*\*\*\*For this part refer pdf\*\*\*\*

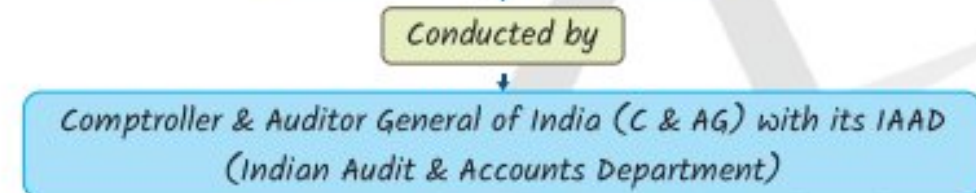
Part 2 - Government Audit

(CNO-GA.010) (MCQ-Incs.45.1)

MEANING OF GOVERNMENT AUDIT

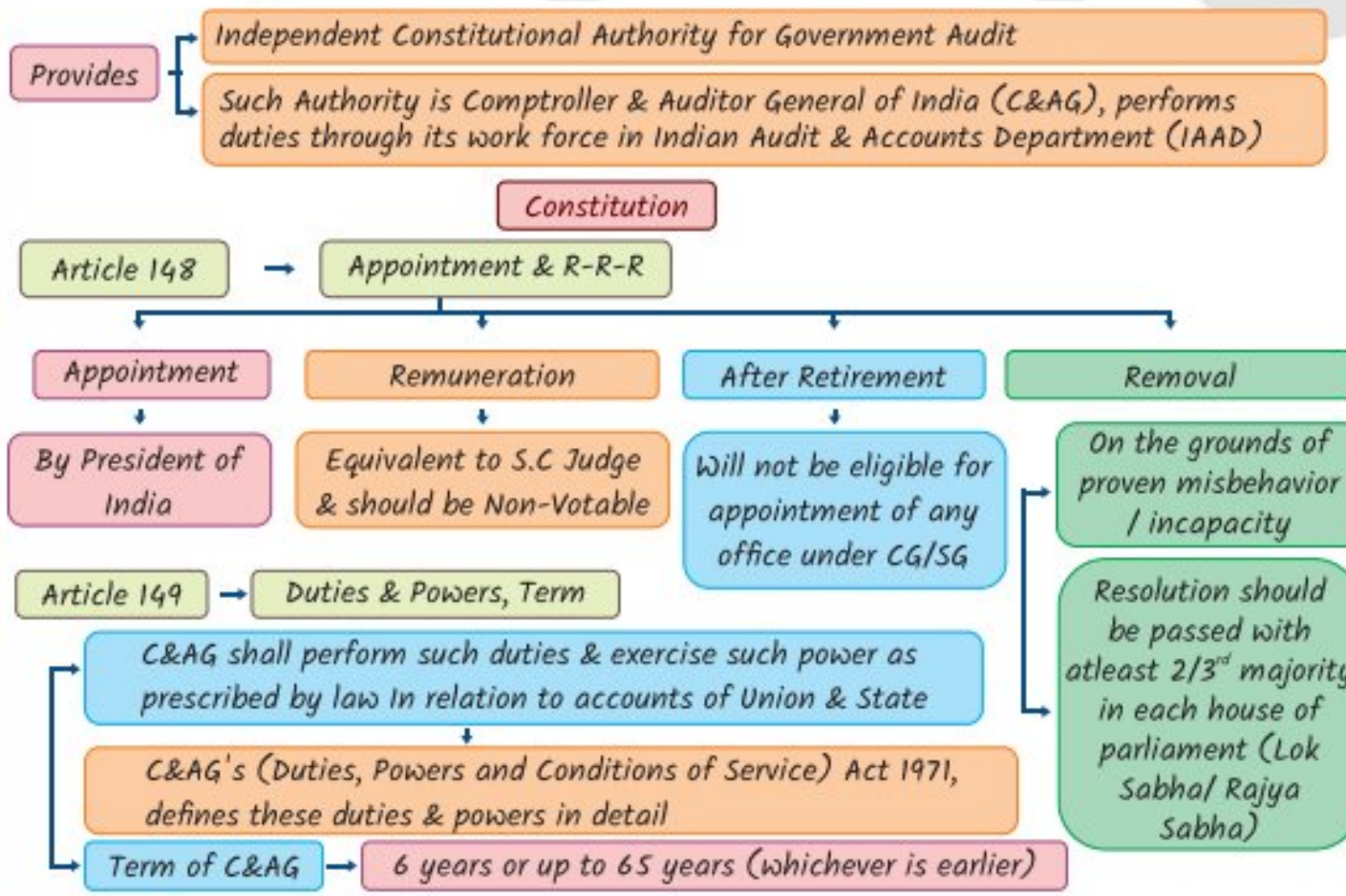


GOVERNMENT AUDIT

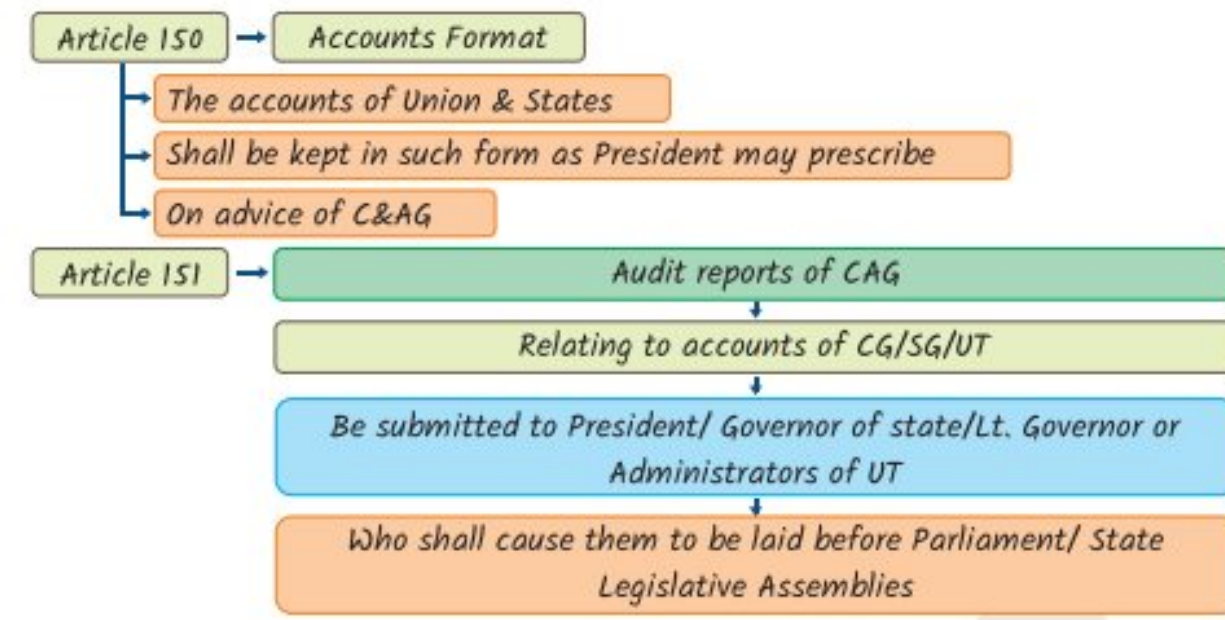


(CNO-GA.020) (MCQ-GA.2)

LEGAL FRAMEWORK FOR GOVERNMENT AUDIT

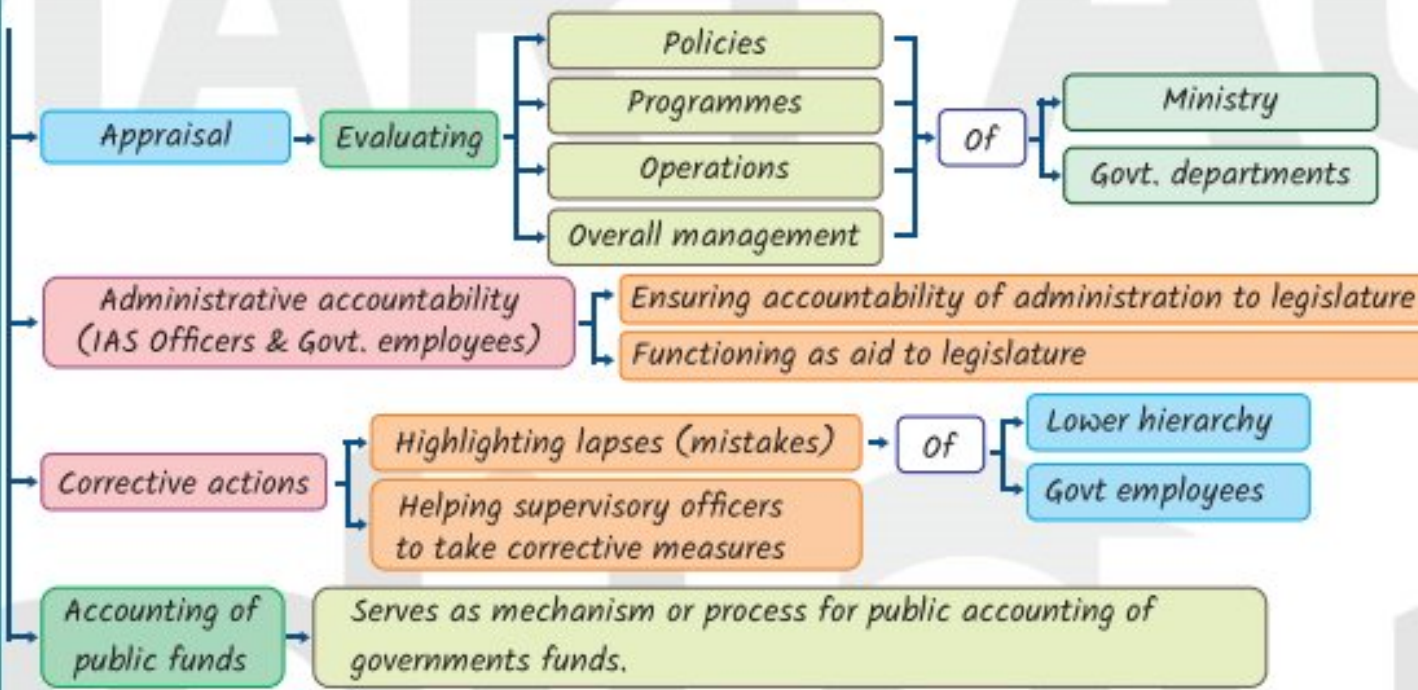


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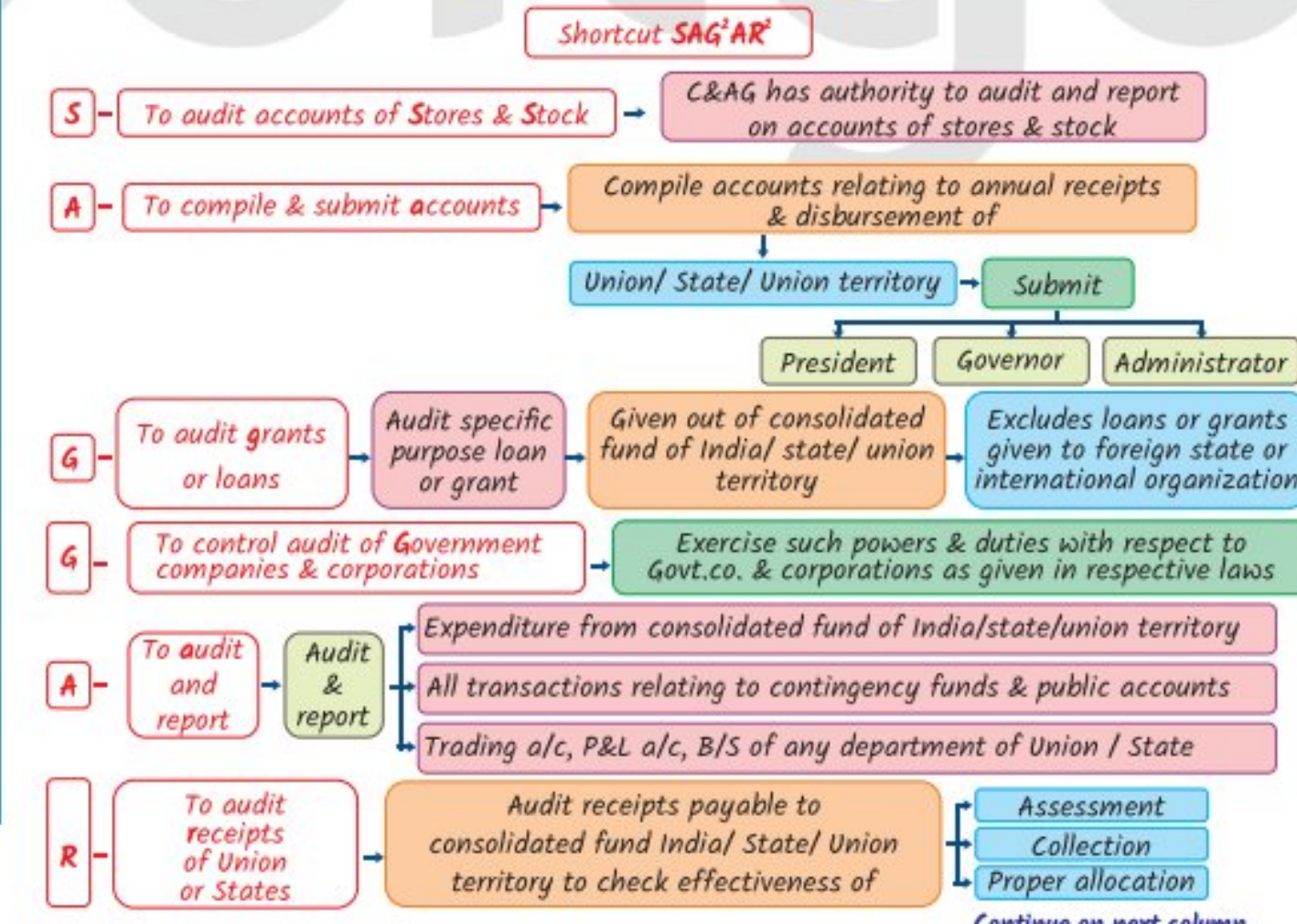
(CNO-GA.030) (MCQ-Incs.60.1)

OBJECTIVES

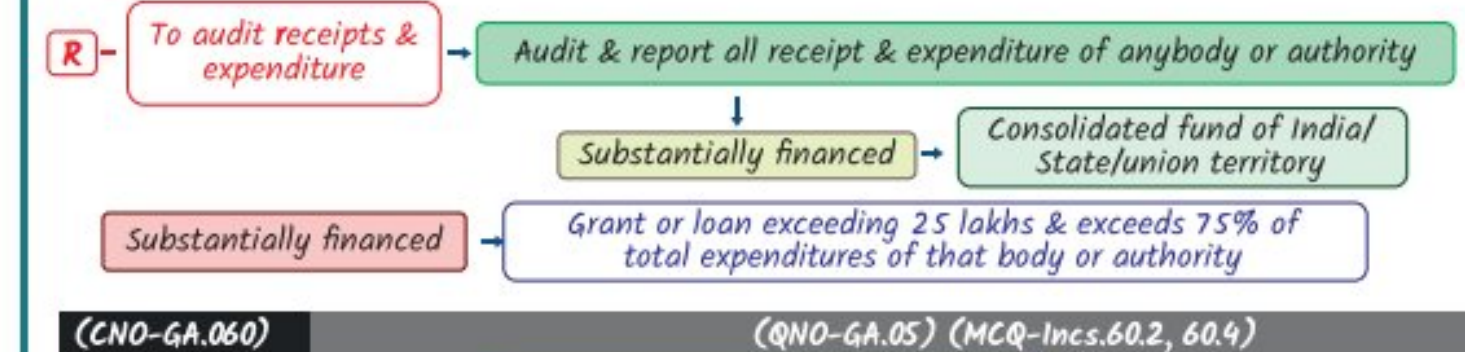


(CNO-GA.040) (QNO-GA.01, GA.03)

DUTIES OF C&AG

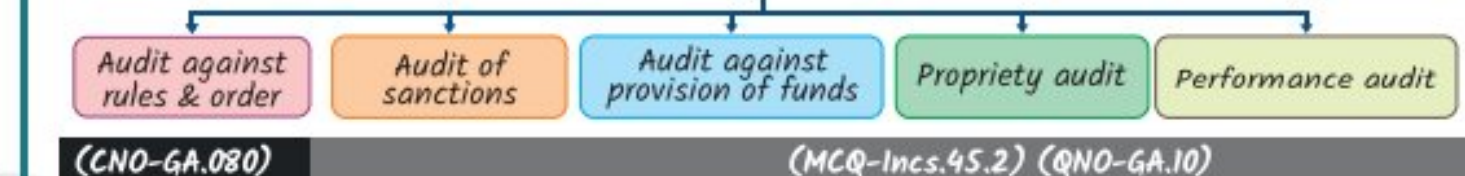


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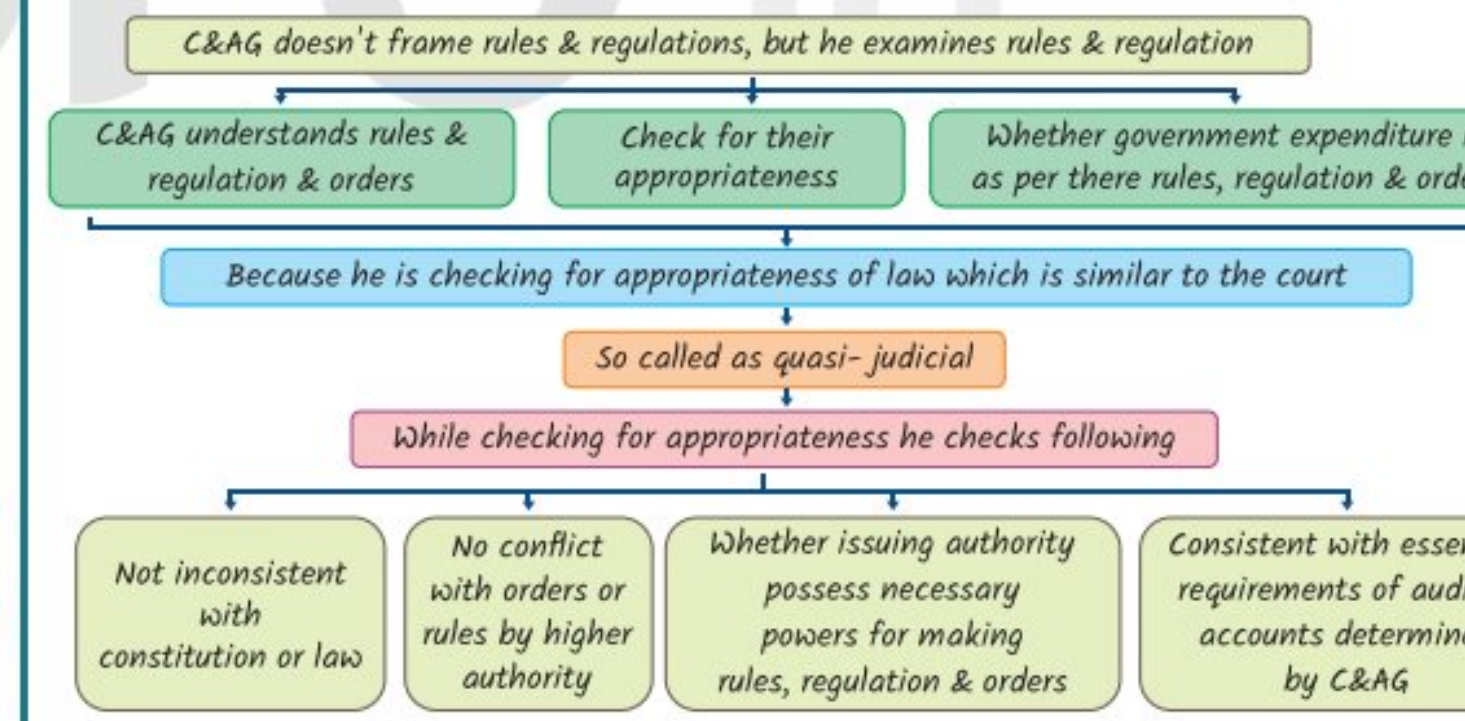
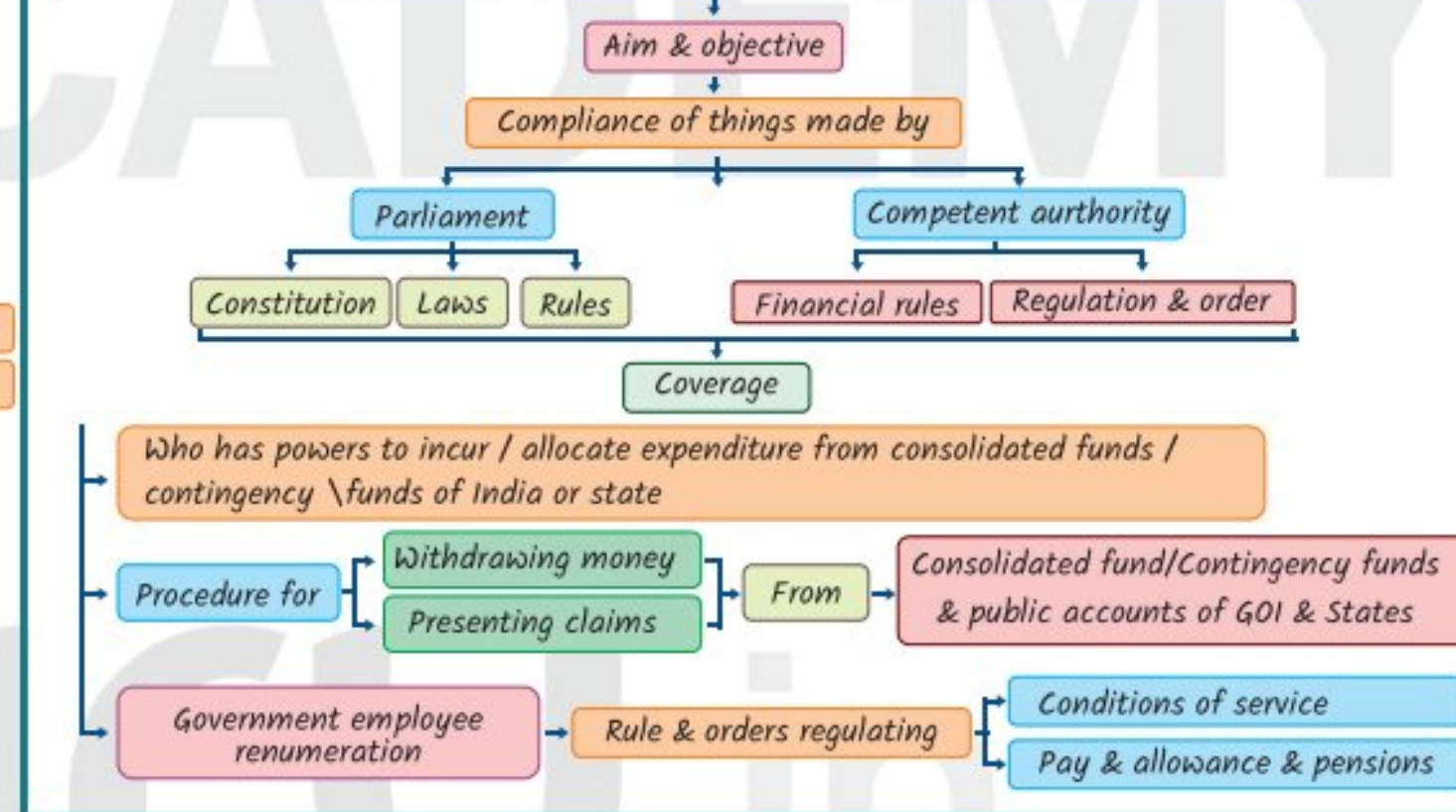
(CNO-GA.060) (QNO-GA.05) (MCQ-Incs.60.2, 60.4)

AUDIT OF EXPENDITURE



(CNO-GA.080) (MCQ-Incs.45.2) (QNO-GA.10)

AUDIT AGAINST RULES & ORDER (REGULATORY AUDIT)



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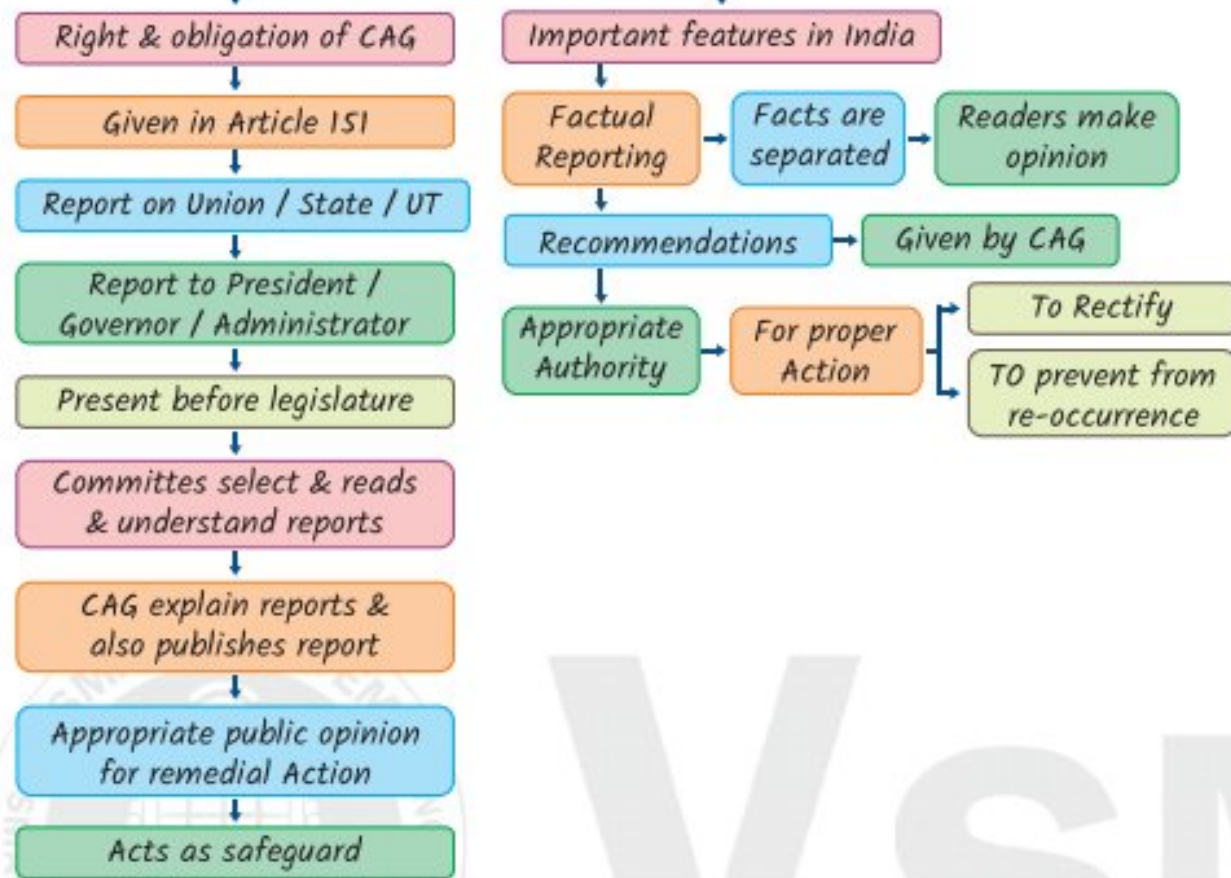
Auditguru.in

CA Vishal Bhatnagar

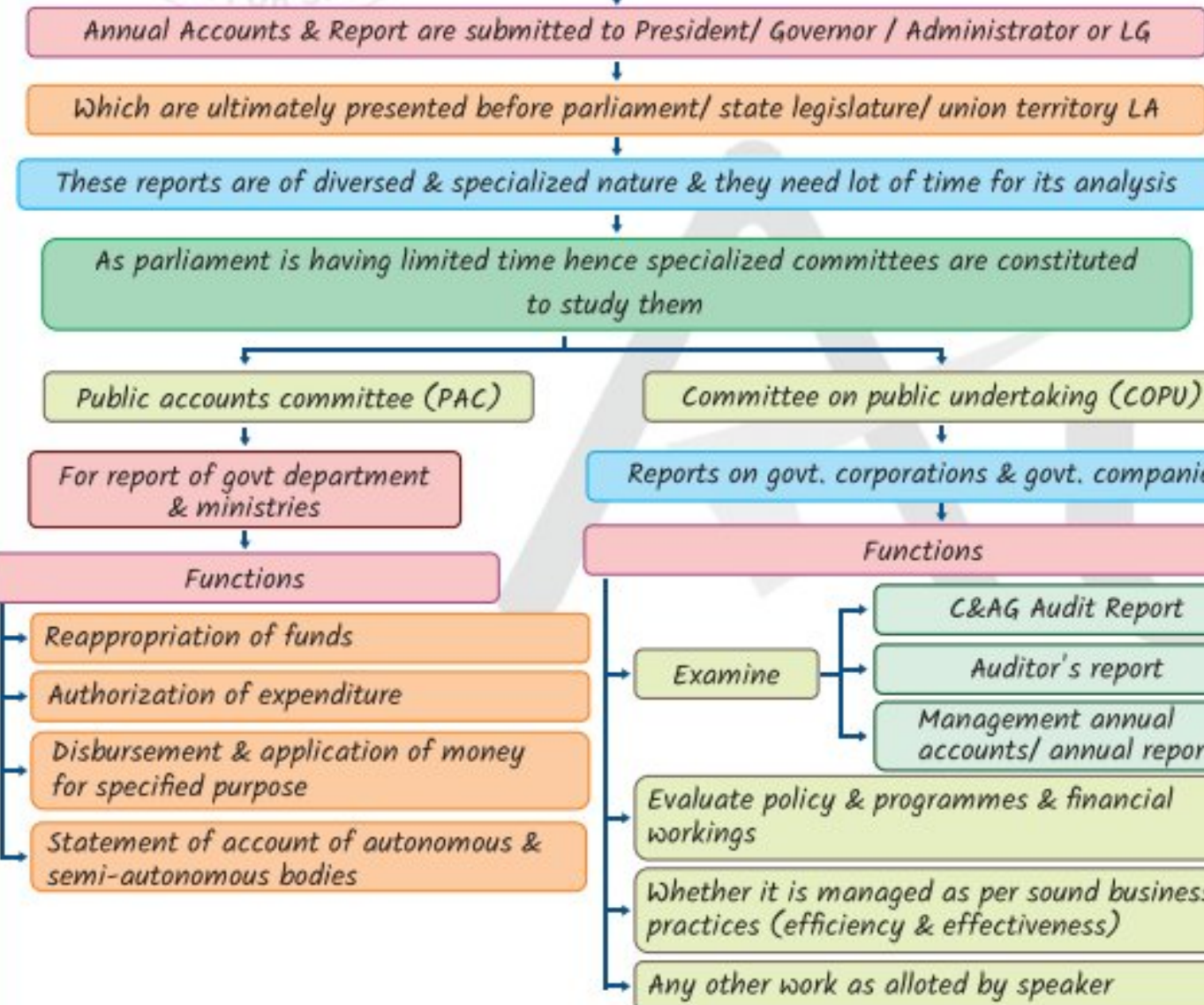
QR codes for Doubts and Telegram



### REPORTING BY CAG

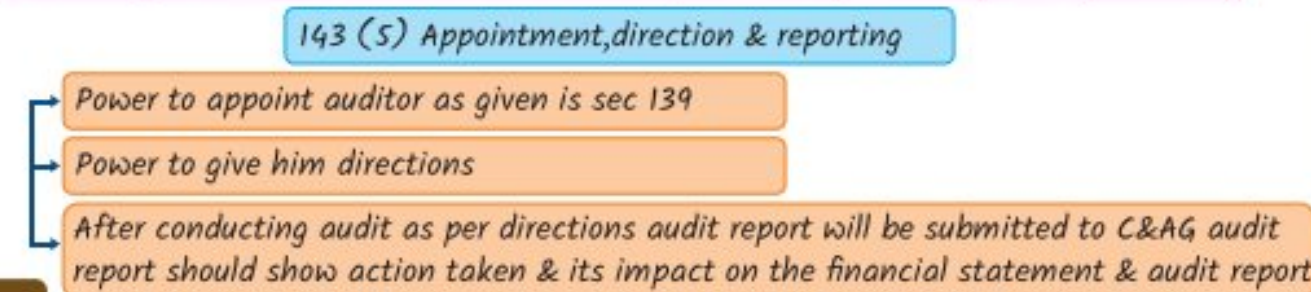


### ACTION ON AUDIT REPORT

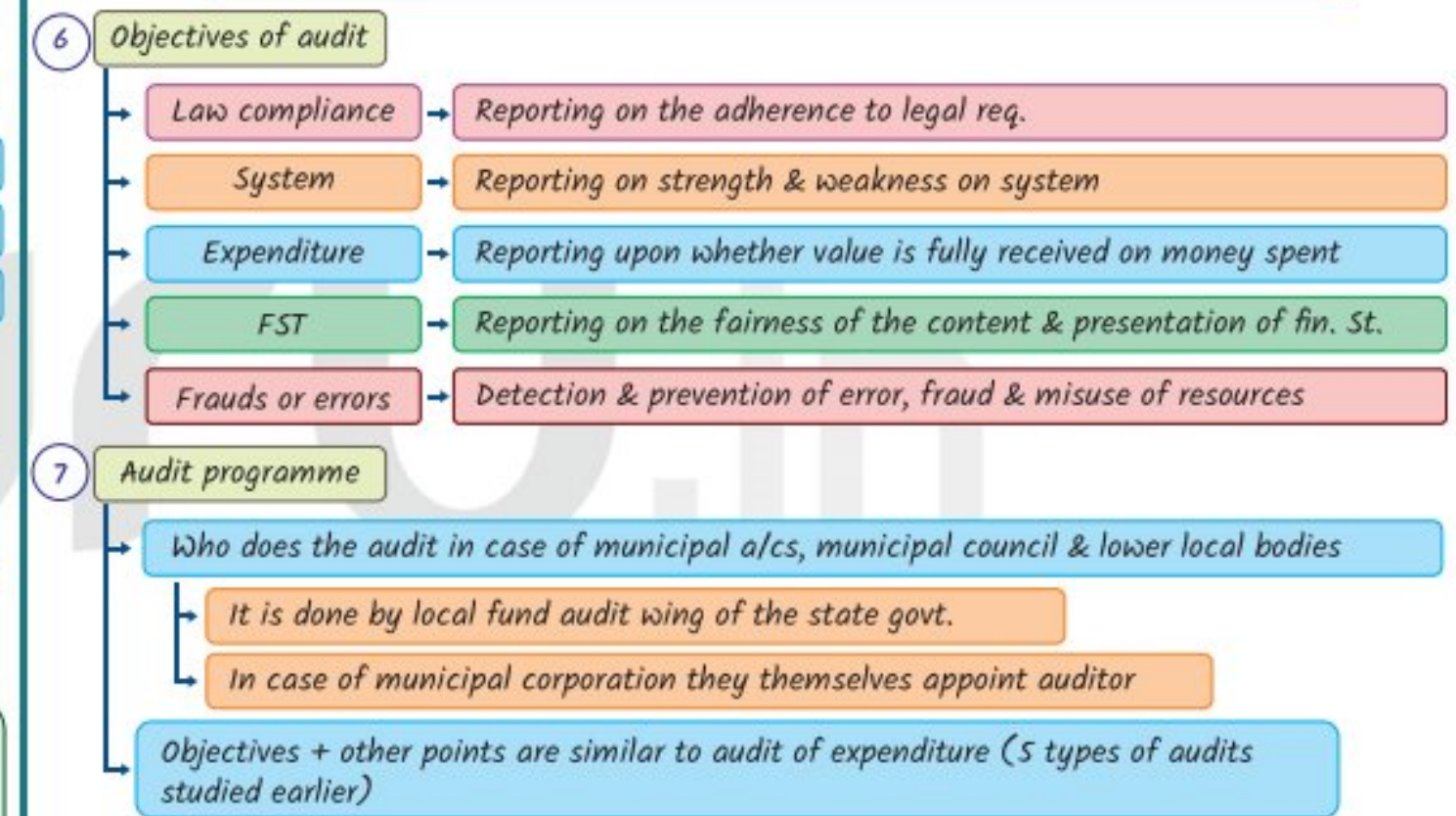
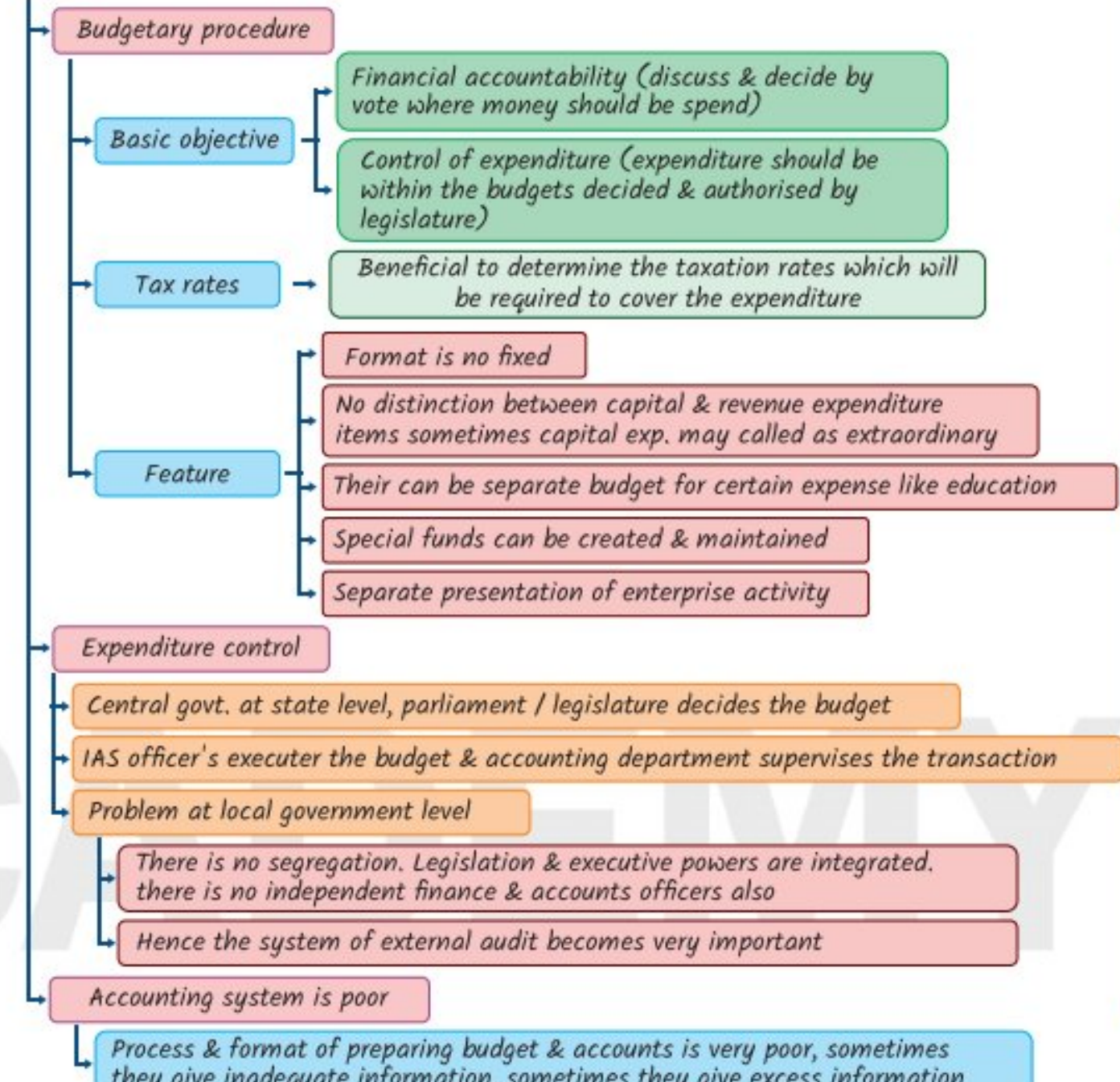
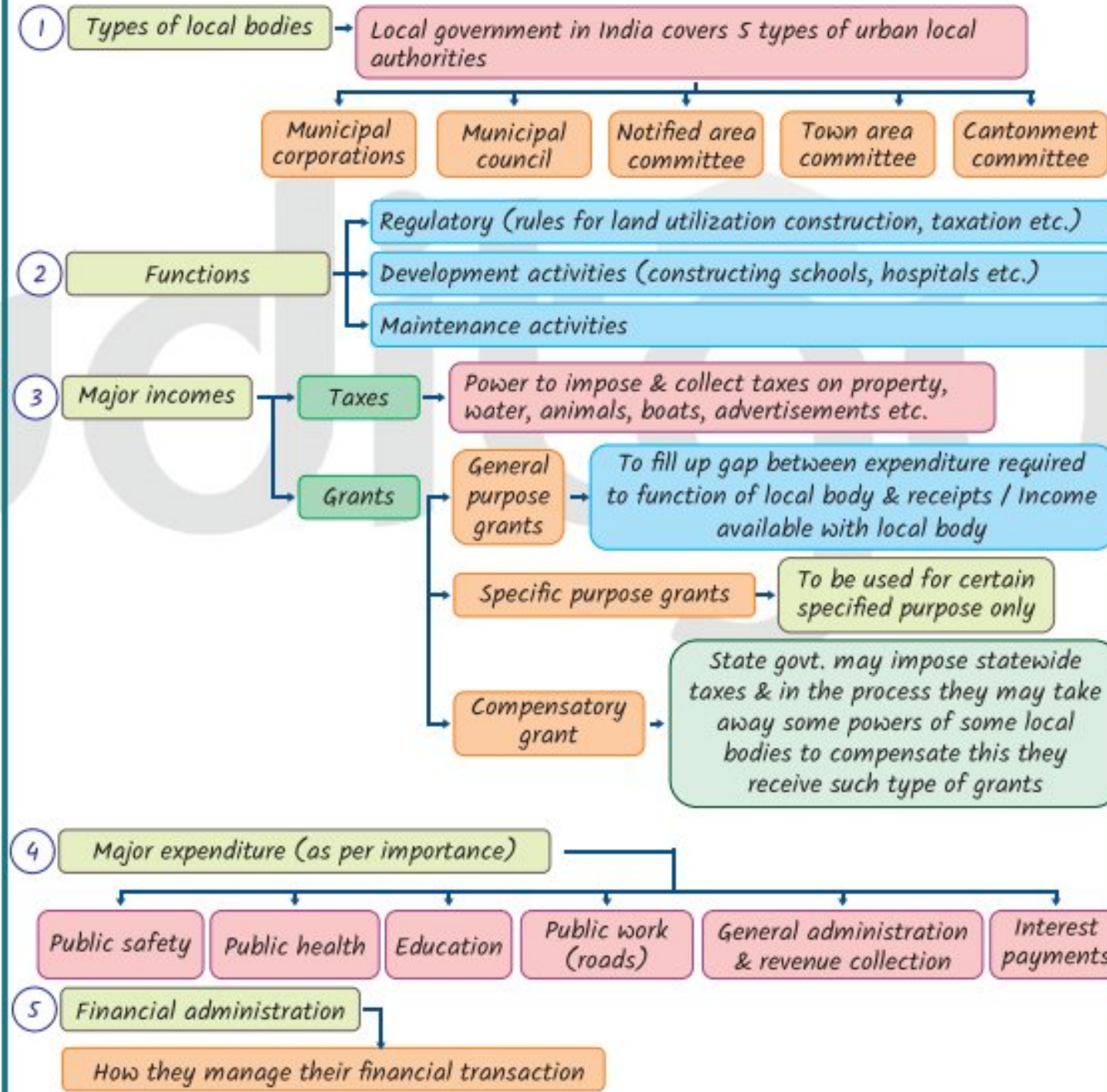


### POWERS OF C&AG

Powers given v/s 143 (5) / (6) / (7) (These powers are given in logical sequence)



### AUDIT OF LOCAL BODIES



### Part 3 ' Audit of other entities

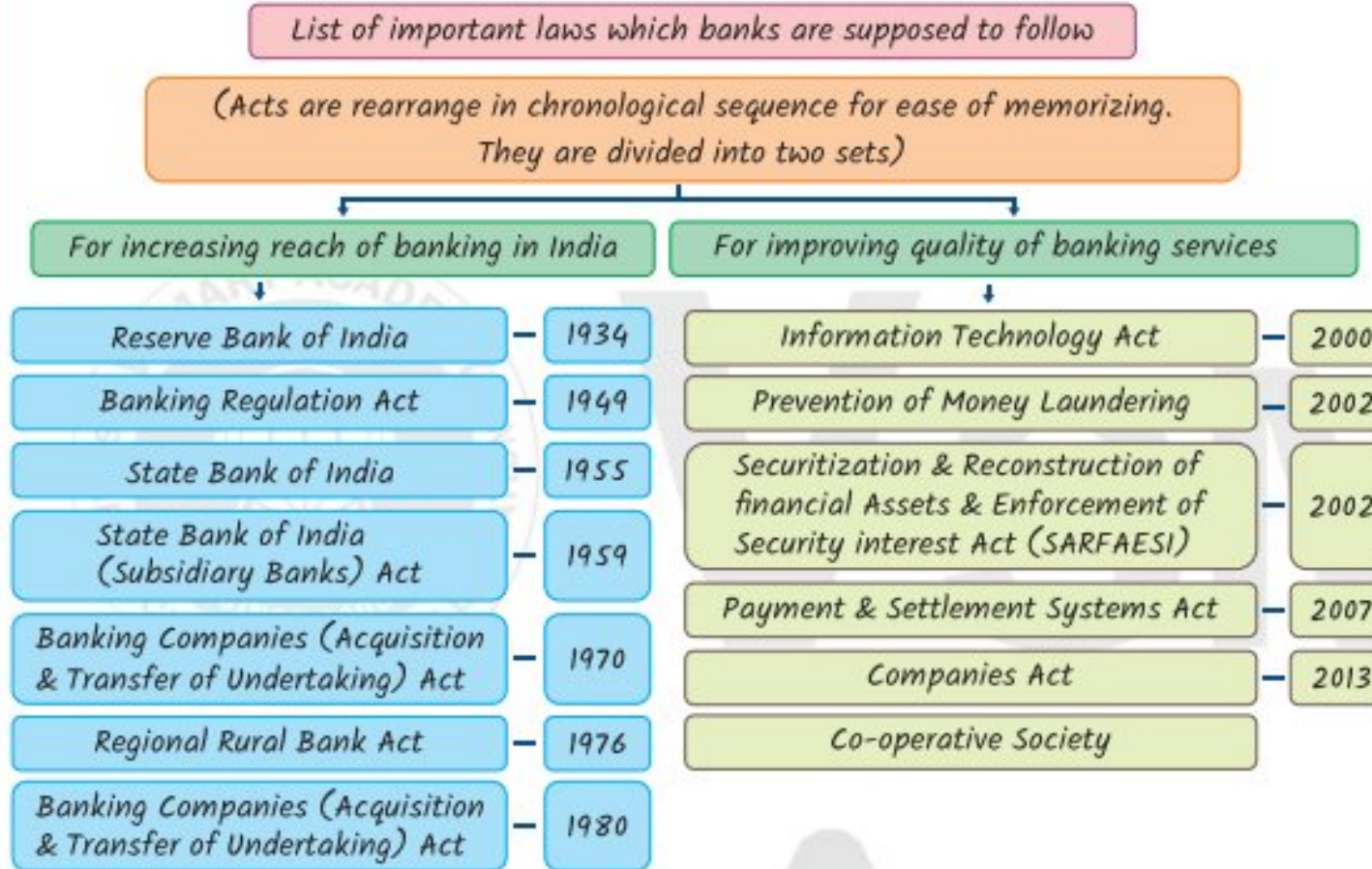
\*\*\*\*For this part refer pdf\*\*\*\*

Promotional banner for CA Ravi Taori, VSMART ACADEMY, and Auditguru.in. Includes QR codes for Doubts and Telegram, and a photo of CA Ravi Taori.

(CNO-BA.020)

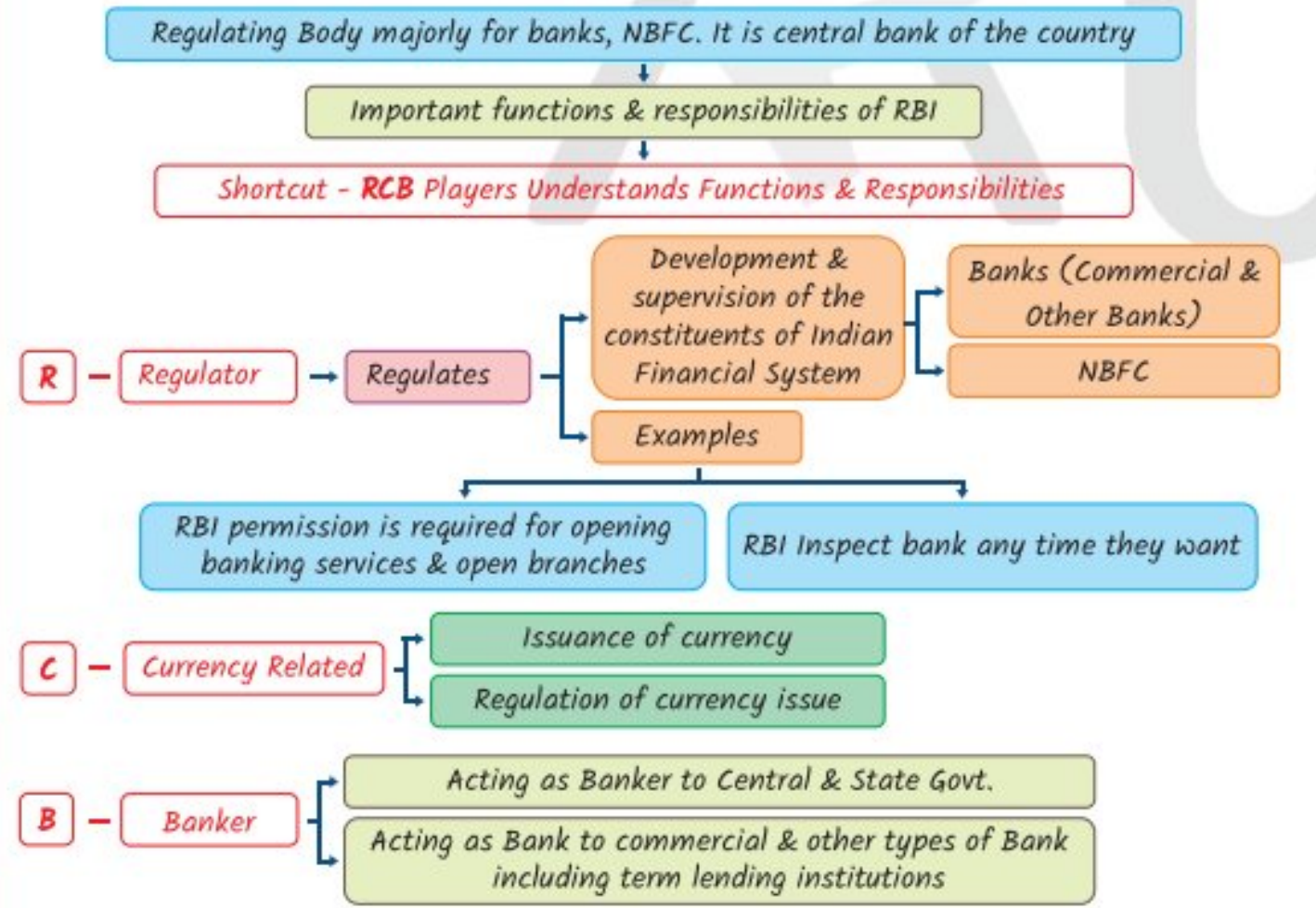
INTRODUCTION

1 LEGAL FRAMEWORK



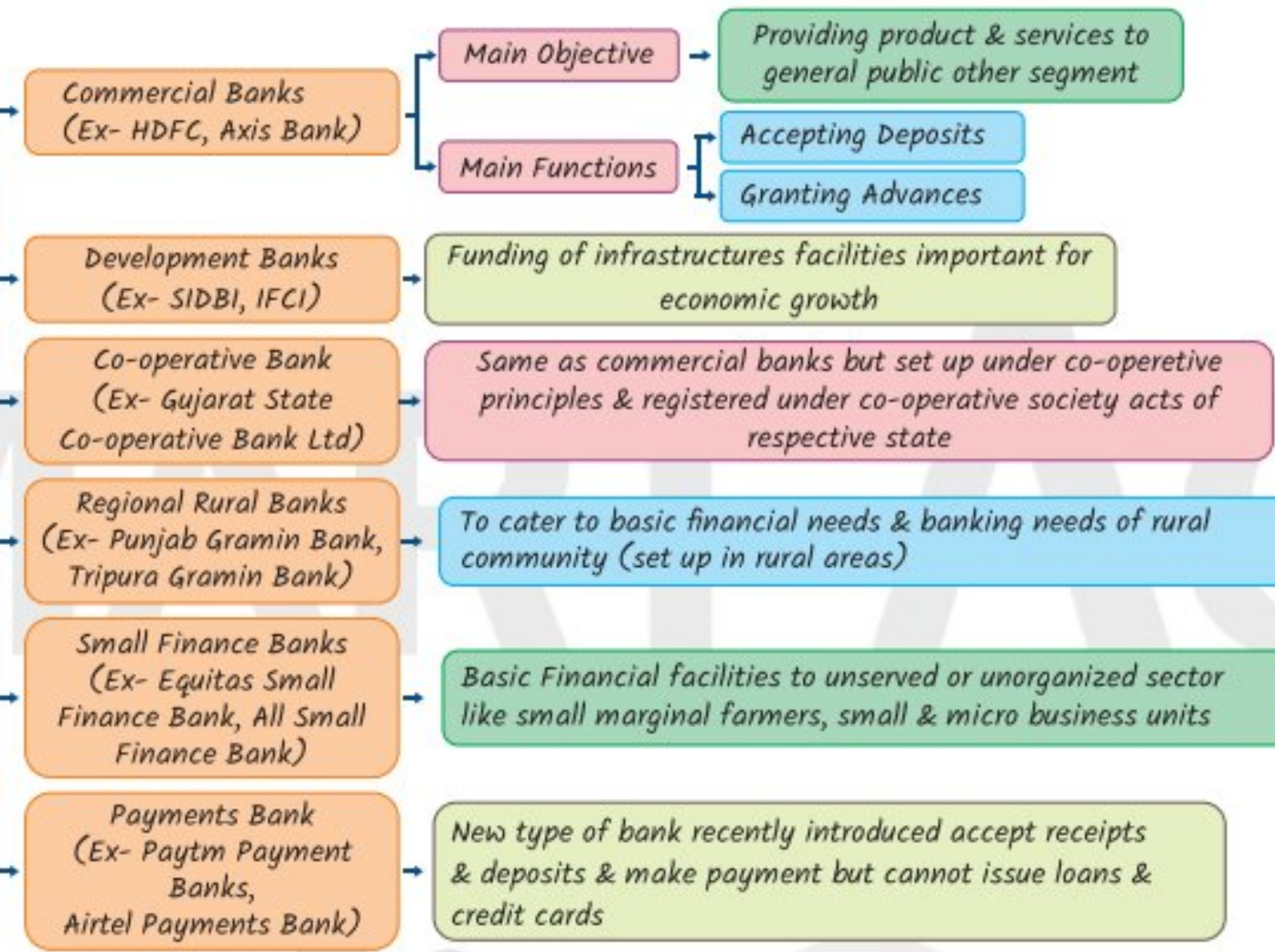
(CNO-BA.040) (QNO-BA.01) (MCQ-BA.3)

2 RESERVE BANK OF INDIA ' REGULATING BODY



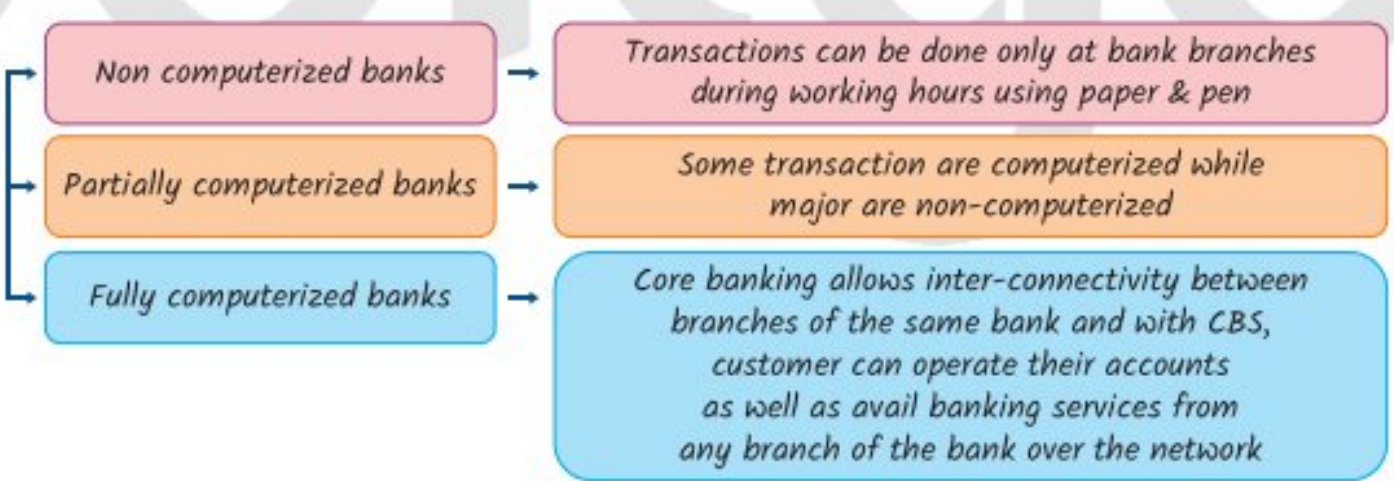
(CNO-BA.060) (QNO-BA.02)

3 TYPES OF BANKS (IN DESCENDING SEQUENCE FOR EASE)



(CNO-BA.080) (MCQ-Incs.64.4)

4 BANKS MAY BE DIVIDED INTO THREE BROAD CATEGORIES BASED ON LEVEL OF COMPUTERISATION

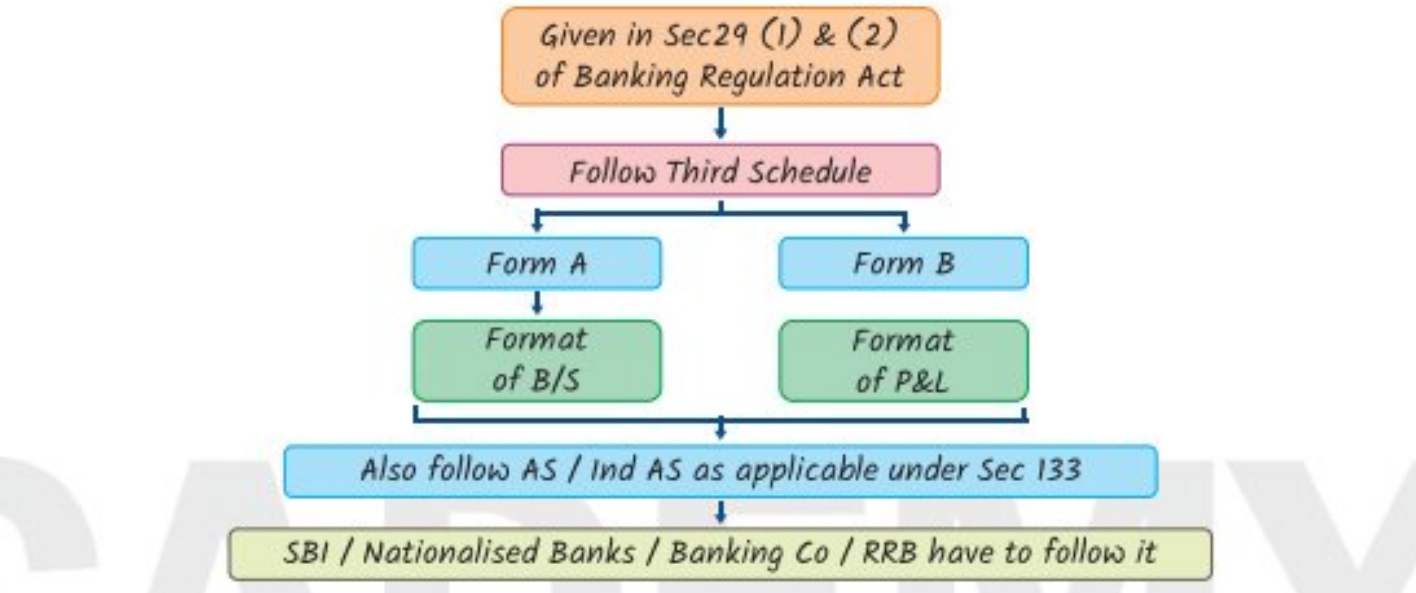


DIFFERENCE

Computerized	Non-Computerized
Activities are done using computer system	Banking system done manually
Transaction anywhere, anytime	Transaction only made during working hours
Banking process - shorten times	Takes long time for any banking process
More productive	Less productive

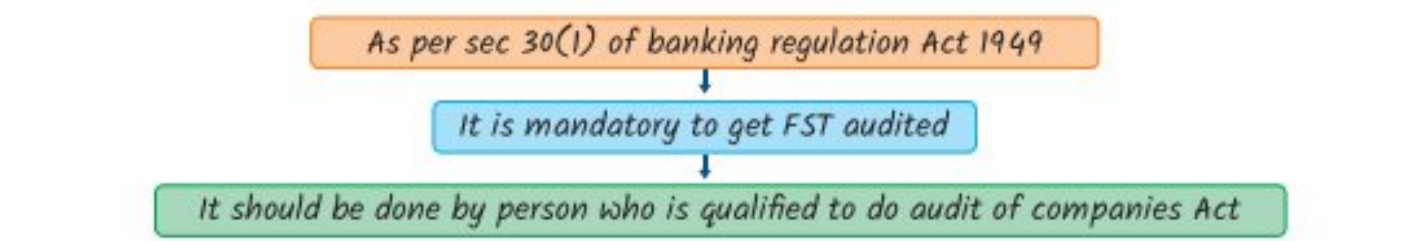
(CNO-BA.090)

FORM / CONTENT / AUTHENTICATION



(CNO-BA.100)

AUDIT OF A/C



(CNO-BA.120) (MCQ-BA.12, Incs.29.1, Incs.34.1)

5 APPOINTMENT & REMUNERATION OF AUDITOR

Bank	Appointment of Auditor	Remuneration
SBI	C&AG in consultation with CG	RBI in consultation with CG
Subsidiaries of SBI	SBI	RBI in consultation with CG
Nationalized Banks	BOD with prior approval of RBI	RBI in consultation with CG
Other Banking Companies	AGM by shareholder with prior approval of RBI	As per Sec 142 of Companies Act 2013
RRB	Bank with approval of CG	Bank with approval of CG

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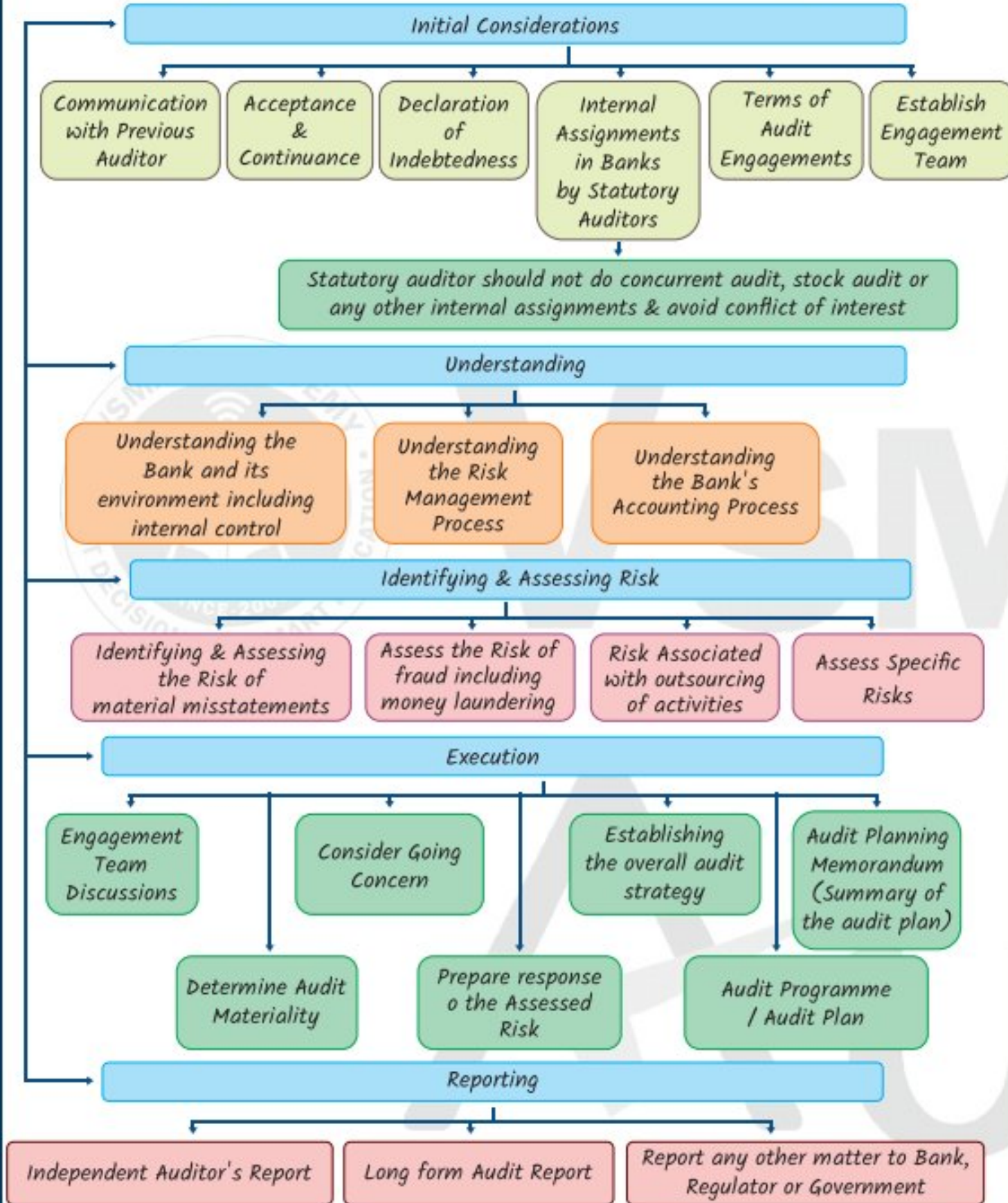
VSMART ACADEMY

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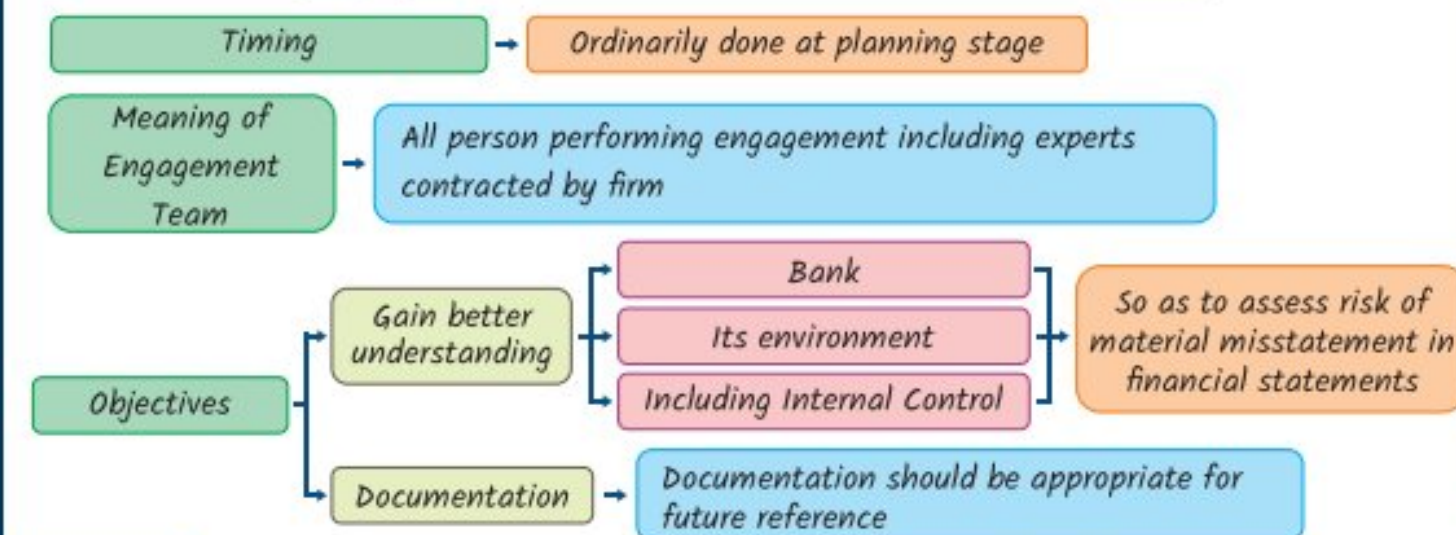
QR codes for Doubts and Telegram

### PROCESS

## 1 STAGES OF CONDUCTING BANK AUDIT

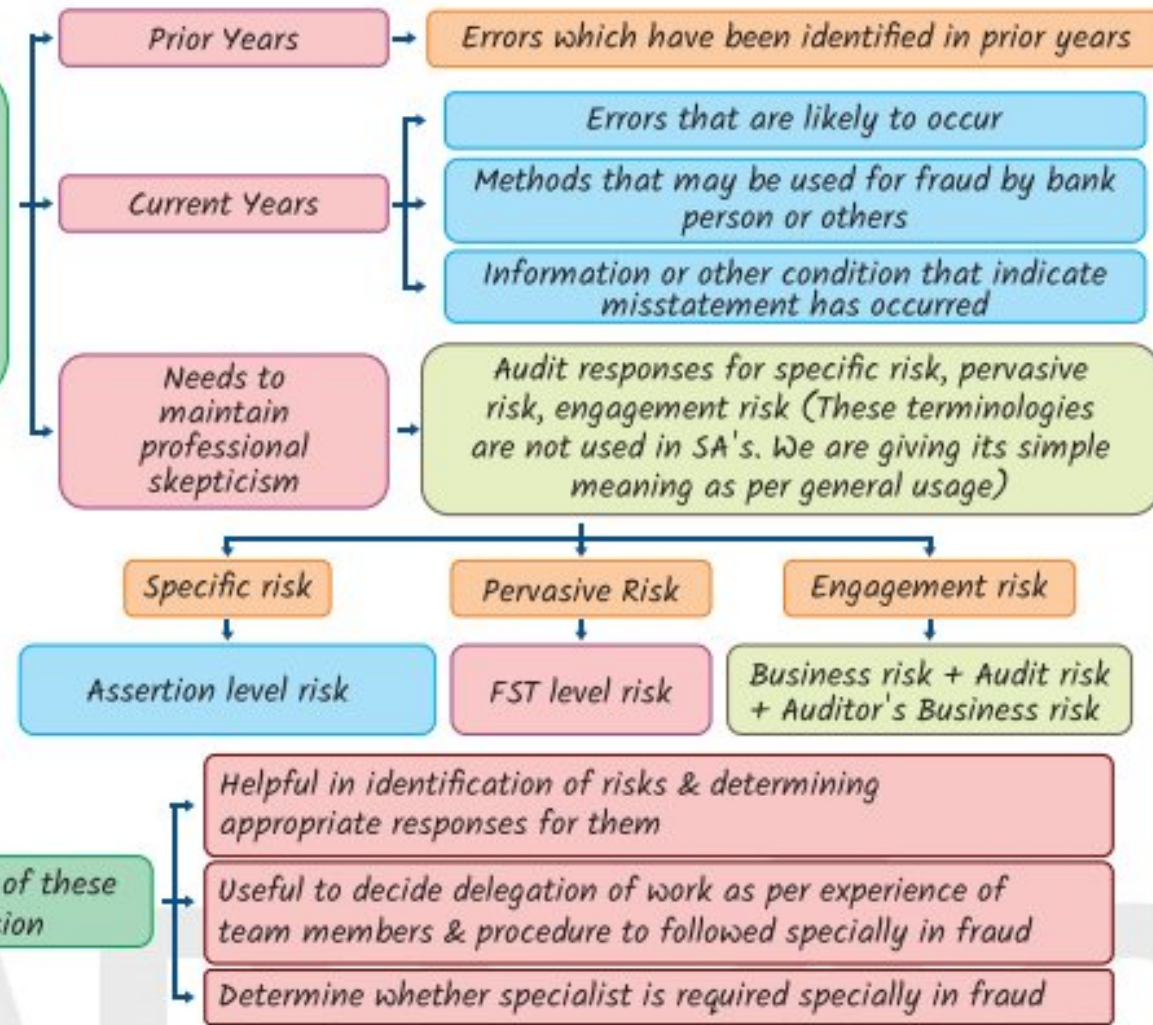


## 2 ENGAGEMENT TEAM DISCUSSIONS



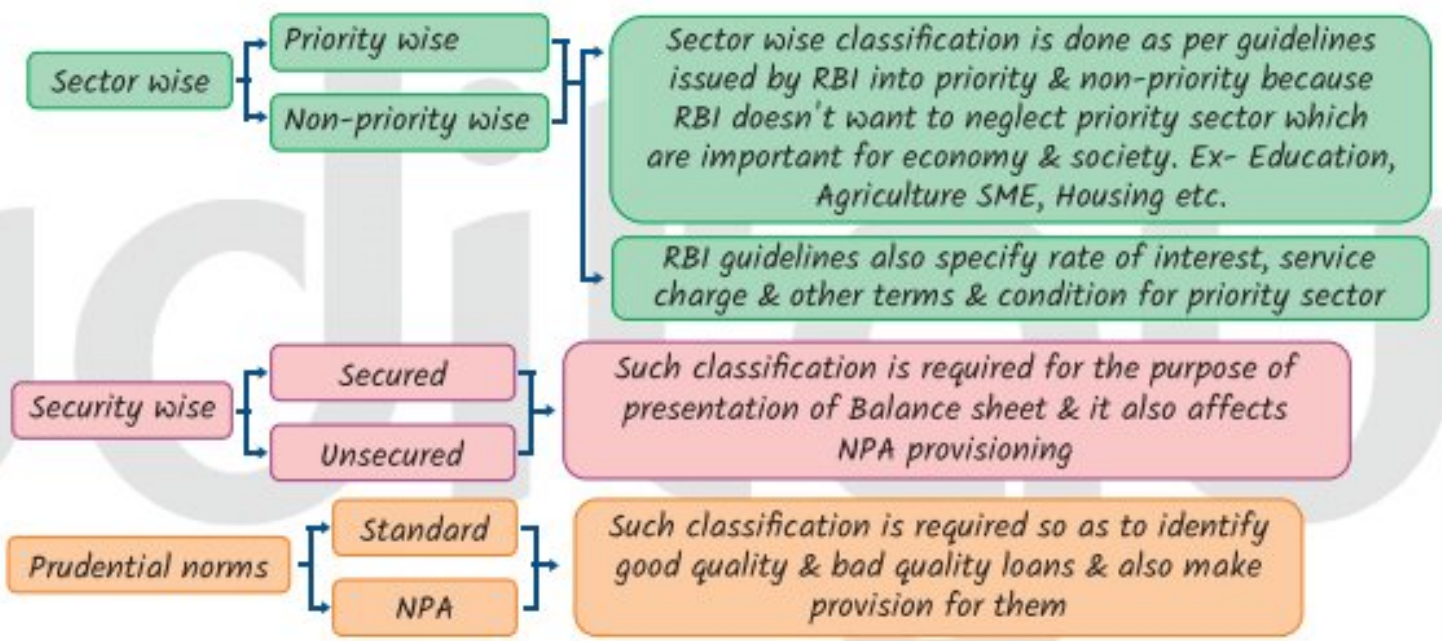
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Examples of matters which are generally discussed (In logical sequence)

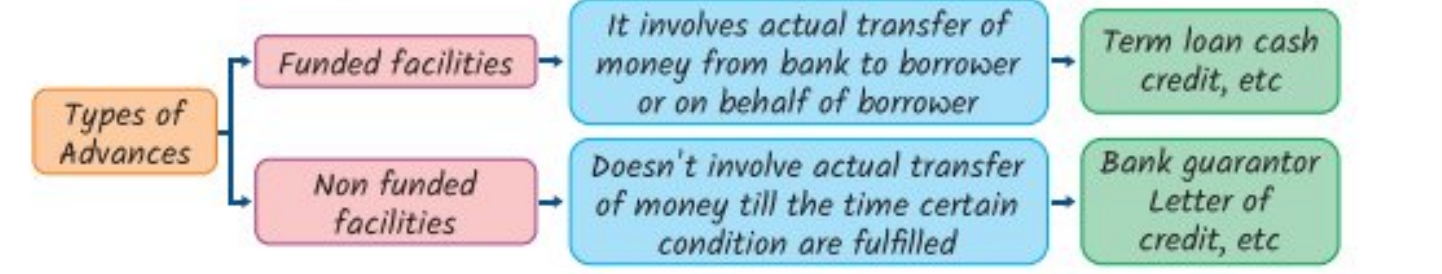


### ADVANCES

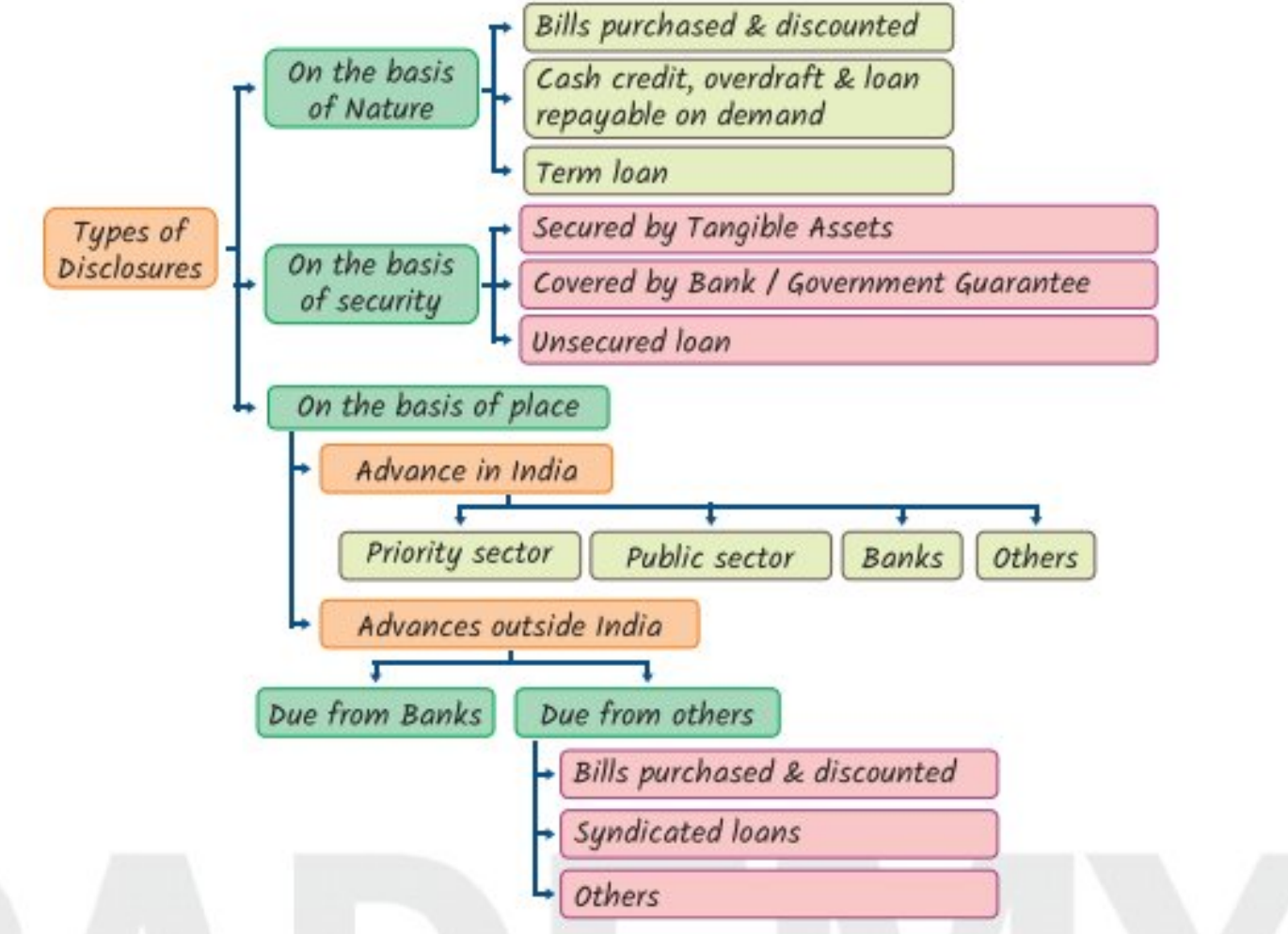
## 1 CLASSIFICATION OF ADVANCES



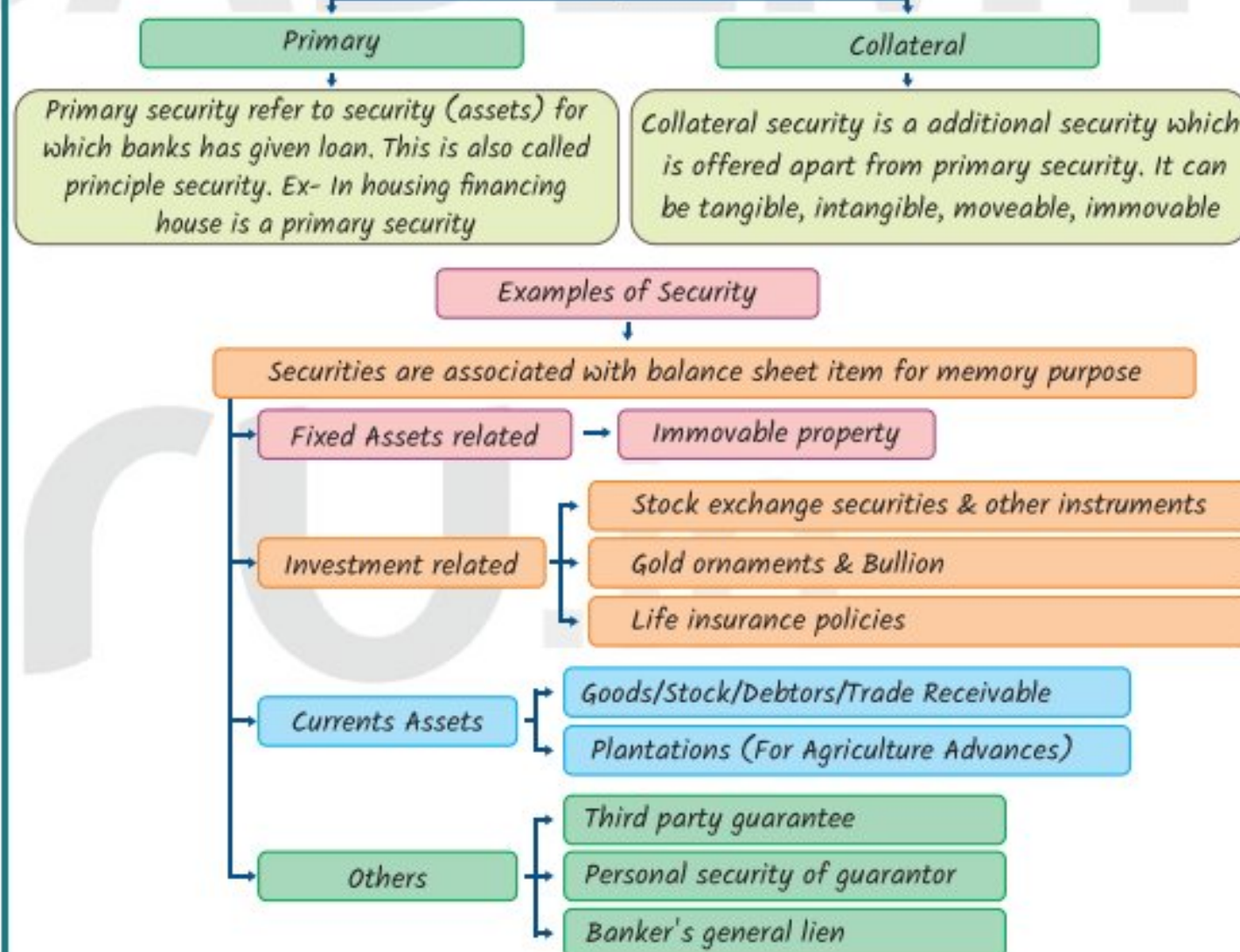
### TYPES OF ADVANCES & DISCLOSURES



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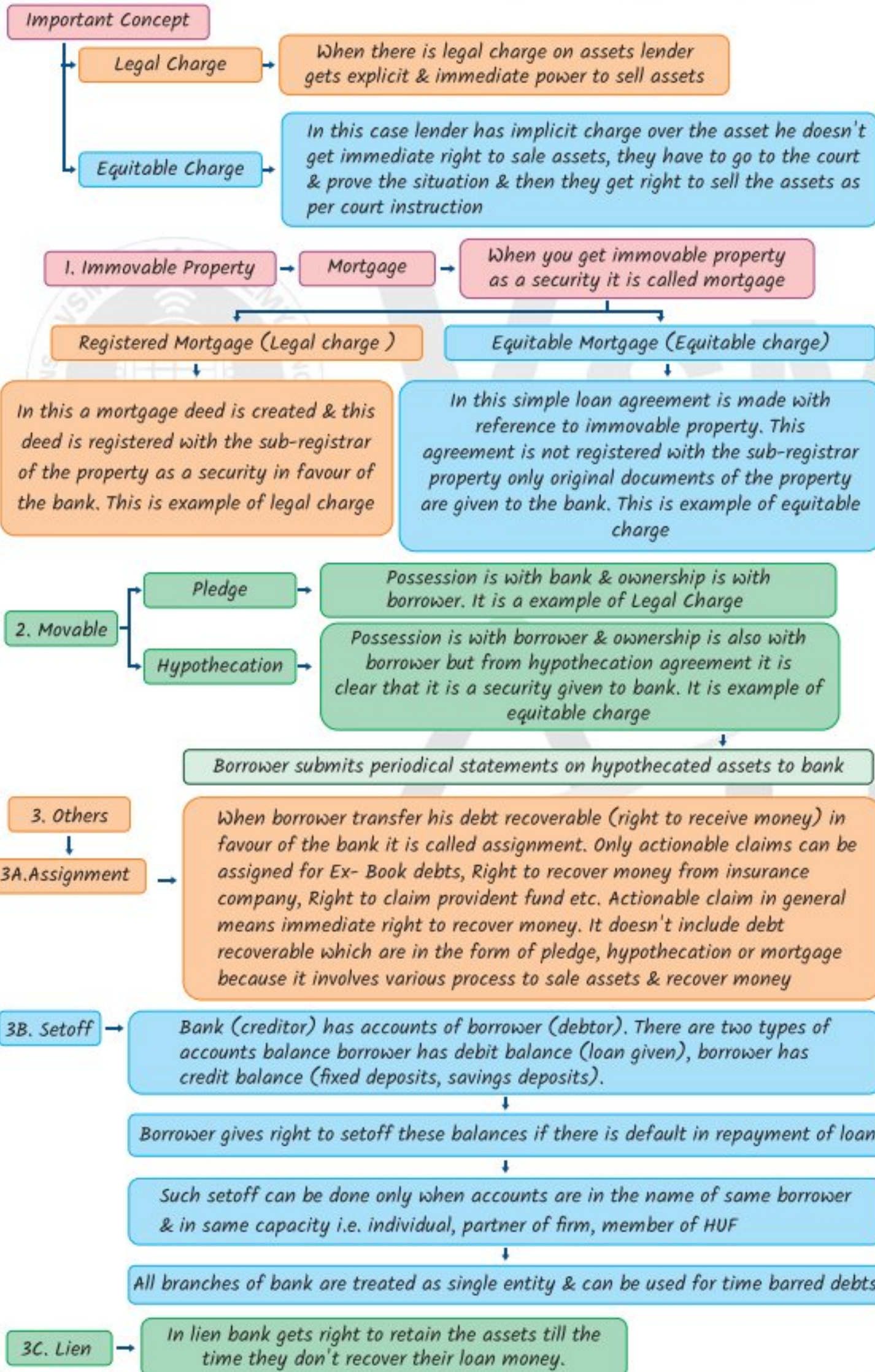
## 2 NATURE OF SECURITY



[Section 171 of Indian Contract Act, 1872 says that unless there is contract to contrary if bank is having possession of goods or any security of a borrower & during this time if there is a default from borrower then banks can retain these things with themselves till the time they recover their money. They don't have right to sell they have right to retain]

### 3 MODE OF CREATION OF SECURITY

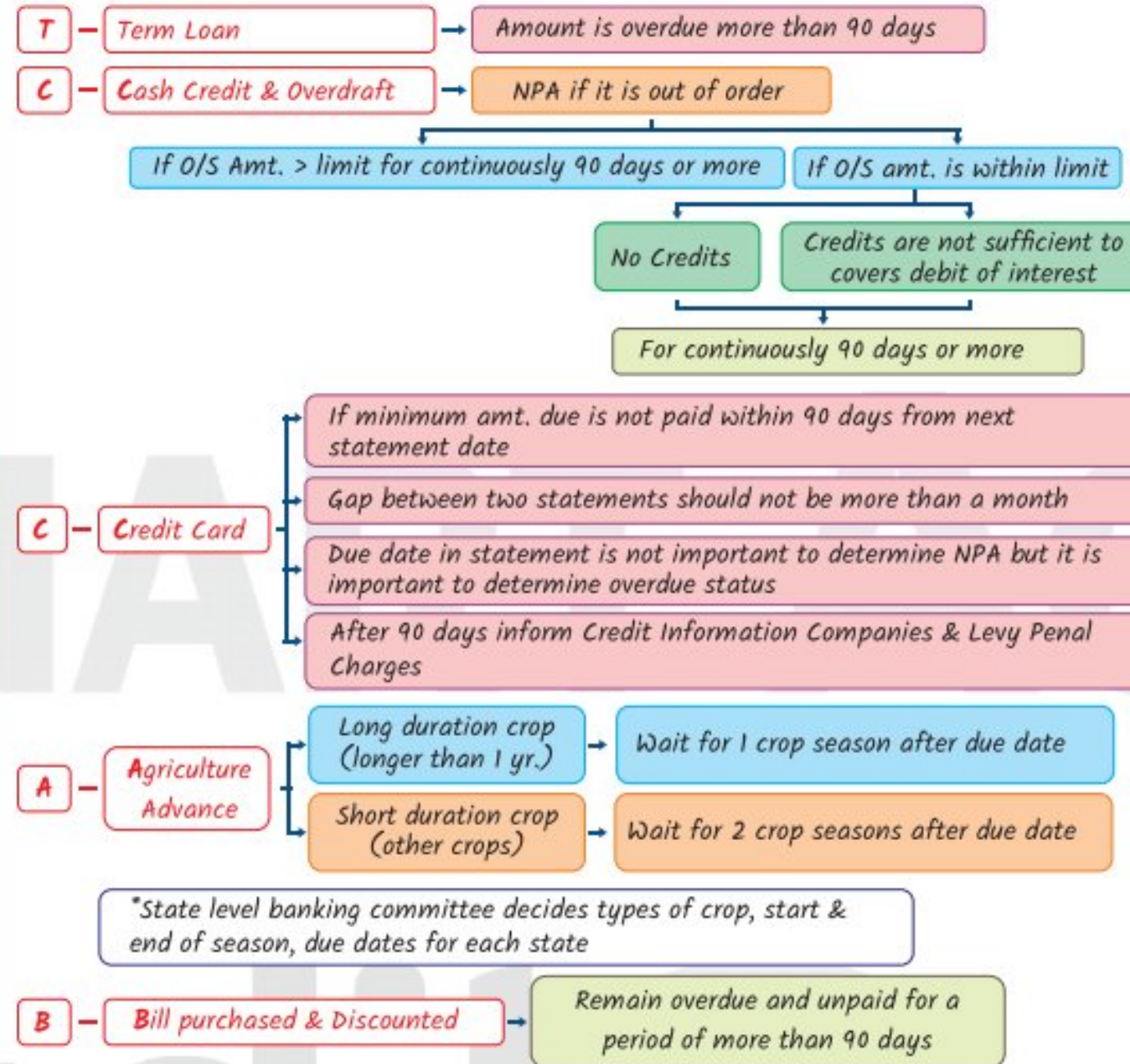
Classification security depending on nature of the item concerned & their terms & conditions



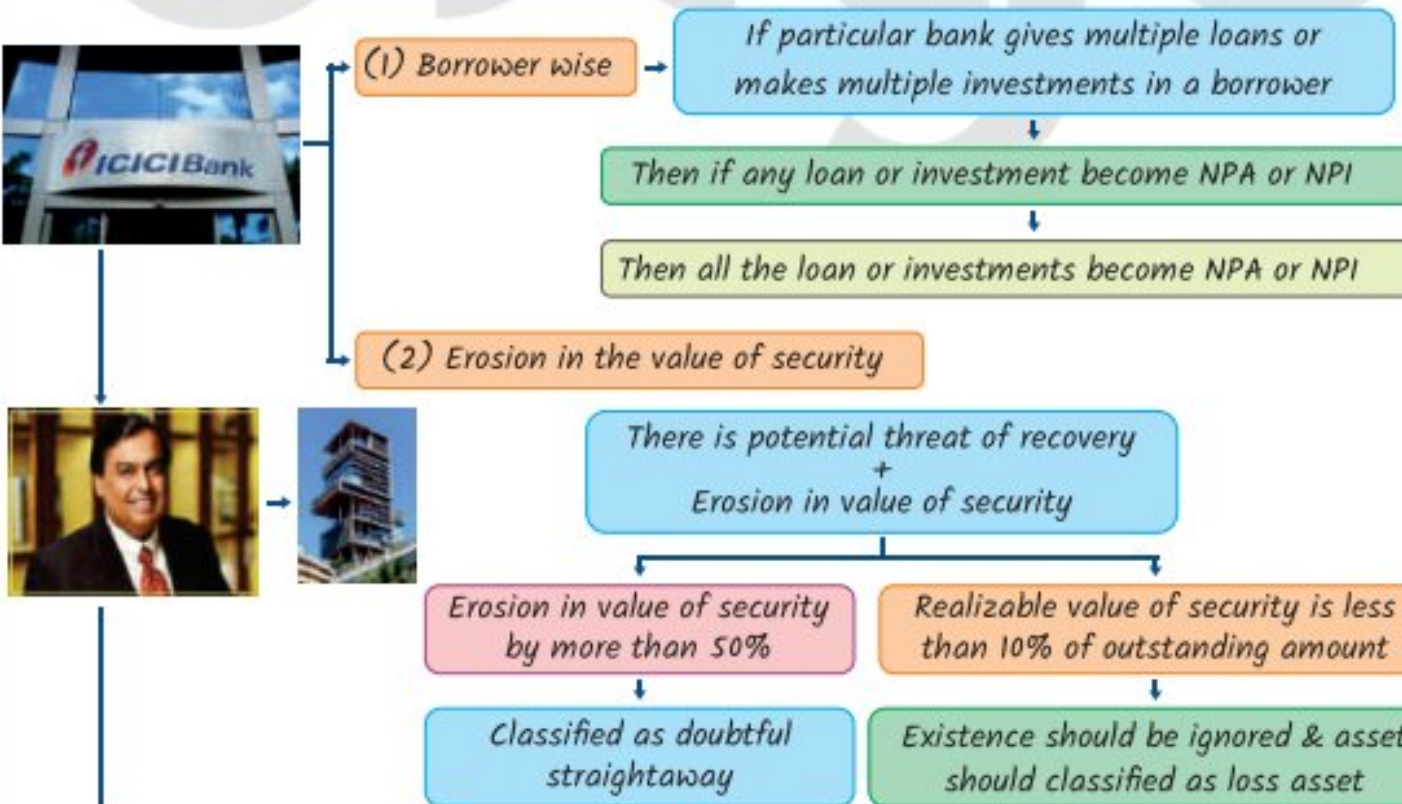
\*We have changed the point which is explained in the module because it seems illogical & incorrect

### 4 NON-PERFORMING ASSETS

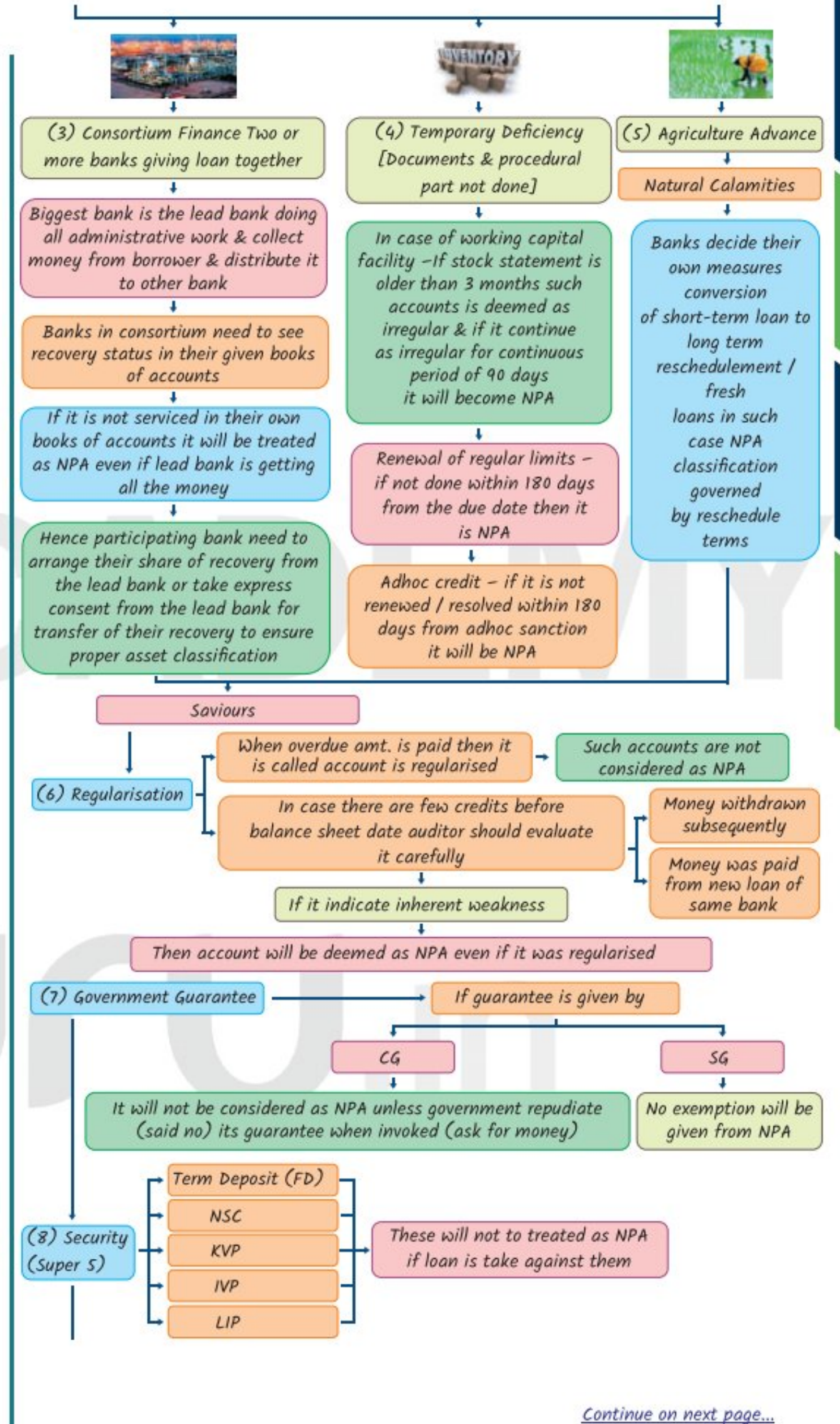
Shortcut - T - CAB loan account is NPA



### 5 EXCEPTIONS & CLARIFICATIONS OF NPA'S



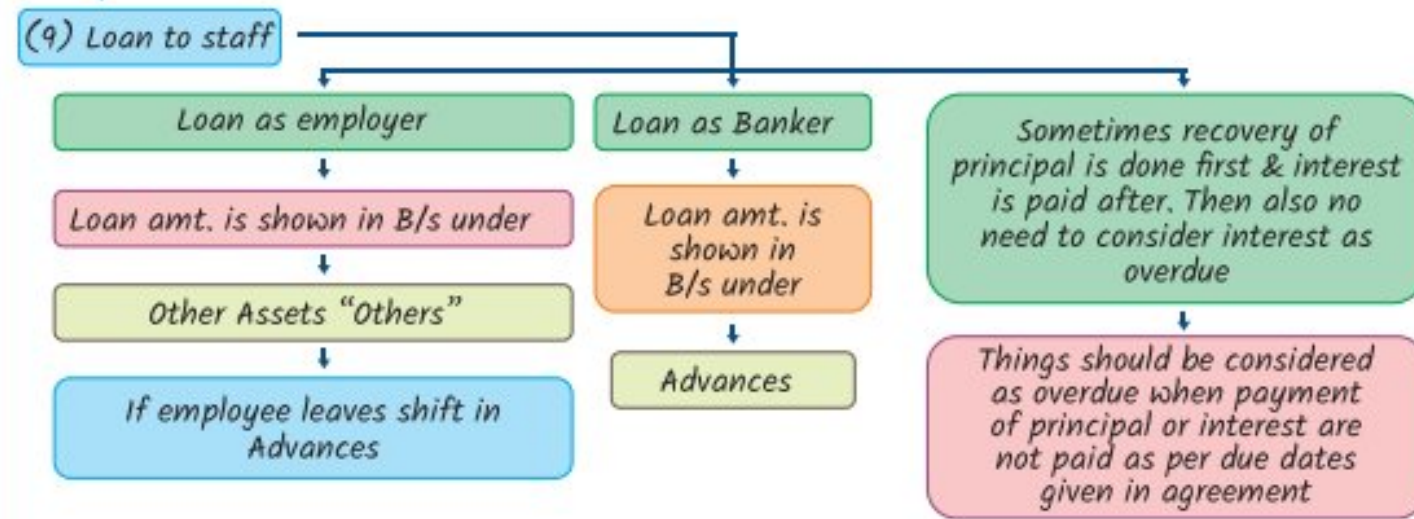
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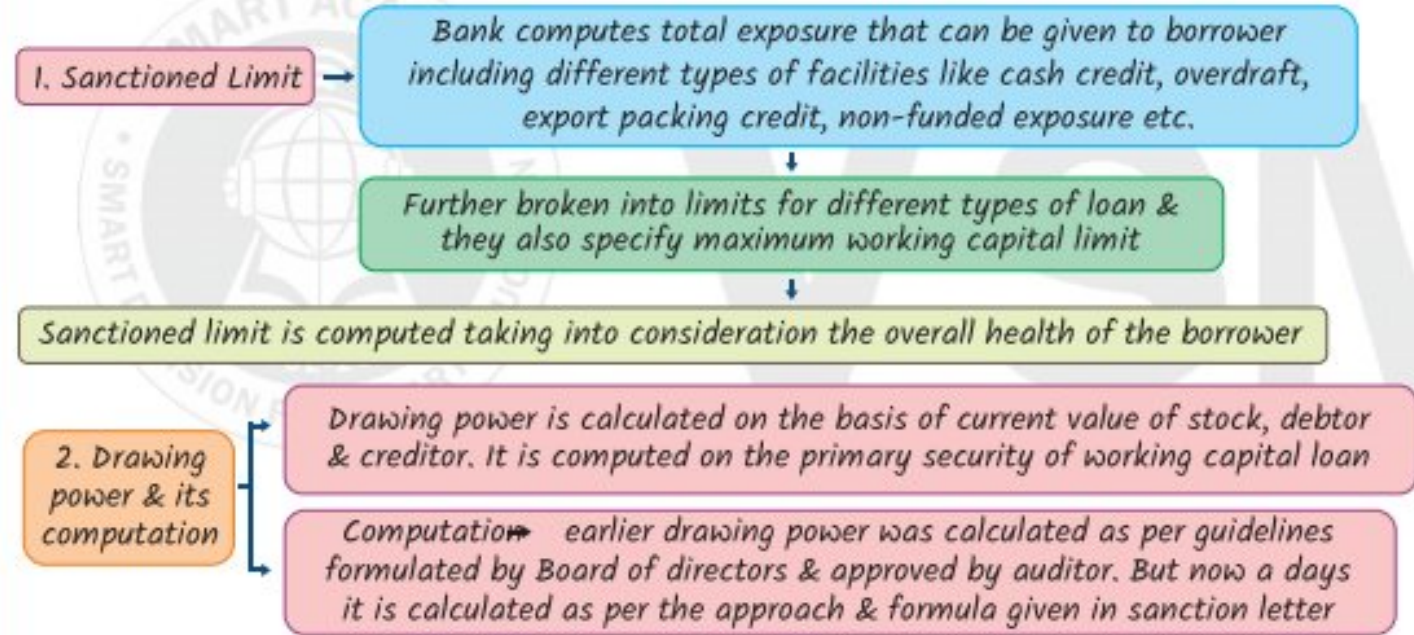




(CNO-BA.280)

(MCQ-BA.18)

## 6 COMPUTATION OF DRAWING POWER



Ex- How it is computed

Particulars of current assets	Amt	DP
(A) Stocks		
Stocks at realizable value	1000	
Less: Unpaid stock:		
- Sundry Creditors	(300)	
- Acceptances / LC's	(300)	(600)
Balance: paid for stocks	400	
Margin @ 25%	(100)	300
(B) Debtors		
Total Debtors	1000	
Less: Ineligible debtors	(200)	
Eligible debtors	800	
Margin @ 40%	(320)	480
Total DP		780

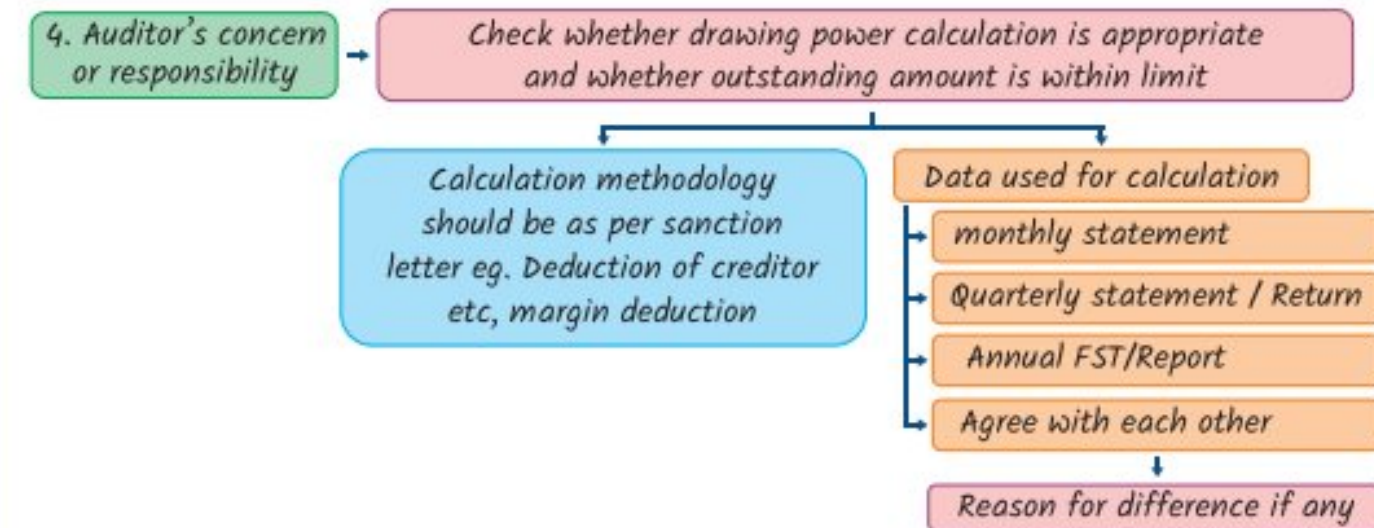
3. Bank Duty →

To collect stock debtor statement on periodical basis & calculate drawing power & ensure that loan is backed adequately by current assets

Statements can be on monthly basis & on request of the borrower or as per the condition it can be on quarterly basis.

But if statement becomes older than 3 months then that account will be deemed as irregular & if it continues like that for 90 days it will become NPA

Continue on next column...



5. Stock Audit →

It is mandatory for all the accounts having funded exposure of more than 5 crores

It is done by different CA/CA firm

If it is consortium financing then lead bank will ensure stock audit is done & distribute report to all the banks

Stock audit report should be carefully evaluated & special focus should be on valuation security & on calculation of drawing power

6. Reporting Consideration →

Account balance should be kept within the sanctioned limit as well as drawing power limit

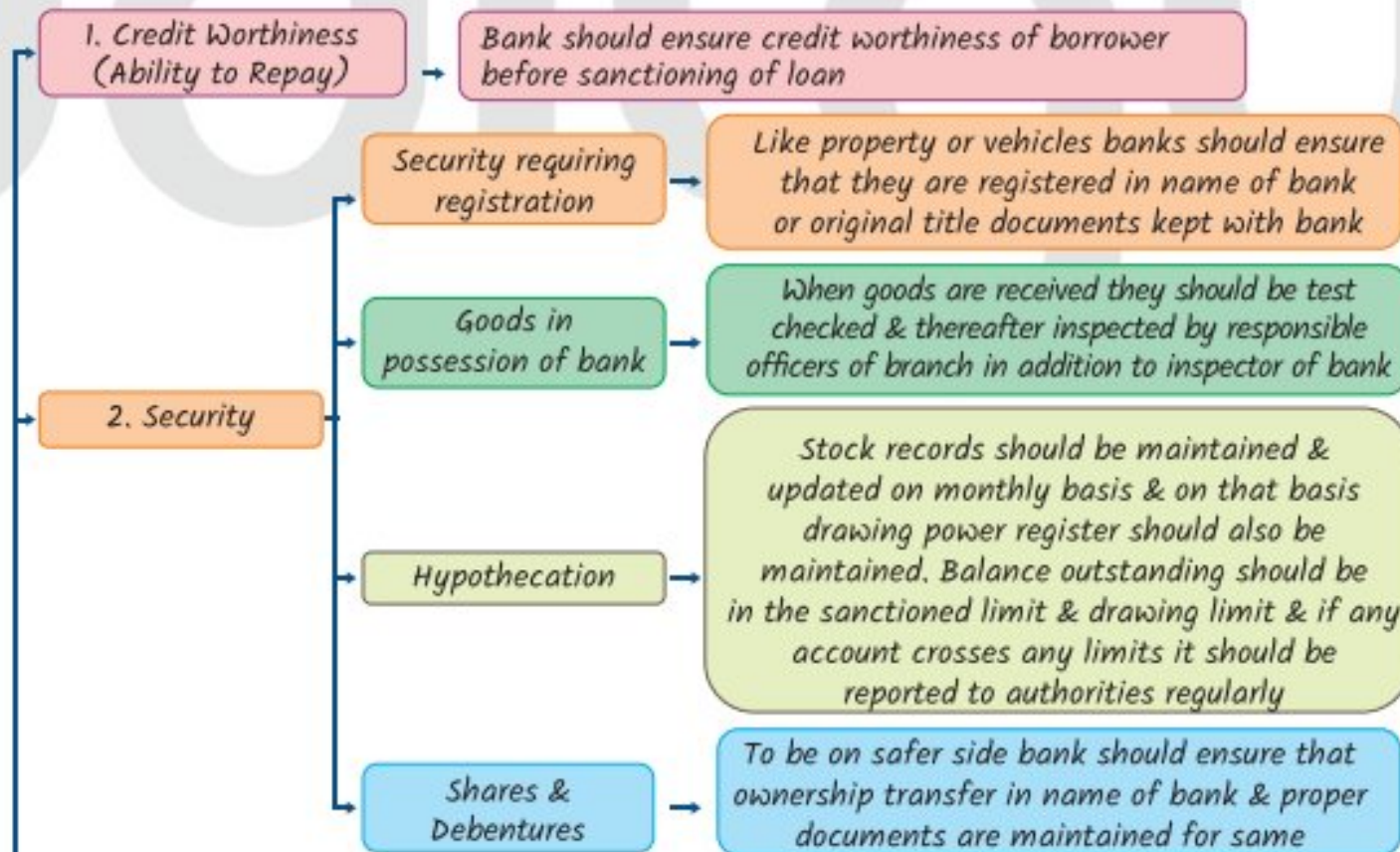
Reporting should be done to management & head office in the following circumstances



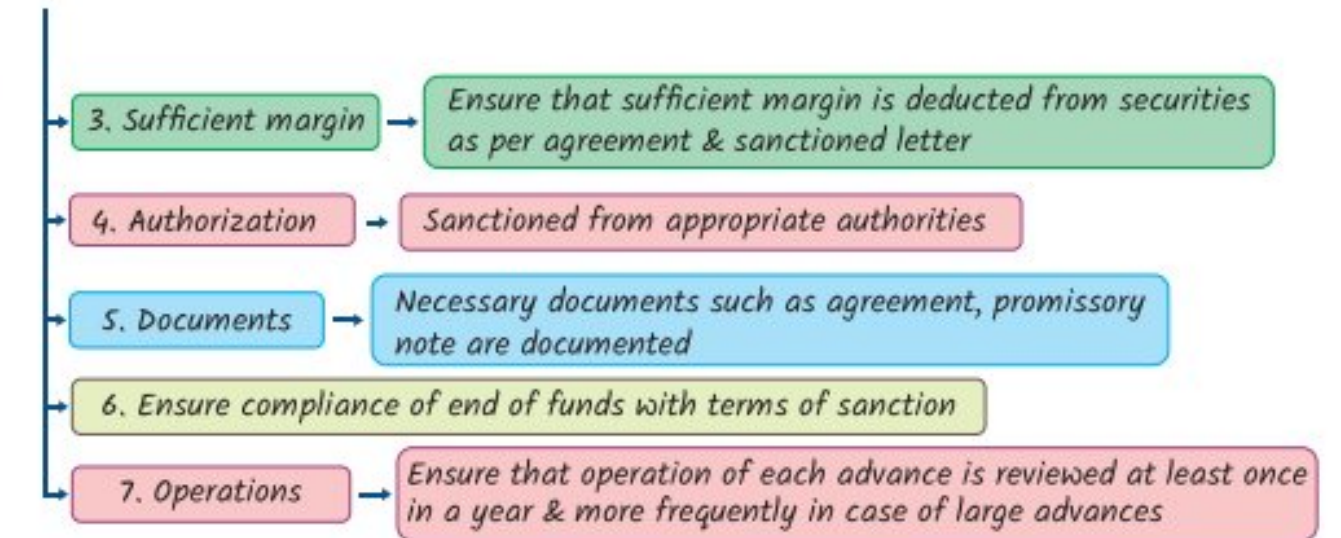
(CNO-BA.300)

(QNO-BA.17) (MCQ-Incs.64.2)

## 7 EVALUATION OF INTERNAL CONTROL OVER ADVANCES



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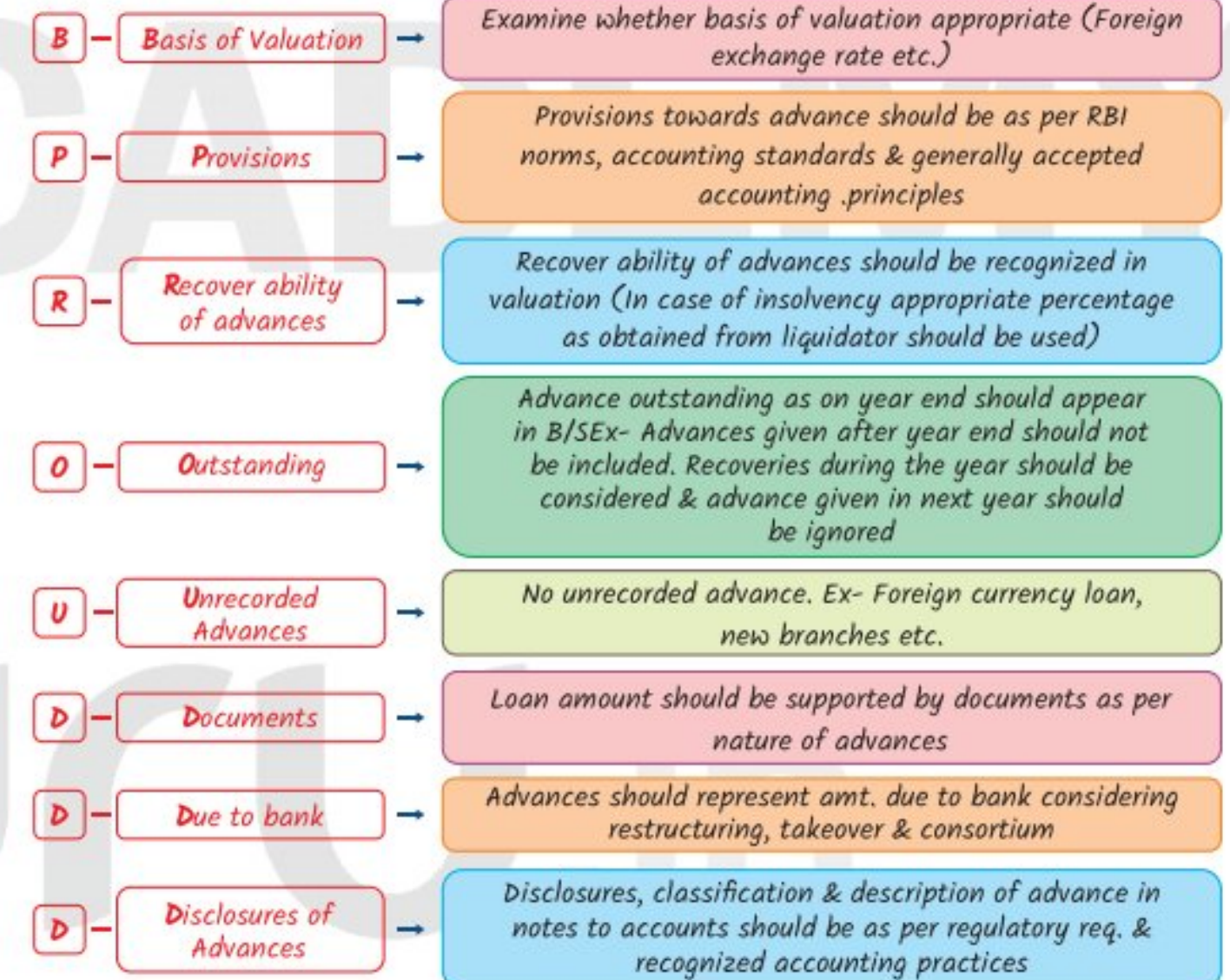


(CNO-BA.320)

(QNO-BA.11/BA.13/BA.15)

## 8 AUDIT OF ADVANCES

Shortcut - Be PROUD<sup>3</sup> of Advances given



(CNO-BA.340)

## 9 SELECTION OF ADVANCES

Substantive procedures should be performed over all large advances, all problem a/c's, all advances which are adversely commented by RBI inspection team, concurrent auditor, bank internal inspection team

Further on sample basis advances should be selected from remaining accounts



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INCOME & EXPENSES

AUDIT OF REVENUE ITEMS

Shortcut - RATING of Revenue by PM & CM

R - Reversal of Income

Reversal of Interest income

As soon as account becomes NPA all accrued income related to that particular loan a/c should be either reversed or provided for

Income from such a/c's should be booked on realization basis (cash basis)

This is applicable even if loan or advance is guaranteed by govt.

Reversal of other income

Fees / Commission or similar income from the borrower whose a/c has become NPA should not be booked on accrual basis. It should be booked on collection basis or realization basis

Reversal of wrongly recognized income

If bank has wrongly recognized any income then it should be reversed in current year or provision of equal amount should be made

Reversal after communication from borrower

Borrower may point out difference or mistake of interest being charged to his accounts & if it is justified then such reversal is done. This will lead to large debits in the accounts.

Auditor should check it carefully

A - Allocation of Discount in Bills purchased

If bill purchased is outstanding at the year end that means part of the discount falls in next year it is called unexpired discount or rebate on bill discounted

Such discount should be transferred from discount account to rebate on bill discount a/c.

Rebate on bill discount should be shown under the heading of other liabilities

If Bank rediscounts bills purchased then discount expense on such rediscounting expense should not be netted off with discount income

T - Test Check

Interest earned should be checked for sample items

Fees or Commission on bills for collection, letter of credit, Bank guarantees should be checked on sample basis

Continue on next column...

I - Investment related income

Income on Investment

Includes interest on govt bonds, debentures etc & dividend income on shares

Exception / Adjustment

Dividend from subsidiaries & JVs will be excluded & shown in other Income

Broken period interest (accrued interest) on securities should be netted off / adjusted against interest income

Premium (difference between purchase price & redemption value) on SLR investment should be amortised & netted off from the interest income

Profit on sale on investment

Should be shown as other income

Profit / Loss on Revaluation of investments

Banks have to regularly value the investment as per RBI circulars

Shown in other Income

N - NPA effect on different types of loans

Finance Lease

Finance lease is a type of loan given, installment of lease includes finance income. It is booked as per AS 19

In case of NPA all accruals should be reversed & income should be booked on realization basis (cash basis).

Loan given on basis on super S securities

In case of such loans interest income will be booked to the extent of available margin

Ex- Loan 100 Value of securities 125 Margin 25 Interest can be booked upto 25 on accrual basis

Takeout Finance

Meaning- Banks finance infrastructure project, after projects are completed & successfully operational for specified time banks invite financial institution to takeover this loan, so that they free their money for other projects this is called takeout finance.

If loan involved in takeover arrangement has become NPA in books of lending bank, then bank should be careful they should book interest income but it should be booked only when interest income is received either from taking over institution or borrower

G - General Points

Unrecorded income

No income should remain unrecorded

Recorded income

It should belong to bank

Recorded at proper amount

Allocated to proper period

Continue on next column...

R - Restructuring

Fees or commission charged on re-negotiated / re-scheduled loans should not be booked immediately

It should be booked & deferred over the remaining period of the rescheduled / renegotiated loan

P - Partial recovery

Meaning through example

Installment overdue 10 lakhs  
Principal - 8 Lakhs  
Interest - 2 Lakhs  
Recovery - 1 Lakh  
It is called partial recovery

Treatment

It should be as per agreement between banks & borrower

If agreement is silent then bank has right of appropriation, but bank should exercise their right in uniform & consistent manner across various loans by making standard policy

Accounting policies should be as per appropriations done by the bank

Interest income will not be booked if the funds are out of fresh additional facilities given by the bank to concerned borrower

M - Materiality level

RBI has given two materiality levels

For income booked on gross basis -> 1% of TI

For income booked on net basis Ex- P/L on sale of investment -> 1% of NPBT

Treatment

Income item which fall below materiality level can be booked on receipt basis. Auditor should not qualify audit report

Basic principle for income recognition

Further income should be booked on accrual basis only when it is reasonable to expect ultimate collection

C - Bill for Collection

Banks earns commission on collection of bills on behalf of customers. It is a service income it should be booked only when collection is completed & amt. credited to customer account not before that.

M - Memorandum account

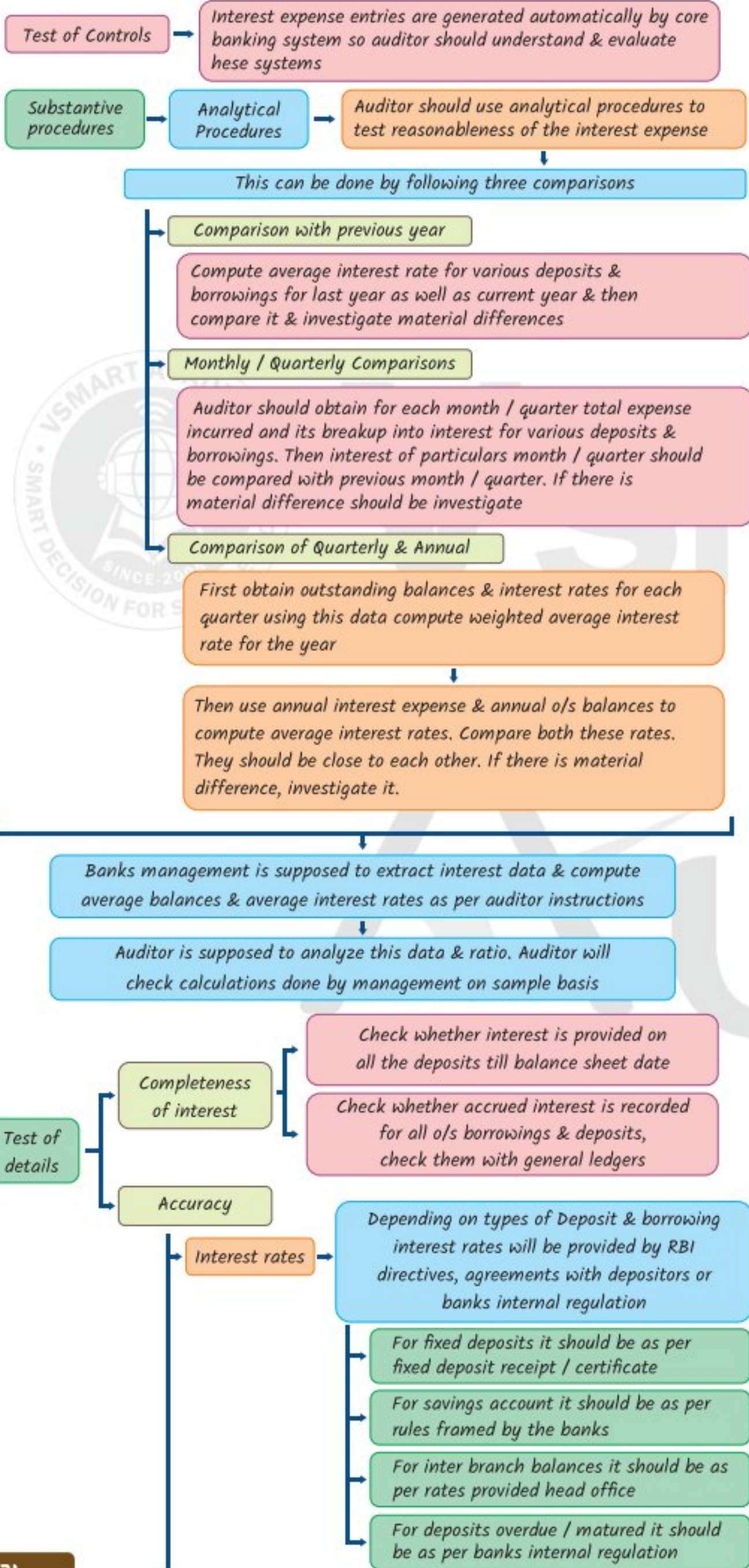
Banks may maintain separate memorandum account outside financial books to keep record of accrued incomes & total amount of loan recoverable from borrowers including interest.

It is only kept for the purpose of information & other purpose & not for accounting purpose

Amt. shown in balance sheet is net off this accrued interest income in case of NPA

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## 2 AUDIT OF INTEREST EXPENSE



Continue on next column...

### Changes in interest rates

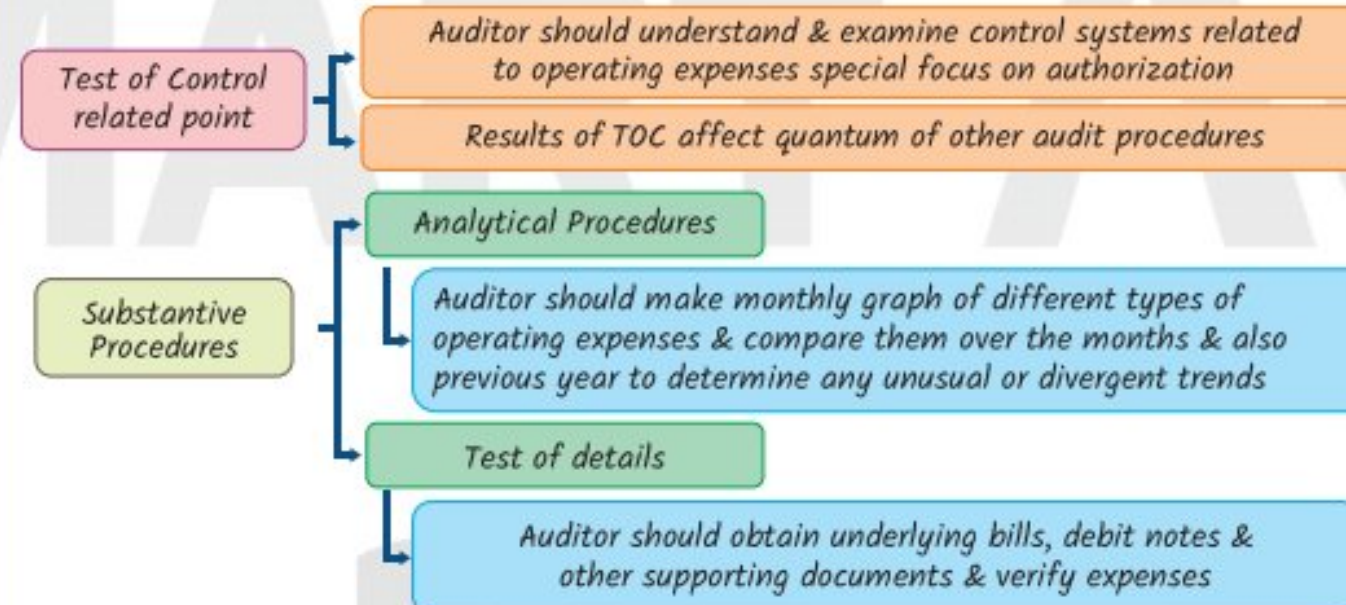
If there is a change auditor should ensure that proper changes are made in the system from particular date. Further he should also obtain interest cards for all the quarters & for different types of deposits & analyze whether interest cost has changed accordingly

### Re-computation

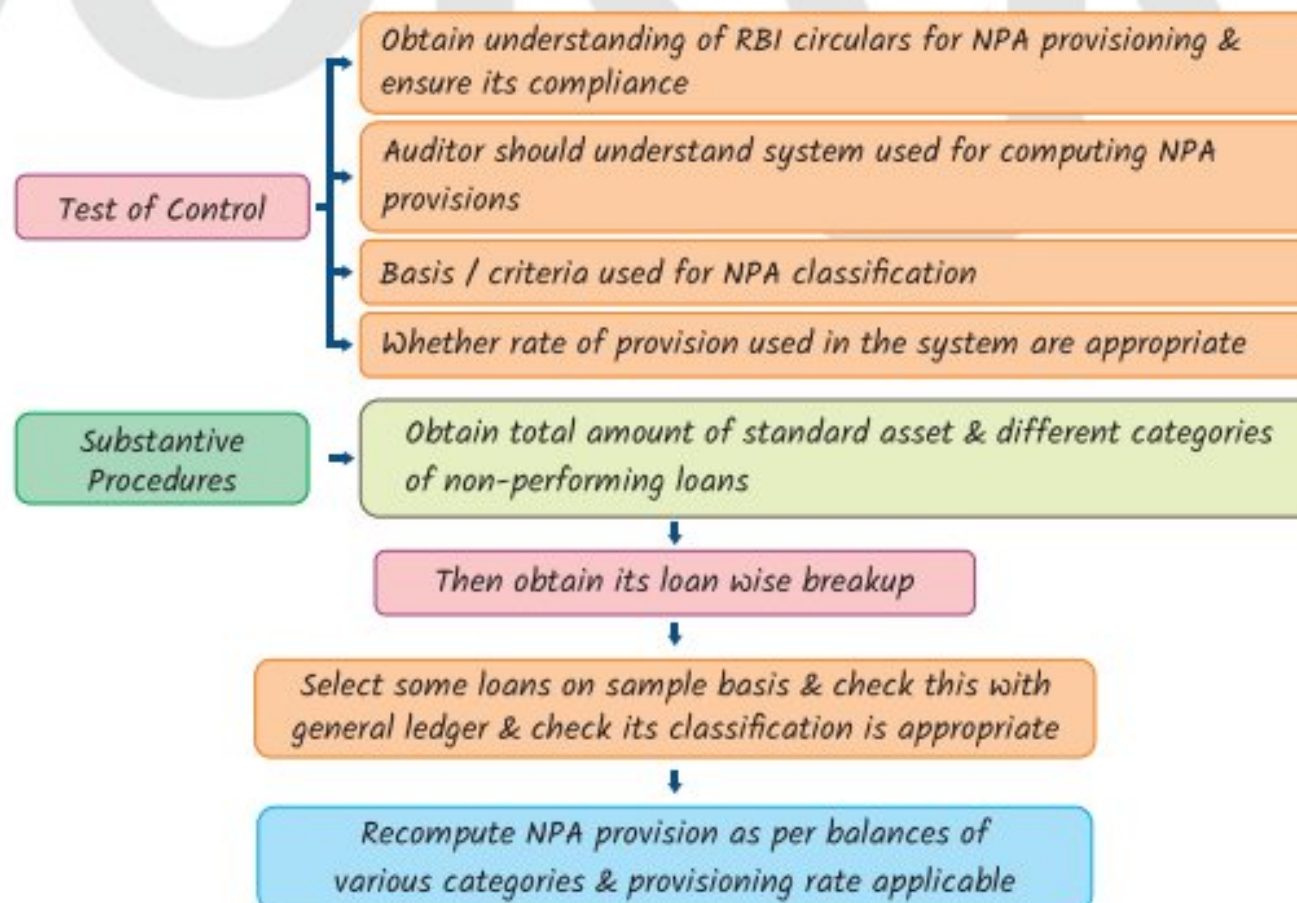
Auditor should himself recompute interest on sample basis.

He should ensure that rate of interest, amount o/s, period used is appropriate as per term sheet, agreement, deal ticket etc. (Meaning of deal Ticket : Summary of terms & Conditions of any trade/transaction/borrowing)

## 3 AUDIT OF OPERATING EXPENSES

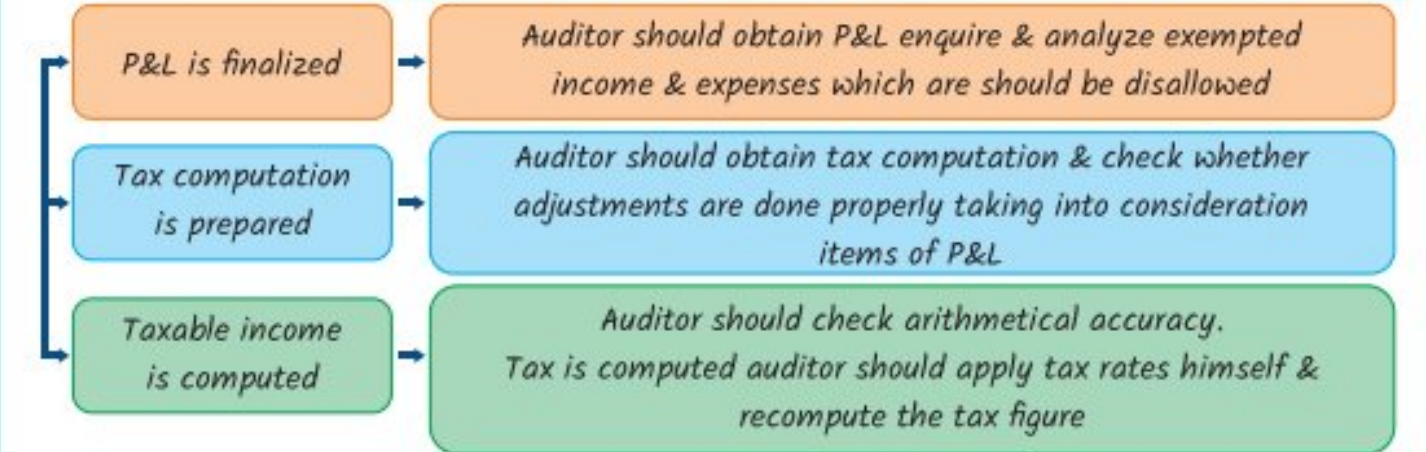


## 4 AUDIT OF NPA PROVISION



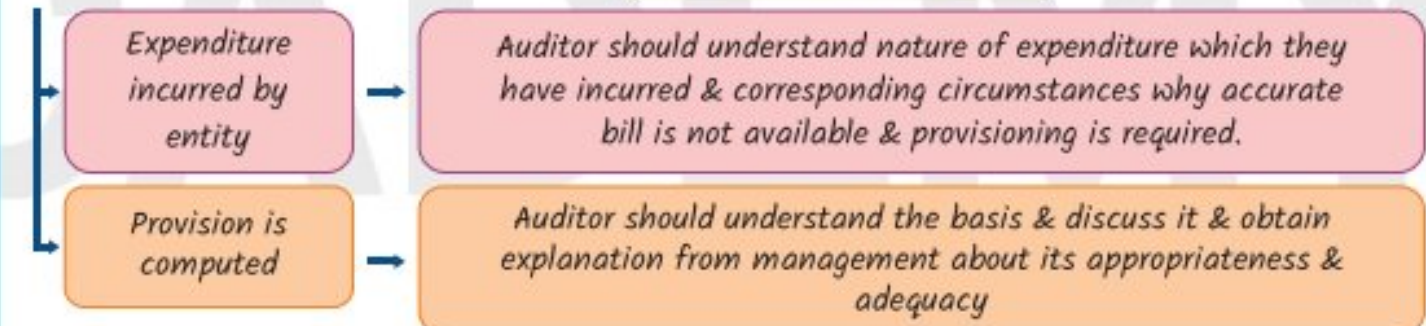
## 5 AUDIT OF TAX PROVISION

Just imagine how things are performed in practical life to retain following points

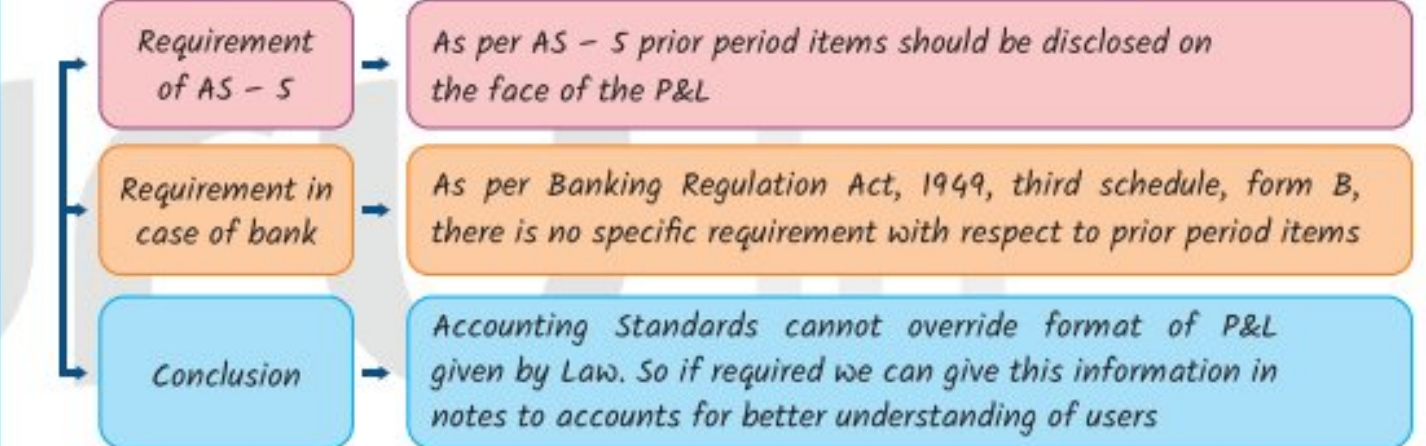


## 6 AUDIT OF OTHER PROVISIONS

Imagine the practical flow



## 7 DISCLOSURE OF PRIOR PERIOD ITEMS



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REPORTING

1 TYPES OF BANK AUDIT REPORTS TO BE ISSUED (GENERALLY)

Shortcut : - Report Should be in **ITALICS**

- Report on IRAC done as per RBI guidelines
- Report on treasury operation conducted as per RBI instructions
- Report on adverse credit deposit ratio in rural areas
- Long form Audit Report
- Bank registered as companies → Report u/s 143(3)(i) of the companies Act 2013
- Report on compliance of bank regard to implementation & recommendation on
  - Ghosh Committee (relates to fraud & malpractices)
  - Jilani Committee (relates to internal control & inspection / credit system)
- Report on compliance with SLR requirements

2 REPORTING IN BANKS (Audit Report on FST)

- Audit Report on Financial Statements → Basic format of audit report is given in SA 700 series [700, 701, 705, 706, 710]
- Law requirement
  - Requirement as per banking related laws
    - (In practical sequence)
      - Information & explanation found to be satisfactory
      - Transaction are within the powers of the company
      - Returns received from branches & other offices are adequate for the purpose of audit
      - Whether B/S give true & fair view
      - Whether P&L give true balance of profit for the period
      - Any other matters brought to the notice of shareholders of company
  - Requirement of companies act
    - Section 143 prescribes the requirement
    - Should also include matters covered under Rule 11 of companies (Audit & Auditors) Rules, 2014
    - CARO is not applicable
- \*See contents in Companies Act
- LFAR
  - This report is on banks internal working of various departments special focus on how deposits are raised & how they are repaid
  - Submit to the chairman of Audit committee every year by 30th June & the chairman of audit committee need to submit this report to RBI

3 FRAUD REPORTING

- Reporting to RBI → RBI has circulars & made recommendations
  - As per circulars of RBI Auditor are supposed to communicate frauds if it crosses a specified limit
- Reporting under Co. Act. → As prescribed in Sec 143 (12) of companies Act, 2013 [Please refer to company audit for Sec 143(12)]
- Reporting Principle → Auditor need to evaluate FST & give opinion
  - Auditor come across any instances of fraud
    - Should report to RBI in addition to Chairman / Managing Director / Chief Executive / Government
- Standards on Auditing
  - Standards on Auditing 240 also speaks about communication with respect to fraud
  - As per SA 250 – duty of confidentiality is overridden by statute, law or by courts

OTHER

EFFECTIVE RISK MANAGEMENT SYSTEM

- Involvement of TCWG in risk management → TCWG should approve risk management policy. This policy should ensure minimum impact on profitability & capital
  - It should take into consideration existing management expertise & also regulatory requirement
- Identification, Measurement & Monitoring of risks against preapproved limits → All significant risk should be identified, measured, monitored against preapproved limits & criteria
- Control Activities → Following is the examples of controls which can mitigate risk
  - Segregation of duties
  - Setting lo limits
  - Approval of transaction
  - Accurate measurement & reporting of positions
  - Reporting & approval of exception
  - Reconciliation of positions & results
  - Physical security & contingency planning
- Monitoring risk management methodologies & models → Risk management methodologies & models, assumptions used should be regularly monitored & updated
  - This function will be conducted by independent risk management unit
- Reporting of Risk → Banks need reliable information system to get financial, operational, & compliance information on a timely & consistent basis
  - TCWG requires risk management information that is easily understood to enable them to assess changing nature of banks risk profile

Stress Testing & Basel Framework

\*\*\*\*For this concept refer pdf\*\*\*\*

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# CHAPTER II

# ETHICS AND TERMS OF AUDIT ENGAGEMENTS

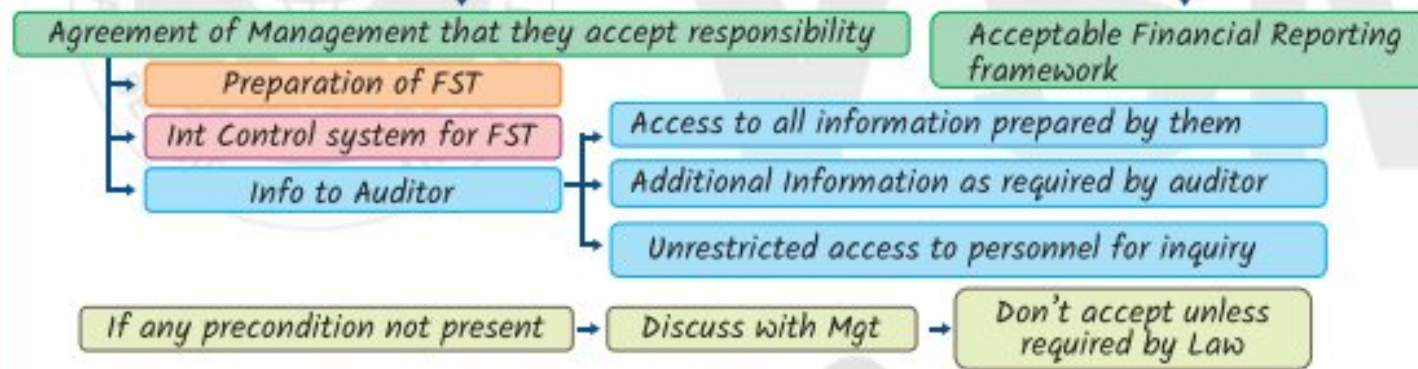
## Part 1 ' ETHICS

For this part refer pdf

## Part 2 ' SA 210

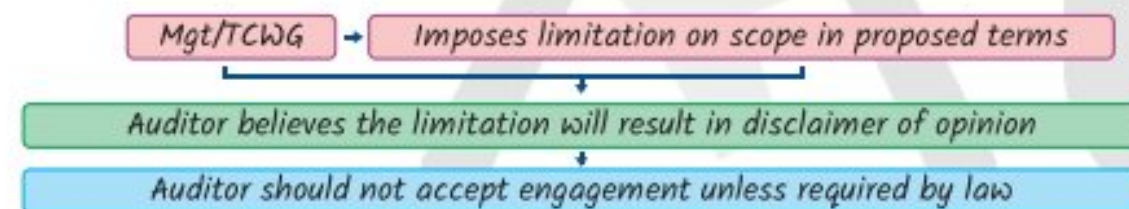
CNO-SA210.020 (QNO-210.02) (MCQ-210.10)

### PRE-CONDITIONS OF AUDIT /PREMISES OF AUDIT



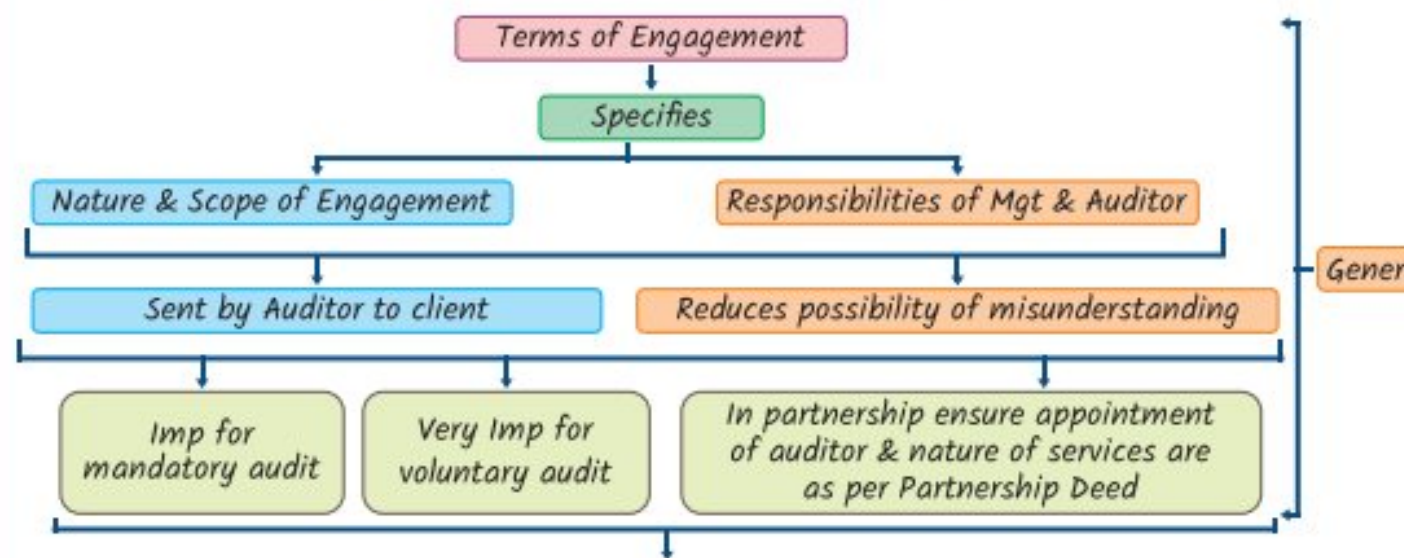
CNO-SA210.040

### LIMITATION ON SCOPE PRIOR TO AUDIT ENGAGEMENT ACCEPTANCE

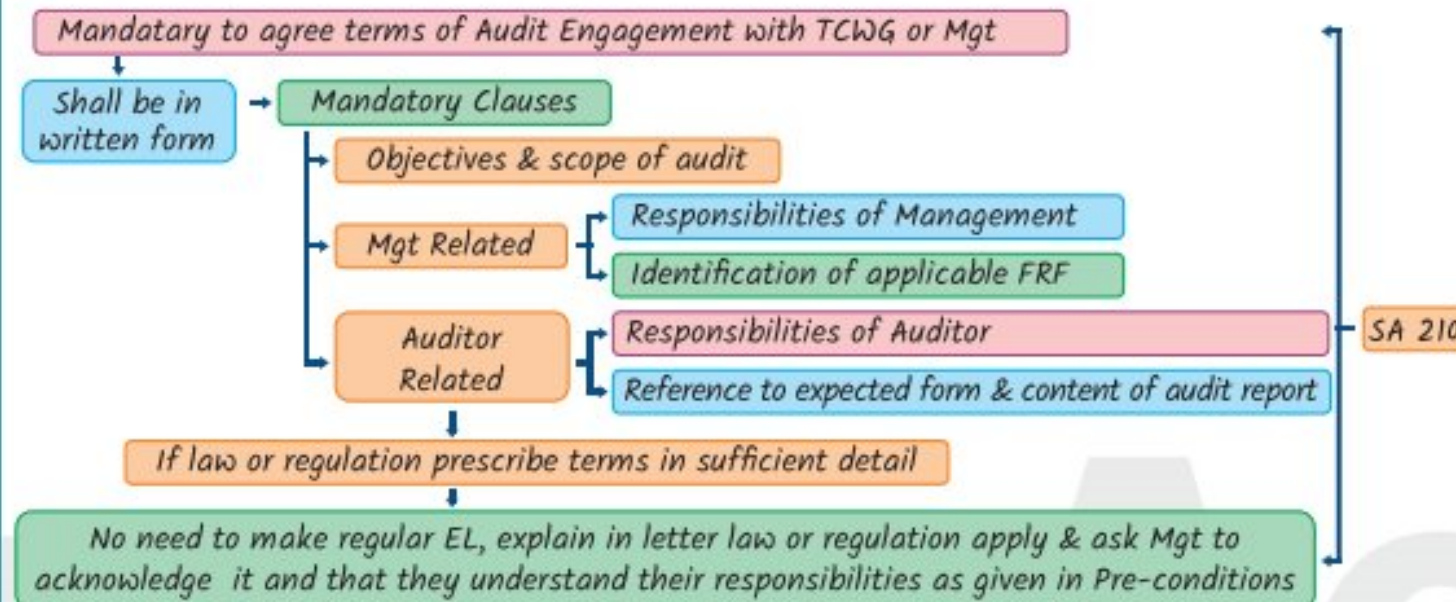


CNO-SA210.060 (QNO-210.03) (MCQ-210.1, 210.2, 210.3, 210.4, 210.9 Incs.08.1)

### ENGAGEMENT LETTER (EL)

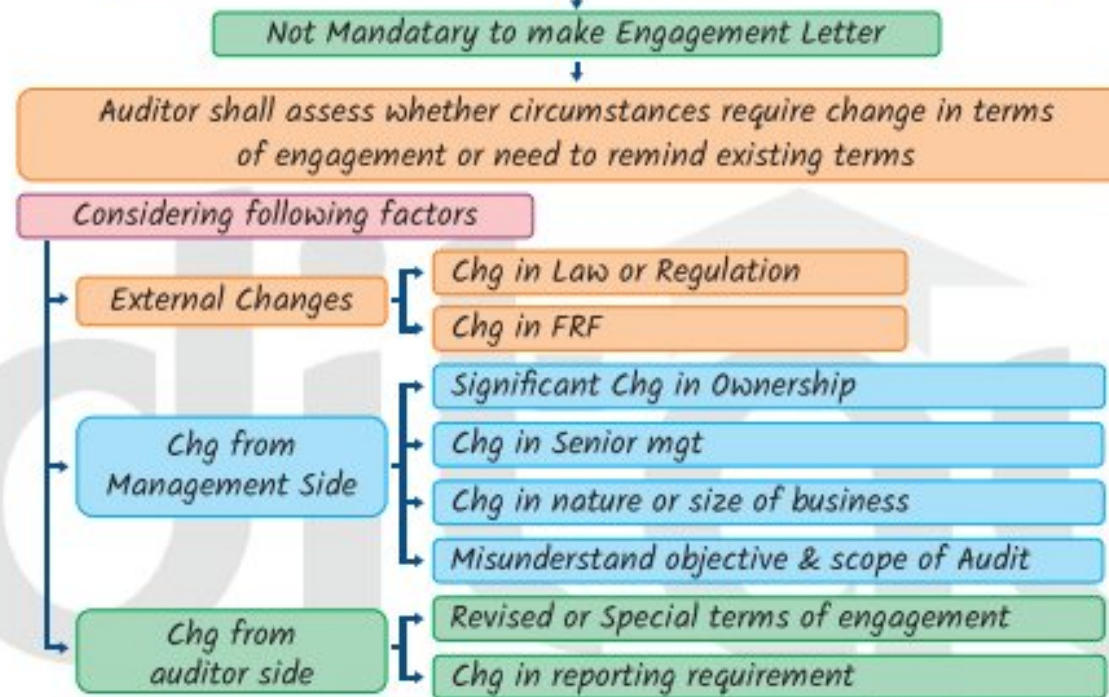


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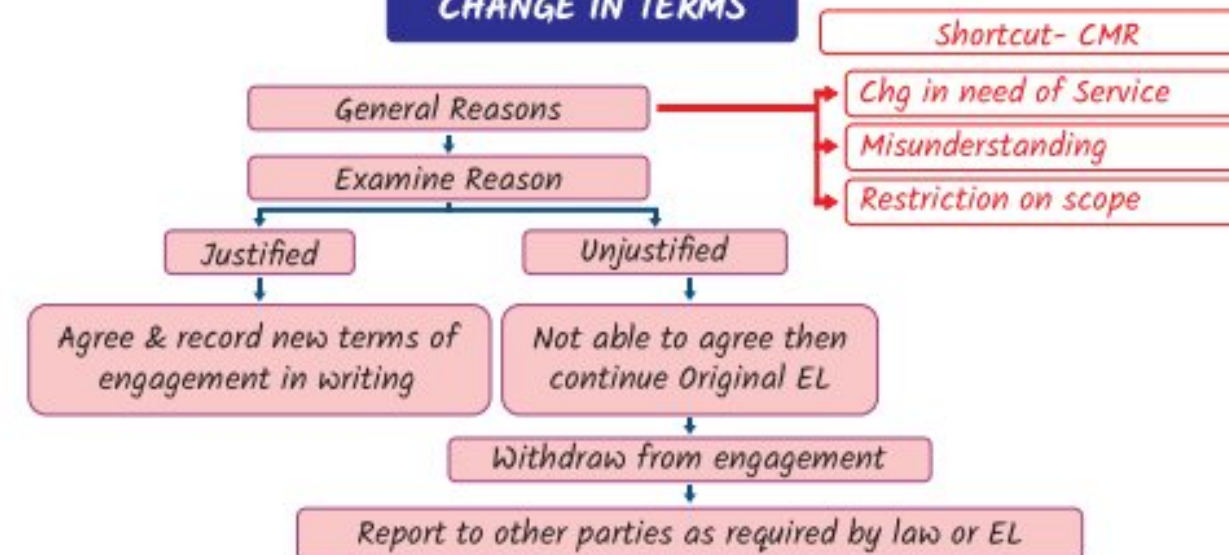
CNO-SA210.080 (QNO-210.05) (MCQ-Incs.32.3)

### ENGAGEMENT LETTER IN RECURRING AUDITS



CNO-SA210.100 (QNO-210.07, 210.09) (MCQ-210.5,210.6,210.7,210.8)

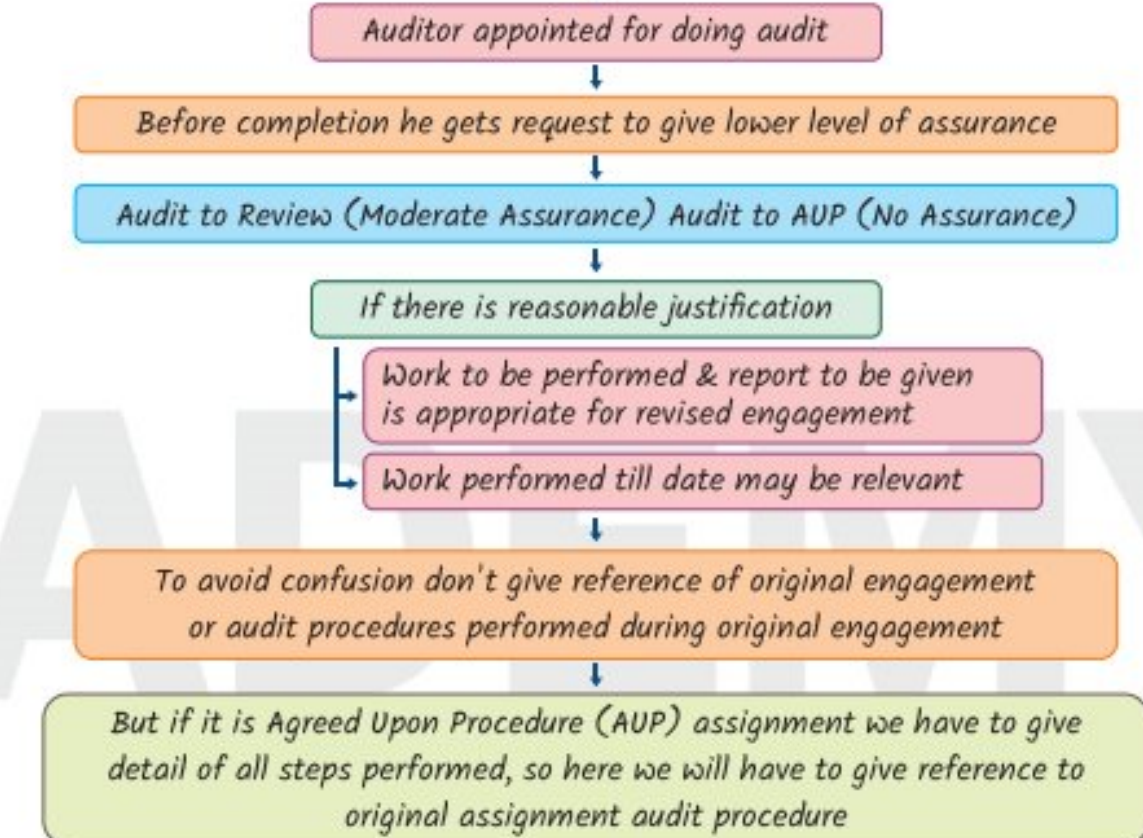
### CHANGE IN TERMS



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CNO-SA210.110

### REQUEST FOR LOWER LEVEL OF ASSURANCE



## Part 3 ' SQC 1

For this part refer pdf

## Part 4 ' SA 220

For this part refer pdf



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