

Chapter 05 Audit of Items

Introduction

Explicit
Implicit

Representation → By Mgt → used by Auditor
↓
Embodied in F.S

To consider difference types of min That may occur
Auditor → To draw → Audit programme

To verify existence made by mgt.
by obtaining suff + Appr. AE - for claims
→ COI
→ AIC Bal
→ Disburse

Balance Sheet captions

SC → Existence + completeness + valuation

- 1 Tally → period end balance
- 2 Change → Yes → verify → limit → A.C → MOA
- 3 No → obtain W.R → CS.
- 4 obtain → copies of resolution
- 5 Compliance → The CO Act 2013
SEBI Regulations
MCA Guidelines

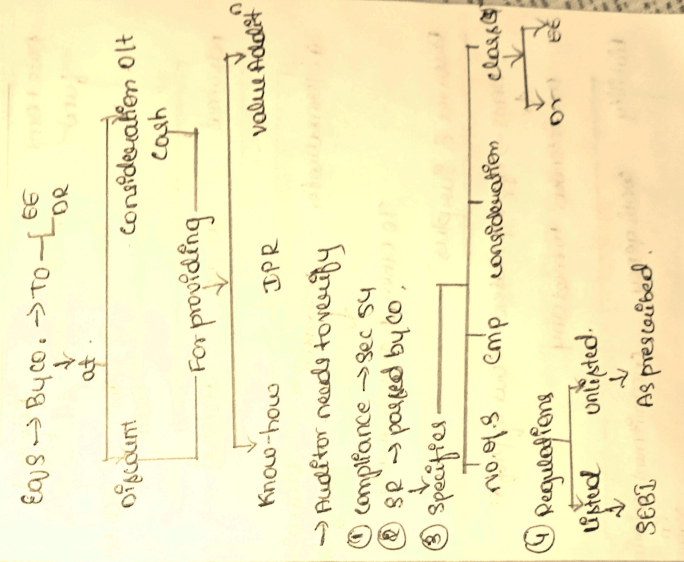
Shares issued @ premium

- 1 compliance → sec 51
 - 2 Transfer → Amt → SP A/c
 - 3 State → purpose → Amt to be applied.
- unissued shares → To members → Fully paid B/S → Auditor needs to verify
- Issuing shares → Waiting off → Premium on issue - mpten → PS → Debt → Buyback → sec 66

Financial statements of Shares issued @ Discount

- 1 compliance → sec 53
- 2 shall not issue shares @ discount → except
Sec 54
Statutory Debt Resolution - charging
- 3 CO → Fail to comply → Every off. issued → penalty

Amount raised by issuing shares @ discount
→ lessor of → ₹ 500000
Refund all money Int @ 12% p.a.
Auditor to check
Issue of Sweat Equity Shares.

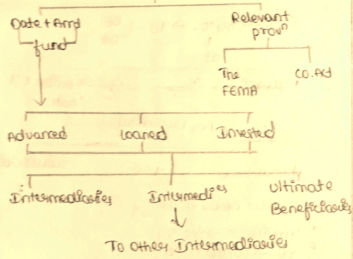


Reduction of capital

- 1 Compliance → Sec 66
- 2 meeting of SH → properly convened & passed
- 3 verify → ACR
- 4 no default → repayment of deposit, payment of Int on deposit
- 5 examine → order of Tribunal, filed with ROC
- 6 ROC certificate
- 7 A/c Entries
- 8 Revaluation of Assets → properly disclosed

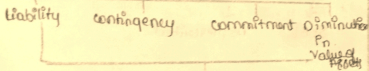
Share Capital

Disclosure
 Sch III (part I) of the CO Act 2013
 Sec → Additional Regulatory Info.
 Sec 143(3)(1)(d) (ch 8 → AR)
 disclose

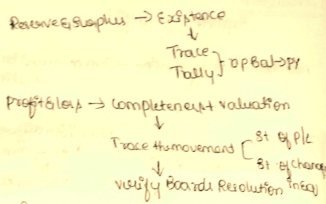


Reserves & Surplus

Arts → appropriated → out of profits
 Not intended to meet any



Known to all → As at the Balance



→ Disclosure
 Sch III (PART I) of the CO Act 2013

Employee Benefits Expenses

- 1 Understanding of organization, Hiring, appraisal → Process
- 2 TOC → payment process → satisfactory → effective / Not
- 3 Random Selection → transactions
- 4 performing → SAP
- 5 Disclosures + completeness + measurement
- 6 process of capturing attendance
- 7 Fictitious EE's → Bank details, IO proofs
- 8 Sample of EE's
- 9 List of EE's
- 10 New Hires → Appointment letters
- 11 continuous → PF/ESD
- 12 leaves → Full & Final computation
- 13 perform → Analytical procedure
- 14 Disclosure → Sch III (PART II) of the CO Act 2013

Depreciation & Amortization

- 1 Entity's → A/c. policy → Dep'n & Amort'n
- 2 Aspects → the CO Act 2013, A 9
- 3 policy → Applied consistently, changes in → Adequately disclosed
- 4 Dep'n / Amort'n → charges
- 5 obtain → FAR
- 6 perform → Analytical procedure, combined question
- 7 expenditure
- 8 cy
- 9 Revenue → Not Capital
- 10 Supporting Docs
- 11 correct head
- 12 Authorized
- 13 Relation to entity

Other Expenses like P&F, R, RTOB, Perm. Int, Travel, Legal & Prof, Mfg Exp.

- 1 Rent Expense
- 2 month wise schedule + Rent Agreement
- 3 Recorded → For all months
- 4 Exclusion clause
- 5 Agreement → Name of the Entity
- 6 power & Fuel expense
- 7 month wise schedule + power bill
- 8 Recorded → For all to m
- 9 Summary → power units consumed, Applicable Rate (+)
- 10 monthly Trends
- 11 Arithmetic Accuracy

Other Income comprising Int Income, Div. All on date of Inv't etc.

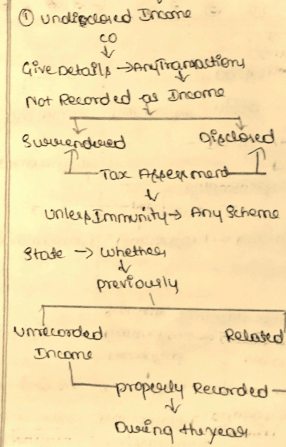
- 1 Int Income on FD
- 2 Disclosures + completeness + measurement
- 3 obtain → List of FD + App. Int Rate + no. of d
- 4 Arithmetic Accuracy
- 5 deposits on as at pd end
- 6 Confirmation of Int Income → from Bank
- 7 copy of form 86AS

Dividends

- 1 Recognized in P/L only when Right to Receive → Established
- 2 Verify → Gain (Loss) → recorded as -/+
- 3 obtain → MFS

Sch III (PART II) of the CO Act 2013

Additional Info.



Identifiable → Non-monetary asset
 without → physical substance
 → control → to other
 → Perseverative purpose
 → existence → 0 verifiably → active income → 1
 → NO

Completion → 0 verifiably → per movement
 on the hand → deletion = 0 B.B.
 → Check → mathematical accuracy
 → For acquisition

As an external
 Applied
 Approval
 External process
 Evaluation

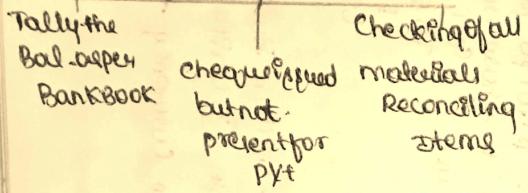
For deletion
 not
 Reason
 Evaluate
 Approval
 Off period
 Note

valuation → 0 changed amortization
 → method → 0 in payment
 Rights, obligation → legal title of ownership → verify
 Disclosure
 Sch III of the COB 2008
 → Additional regulatory info.
 → 1-2-2-1-1
 → 3-1-1-1
 → 3-1-1-1

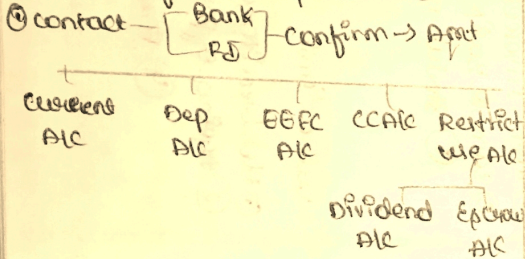
Trade payables & OCL:
 existence → 0 contract → to expense
 purchase (exp)
 not recorded more
 than once
 → Union → ageing report
 → Related party payables
 → Direct confirmation procedure
 → correct vendor
 → Independently
 → For - all significant account
 → content of the entity
 → location → confirmed
 → method of selection → any other reasonably clear date
 → no reply received → D.K. check
 → Detailed analysis
 → ageing
 → Subsequent
 → P.T.
 → Amortized
 → completion
 → lost invoice
 → sample based
 → industry data
 → prior to goods → received → booked
 → purchase date = makes → quarterly date
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 → 1698-1699
 → 1700-1701
 → 1702-1703
 → 1704-1705
 → 17

Cash & Cash Equivalents

- ① Checked by Surprise → last day of month
- ② Desirable for the cashier to be present (again after few days) made to sign
- ③ Any slip → chit → D.O.U
- ④ perform → cash sensitivity Analysis
- ⑤ BRS → for all Bank A/c



Direct Confirmation procedure



② Investigate } discrepancies + seek w.r
Reconcile

③ emphasis on → 100% Bank A/c, Bal. Confirmation
NO Reply Received
Additional procedures

Agree the Bal
↓
Bankst.

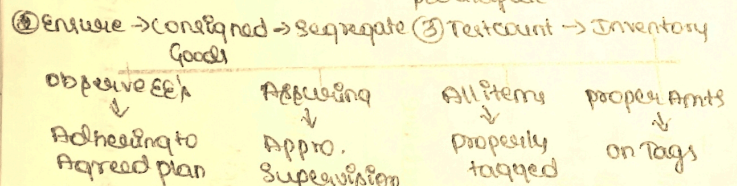
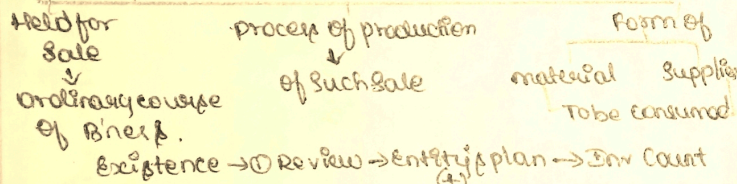
Int/online login
↓
Auditor's personal presence.

Sending Audit team member
(+) Entity personnel
↓
Bank Branch

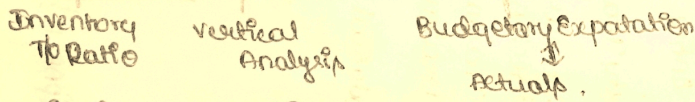
Valuation → Bank A/c → Holding F.c → C/D Exchange Rate
Disclosure

Schedule III [PART I] of the Co Act 2013

Inventories



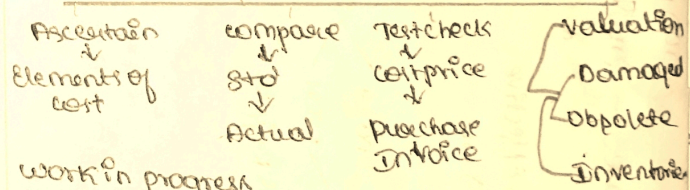
Completeness → ① perform → Analytical procedure



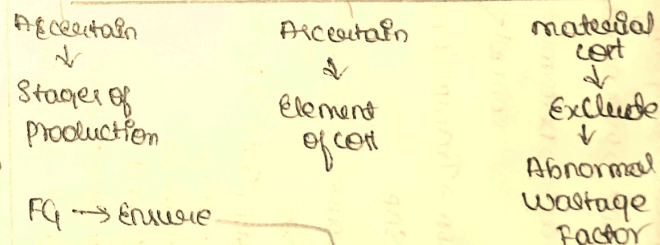
- ② Examine → non RJ
- ③ purchase } cut-off test
- ④ Clerical } Accuracy
- Arithmetical }
- ⑤ Reconciliation

Rights

Documentation ② Client correspondence ③ collateral Agreements ④ External confirmation
valuation → R.M.



work in progress



FQ → ensure

Included cost

↓
Reasonable

valued @ NRV

Disclosure

↓
Schedule III of the Co Act 2013